Figure 24: Entergy 3Q'22E Earnings Drivers

ETR - Earnings Walk Q3'21-Q3'22	
EPS adjusted Q3'21	$2.45
Adj.: Weather increment	$0.04
Weather Normal Q3'21	$2.49
Rate Actions	
E - Louisiana FRP (9/1/22)	$0.04
E,G-New Orleans (9/1/22)	$0.00
E-MS FRP	$0.04
E-AR FRP	$0.08
E-TX DCRF (1/4/2022)	$0.01
E-TX TCRF (3/4/2022)	$0.01
Total	$0.19
Weather vs normal	$0.03
Additional Drivers	
Utility revenue - volume	$0.37
Utility other O&M	($0.19)
Utility taxes & other income taxe:	($0.02)
Utility depreciation expense	($0.09)
Utility net interest expense	($0.05)
Taxes	$0.01
Parent & Other	($0.04)
Shares	($0.01)
Total	($0.02)
Q3 2022 EPS Estimate	**$2.69**

Source: Company Reports, UBS Estimates

Evergy, Inc.

We estimate EVRG will report adjusted EPS of $1.94 versus $1.86 consensus and 3Q '21 results of $1.98. Drivers in the quarter will likely be a net 2c benefit from weather, as degree days were slightly more favorable year-over-year. The company benefited by 4c last year from a tax timing item that will not repeat. Higher transmission rates are expected to add 2c, and the absence of a merger bill credit will add 1c. D&A, property tax and interest expense should be a 7c headwind. We assume flat O&M as the FY guidance and YTD results imply 6c of savings this quarter but warmer weather should drive higher utilization of the generation fleet and require additional O&M, offsetting the expected savings. We assume a 2c COLI contribution as well.

Focus for the call will likely be the final resolution of the Sibley plant issue, which we see as a 2-3c risk for EVRG. A black box settlement was reached on the rest of the rate case issues in late August (see our notes here and here). New rates are expected to take effect on 12/6/22, with a final decision issued by the Missouri PSC in early/mid November. Also of interest will be any indications or revised thoughts on the upcoming rate case filing in Kansas.

Figure 25: EVRG 3Q'22E Earnings Drivers

3Q 2021	**$**	**1.98**
Weather to Normal	$	(0.13)
Weather vs. Normal	$	0.15
Weather Normal Sales Growth	$	0.02
Reversal of Tax Timing Item	$	(0.04)
Reduction in Non-Reg Outperformance	$	(0.02)
Transmission Margin	$	0.02
Absence of Merger Bill Credit	$	0.01
D&A, Property Tax, Interest Expense	$	(0.07)
COLI	$	0.02
O&M	$	-
3Q 2022	**$**	**1.94**

Source: Company Reports,UBS Estimates

Eversource Energy (ES)

We expect Eversource Energy to report 3Q'22E EPS of $1.00 versus $1.08 consensus and $1.02 last year. Year over year the NSTAR PBR of $36.8mln in Jan '22. ES is on track to hit the midpoint of $4.04-$4.14 2022 EPS guidance without additional growth in 2H'22. We expect benefits from the company's pension contributions, transmission growth and NST Electric performance based revenue of $37 million starting in Jan. 2022 as well as very minor dilution from the continued DRIP and ATM programs. There could be a slight increase in equity issuance year over year as the ATM program was authorized in May. We expect an increase in interest expense from $1.5 billion issued in June at 4.4% and impacts related to $1 billion in commercial paper.

Focus for investors on the call will likely be on any updates on the strategic review of the offshore wind business which was announced on the 1Q'22 conference call.

Figure 26: ES 3Q'22E Earnings Drivers

Q3'21	$1.02
Pension Electric Distribution	$0.03
Pension Yankee Gas	$0.01
Transmission Formula Recovery	$0.03
NST Electric	$0.03
Gas Purchases	-$0.02
Property Tax and Depreciation	-$0.02
Interest Expense	-$0.06
Share Dilution	-$0.01
Q3'22 Estimate	$1.00

Source: Company Reports, UBS Estimates

Exelon Corp

We expect Exelon to report 3Q '22E EPS of $0.69 versus $0.69 consensus estimates, and a stand alone estimated 2Q '21 result of $0.66. This is our estimate of Exelon stand alone results that will be reported for 3Q'21 post the impacts of the Exelon Generation spin transaction in February. Drivers in the quarter will likely be distribution investment and increasing interest rates resulting in a higher formulaic ROE in Illinois. There were also rate cases at the other utility subsidiaries: Delmarva MD - $12.5mln effective March 2022, PECO electric - $132mln in Nov. 2021, Delmarva DE - $13.5mln in Sept 2021, and ACE NJ - $41mln effective after netted tax benefits in January 2022. We expect these positive drivers to be partially offset by higher O&M and D&A. At corporate, higher interest expense from $2.0bn of new debt at a 3.4% blended rate plus $2.0bn of term

loans at floating rates. The company issued $575mm of equity in August that was used to partially pay down the term loans.

We expect the call to focus on the recent management changes, efforts to defray the $200mm/year impact from the Inflation Reduction Act, the trajectory of earnings growth over the next few years and the impact to interest expense for parent debt given the rapid increase in interest rates this year. Additionally, EXC be making a determination in the coming months if they will purse a mutli-year rate plan at ComEd. Following the Illinois Commerce Commissions recent decision to allow performance metric incentive adders of up to 32bps, we believe it more likely EXC will purse the multi-year plan. Regarding the IRA impact, it may be possible for the Treasury to issue preliminary guidelines by the end of Q1'23 so companies have incremental guidance before making their first tax payments under the new tax law.

Figure 27: Exelon Corp. 3Q '22E Drivers

3Q 2021	**$**	**0.66**
Reversal of 3Q'21 Weather		-0.04
ComEd		
Distribution Investment	$	0.04
Higher O&M / D&A	$	(0.01)
PECO		
Distribution Rate Increases	$	0.04
Weather	$	0.03
Higher O&M / D&A	$	(0.01)
BGE		
Distribution Rate Increases	$	0.01
Higher O&M / D&A	$	(0.01)
PHI		
Rate Increases Distribution and Transmission	$	0.02
Higher O&M / D&A	$	(0.01)
Corporate		
Int Exp / Dilution / Other	$	(0.03)
3Q 2022	**$**	**0.69**

Source: Company Reports, UBS Estimates

FirstEnergy

We expect FE will report 3Q'22E EPS of $0.79 versus the $0.78 consensus and $0.82 last year. The non-recurring drivers include Ohio rate credits, vegetation management accounting policy changes, FirstEnergy Transmission lower rate base earnings due to the asset sale and equity dilution which total -$0.14/share. Positive drivers include Signal Peak coal (assumed in line with 1H'22), $2.5 million of debt reduction in 1Q'22, rate base investment and riders, and weather. Offsets include the absence of load demand from COVID and non-fuel operations and maintenance expense which could include pull forward expenses to offset pension impacts in 2023.

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.

Figure 28: FE 3Q'22E Earnings Drivers

Q3'21	$0.82
Ohio Rate Credits	-$0.03
Veg Mgmt Accounting Policy Changes	-$0.04
Rider Mechanisms	$0.01
Transmission Formula Growth	$0.02
Weather to Normal	$0.03
Weather	$0.02
Signal Peak	$0.05
Net Financing Costs-$2.5 billion @ 5%	$0.04
Residential Load	-$0.03
Non-fuel O&M	-$0.03
FE Transmission Sale	-$0.03
Dilution	-$0.04
Q3'22 Estimate	$0.79

Source: Company Reports, UBS Estimates

Fortis Inc.

Fortis will report 3Q 2022 results on October 28 and has also announced that they will update their 5 year capital plan that same day. The current capital plan totals C$20Bln for the period 2022-2026 with C$3.8Bln targeted to cleaner energy investments. This plan leads to ~6% five year CAGR to a total rate base of C$41.6Bln in 2026 from C $31.1Bln in 2021. Projects that may get included in the updated capital plan are small scale LNG investment in British Columbia, and continued clean generation investments in Arizona to decarbonize. The current decarbonization plan move the Arizona generation fleet to coal free by 2032, a 75% GHG emissions reduction by 2035 (vs. 2019), and Scope 1 net-zero emissions target by 2050. The updated capital forecast could also include some portion of the MISO Tranche 1 transmission awards which ~US $1.4-US$1.8Bln at ITC through 2030 that will likely need to start construction in the out years of the updated five year capital plan. Current capex projections are C$3,967/C $3,839/C$4,041/C$3,951/C$4,238mln for '22-'26 respectively. Total rate base projections by year are C$31.1/C$33.5/C$35.7/C$37.3/C$39.4/C$41.6Bln for the same forecast period.

For 3Q '22E we expect Fortis to report Adj. EPS of C$0.68 v. C$0.69 consensus estimates and C$0.64 in 3Q'21. Drivers are provided in the table below. Weather was slightly cooler in Alberta year on year, and we expect rate base growth will continue to be the main earnings driver for ITC. There was a +C$0.02/share due to accelerated depreciation on interest swaps from 3Q'21 that we do not expect to recur. For UNS, weather will be a driver as 3Q'21 was a cooler than normal summer and 3Q this year was warmer than normal. Central Hudson will see the impact of the rate case year over year as in 2021 the GRC was decided in 4Q and revenues retroactive to 3Q'21 were booked in 4Q. We expect Corporate & Other will be slight drag due to stock based compensation and higher variable rates on credit facilities. There will also be higher weighted average shares due to the ongoing DRIP program.

On the call we expect investors will be focused on the ongoing Arizona general rate case for TEP, and the updated capital plan.

Figure 29: Fortis 3Q'22E Drivers (C$)

3Q 2021	**$**	**0.64**
Western CA Elec & Gas	$	(0.01)
US Transmission - ITC	$	0.03
UNS	$	0.02
FX	$	0.01
Central Hudson	$	0.02
Corp. & Other	$	(0.02)
Wtd. Avg. Shares	$	(0.01)
3Q 2022	**$**	**0.68**

Source: Company Reports, FactSet, UBS Estimates

NextEra Energy

We expect NEE to report 3Q '22E adjusted EPS of $0.80 vs. $0.79 consensus estimates and $0.75 in 3Q 2021. We anticipate results will be driven by the tailwinds related to increased guidance at the June 2022 investor conference which increased the range by $0.05/share to $2.80-$2.90. At FPL there will be regular year over year rate base growth which was 11.4% in 2Q'22 with a regulatory ROE of 11.6%, equivalent to management's target for 2022. The surplus balance was $1.37Bln and that is seasonally typically utilized in the first and fourth quarters and replenished in the second and third. Management did file for an ROE trigger to increase to 10.8% from 10.6% which would, if approved, take the high end of the range from 11.6% to 11.8%. The company also filed to return $400mln of tax savings from the inflation reduction act back to customers across 2023 – 2025 because the IRA changes the tax expenses embedded in the previously decided general rate case. At NEER wind resource was 98% and as a reminder every 1% variance is ~$0.01/share for the 2H'22. Growth in new investments year over year will be more seasonally skewed to the 4Q given the timing of in-service dates this year versus last.

The topic of conversation on the call will likely center on further refining the impacts of the IRA for both investment in the utility and at Energy Resources. Further, investors will be focused on the ongoing efforts at restoration at FPL. As of 10/2 about 80% of customers were back on with 1.7mln customers restored and 459k still out. FPL deployed over 25k people to work at storm restoration efforts. As a reminder, storm costs can be deferred on the balance sheet as a regulatory asset for future recovery. FPL can file with the commission for storm cost recovery and receive interim recovery within 60 days subject to final approval. The amount for interim recovery is capped at $4/ month on customer bills unless total annual storm costs are above $800mln, at which time FPL could file for an increase in the cap. Our understanding is that there was no damage to FPL's generation fleet, and due to storm hardening no single transmission structure was lost. In distribution assets that were undergrounded performed five times better than overhead lines.

NiSource Inc.

We expect NiSource to report $0.09 versus the $0.13 consensus and $0.11 last year. We see rate case and revenue impacts positive year on year but more than offset by headwinds from higher O&M due to inflationary pressures, higher D&A related to capital investments year on year, higher interest expense, as well as modestly higher share count.

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 believe management will also 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 from '21-'24. We expect the new plan will roll out an earnings growth rate through at least 2026.

Figure 30: NI 3Q'22E Earnings Drivers

Q3'21	$ 0.11
Elec & Gas Rate/Rider Increases	$0.08
O&M	-$0.06
D&A	-$0.02
Interest Expense	-$0.01
Other	-$0.01
Dilution	$0.00
Q3'22 Estimate	**$ 0.09**

Source: Company Reports, FactSet, UBS Estimates

OGE Energy

We expect OGE to report $1.16 versus the $1.09 consensus and $1.11 last year for OG&E and parent. To normalize last year's result we remove $0.03/share of positive weather versus normal and -$0.01/share related to the Oklahoma flat bill program. The biggest positive drivers were the Oklahoma rate case implementation and weather. Sales will weight the rate case benefit to 3Q'22 versus 4Q'22 and weather to OGE's specific territory improved (degree days +25% versus normal versus +5% last year). We also expect slightly more depreciation and O&M in 3Q'22 versus 4Q'22.

We believe that the company's holding in Energy Transfer added $0.03/share. This includes $0.03/share for the capital gain and $0.01/share for the $0.23/share dividend. We assume OGE exited virtually all of its 22 M share position coming into the quarter.

On the investor call we expect an update on EPS guidance, the integrated resource plan and the Energy Transfer position.

Figure 31: OGE 3Q'22E Earnings Drivers

Q3'21	$1.11
OG&E ($1.14 versus $1.12)	
Customer growth	$0.01
Weather to Normal	-$0.03
Weather	$0.07
OK Grid Enhancement Mechanism	$0.005
OK General Rate Case	$0.07
Flat bill program timing	$0.01
Arkansas FRP	$0.005
O&M	-$0.03
Interest Expense and Ad Valorem	-$0.01
Depreciation	-$0.03
Parent, Other (-$0.03 vs -$0.01)	-$0.02
Q3'22 Estimate	$1.16

Source: Company Reports, UBS Estimates, FactSet

PG&E Corp.

We estimate PCG will report $0.25 versus the $0.24 consensus and $0.23 last year. PCG will likely provide an update on progress on earnings drivers like rate base growth and cost cuts. Guidance showed other factors for 2H'22 are $0.00 to -$0.04/share. On the call we expect an update on the Diablo Canyon life extension, the cost of capital and progress on achieving the next Wildfire Safety Certificate.

Figure 32: PCG 3Q'22E Earnings Drivers

Q3'21	$0.23
Rate base Growth	$0.02
Cost reduction	$0.02
Unrecoverable Interest Expense	-$0.01
Expenses and other	-$0.01
Q3'22 Estimate	$0.25

Source: Company Reports, FactSet, UBS Estimates

Pinnacle West Capital

We estimate PNW will report $2.71 versus the $2.53 consensus and $3.00 last year. The company should pick up +20c year over year from the below average weather last year which improved to slightly above average weather this quarter. The impact of the rate case is the other large driver and O&M, pension and interest expense were also headwinds.

On the call, we expect the focus to be on weather normal load growth trends, previewing the upcoming APS rate case filing which should occur by the end of this month and potential impacts from the Arizona Corporation Commission elections.

Figure 33: PNW 3Q'22E Earnings Drivers

Q3'21	**$ 3.00**
Weather to Normal	$0.19
Weather vs Normal	$0.01
Transmission	-$0.03
Sales	$0.03
LFCR	-$0.11
Depreciation	-$0.19
O&M	-$0.07
Interest net of AFUDC	-$0.02
Pension	-$0.03
Other	-$0.07
Q3'22 Estimate	**$ 2.71**

Source: Company Reports, FactSet, UBS Estimates

PPL Corporation

We estimate PPL will report $0.40 versus the $0.43 consensus and $0.36 last year. We see a benefit from PA transmission growth under formula rates. The last Kentucky rate case was implemented in July 2021 so there is no incremental impact. The Rhode Island Energy transaction represents the first full quarter contribution. On a pro-forma basis we included $0.18/share in our 2022E EPS forecast. We do not expect any material news on the cost savings as the company is likely still investing to achieve the savings. We expect an update on the Rhode Island ISR cap-ex filing in November, the Kentucky generation procurement and Department of Energy projects.

Figure 34: PPL 3Q'22E Earnings Drivers

Q3'21	**$0.36**
Weather	-$0.01
PA Rate Base Growth	$0.02
O&M	$0.00
Depreciation/other	-$0.02
Rhode Island Energy	$0.03
Share Buyback	$0.02
Q3'22 Estimate	**$0.40**

Source: Company Reports, FactSet, UBS Estimates

Public Service Enterprise Group

We expect Public Service Enterprise Group to report 3Q '22E EPS of $0.82 versus $0.82 consensus and $0.98 in 3Q '21. As a reminder the 3Q '21 results are inclusive of the fossil assets that were sold and closed in 1Q '22, however depreciation stopped being booked in mid-August for the assets. PEG did not report any earnings associated with the fossil assets in 2022, as all earnings were accounted for as an adjustment to the sale price at close. PEG now also reports along two segments: the utility PSE&G, and Carbon Free, Infrastructure, & Other segment, which will be inclusive of the nuclear fleet, the enterprises business, and corporate and other.

Earnings at the utility should be down $0.03/share year over year driven by transmission rate base growth offset by the settled FERC formula rate ROE reset. Earnings from Energy Strong II should help electric margins. O&M will be slightly higher, but benefits from the absence of storms this year that impacted last year. There is also a benefit from lower share count as a result of the $500mln buyback from the power asset sale proceeds. As a reminder the decoupled conservation incentive program (CIP) mechanisms went into place for electric and gas in June and October of last year, respectively.

Consolidating the prior reported segments of PEG Power and Enterprises, Corporate & Other into Carbon Free, Infrastructure, & Other (CFIO) leads to a prior 3Q 2021 EPS of $0.21. We see this dropping to $0.08 in 3Q 2022E mainly on the asset sales of the fossil units. Capacity revenues on the nuclear fleet are expected to be lower by $0.16 on the decline in the capacity price from $166-MW/Day to $97-MW/Day. Interest expense is expected to be higher year on year as a result of $2.5Bln in leverage this year, given higher required collateral postings as power prices rose vs. hedge levels, versus $500mln last year. PEG issued term loans of $1.5Bln in the spring, and issued $1.25Bln in debt in early March.

The call should focus on pension exposure for 2023 earnings, which have worsened as the stock market has continued to decline. We expect an update on the filing PSE&G made at the NJ BPU to help mitigate some of pension exposure through a accounting adjustment. Additionally, the BPU may issue a decision this month on the off-shore wind transmission projects that PEG and Orsted jointly bid on for up to $2.0bn of potential capital projects.

Figure 35: PEG 3Q'22E Drivers

PSEG Consolidated 3Q 2021	**$ 0.98**
PSE&G	
3Q 2021	**$ 0.77**
Transmission	$ (0.01)
Gas Margin	$ -
Electric Margin	$ 0.02
Dist. O&M	$ (0.02)
D&A, Int.	$ (0.01)
Lower Share Count	$ 0.01
OPEB, Taxes, Other	$ (0.02)
3Q 2022	**$ 0.74**
Carbon Free, Infrastructure, & Other	
3Q 2021	**$ 0.21**
Capacity	$ (0.16)
Generation	$ (0.06)
Sale of Solar	$ -
Recontracting	$ (0.05)
Gas Operations	$ 0.01
Lower Power O&M	$ 0.11
Lower Power D&A	$ 0.06
Interest Expense	$ (0.03)
Parent	$ (0.01)
Taxes & Other	$ -
3Q 2022	**$ 0.08**
PSEG Consolidated 3Q 2022	**$ 0.82**

Source: Company Reports, FactSet, UBS Estimates

Southern Company

We expect Southern Company to report 3Q '22E EPS of $1.34 versus $1.30 consensus, 3Q '21 of $1.23, and guidance of $1.32. The net effect of weather should add 4c year-over-year. Retail rates and sales growth will be the biggest positive driver with +$0.20, with $0.19 at Georgia Power and $0.01 at Mississippi Power. Higher utility interest expense and D&A expected to be a ($0.05) impact. Parent & Other is ($0.02) related to higher costs and higher interest expense on higher debt balances, while there is another ($0.01) related to the sale of the leveraged lease portfolio.

On the call we expect focus will be on the progress of fuel loading at Unit 3 and the outlook for the remaining schedule for Unit 4. The company will also likely update on the Georgia Power rate case, as it is winding down and we may see a settlement announced in late November or early December. Additionally, we may get an update on succession planning for the CEO.

Figure 36: SO 3Q'22E Drivers

3Q 2021	$	1.23
Normalized and Warmer Weather	$	0.04
Growth & Usage	$	0.20
Non-Fuel O&M	$	(0.02)
Interest Expense	$	(0.02)
D&A	$	(0.03)
Other - Leverage Lease	$	(0.01)
Parent & Other	$	(0.02)
Dilution	$	(0.03)
3Q 2022	**$**	**1.34**
Guidance	$	1.32

Source: Company Reports, FactSet, UBS Estimates

Sempra Energy

We expect Sempra Energy to report adjusted EPS of $1.97 versus $1.99 consensus and $1.70 in 3Q 2021. Results are expected to be driven by an incremental $300mln in FERC rate base at SDG&E which is regulated at a 56% equity ratio and a 10.6% allowed ROE. Two tranches of debt were also issued at SDG&E totaling about $1Bln with a 3.5% coupon or ~$6mln of impact for the quarter year over year. At SoCalGas we expect a flat year on year result given seasonality, and an negative impact from $700mln in debt issued at almost 3% or ~$3.5mln of impact year over year in the quarter. In Texas we expect growth year over year in line with the annual guidance mid-point of $690mln and 11% warmer weather year over year to contribute to higher volumes. SIP will be higher on midstream and Cameron LNG but lower related to the lower ownership stake after the closing of the 10% sale to ADIA on June 1. Further there were $16mln of maintenance related revenues recorded in 2Q'22 and on timing the $16mln in expenses related to those revenues will impact 3Q'22. Marketing also saw a significant uptick in 2Q '22 to $33mln but given SIP's LNG contract structure this should be viewed as a one-time impact rather than ongoing earnings. At corporate there is an increase in the cost of short-term debt of approximately 200bp and share count is down to 315mln shares from 320mln year over year.

Figure 37: Sempra 3Q '22E EPS Drivers

3Q 2021	$	1.70
FERC Rate Base	$	0.01
CA Utilites Higher Int. Expense	$	(0.02)
Oncor Rate Base; Weather	$	0.12
SIP - Lower Ownership Stake	$	(0.13)
SIP - Lower marketing revenues	$	(0.05)
SIP - Midstream; Margins; Cameron	$	0.33
Corp & Other	$	(0.01)
Share Count	$	0.03
3Q 2022	**$**	**1.97**

Source: Company Filings, UBS Estimates

WEC Energy Group

We expect WEC Energy Group to report 3Q'22E EPS of $0.85 versus $0.86 consensus, $0.92 in 3Q '21, and guidance of $0.82-$0.84. As part of the rate case stay out settlement there will be amortization items that will impact results year over year that will equate to ~$0.30/share on a full year basis around the amortization of escrow and sharing balances that should be roughly evenly distributed across the quarters. The amortization balances are, at WPS, ~$19mln in transmission escrow balances, $21.6mln

in 2020 sharing, $18.4mln; and at WEPCO/WG, $18.4mln in of D&A and interest expense related to capex that would have otherwise been additive to rate base in a 2022 test year, ~$62mln related to transmission escrow balances, at $10mln related to the Bluewater Natural Gas Storage LLC O&M escrow.

Otherwise we expect results at utility operations to be driven by less favorable weather when compared to 3Q'21 and increased storm costs year over year. Fuel will likely be a small headwind year over year given the band and higher natural gas costs. Interest expense will be slightly higher given floating rate debt costs and issuances of $500mln at 4.75% at WE Energies and $900mln at ~5% at WEC, although these were in late September. There might be a headwind to controllable O&M year over year to maintain the guidance range into 2023, and D&A will be a drag given continued capital investment and the delayed rate case filing in Wisconsin.

At the infrastructure segment we expect a slight tailwind given better wind resource year over year. ATC should not be a significant driver year over year. WEC is still booking a 10.52% ROE on the ATC transmission assets which is inclusive of the 50bp adder for RTO membership. At the corporate segment the energy investment fund performance could be a headwind year on year.

On the call investors will likely be focused on the Wisconsin rate case filing, and the ROE which is the one item still to be decided. We expect WEC to release the updated capital plan for 2024-2028 and updated long term growth guidance although it is likely that 2023 earnings guidance and dividend expectations will be released after the Wisconsin ROE is fully adjudicated, which is likely by mid-December.

Figure 38: WEC Energy Group 3Q'22E Earnings Drivers

3Q 2021	$	0.92
Utility Operations		
Weather		($0.03)
Economic Recovery Impacts		$0.01
Wisconsin Amortization Items		$0.07
Rate Relief and Additional CapEx		$0.00
Fuel Costs Band		($0.02)
Interest Expense		($0.01)
Day to Day O&M/Earnings Sharing		($0.04)
D&A		($0.05)
ATC		
Capital Investments		$0.00
Energy Infrastructure		
Production Tax Credits		$0.02
Corp & Other		
Taxes & Other		($0.02)
3Q 2022	$	0.85

Source: Company Filings, UBS Estimates

Xcel Energy (XEL)

We expect XEL to report 3Q '22E EPS of $1.17 versus $1.13 last year and the $1.27 consensus estimate. Due to unfavorable 4Q'21 weather and expense timing, we anticipate 4Q'22 growth is stronger than 3Q'22 versus 2021. We expect similar weather conditions to 3Q'21 and modest weather normalized sales growth. We expect XEL to roll forward the cap-ex plan to 2023-2027 and give 2023 EPS guidance.

Based on XEL published earnings driver guidance other positives are capital riders and rate recovery. Rate recovery includes revenues related to the $25mln in interim rates at NSPM natural gas effective Jan '22, $247mln in interim rates at NSPM electric effective

December 2021, the NSPW electric and natural gas settlements effective in November 2021 for $35mln and $10mln in increases for 2022, respectively, the SPS NM settlement for $62mln effective on March 1 and the PSCo electric rate case settlement for $177mln effective in April '22. Cumulatively we calculated that this adds $0.17/share of electric margin and $0.02/share of gas margin versus Q3'21.

Other offsets will be a storm Uri disallowances at NSPM (-$0.02/share), a 2% increase in non-fuel O&M expense and depreciation and property taxes. In addition interest expense will be higher related to $2Bln in new debt issuance in May that will increase interest expense by $80-$90mln annually (average weighted cost of 4.25%).

Figure 39: Xcel Energy Q3'22E Earnings Drivers

Q3'21	$1.13
Weather to Normal	-$0.03
Weather vs Normal	$0.03
Capital Rider	$0.02
Electric Margin	$0.17
Gas Margin	$0.02
Non-Fuel O&M	-$0.02
Depreciation	-$0.10
Interest Expense	-$0.04
Property Tax	-$0.02
Q3'22 Estimate	$1.17

Source: Company Reports, FactSet, UBS Estimates

Power

Constellation Energy

We expect CEG to report adjusted EBITDA of $550mln vs. $553mln consensus estimates and an estimated 3Q 2021Adj. EBITDA of $1,014mln. On the quarterly call we expect CEG to recast 3Q 2021 with allocated corporate costs, and provide a clean adjusted EBITDA number for the prior quarter. Drivers in the quarter are 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 with negative or small up front margins in 2022, but priced to profitable margins over the three year term 2022-2024 as the curve backwardates.

NRG Energy

We expect NRG to report adjusted EBITDA of $422mln versus $625mln consensus estimates and $767mln in 3Q 2021. In line with annual guidance and expected seasonality we expect drivers will be: sale of the Northeast portfolio year over year ($60)mln, retirement of assets in PJM and New York ($60)mln, lower capacity revenues in NY ($15)mln, ERCOT coal supply constraints ($10)mln, PJM coal supply constraints ($15)mln, Texas ancillary headwinds ($50)mln, the sale of the Watson power plant ($10)mln, and synergies from Direct Energy +$5mln.

Another drag on the quarter will be the outage at Parrish Unit 8. This outage will extend through the full year and is expected to lower results by ~$135mln in the quarter. NRG does have business interruption insurance, but our understanding is that there is a deductible related to time (not financial impact). If there are insurance proceeds related to the 3Q or 4Q it would shift earnings from 2022 to 2023, given such proceeds would not be booked until the cash is received.

On the call we expect management to update 2022 guidance and potentially issue 2023 guidance with a look forward to a cleaner year in 2023. We see drivers at +$110mln in Direct Energy synergies, the majority will be offset by the PJM generation adjustment, the sale of the Watson plan, and the sale of the Astoria plant. This should normalize to ~$2.3Bln in Adjusted EBITDA and ~$1.5Bln in Adjusted FCF. Alternative corporate minimum tax might be ~($50)mln impact although we are waiting further guidance on this issue from management.

Figure 40: NRG Energy 3Q'22E Adj. EBITDA by Segment

US$mlns	3Q 2021	3Q 2022
Texas	446	236
East	229	94
West/Services/Other	92	92
Corp/Elim	0	0
Adjusted EBITDA	**767**	**422**

Source: Company Reports,UBS Estimates

Vistra Corp

We expect VST to report adjusted EBITDA of $965mln versus $1,289mln consensus estimates and $1,177mln last year. We expect drivers for the quarter to be self help costs achieved in 3Q 2021 in the wake of Winter Storm Uri not recurring in 3Q 2022 which is ~($210)mln drag. Weather was better year over year and and we expect retail to perform better given less volatility in power prices and volumes across 3Q'22. There will be slight ongoing headwind from the move from a retail service provider in Ohio to place all customers on default service which increased Vistra's customers significantly and unexpectedly without hedges in place to protect margins. Comanche Peak was also offline for five days in the quarter related to a probe measurement issue for one of the turbines which has been addressed.

We expect management to narrow 2022 guidance where we believe they will be tracking above the mid-point of the range, and to issue guidance for 2023 on the 3Q call. Capital allocation is likely to be largely reiterated given the significant hedging achieved through 2025.

Figure 41: Vistra Corp. 3Q'22E Adj. EBITDA by Segment

US$mln	3Q 2021	3Q 2022	Variance
Retail	65	95	30
Texas	858	625	(233)
East	193	188	(5)
West	36	36	-
Sunset	36	36	-
Corp/Other	(11)	(11)	-
Asset Closure	(4)	(4)	-
Total	**1,173**	**965**	**(208)**

Source: Company Filings, UBS Estimates

Water Utilities

American Water Works (AWK)

We expect American Water Works to report $1.51 versus the $1.53 consensus estimate and $1.53 last year. We expect an update on customer acquisitions and rate cases on the call. The the New York American sale is -$0.12/share in 2H'22 but -$0.09/share in 3Q'22. The company will have additional revenue in 3Q'22 from several infrastructure mechanisms including Pennsylvania and New Jersey. We expect an update on the New Jersey rate outcome and the Pennsylvania rate case as well as on acquisitions.

Figure 42: American Water Works 3Q'22E Earnings Drivers

Q3'21	**$1.53**
Weather to Normal	$0.01
Weather vs. Normal	$0.01
Revenue	$0.17
Interest and Other	$0.06
Miliatary Services	$0.01
Depreciation	-$0.03
Operations and Maintenance	-$0.05
NY American Sale	-$0.09
Homeowner Services Sale 12/9/21	-$0.11
Q3'22 Estimate	**$1.51**

Source: Company reports, UBS estimates

Essential Utilities (WTRG)

We expect Essential Utilities to report $0.26 versus the $0.24 consensus estimate and $0.20 last year. WTRG will benefit from a full quarter of the Pennsylvania rate increase ($76 million). We expect an impact from inflation and from higher interest expense. Updates on the call include the DELCORA process and the financing plan.

With the DELCORA transaction in the late stages of the Pennsylvania Public Utility Commission approval process the company could be in position to provide 2023 EPS guidance in 4Q'22.

Figure 43: Essential Utilities 3Q'22E Earnings Drivers

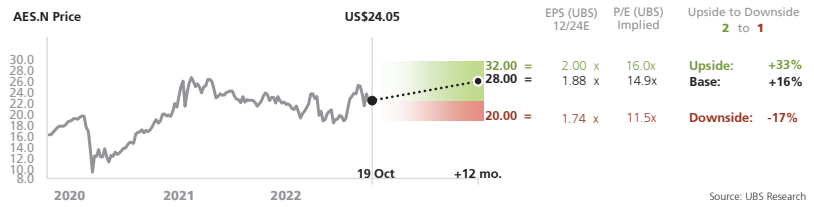
Q3'21	**$0.20**
Rates and Surcharges	$0.06
Volume Water	$0.01
Volume Gas	$0.01
Weather	$0.01
Growth Water	$0.01
Inlation and O&M expenses	-$0.03
Financing	-$0.01
Q3'22 Estimate	**$0.26**

Source: Company reports, UBS estimates

Price Target Methodologies and Updated Upside/ Downside Scenarios

AES Corp.

Figure 44: AES Upside/Downside Analysis



Source: FactSet, UBS Securities LLC

Figure 45: AES Sum of the Parts Price Target

Subsidiary	EPS 2024E	2024E P/E	Value	Method	Comps
U.S. Utilities	$0.25	18.0x	$4.49	Avg '24 P/E	U.S. Utilities
U.S. Generation	$0.22	8.0x	$1.55	EV/EBITDA	ENEL-MIL, IBE-MCE
AES Clean Energy	$0.61	11.0x	$11.72	EV/EBITDA	CSIQ, CWEN, FSLR, NEER
AES Andes	$0.24	12.2x	$2.93	'24 P/E	ENEL-MIL, IBE-MCE, RWE-ETR
Mexico, Caribbean, Central America	$0.31	12.2x	$3.78	'24 P/E	ENEL-MIL, IBE-MCE, RWE-ETR
EurAsia Generation	$0.16	12.2x	$1.95	'24 P/E	ENEL-MIL, IBE-MCE, RWE-ETR
AES Brasilia	$0.20		$0.60	Market Value	
Fluence			$1.45	Market Value	
Uplight			$0.63	$450M 30% owned	
Corporate & Other	-$0.10		-$1.50		
Total	$1.89	14.6x	$27.60		

Source: FactSet, UBS Securities LLC, Company Reports

Figure 46: AES Sum of the Parts Price Target - Prior

Subsidiary	EPS 2024E	2024E P/E	Value	Method	Comps
U.S. Utilities	$0.25	21.6x	$5.41	17% '24 Premium	U.S. Utilities
U.S. Generation	$0.22	8.0x	$1.55	EV/EBITDA	IPPs
AES Clean Energy	$0.61	11.4x	$12.40	EV/EBITDA	CSIQ, CWEN, FSLR, NEER
AES Andes	$0.24	12.1x	$2.90	'24 P/E	ENEL-MIL, IBE-MCE
Mexico, Caribbean, Central America	$0.31	12.1x	$3.75	'24 P/E	ENEL-MIL, IBE-MCE
EurAsia Generation	$0.16	12.1x	$1.94	'24 P/E	ENEL-MIL, IBE-MCE
AES Brasilia	$0.20		$0.60	Market Value	
Fluence			$1.45	Market Value	
Uplight			$0.63	$450M 30% owned	
Corporate & Other	-$0.10		-$2.06	23E $1.9B recourse debt allocation	
Total	$1.89	15.1x	$28.58		

Source: FactSet, UBS Securities LLC, Company Reports

We are lowering our AES Price Target to $28 from $29 to reflect a mark to market update of valuation multiples and to expand the global multi-utility comps to include RWE.

Our $28 sum-of-the-parts reflects $6/share for the U.S. Utilities and Generation, $14/ share for renewables and clean energy including the backlog, $9/share for emerging markets less $1/share for corporate debt and other. The 17% U.S. utility P/E premium reflects +5% for sustainable group undervaluation relative to corporate bonds, +10% for top quartile regulation and +2% for second quartile EPS growth.

Our prior $29 sum-of-the-parts reflects $7/share for the U.S. Utilities and Generation, $15/share for renewables and clean energy including the backlog, $9/share for emerging markets less $2/share for corporate debt and other. The17% U.S. utility P/E premium reflects +5% for sustainable group undervaluation relative to corporate bonds, +10% for top quartile regulation and +2% for second quartile EPS growth. It is 16x $2.00 in 2024 EPS.

UPSIDE ($32): Our upside AES scenario includes an improvement in emerging markets valuations and higher EPS growth including an incremental $0.13/share from renewable PPAs versus the base scenario. Emerging markets include South America, MCAC (Mexico,Caribbean and Central America) and Eurasia. This scenario reflects 9% EPS growth.

BASE ($28): Our $2 sum-of-the-parts reflects $6/share for the U.S. Utilities and Generation, $16/share for renewables and clean energy including the backlog, $8/share for emerging markets less $2/share for corporate debt and other. This scenario reflects 8% EPS growth.

DOWNSIDE ($20): Our downside scenario for AES assumes lower valuations for emerging markets and a -$0.14/share reduction in PPA origination. The Ohio rate case represents risk as well but is unlikely to materially impact EPS. This scenario reflects 6% EPS growth

Alliant Energy

Figure 47: LNT Upside/Downside Scenarios



Source: FactSet, UBS Equity Research Estimates

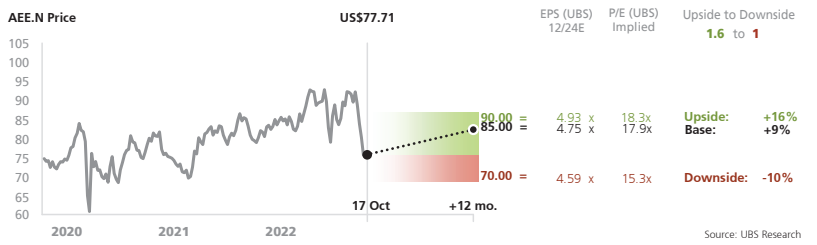
BASE ($53): Our $53 price target is an 11% premium to the Regulated Utility average P/E multiple or 16.9x $3.13 EPS in 2024E. The premium includes 10% for first quartile regulation, 5% for the group's undervaluation, and -4% discount for quartile EPS growth.

UPSIDE ($66): Our $66 upside case is a 21% premium to the Regulated Utility average P/E multiple or 18.6x $3.54 EPS in 2024E. The premium includes 10% for first quartile regulation, 5% for the group's undervaluation, -4% discount for quartile EPS growth, 5% premium for clean energy growth, and 5% premium for EPS guidance reliability.

DOWNSIDE ($42): Our $42 downside case is a 2% premium to the Regulated Utility average P/E multiple or 16.9x $2.72 EPS in 2024E. The premium includes -5% discount for quartile regulation, 5% for the group's undervaluation, and 2% premium for quartile EPS growth.

Ameren Corp

Figure 48: AEE Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

UPSIDE ($90): Our upside scenario includes an incremental $1.0 billion of cap-ex investment which most likely relates to transmission or renewables. Our $90 upside

valuation is an 18% premium to the Regulated Utility average in 2024. This translates to 2024 EPS of $4.93/shr. The 18% premium includes: +5% for the Regulated Utility group undervaluation relative to the Baa corporate bond; +5% for second quartile regulation; +4% for second quartile EPS growth and +4% for EPS reliability premium.

BASE ($85): Our $85 price target is based upon a 16% premium applied to the Regulated Utility average '24 P/E on our 2024E EPS of $4.75. The 16% premium includes: +5% for the Regulated Utility group undervaluation relative to the Baa corporate bond; +5% for second quartile regulation; +2% for second quartile EPS growth and +4% for EPS reliability premium.

DOWNSIDE ($70): Our downside scenario includes lower cap-ex versus the base plan, less constructive regulation and a write-off of Rush Island which equates to $4.59 EPS in 2024. The downside scenario implies 6.2% EPS growth from 2022-2026 which is third quartile. The $70 valuation is an inline multiple with the group.

American Electric Power

Figure 49: AEP Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

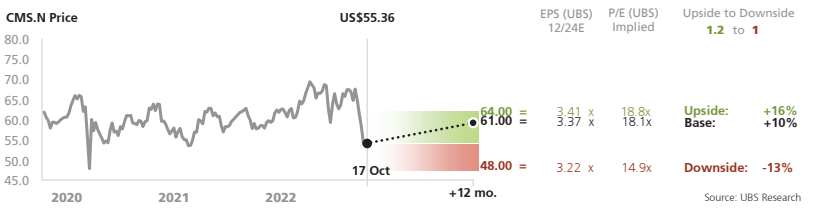
UPSIDE ($111): Our upside scenario is based off EPS of $5.79/shr which reflects 8% EPS growth driven by higher sales and acerated capital investments. For our $111 upside valuation, we apply a ~23% premium which includes: +5% for the Regulated Utility group undervaluation relative to the Baa corporate bond; +10% for first quartile regulation; +4% for second quartile EPS growth and +4% for EPS reliability premium

BASE ($100): Our $100 price target is based upon a ~15% premium applied to the Regulated Utility average '24 P/E on our 2024E EPS of $5.64. The 15% premium includes: +5% for the Regulated Utility group undervaluation relative to the Baa corporate bond; +5% for second quartile regulation; +2% for second quartile EPS growth and +4% for EPS reliability premium.

DOWNSIDE ($77): Our downside scenario includes lower cap-ex versus the base plan and less constructive regulation which equates to $5.46 EPS in 2024. The downside scenario implies 5% EPS growth from 2022-2026 which is third quartile. We apply 5% discount multiple to this earnings power to arrive at an $77/share downside valuation.

CMS Energy

Figure 50: CMS Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

UPSIDE ($64): Our upside case of $64 for CMS represents 9% EPS growth and an additional 4% premium for earnings reliability. Our upside valuation of $64 is a 23%

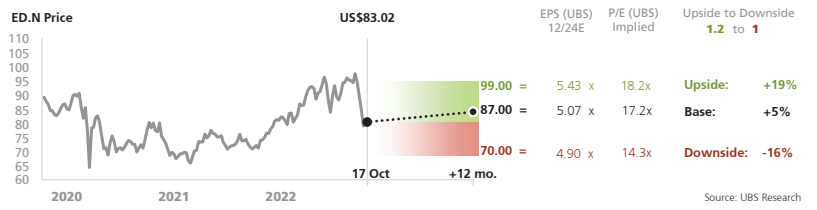
premium to the Regulated Utility average or 19x $3.41 in 2024. The premium includes +5% for the sustainable premium relationship of the relative yield versus the Baa corporate bond, +10% for first quartile regulation, +4% or top quartile growth and +4% for earnings reliability.

BASE ($61): Our $61 price target is a 19% premium to the Utility average or 18x $3.37 in 2024E. The base scenario represents 8% EPS growth or the high-end of the 6% to 8% EPS growth guidance. The 19% premium includes +5% for the sustainable premium relationship of the relative yield versus the Baa corporate bond, +10% for first quartile regulation, and +4% or top quartile growth.

DOWNSIDE ($48): Our $48 downside case represents 6% EPS growth which is average and third quartile regulation in Michigan. It is 15x $3.22 in 2024.

Consolidated Edison

Figure 51: ED Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

UPSIDE ($99): Our $99 upside valuation reflects an incremental $1.5 billion of regulated cap-ex investment (+$0.17/share) and a 50 bp improvement in earned ROE to 9.2% (+ $0.19/share). Combined these factors would move ED's EPS growth for the next 2 years to 9%. The $99 valuation reflects a 19% Utility premium or 18x $5.43 in 2024. The premium includes +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate, -5% for third quartile regulation, +4% for first quartile EPS growth, +10% for a clean business mix, and +5% for a ESG growth premium

BASE ($87): Our $87 price target is an 8% Utility P/E premium or 17x $5.07 in 2024E. The 8% premium reflects: +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate, -10% for fourth quartile regulation, -2% for third quartile EPS growth, +10% for a clean business mix, and +5% for an ESG growth premium

DOWNSIDE ($70): The $70 downside case represents a $1.5 billion additional cap-ex disallowance in CECONY utility investment (-$0.17/share) and the absence of a clean business mix premium. The downside valuation is a 7% Utility discount P/E or 14x $4.90 in 2024.

Dominion Energy

Figure 52: D Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

UPSIDE ($86): Our upside case accelerates the clean energy transition increasing rate base growth to 11%, leaves the Virginia Clean Economy Act unchanged and incorporates a 17% premium on earnings power of $4.81/shr. The premium consists of

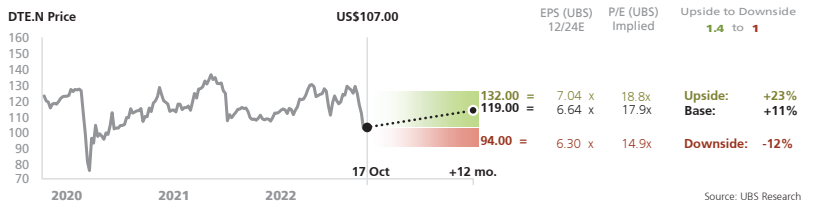
5% for the Regulated Utility group undervaluation relative to the Baa corporate bond, 2% premium for EPS growth, the regulatory ranking premium of 5% presuming improvement in VA, NC, and SC, and includes a clean energy transition premium of 5%

BASE ($80): Our base case valuation of $80 is premised upon an ~11% premium to the regulated utility multiple on our 2024 UBSe EPS of $4.67. The 11% premium is the sum of a group undervaluation premium of 5%, an EPS growth discount of 4%, regulatory jurisdiction premium of+5% and clean energy transition premium of 5%.

DOWNSIDE ($58): Our downside case assumes a repeal of the Virginia Clean Economy Act and lowers rate base growth to 6% as coal plants will still need to retire out by 2028 due to EPA effluent rules. Offshore wind project does not move forward. The reflects an EPS of $4.38/shr. Assign a ~14% discount to arrive at our downside valuation of $58. This a -10% regulatory discount and -4% EPS growth discount.

DTE Energy

Figure 53: DTE Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

UPSIDE: ($132): Our $132 upside case is a 23% Utility premium or 19x $7.04 in 2024. The upside case includes an incremental $1 billion in cap-ex (+$0.15/share) and upside at DTE Vantage (+$0.15/share) that results in 9% EPS growth. The 23% premium includes +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield, +10% for first quartile Regulation, +4% for first quartile EPS growth, and +4% for EPS reliability.

BASE ($119): Our $119 price target is a 17% premium to the Utility group average or 18x our $6.64 2024E EPS estimate. The 17% premium reflects: +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield, +10% for first quartile Regulation, -2% for third quartile EPS growth, and +4% for EPS reliability.

DOWNSIDE ($94): Our $94 downside case is 15x $6.30 in 2024. It includes 5% EPS growth that reflects a 25 bp ROE reduction (-$0.25/share) and lower unregulated EPS (-$0.10/share). The valuation reflects -4% or fourth quartile EPS growth, average regulation and +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield.

Duke Energy

Figure 54: DUK Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

UPSIDE ($108): Our upside case assumes an acceleration in EPS growth to 7% per annum with a constructive NC carbon plan decision and a nuclear production tax credit

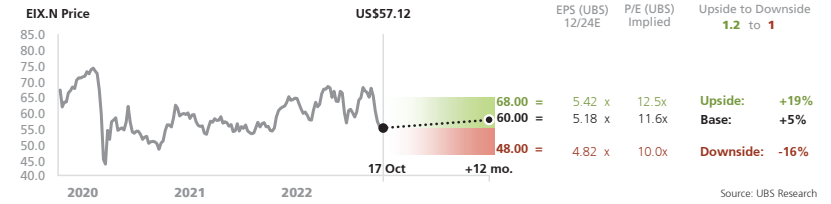
allowing for bill headroom. This reflects $6.31/shr of earnings and a 12% premium to the group average multiple. This also would move Duke to a 2nd quartile growth premium of +2% and an unchanged regulatory quality premium of 5% for 2nd quartile regulation and +5% for the Regulated Utility group undervaluation relative to the Baa corporate bond. It assumes no block equity needed and an accretive sale of Commercial Renewables.

BASE ($98): Our base case of $98/share is premised upon a net 6% premium to the 2024 regulated utility multiple of 15.3.x and our 2024E EPS estimate of $6.08. Our 6% net premium is the sum of a 5% premium for our view of sustainable group overvaluation vs. Baa corporate bonds, a 5% premium for 2nd quartile regulation, and a 4% discount for 4th quartile EPS growth.

DOWNSIDE ($82): Our downside case assumes a 5% per annum growth rate at the low end of the company's guidance range and a North Carolina decarbonization docket decision that backloads capital and growth through the 2034 70% reduction target and requires $3Bln in block equity to shore up the balance sheet due to slower growth and cash flows. The reflects a $5.60/shr earnings power in '24. The valuation is a 5% discount to the group average which reflects a 4th quartile regulatory quality discount of 10%, a 5% premium for our view of sustainable group overvaluation vs. Baa corporate bonds.

Edison International

Figure 55: EIX Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

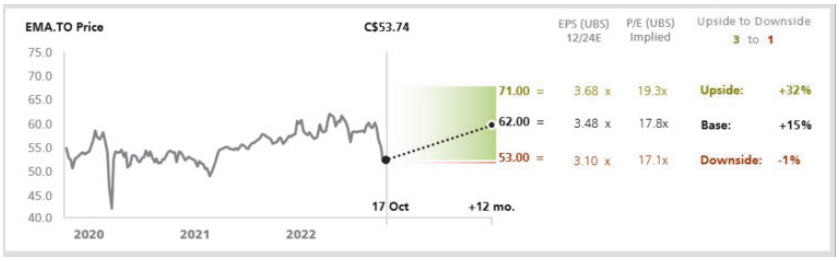
UPSIDE ($68): The $68 upside case is an 18% discount to the Regulated Utility average or 13x $5.42. The upside case includes an incremental 25 bp in allowed ROE to 10.5% ($0.12/share) and $1 billion in cap-ex (+$0.12/share) which results in 7% EPS growth. The valuation includes +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield, -5% for third quartile Regulation, +2%% for second quartile 5 year EPS growth, and -20% for the maximum wildfire fund contribution.

BASE ($60): Our $60 price target is a 24% discount to the Utility average 2024E P/E or 12x $5.18. The 24% discount reflects: -5% for third quartile Regulation, -2% for third quartile EPS growth, -22% for the maximum wildfire fund contribution, which is an 8 year net present value at an 8% discount rate and +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield.

DOWNSIDE ($48): Our $48 downside case is 10x $4.82 in 2024 EPS. The downside case reflects an incremental 32% discount for resolution of legacy wildfire liabilities (consistent with PCG wildfire discount), a 25 bp reduction in allowed ROE 10.1% (-$0.12/share), and a $2B reduction in cap-ex (-$0.25/share).

Emera

Figure 56: EMA Upside/Downside Scenarios



Source: FactSet, UBS Equity Research Estimates

BASE (C$62): The C$62 base case consists of a 16% premium to the Regulated Utility average P/E multiple or 17.8x $3.48 EPS in 2024E. The premium includes 10% for first quartile regulation, 5% for the group's undervaluation, 5% for lower risk in clean energy growth capability, and -4% discount for fourth quartile EPS growth.

UPSIDE (C$71): Our $71 upside case is a 26% premium to the Regulated Utility average P/E multiple or 19x $3.48 EPS in 2024E. The premium includes 10% for first quartile regulation, 5% for the group's undervaluation, 4% premium for quartile EPS growth, 5% premium for clean energy growth, and 2% premium for EPS guidance reliability.

DOWNSIDE (C$53): Our $53 downside case is a 12% discount to the Regulated Utility average P/E multiple or 17.1x $3.10 EPS in 2024E. The premium includes 5% premium for first quartile regulation, 5% for the group's undervaluation, and 2% premium for EPS guidance reliability.

Entergy Corp.

Figure 57: ETR Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

UPSIDE ($119): Our upside scenario of $119 reflects improved sales and regulatory outcomes driving a 25bps expansion in earned ROE and additional $1.0bn of capex deployed and in rates above the current plan. This puts 2024 EPS at $7.48/shr. We then apply a 4% premium multiple which reflects a 5% premium for the group being undervalued, an improvement to third quartile regulation (-5%), and top quartile EPS growth (+4%).

BASE ($107): Our $107 PT, reflects a 3% discount to the regulated utility average P/E of 15.3x. The discount is comprised of a 5% premium for the group being undervalued, ETR's 2nd quartile EPS growth (+2%), and a 4th quartile regulatory ranking (-10%).

DOWNSIDE ($93): Our downside scenario of $93 reflects sales and regulatory outcomes falling short of expectations and degrading earned ROE by 25bps while the rate base growth trajectory is reduced by $1.0bn. This puts the 2024 EPS at $6.63/shr. We then apply a 9% discount to the 2024 target multiple which assumes a 5% premium for the group being undervalued, a bottom quartile EPS growth profile (-4%) and a -10% regulatory risk discount.

Evergy Inc.

Figure 58: EVRG Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

UPSIDE ($67): Our upside scenario includes an incremental $1 billion of investment and better state regulatory environment. Our upside value of $67 is a 2% premium to the Regulated Utility average or 15.7x $4.26. The 4% premium includes: 5% for Regulated Utility group undervaluation; 4% for top quartile EPS growth and -5% for third quartile regulation.

BASE ($62): Our $62 price target is a 1% discount to the Regulated Utility average or 15.3x $4.06 in 2024E. The 1% discount includes +5% for the Regulated Utility undervaluation to the long-term mean relationship to the Baa corporate bond, -10% for fourth quartile regulation, and +4% for first quartile EPS growth.

DOWNSIDE ($52): Our downside scenario of $52 reflects a 50 bp reduction in earned ROE due to a regulatory disallowance (-$0.30/share) and a reduction in cap-ex investment (-$0.20/share). The downside valuation is $53 or a 5% discount to the average Regulated Utility or 14.9x $3.56 in 2024. The discount includes: +5% for 12 month forward Regulated Utility group undervaluation and -10% for fourth quartile regulation.

EverSource Energy

Figure 59: ES Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

UPSIDE ($84): Our $84 upside case is a 9% premium to the Utility average or 17x $5.07 in 2024. The upside case includes an incremental 50 bp in earned ROE to 9.2% (+$0.20/share) and an incremental $2 billion in cap-ex (+$0.25/share). The 9% premium reflects +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield, a 5% discount for fourth quartile regulation, a 4% premium for top quartile EPS growth, and +5% premium for Clean Energy transition growth opportunity.

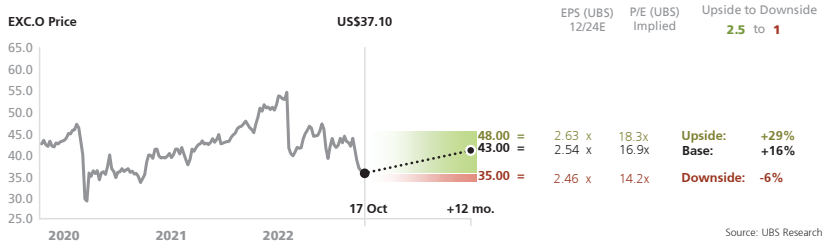
BASE ($76): Our ES $76 price target is a 4% premium to the Utility average or 16x our $4.62 2024E EPS estimate. The premium is the sum of a +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield, a 10% discount for fourth quartile regulation, a 4% premium for top quartile EPS growth, and +5% premium for Clean Energy transition growth opportunity.

DOWNSIDE ($59): Our $59 downside case is a 7% discount to the Utility average P/E or 14x $4.17 in 2024. The downside case assumes 3rd quartile 6% EPS growth driven by a 50 bp reduction in earned ROE to 8% (-$0.20/share) and -$2 billion in cap-ex versus the base case which is -$0.25/share. The 7% discount is +5% for a sustainable P/E premium

on a relative yield basis to the Baa corporate bond yield, a 10% discount for fourth quartile regulation, and a -2% discount for third quartile EPS growth,

Exelon Corp.

Figure 60: EXC Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

UPSIDE ($48): Our upside case of $48/share is premised upon a 19% premium to the group average. This is driven by +5% for 12 month forward Regulated Utility group undervaluation, improving regulatory environments and a 2nd quartile regulatory premium of 5%, a 1st quartile EPS growth of 4%, and EPS growth at the top end of Exelon's guidance range of 8%, driving 2024 earnings of $2.63. We also apply a 5% premium for clean energy transition.

BASE ($43): Our base case valuation of $43/share is premised upon a 9% premium to the regulation group average on our 2024E earnings of $2.54. The premium is fueled by +5% for 12 month forward Regulated Utility group undervaluation, a 4% premium for top quartile EPS growth, a 5% discount for third quartile regulatory rating, and a 5% clean energy transition premium.

DOWNSIDE ($35): Our downside case of $35/share is premised upon deteriorating regulatory environments which drive 2024 earnings of $2.46/shr and a 7% valuation discount. The discount is comprised of +5% for 12 month forward Regulated Utility group undervaluation, 4th quartile regulatory quality (-10% discount), and a -2% earnings growth discount.

FirstEnergy

Figure 61: FE Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

UPSIDE ($48): Our upside scenario reflects resolution of the FE legal risk related to HB 6 without a material financial impact. The EPS growth rate reflects the high-end of the company's 6-8% EPS growth guidance. The valuation is a 5% premium to the Regulated Utility average or 16.5x $2.91 2024E. The valuation multiple reflects +4% for first quartile EPS growth, +5% for second quartile regulation, -7% for legal risk, +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield, and -2% for legal risk.

BASE ($43): Our $43 price target is a Regulated Utility average or 15x $2.80 in 2024E. It is +5% for second quartile Regulation, +2% for second quartile EPS growth, +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield, and -

12% for legal risk.

DOWNSIDE ($33): Our $33 downside scenario assumes an incremental $750 million equity (-$0.12/share) need -$0.10/share for pension EPS risk and a more significant legal discount of -10%. The $33 valuation is 13x $2.58 in 2024E, which is a 14% discount to the Regulated Utility average. The discount reflects -4% for fourth quartile EPS growth, -5% for third quartile regulation, +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield, and -20% for legal risk.

Fortis

Figure 62: FTS Upside/Downside Scenarios



Source: FactSet, UBS Equity Research Estimates

BASE (C$50): Our C$50 base case is a 3% premium to the Regulated Utility average P/E multiple or 15.9x $3.14 EPS in 2024E. The premium includes -5% discount for quartile regulation, 5% for the group's undervaluation, -2% discount for regulated EPS growth guidance, and 5% premium for specific adjustment.

UPSIDE (C$54): Our C$54 upside case is a 3% premium to the Regulated Utility average P/E multiple or 15.7x $3.44 EPS in 2024. The premium includes -5% discount for quartile regulation, 5% for the group's undervaluation, -2% discount for regulated EPS growth guidance, and 5% premium for specific adjustment.

DOWNSIDE (C$45): Our C$45 case is a 3% discount to the Regulated Utility average P/E multiple or 15.3x $2.94 EPS in 2024. The premium includes -5% discount for quartile regulation, 5% for the group's undervaluation, -2% discount for regulated EPS growth guidance, and 5% premium for specific adjustment.

NextEra Energy

Figure 63: NEE Upside/Downside Analysis



Source: FactSet, UBS Equity Research Estimates

UPSIDE ($106): Our upside case reflects a SOTP methodology. For FPL and Corporate we increase our ESG premium by 15%, include an earnings reliability premium of 4% and increase FPL earnings by $0.10/share in 2024 on higher achieved ROEs. For NEER we use a 21x '24 EV/EBITDA multiple on peak clean energy comp valuation. We mark the stake in NEP to market.

BASE ($90): Our valuation reflects a SOTP methodology. For FPL and Corporate, we assign a 24% premium to the Regulated Utility average P/E of 15.4x 2024E EPS of $2.10. For NEER, we assign a P/E of 34.6x 2024E EPS of $1.29 premised upon the valuation of Orsted SA and Ormat. We mark-to-market NEE's LP ownership stake in NEP.

DOWNSIDE ($64): Our downside case reflects a SOTP methodology. For FPL and Corporate we use 2nd quartile growth and 2nd quartile regulatory quality versus 1st quartile for both in our base case. We also remove any ESG or earnings reliability premium and lower FPL earnings by $0.10/share in 2024 on lower achieved ROEs. For NEER we use a 2x PEG ratio on low end 10% growth or 20x P/E on 2024 EPS of $1.29. We mark the NEP stake to market.

NiSource, Inc.

Figure 64: NI Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

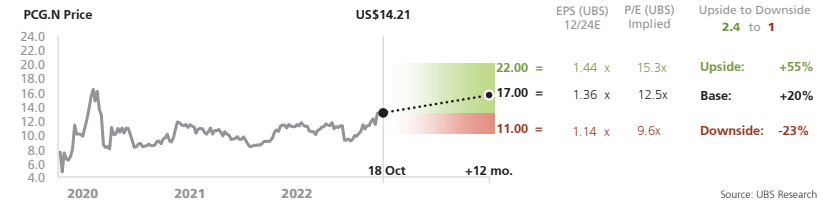
UPSIDE ($30): Our $30 upside case reflects a 14% premium to the Regulated Utility average on $1.72 in 2024. The higher earnings power reflects an incremental $600 million of investment driving 7% EPS growth. The valuation includes +5% for the 12 month undervaluation on a relative yield basis to the Baa corporate bond, +5% for second quartile regulation, and +4% for first quartile EPS growth.

BASE ($27): Our $27 price target is a 6% premium to the Regulated Utility average P/E or 16.3x $1.66 in 2024E. The valuation includes +5% for the group being undervalued, +5% for second quartile regulatory jurisdictions and -4% discount for fourth quartile EPS growth.

DOWNSIDE ($23): Our $23 downside case is a 1% discount to the Regulated Utility average 2024 P/E on earnings of $1.51 in 2023E. The downside case reflects a $1.2 billion reduction in investment by 2024 and third-quartile regulation.

PG&E Corp.

Figure 65: PCG Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

We are lowering our price target on PCG to $17 from $18 due to a 14% reduction in the average P/E multiple (15.3x versus 17.8x) offset by a 6% reduction in California wildfire liability discount (-24% versus -30% previously).

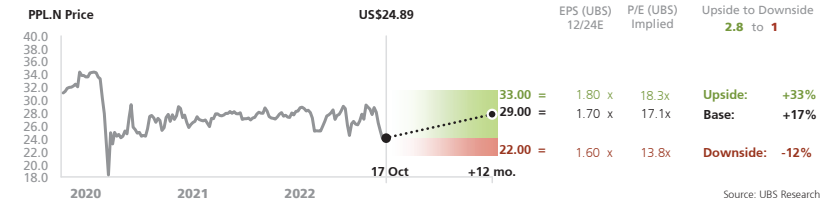
UPSIDE ($22): Our PCG upside case assumes full implementation of AB 1054 and full implementation of the $7.5 billion securitization. It is 15x upside case EPS of $1.44 in 2024.

BASE ($17): Our $17 price target is 12.5x our $1.36 EPS in 2024E, which is -21% discount to the Regulated Utility average P/E. The -21% discount is: a +5% for a sustainable over valuation to the Baa corporate bond, +4% for top quartile earnings growth, -5% for third quartile regulation, and -25% for California wildfire exposure for including -17% for 75% of the maximum use of the wildfire fund to 2030 and -8% for a $1.5 billion liability exposure.

DOWNSIDE ($11): Our PCG downside scenario reflects ineffective implementation of AB 1054 resulting in a -$4 billion exposure and $1.14 of EPS in 2024. Our downside scenario is 10x our downside case EPS of $1.14.

PPL Corp.

Figure 66: PPL Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

UPSIDE ($33): Our upside scenario includes an improvement in the company's UBS Regulatory Ranking from a high 3rd quartile to 2nd quartile and an incremental $1 billion in cap-ex from renewable RFPs or transmission, which adds $0.10/share. The $33 upside 18% premium is 18x $1.80 in 2024.

BASE ($29): Our PPL $29 price target is at an 8% premium to the Utility average, or 17x our $1.70 2024E EPS estimate. The premium is the sum of +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield, a 5% discount for third-quartile regulation, a 4% premium for top-quartile EPS growth, and a 4% EPS reliability premium.

DOWNSIDE ($22): Our downside scenario is primarily a shortfall in investment, which results in the company falling short of the EPS growth guidance range at 5%, which is fourth quartile. The $22 downside valuation is at a 12% discount, or 14x $1.60 in 2024E.

Pinnacle West Capital Corp

Figure 67: PNW Upside/Downside Analysis



Source: FactSet, UBS Equity Research Estimates

UPSIDE ($77): The $77 upside case includes an incremental $1.0 billion of net investment funded one-half with equity and an incremental 1% sales growth versus the baseline. The EPS impact of the net investment is $0.18/share and the higher allowed ROE is $0.24/share. Our upside valuation of $77 is an inline multiple to the Regulated Utility average or 15.3x $5.00 in 2024. The valuation includes -5% for third quartile regulation and +5% for the Regulated Utility group undervaluation versus the long-term relationship to the Baa bond.

BASE ($60): Our $60 price target is a 15% discount to the average Regulated Utility multiple or 13.2x $4.54 in 2024E. The 15% discount includes -10% for fourth quartile regulation, -2% for third quartile EPS growth, -8% for rate case risk and +5% for the Regulated Utility group undervaluation versus the long-term relationship to the Baa bond.

DOWNSIDE ($50): Our $50 downside case is a 15% discount to the average Regulated Utility or 13.1x $3.82 in 2024. The downside case assumes a write-off of Palo Verde and Four Corners and new equity to maintain the capital structure as the proceeds are used to repay debt at a 3.5% rate. The 15% discount includes -10% for fourth quartile regulation, -2% for third quartile EPS growth, -8% for rate case risk and +5% for the Regulated Utility group undervaluation versus the long-term relationship to the Baa bond.

Public Service Enterprise Group

Figure 68: PEG Upside/Downside Analysis



Source: FactSet, UBS Equity Research Estimates

UPSIDE ($81): Our $81 upside case reflects a 22% premium to the Regulated Utility average on $4.20 in 2024. The higher earnings power reflects an incremental $1.0 billion of investment driving 7+% EPS growth. The valuation includes +5% for the 12 month undervaluation on a relative yield basis to the Baa corporate bond, +5% for second quartile regulation, and +4% for first quartile EPS growth, +4% for earnings consistency and +5% for clean energy transition.

BASE ($76): Our $76 price target is a 22% premium to the Regulated Utility average P/E or 18.8x $4.05 in 2024E. The valuation includes +5% for the 12 month undervaluation on a relative yield basis to the Baa corporate bond, +5% for second quartile regulation, and +4% for first quartile EPS growth, +4% for earnings consistency and +5% for clean energy transition.

DOWNSIDE ($48): Our $48 downside case is a 10% discount to the Regulated Utility average 2024E P/E on earnings of $3.50 in 2024E. The downside case reflects a $1.5 billion reduction in investment by 2024 and a 200bps reduction in earned return due to higher inflationary and pension costs and are reduced allowed ROE. The -10% discount reflects +5% for the 12 month undervaluation on a relative yield basis to the Baa corporate bond and -10% for fourth quartile regulatory jurisdiction and -5% for lower earnings growth.

Sempra

Figure 69: SRE Upside/Downside Analysis



Source: FactSet, UBS Equity Research Estimates

UPSIDE ($206): Our upside case is premised on a SOTP valuation methodology. We value the Texas utilities at a 25% premium for growth and T&D only assets to the group multiple of 15.4x on '24 EPS of $2.23/share ($43/share) and the California utilities at the 7% premium in our base case to the group multiple of 15.4x on $5.15/share ($85/share). For SIP we use a Brookfield Infrastructure comparable multiple on '24 EV/EBITDA of 15.1x versus 10.4x in our base case which leads to a value of $50/share. We incorporate $27/share for the LNG backlog including ECA Phase 1 by adding an additional $2/share for the potential Selina Cruz LNG project.

BASE ($178): Our $178 price target is premised upon a SOTP valuation methodology. We value the utilities at a 7% premium to the 15.4x regulated utility multiple on our consolidated UPO of $7.66, yielding $127/share. Our 7% premium is a 5% premium for the group valuation vs. interest rates, a 5% discount for fourth quartile regulation, a 2% discount for 3rd quartile EPS growth, and a 5% premium for lower risks to the clean energy transition, and a 4% premium for earnings consistency. We value SIP using an infrastructure comparable '24E EV/ EBITDA multiple of 10.4x, $5.9Bln of net debt, and ~305mln shares outstanding, yielding $27/share. We value ECA Phase 1 LNG under construction at $3/share and the remaining LNG backlog at $22/share using similar economics to Cameron Phase 1, the LNG/Midstream comparable 2023 P/E multiple of 15.4x and a 10% discount for Cameron LNG Phase 2, a 25% discount for Vista Pacifico, and for Port Arthur, and a 50% discount for ECA Phase 2.

DOWNSIDE ($121): Our downside case is premised on a SOTP valuation methodology. We value the Texas utilities at a 7% premium as in our base case, ($36/share), and the California utilities using the average of the group multiple and EIX or 13.2x, which results in $67/share. SIP is valued at the Mexican Airport comparable 8.5x '24 EV/EBITDA or $18/share inclusive of ECA Phase 1, and LNG Development is valued at $2/share as a discounted value of Cameron Train 4.

Southern Company

Figure 70: SO Upside/Downside Scenarios



Source: actSet, UBS Equity Research Estimates

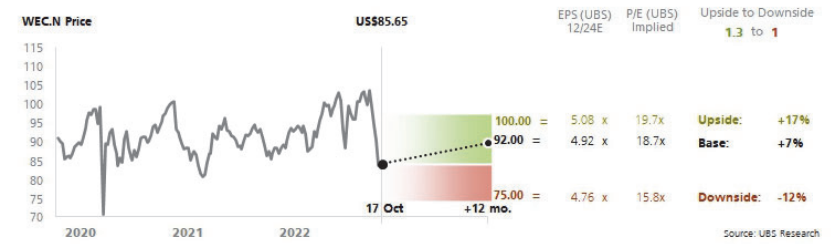
UPSIDE ($88): Our upside case incorporates a growth rate increase to 6%-8%, earnings power of $4.30, a Vogtle premium of 10% related to cash flow the in-service project would need to fund the higher growth without equity needs, and a 5% premium for clean energy transition on a post Vogtle acceleration of fleet transformation to clean from coal.

BASE ($77): Our base case incorporates $4.21/shr of earnings in '24E, a 5% premium for group valuation at the high end of the company's 5%-7% growth rate and the elimination of the Vogtle ROE penalty and Vogtle completion in the first half of 2023. We also incorporate a 4% premium for first quartile EPS growth, and a 10% premium for top quartile regulatory constructiveness.

DOWNSIDE ($58): Our downside case incorporates Vogtle not being able to move to commercial operations in 2023, a Vogtle related write off of $3Bln on prudency review and a 25% Vogtle risk to completion discount and a $4.04/share earnings power in 2024.

WEC Energy Group

Figure 71: WEC Upside/Downside Scenarios



Source: FactSet, UBS Equity Research Estimates

UPSIDE ($100): In our upside case we grow earnings per share at 8%/year off of the 2021 base year to $5.08 in earnings per share in 2024. We value WEC at a 28% premium to the RU average P/E multiple by increasing to a 5% 1st quartile eps growth premium, for a –2% third quartile discount in our base case.

BASE ($92): In our base case, we value WEC at a 22% premium to the RU average P/E multiple. The premium reflects our group valuation bias (5% premium), as well as WEC's 3rd quartile EPS growth (2% discount) and 1st quartile regulatory ranking (10% premium), an earnings consistency premium (4% premium), and a lower risk path to the clean energy transition (5% premium). Our base case incorporates our 2024E EPS estimate of $4.92.

DOWNSIDE ($75): In our downside case we slow earnings growth to 5%/year off of the 2021 base to $4.76/share in 2024. We value WEC at a 6% premium to the RU average P/E multiple by moving EPS growth to 4th quartile or a -4% discount. We also take the earnings consistency and ESG premiums to 0%.

Xcel Energy

Figure 72: XEL Upside/Downside Analysis



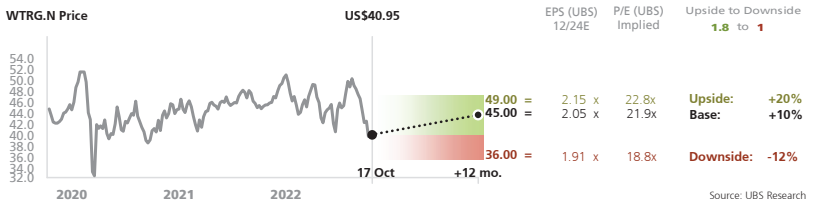
Source: FactSet, UBS Securities LLC Estimates

UPSIDE ($70): Our $70 upside case is a 23% premium to the Utility group and is 19x $3.74 in 2024. The upside scenario includes an improved regulatory ranking and EPS growth versus the base case. We assume an incremental $2.0 billion in cap-ex or + $0.19/share (9.6% and 52% equity ratio) and 8% EPS growth. The 23% premium reflects: +5% for second quartile Regulation, +4% for first quartile EPS growth, +4% for EPS guidance reliability, +5% for an ESG risk-adjusted opportunity premium and +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield.

BASE ($62): Our XEL $62 price target is an 11% premium to the group average or 17x our 2024E EPS of $3.55. The 11% premium reflects: -5% for third quartile Regulation, +2% for second quartile EPS growth, +4% for EPS guidance reliability, +5% for an ESG risk-adjusted opportunity premium and +5% for a sustainable P/E premium on a relative yield basis to the Baa corporate bond yield.

DOWNSIDE ($51): Our $51 downside case is a Utility average P/E of 15x $3.41 in 2024. The downside case reflects a $1.5 billion reduction in cap-ex at a 9.6% ROE and 52% equity ratio which is -$0.14/share and 6% annualized EPS growth from 2022-2026.

Figure 73: WTRG Upside/Downside Analysis



Source: FactSet, UBS Securities LLC Estimates

We are changing our WTRG price target to $45 from $51 due to a change in average multiples. Our $45 price target is a sum of the parts which is $33 for a 7% P/E premium to the Water Utility group or 26x applied to $1.28 of Water Utility and parent EPS in 2024E plus $12 for a gas utility average P/E of 16x applied to $0.77. The 7% premium reflects +5% for second quartile Regulation and +2% for second quartile EPS growth.

Previously our $51 target target was the sum of $38 for a 7% P/E premium to the Water Utility group or 29.3x applied to $1.28 of Water Utility and parent EPS in 2024 plus $13 for a gas utility average P/E of 17.8x applied to $0.77. The 7% premium reflected +5% for second quartile Regulation and +2% for second quartile EPS growth.

UPSIDE ($49). Our $49 upside case includes an incremental $500 million in water utility rate base through an acquisition or other investment which contributes $0.10/share assuming a 10% ROE and 50% equity ratio. This results in first quartile EPS growth of 8% from 2022-2026. The upside case is $37 for the Water Utility and Parent at a 9% premium to the Water Utility average P/E or 27x $1.38 in 2024 plus $12 for the gas utility at 16x $0.77. The 9% premium includes +4% for first quartile EPS growth and +5% for second quartile regulation.

BASE ($45): Our $45 price target is a sum of the parts which is $33 for a 7% P/E premium to the Water Utility group or 26x applied to $1.28 of Water Utility and parent EPS in 2024E plus $12 for a gas utility average P/E of 16x applied to $0.77. The 7% premium reflects +5% for second quartile Regulation and +2% for second quartile EPS growth.

DOWNSIDE: ($36): Our $36 downside case includes a $750 million reduction in water utility rate base versus the base case or -$0.14/share. This results in third quartile EPS growth of 6% from 2022-2026. The downside case is $26 for the Water Utility and Parent at a 7% discount to the Water Utility average P/E or 23x $1.14 in 2024 plus $10 for the gas utility at a 20% gas utility discount P/E of13x $0.77. The 9% premium includes -2% for third quartile EPS growth and -5% for third quartile regulation.

Figure 74: WTRG Sum of the Parts

WTRG-Current	2024E	Multiple	Value
Water	$1.46	26.2x	$38
Gas Distribution	$0.77	15.6x	$12
Parent & Other	-$0.18	26.2x	-$5
Total	$2.05		$45

WTRG-Prior	2024E	Multiple	Value
Water	$1.46	29.3x	$43
Gas Distribution	$0.77	18.1x	$14
Parent & Other	-$0.18	29.3x	-$5
Total	$2.05		$51

Source: Factset, UBS Securities LLC

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 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.

North American utilities: 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.

IPPs: We identify the following risks for the sector: Demand for new renewable installations has historically been volatile around changes in state and federal policy, and we expect this volatility to continue. In addition, margins for product manufacturers can be impacted by swings in raw materials pricing and the overall level of energy prices.

Our valuation methodology for water utilities is P/E based and includes a: 1) 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 and a 2) 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%. Risks for the sector are rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity, and water access.

Required Disclosures

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Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

UBS Investment Research: Global Equity Rating Definitions

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 Name	Reuters	12-month rating	Price	Price date
AES Corp[16]	AES.N	Buy	US$24.40	18 Oct 2022
Alliant Energy Corp[16]	LNT.O	Neutral	US$50.92	18 Oct 2022
Ameren Corp[16]	AEE.N	Neutral	US$79.36	18 Oct 2022
American Electric Power Inc[16,7,6b]	AEP.O	Buy	US$86.58	18 Oct 2022
American Water Works Co[16]	AWK.N	Neutral	US$134.77	18 Oct 2022
CMS Energy Corp[16]	CMS.N	Neutral	US$56.56	18 Oct 2022
Consolidated Edison Inc[16]	ED.N	Neutral	US$85.00	18 Oct 2022
Constellation Energy Corp[16]	CEG.O	Buy	US$86.51	18 Oct 2022
DTE Energy Co[16]	DTE.N	Neutral	US$109.89	18 Oct 2022
Dominion Energy Inc[16,7,6b]	D.N	Buy	US$66.54	18 Oct 2022
Duke Energy Corp[16,7,6b,6c]	DUK.N	Neutral	US$90.81	18 Oct 2022
Edison International[16,7,6b]	EIX.N	Neutral	US$57.42	18 Oct 2022
Emera Inc	EMA.TO	Buy	C$54.22	18 Oct 2022
Entergy Corp[16,7,6b,6c]	ETR.N	Neutral	US$103.44	18 Oct 2022
Essential Utilities Inc[16]	WTRG.N	Neutral	US$41.75	18 Oct 2022
Evergy, Inc[16]	EVRG.N	Neutral	US$58.85	18 Oct 2022
Eversource Energy[16,7,6b]	ES.N	Neutral	US$75.86	18 Oct 2022
Exelon Corp[16,7,6b,6c]	EXC.O	Buy	US$37.56	18 Oct 2022
FirstEnergy Corp[16]	FE.N	Buy	US$37.31	18 Oct 2022
Fortis Inc[16]	FTS.TO	Sell	C$51.89	18 Oct 2022
NRG Energy Inc[16]	NRG.N	Neutral	US$42.96	18 Oct 2022
NextEra Energy Inc[2,4,5,16,7,6a]	NEE.N	Buy	US$75.06	18 Oct 2022
NiSource Inc.[16]	NI.N	Neutral	US$25.27	18 Oct 2022
OGE Energy Corp[16]	OGE.N	Buy	US$35.13	18 Oct 2022
PG&E Corp[16,7,6b,6c]	PCG.N	Buy	US$14.15	18 Oct 2022
PPL Corp[13,16]	PPL.N	Buy	US$25.39	18 Oct 2022
Pinnacle West Capital Corp[16,7,6b]	PNW.N	Sell	US$64.41	18 Oct 2022

Company Name	Reuters	12-month rating	Price	Price date
Public Service Enterprise Group[16,7,6b]	PEG.N	Buy	US$55.69	18 Oct 2022
Sempra[16]	SRE.N	Buy	US$145.41	18 Oct 2022
Southern Co[13,16]	SO.N	Buy	US$65.39	18 Oct 2022
Vistra Corp.[4,16,6a]	VST.N	Buy	US$22.56	18 Oct 2022
WEC Energy Group Inc[16]	WEC.N	Neutral	US$87.79	18 Oct 2022
Xcel Energy Inc[16]	XEL.O	Neutral	US$61.62	18 Oct 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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Equity Research

WELLS FARGO

Rating Change — December 14, 2022

Clean Energy
Diversified Electric Utilities
Independent Power Producers
Infrastructure
Natural Gas LDCs
Regulated Electric Utilities
Water Utilities

2023 Utility Outlook: Potholes Emerging on the Yellow Brick Road

Our Call

In last year's outlook report, we advised investors to, "Jump In! The Water's Fine." This year, the water is a bit chilly. What's changed? A lot! First, following strong outperformance in 2022 (YTD +4% vs. the S&P 500 -15%), the group now trades at a 4% P/E premium (FY1) to the S&P 500 (vs. a ~20% discount in late '21). Second, with the spike in interest rates, utilities flipped from looking cheap relative to rates to expensive. Higher interest rates also increase utility financing costs on top of inflationary pressure on O&M. Lastly, higher energy prices have resulted in bill pressure that puts utility regulatory proceedings under increased scrutiny.

But just as important is what hasn't changed — mostly notably the long runway of capital investment opportunities across the electric, gas, and water space. There continues to be a strong need to replace aging infrastructure and maintain reliable and safe systems, while at the same time working to achieve decarbonization and clean energy goals. These initiatives enjoy support from a broad group of stakeholders, which should prevent excessive backlash to rising utility bills.

All told, our outlook for the sector is not as bullish heading into '23, nor are we outright bearish. And we still believe that the defensive nature of the group holds appeal in an uncertain macroeconomic environment.

High-Quality Bias. Given sector headwinds tied to inflation (O&M) and interest rates, we look to a basket of high-quality utilities where our confidence level on execution is relatively high. While these stocks trade at premium multiples relative to peers, we think the premiums are warranted, and we still see room for outperformance over a 12-18 month period and over a longer-term horizon. We recommend **AEE, CMS, CNP, H-TSE** &**WEC**.

Lastly, we flag renewable pacesetter **NEE**, a laggard in '22, as a highlighted pick for '23. We attribute the YTD underperformance (~800 bps vs. the S&P Utes) largely to the negative impact of rising interest rates on growth equities. That being said, the fundamental backdrop for renewables strengthened in '22, boosted by both high energy prices and the IRA. And NEE is leveraging the company's strong competitive position and expertise in wind/solar/storage to attack other high-TAM verticals such as transmission, water & RNG.

Re-Rating Stories. Using history as a guide, the way to generate meaningful alpha in the utility space over a 12-18 month time horizon is finding re-rating stories. Identifying the next big mover(s) is difficult, as it often includes a change in regulatory environment, which is uncommon and can happen without a lot of warning and/or a change in investor perception. Our top candidates for positive multiple re-rating in 2023 are **ES, ETR, NI, PCG, PEG & PPL.**

Rating Change. We upgrade **FTS** to Equal Weight from Underweight and increase our forward price target to C$59/sh from C$54/sh (blend of P/E multiple & DDM analysis). Rationale: (1) valuation—shares trade at 5-7% P/E multiple discounts vs. high-quality Regulated Electrics on our '23E and '24E EPS compared to in-line multiples at the time

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of our downgrade to Underweight, (2) positive regulatory developments for UNS (AZ election results) and ITC (FERC dismissal of ITC Midwest equity ratio complaint), and (3) a clearer path toward EPS growth.

We also update price targets across our coverage reflecting higher peer group multiples since our last update (mark-to-market); we incorporate EPS updates on select names (EVRG, IDA, POR, SO & SR).

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Financials

$ Company Name (Ticker)	Rating Curr.	Rating Prior	Price 12/13/22	2021A	FY EPS 2022E Curr.	FY EPS 2022E Prior	FY EPS 2023E Curr.	FY EPS 2023E Prior	FY P/E 2022	FY P/E 2023	Price Target To	Price Target From
Clean Energy												
NuScale Power Corporation (SMR)*	2	NC	$10.34	NA	(129.3)	NC	(97.6)	NC	NM	NM	$14.00	NC
Diversified Electric Utilities												
Algonquin Power & Utilities Corp. (AQN)	2	NC	$7.25	0.71	0.67	NC	0.73	NC	10.8x	9.9x	$9.00	NC
ALLETE, Inc. (ALE)	2	NC	$65.50	3.22	3.75	NC	3.92	NC	17.5x	16.7x	$67.00	$60.00
AVANGRID Inc. (AGR)	2	NC	$43.71	2.18	1.95	NC	2.15	NC	22.4x	20.3x	$48.00	$45.00
NextEra Energy, Inc. (NEE)^	1	NC	$87.15	2.55	2.87	NC	3.10	NC	30.3x	28.1x	$105.00	$100.00
Public Service Enterprise Group Incorporated (PEG)	1	NC	$61.12	3.68	3.45	NC	3.45	NC	17.7x	17.7x	$72.00	$68.00
Sempra Energy (SRE)	1	NC	$164.66	8.43	8.88	NC	8.90	NC	18.5x	18.5x	$180.00	$168.00
Independent Power Producers												
Constellation Energy Corporation (CEG)*	1	NC	$90.84	1.58B	2.55B	NC	3.12B	NC	13.8x	11.3x	$106.00	$104.00
NextEra Energy Partners, LP (NEP)*	1	NC	$76.80	3.27	3.90	NC	4.35	NC	19.7x	17.6x	$90.00	NC
Orsted A/S (ORSTED)*	1	NC	DKK660.10	16.38B	21.34B	NC	21.60B	NC	14.5x	14.3x	DKK875.00	NC
Infrastructure												
Brookfield Infrastructure Corporation (BIPC)*	1	NC	$43.98	2.42	2.72	NC	3.20	NC	16.2x	13.8x	$47.00	NC
Brookfield Infrastructure Partners L.P. (BIP)*	1	NC	$34.94	2.42	2.72	NC	3.20	NC	12.8x	10.9x	$40.00	NC
Brookfield Renewable Corporation (BEPC)*	1	NC	32.12	1.45	1.57	NC	1.78	NC	20.4x	18.1x	$37.00	NC
Brookfield Renewable Partners LP (BEP)*	1	NC	$28.14	1.45	1.57	NC	1.78	NC	17.9x	15.8x	$35.00	NC
Natural Gas LDCs												
Atmos Energy Corp. (ATO)	1	NC	$118.53	5.12	5.60A	NC	6.00	NC	21.2x	19.8x	$132.00	$123.00
Chesapeake Utilities Corporation (CPK)	3	NC	$119.93	4.73	5.00	NC	5.45	NC	24.0x	22.0x	$115.00	$110.00
New Jersey Resources Corporation (NJR)	2	NC	$49.72	2.15	2.50A	NC	2.47	NC	19.9x	20.1x	$51.00	$45.00
NiSource Inc. (NI)	1	NC	$27.93	1.37	1.45	NC	1.55	NC	19.3x	18.1x	$31.00	$28.00
Northwest Natural Holding Co. (NWN)	2	NC	$47.88	2.56	2.55	NC	2.78	NC	18.8x	17.2x	$51.00	$46.00
ONE Gas, Inc. (OGS)	2	NC	$78.33	3.85	4.08	NC	4.14	NC	19.2x	18.9x	$82.00	$80.00
South Jersey Industries, Inc. (SJI)	2	NC	$35.03	1.62	1.70	NC	1.78	NC	20.6x	19.6x	$36.00	NC
Southwest Gas Holdings, Inc. (SWX)	2	NC	$71.00	4.17	3.50	NC	4.08	NC	20.3x	17.4x	$73.00	$66.00
Spire Inc. (SR)	2	NC	$68.00	4.86	3.86A	NC	4.14	4.21	17.6x	16.4x	$71.00	NC
UGI Corporation (UGI)	2	NC	$39.08	2.96	2.90A	NC	3.00	NC	13.5x	13.0x	$41.00	$39.00
Regulated Electric Utilities												
Alliant Energy Corporation (LNT)	2	NC	$56.42	2.63	2.80	NC	2.90	NC	20.2x	19.5x	$63.00	$57.00
Ameren Corporation (AEE)	1	NC	$90.86	3.84	4.05	NC	4.38	NC	22.4x	20.7x	$101.00	$93.00
American Electric Power Company, Inc. (AEP)	1	NC	$98.61	4.73	5.02	NC	5.29	NC	19.6x	18.6x	$108.00	$96.00
Black Hills Corporation (BKH)	2	NC	$70.84	3.74	4.05	NC	4.10	NC	17.5x	17.3x	$71.00	$65.00
Centerpoint Energy, Inc. (CNP)	1	NC	$30.91	1.64	1.38	NC	1.49	NC	22.5x	20.7x	$35.00	$32.00
CMS Energy Corporation (CMS)^	1	NC	$64.16	2.65	2.89	NC	3.12	NC	22.2x	20.6x	$74.00	$68.00
Consolidated Edison, Inc. (ED)	3	NC	$98.51	4.37	4.55	NC	4.80	NC	21.7x	20.5x	$98.00	$87.00
Dominion Energy, Inc. (D)	2	NC	$59.98	3.86	4.10	NC	4.32	NC	14.6x	13.9x	$64.00	NC
DTE Energy Company (DTE)	1	NC	$120.46	5.99	6.00	NC	6.20	NC	20.1x	19.4x	$138.00	$128.00
Duke Energy Corp. (DUK)	2	NC	$103.10	5.24	5.25	NC	5.65	NC	19.6x	18.2x	$111.00	$99.00
Edison International (EIX)	1	NC	$67.87	4.59	4.60	NC	4.85	NC	14.7x	14.0x	$78.00	$69.00
Emera Incorporated (EMA)	2	NC	C$54.14	2.81	2.95	NC	3.10	NC	18.4x	17.4x	C$58.00	C$54.00
Entergy Corp. (ETR)	1	NC	$118.35	6.02	6.40	NC	6.70	NC	18.5x	17.7x	$135.00	$123.00
Evergy Inc. (EVRG)	2	NC	$63.25	3.54	3.58	NC	3.80	3.72	17.6x	16.6x	$69.00	$65.00
Eversource Energy (ES)	1	NC	$85.95	3.86	4.10	NC	4.40	NC	21.0x	19.5x	$99.00	$98.00
Exelon Corporation (EXC)	2	NC	$42.54	2.82	2.27	NC	2.38	NC	18.7x	17.9x	$47.00	$42.00
FirstEnergy Corp. (FE)	2	NC	$42.24	2.60	2.45	NC	2.45	NC	17.2x	17.2x	$45.00	$40.00
Fortis Inc. (FTS)	2	3	C$55.59	2.59	2.75	NC	2.95	NC	20.2x	18.8x	C$59.00	C$54.00
Hawaiian Electric Industries, Inc. (HE)	3	NC	$41.27	2.25	2.16	NC	2.27	NC	19.1x	18.2x	$39.00	$36.00
Hydro One Ltd. (H-TSE)	1	NC	C$37.65	1.61	1.68	NC	1.78	NC	22.4x	21.2x	C$41.00	C$37.00
IDACORP, Inc. (IDA)	2	NC	$108.31	4.85	5.12	NC	5.06	5.28	21.2x	21.4x	$113.00	$102.00
NorthWestern Corporation (NWE)	2	NC	$58.51	3.51	3.28	NC	3.55	NC	17.8x	16.5x	$57.00	$53.00
OGE Energy Corp. (OGE)	2	NC	$40.12	2.36	2.08	NC	2.05	NC	19.3x	19.6x	$42.00	$37.00

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PG&E Corporation (PCG)	1	NC	$16.01	1.00	1.10	NC	1.23	NC	14.6x	13.0x	$20.00	$18.00
Pinnacle West Capital Corporation (PNW)	2	NC	$79.39	5.47	4.28	NC	4.12	NC	18.6x	19.3x	$82.00	$70.00
PNM Resources, Inc. (PNM)	2	NC	$48.90	2.45	2.66	NC	2.68	NC	18.4x	18.3x	$48.00	$45.00
Portland General Electric Company (POR)	2	NC	$49.01	2.72	2.80	NC	2.66	2.70	17.5x	18.5x	$53.00	$52.00
PPL Corporation (PPL)	1	NC	$29.34	1.05	1.40	NC	1.60	NC	21.0x	18.3x	$34.00	$30.00
The Southern Company (SO)	2	NC	$71.21	3.41	3.58	3.60	3.73	3.85	19.9x	19.1x	$77.00	$70.00
WEC Energy Group, Inc. (WEC)	1	NC	$98.98	4.11	4.40	NC	4.60	NC	22.5x	21.5x	$109.00	$100.00
Xcel Energy, Inc. (XEL)	2	NC	$71.60	2.96	3.17	NC	3.38	NC	22.6x	21.2x	$76.00	$69.00
Water Utilities												
American States Water Company (AWR)	3	NC	$97.17	2.55	2.42	NC	2.70	NC	40.1x	36.0x	$96.00	$90.00
American Water Works Company, Inc. (AWK)	2	NC	$159.19	4.25	4.49	NC	4.78	NC	35.4x	33.3x	$159.00	$149.00
California Water Service (CWT)	3	NC	$63.97	1.90	1.65	NC	1.98	NC	38.9x	32.3x	$63.00	$61.00
Essential Utilities, Inc. (WTRG)	1	NC	$48.65	1.67	1.78	NC	1.90	NC	27.4x	25.6x	$53.00	$49.00
SJW Group (SJW)	2	NC	$79.84	1.85	2.33	NC	2.50	NC	34.2x	31.9x	$78.00	$72.00

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1 = Overweight, 2 = Equal Weight, 3 = Underweight, NR = Not Rated, SR = Suspended
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful

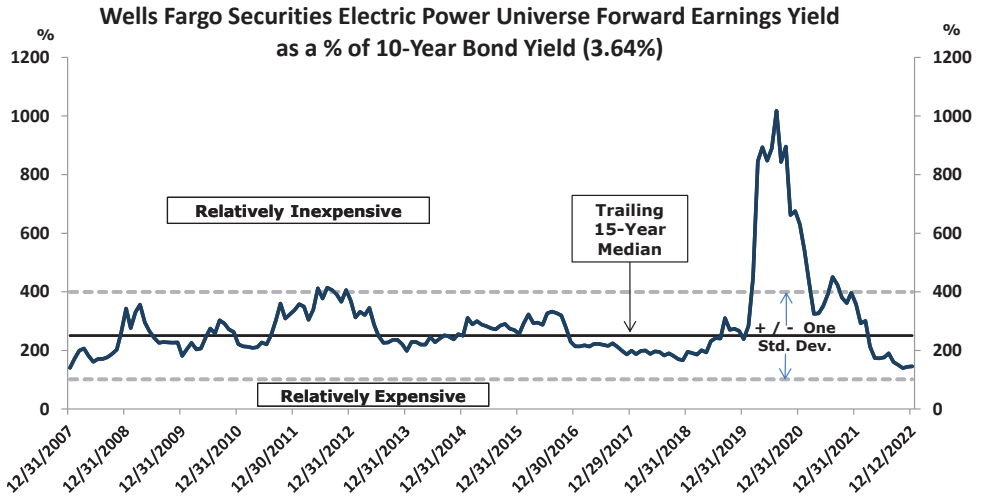
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2022 Performance, Valuation & 2023 Outlook

Utilities lived up to their defensive reputation in '22 as the sector far outpaced the S&P 500 (+4% vs. -15%) amidst a period of unusually high economic and geopolitical uncertainties. Heading into '22, utilities were out of favor and trading at historically low levels relative to both interest rates and the broader market. Inflationary pressures that emanated from the global pandemic and were exacerbated by Russia's invasion of Ukraine (Feb. '22) prompted investors to shun longer duration (growth) equities in favor of value stocks such as utilities. U.S. utilities also had an added appeal of virtually no international exposure.

Our outlook for the sector is not as bullish heading into '23, nor are we outright bearish. In terms of valuation, the case for the sector is not as obvious as it was at the end of '22. As depicted in Exhibits 1 and 2, the sector screens expensive relative to interest rates and fairly valued relative to the S&P 500 on FY1 P/E. Turning to fundamentals, there is no real change to the strong, long-term capital investment growth narrative for the sector. For electric utilities, the parallel trends of decarbonization and electrification are resulting in substantial capex needs (renewables, transmission, EV-related infrastructure, etc.). For electric, gas, and water utilities, there continues to be a long runway of replacement/resiliency spend. That being said, risks to the near-term EPS outlooks are emerging, particularly on the regulatory front.

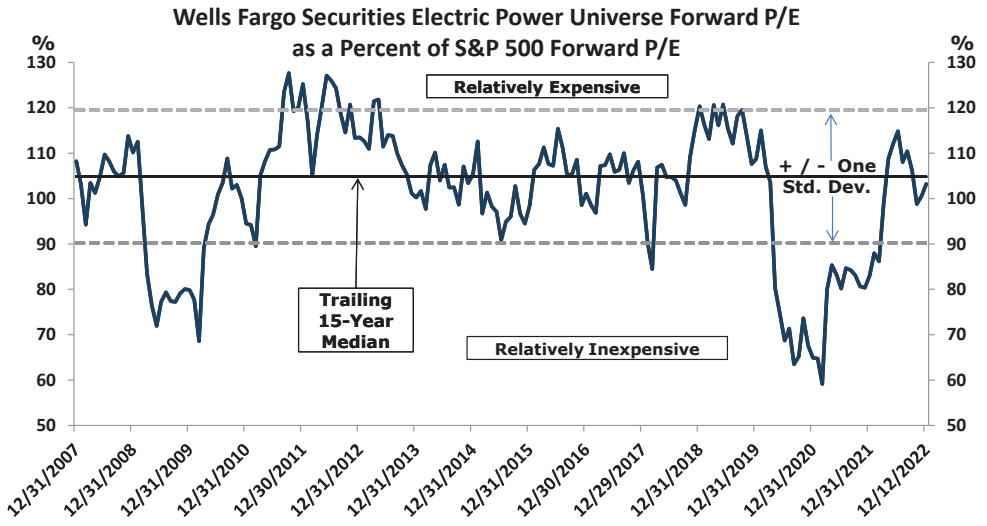
Exhibit 1: Utilities Screen Modestly Expensive to Interest Rates



Source: Wells Fargo Securities, LLC and FactSet

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Exhibit 2: Utilities Look Fairly Valued on Relative P/E



Source: Wells Fargo Securities, LLC and FactSet

Regulation—Watch Out for Potholes

Of particular concern is a potential deterioration in regulation due to growing customer bill pressures. The 2010s were characterized by benign overall bill increases as the impact of declining natural gas prices on the energy portion of electric and natural gas bills substantially offset base rate increases. The math changed in 2022 as natural gas prices increased from <$4/mmBtu at the end of '21 to $5-10/mmBtu during '22 resulting in overall bill increases of 10-50% for many electric and gas utilities (vs. inflation of 7-8%). While regulators have historically allowed for full recovery of energy costs (a pass-through for utilities), the resulting bill impact can put pressure on commissions to seek other ways to save customers money.

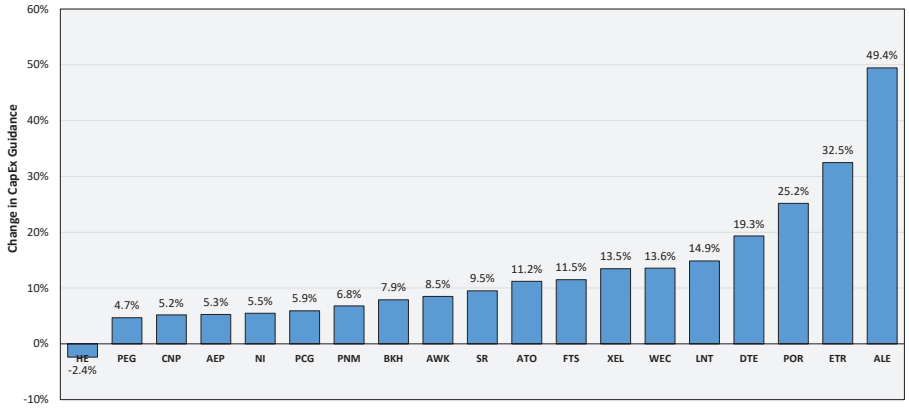
Our current view is that the (high?) majority of regulatory outcomes over the next 12-18 months will be constructive. That said, it can be difficult to predict where the potholes will emerge, prompting us to consider *all* rate cases to carry an elevated level of risk in the existing economic backdrop. We flag recent events In Nova Scotia and Michigan as examples of the "hard to predict" nature of regulatory risk. In Nova Scotia, the government, to everyone's surprise, proposed legislation that caps Nova Scotia Power's electric rate increases through '24, circumventing the regulators and causing EMA to scale back planned capex. Separately, the Michigan PSC, which is widely considered to be a top-quartile regulatory body, authorized DTE Electric an annual revenue increase that represented only 20% of the ALJ's Proposal for Decision and <10% of DTE's original ask (base rate case outcomes typically result in 40-60% of a company's original revenue request).

Rate Base Growth—No Signs of a Slowdown

Judging by recent 5-yr capex refreshes (Exhibit 3) and the messaging out of the November EEI conference, customer bill concerns do not appear to be having an impact on utility capital investment plans (at least not yet). For electric utilities, the theme remains largely the same as the parallel trends of decarbonization and electrification are creating substantial investment opportunities across the entirety of the infrastructure (generation, transmission & distribution). In addition, the provisions of the 2022 Inflation Reduction Act (IRA), which include renewable tax credit extensions and new tax credits for stand-alone energy storage and clean hydrogen, will likely accelerate the path to net zero carbon. That being said, decarbonization (and electrification) remain multi-decade trends. Below, we discuss the three key themes driving the strong rate base growth outlook for the electric utility industry (decarbonization, electrification, and resiliency).

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Exhibit 3: Recent Updates to 3-5 Year Capex Plans Show Positive Trend



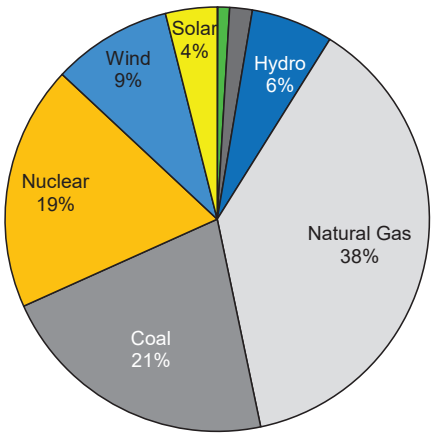
Note: Figure reflects changes in 3-5 year capex guidance vs. Q2 updates (i.e. same years compared) except those that rolled forward capex plans including AEP, ALE, ATO, AWK, DTE, ETR, LNT, PEG POR, SR & XEL; LNT's 22-25 capex guidance of $6.1B is inclusive of $1.3B of tax equity - we exclude the tax equity for comparison purposes.

Source: Company filings and Wells Fargo Securities, LLC estimates

Decarbonization—the transformation of the U.S. generation fleet remains in the early stages as carbon-free resources (wind, solar, nuclear & hydro) account for <40% of electricity production (Exhibit 4). Over time, we think wind/solar market share will increase to more than 60% (vs. 15% now), with the balance made up with dispatchable baseload generation. The composition of the dispatchable portion remains unclear. Along with the nation's existing ~100 GW nuclear fleet, which gained critical financial support in the IRA, other options include long-duration energy storage solutions (including clean hydrogen) and advanced nuclear (including SMRs).

Of course, the impacts of decarbonization are not limited to generation investment. The shift away from centralized power generation to a more decentralized model (remote utility scale renewables) will require substantial new transmission investment. For example, the Midcontinent ISO, which covers a large swath of the central U.S. (high renewable penetration), is in the midst of a Long Range Transmission Plan that could result in up to $100B of new transmission investment by 2040 (Tranche 1 awards totaled $10B). We expect this theme will play out in other regions as renewables continue to proliferate.

Exhibit 4: Carbon-Free Resources <40% of Electricity Production, 2021 Mix



Source: EIA and Wells Fargo Securities, LLC estimates

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Electrification—In reality, electrification is simply a subset of decarbonization. In order to fully decarbonize the U.S. economy, the thought process is that the most cost-effective path is for carbon-free electricity to replace fossil fuel-based energy sources used in other sectors (i.e., transportation, industrial processes, space heating, etc.). What are the implications of electrification for the electric sector? First and foremost, it is simply more demand for the core product, which, in turn, means more generation, transmission, and distribution investment will be needed. Full decarbonization could have a profound impact on the electric sector. In a recent conversation with management from Hydro-One (an Ontario T&D utility), they indicated that achieving Canada's ambitious 2035 zero-carbon goal could require effectively ***doubling or tripling the size of the existing grid***. Similarly, EIX projects that achieving CA's 2045 carbon-neutral goal will result in a 60% increase in electricity demand and require a "reimagining" of the grid in order to support the change in generation and consumption patterns. Second, electric utilities are increasingly viewed as catalyzing agents that could help accelerate electrification, while offering new profit-making opportunities. Examples include rate-basing EV charging infrastructure and customer incentive programs for EVs, heat pumps, electric appliances, etc.

Resiliency—while decarbonization and electrification dominate the electric capex narrative, resiliency continues to be a growing theme, driven by (a) customer reliability needs in an increasingly electrified world and (b) climate changes that may be resulting in more severe weather events (hurricane, wildfire, and severe storm events). Companies with notable/discrete grid hardening initiatives include CNP, DTE, EIX, ETR, LNT, NEE, PCG, and SRE.

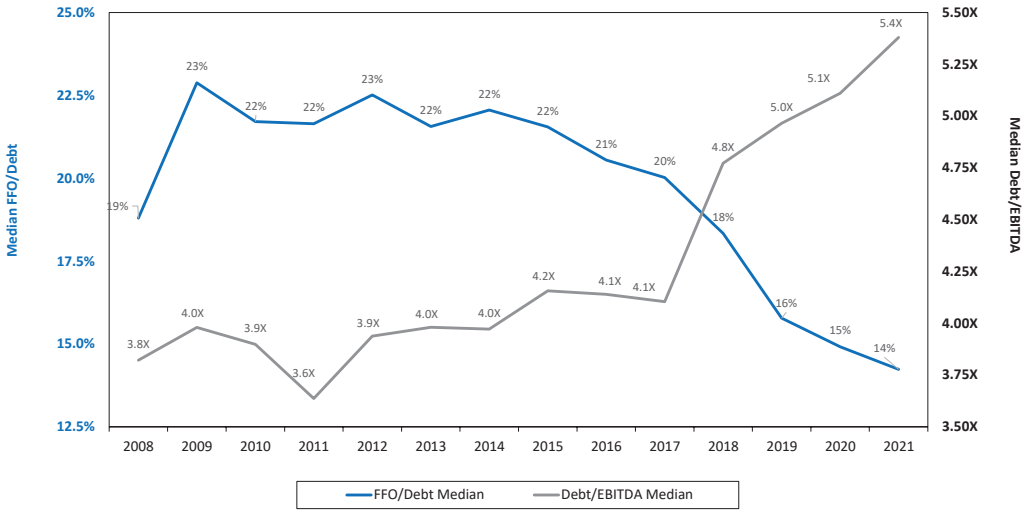
Balance Sheets Continue to Weaken

The overall credit profile for utilities is of modest concern, given the rising interest rate environment. The credit metrics for the group have weakened over the past several years, as management teams have shown a willingness to employ higher leverage in response to low interest rates. In addition, the 2017 Tax Jobs & Cuts Act, which eliminated the 50% bonus depreciation deduction for utilities, reduced FFO/Debt ratios by 150-300 bps, with many utilities opting not to substantially mitigate the impact with new equity. Exhibit 5 shows the average FFO/Debt and Debt/EBITDA ratios during the period 2008-2021.

Our perception is that equity investors are far more focused on credit metrics today than they were 10-20 years ago. Indeed, the relative valuation multiples seem to bear that out, as regulated utilities with FFO/Debt ratings >15% tend to command higher P/E multiples (Exhibit 6). And for companies with FFO/Debt ratios of less than 15%, equity needs command significant investor attention and concern, even if the expected annual needs (relative to market capitalizations) are not dissimilar to the stronger balance sheet names. Should the multiple disparities persist and/or equity valuations for the group further decline, we would not be surprised to see regulated utilities prune "less" core assets and/or evaluate sales of minority interests in operating utilities similar to DUK (Duke Energy Indiana) and FE (FirstEnergy Transmission).

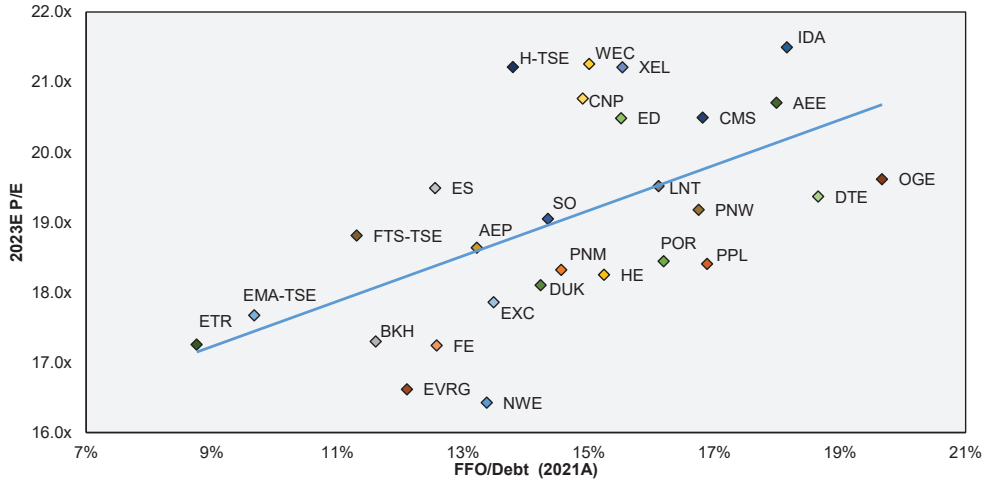
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Exhibit 5: Sector Balance Sheets Weaken in Recent Years, 2008-2021 FFO/Debt & Debt/EBITDA Ratios



Source: Company filings/disclosures and Wells Fargo Securities, LLC estimates

Exhibit 6: Utility FFO/Debt & P/E Matrix



Note: Excludes diversified utilities, water/gas utilities, CA utilities and D (business review); EXC & PPL reflect 2022E FFO/Debt due to spin-off/acquisition

Source: Company filings, FactSet and Wells Fargo Securities, LLC estimates

M&A—It Makes Sense, but …

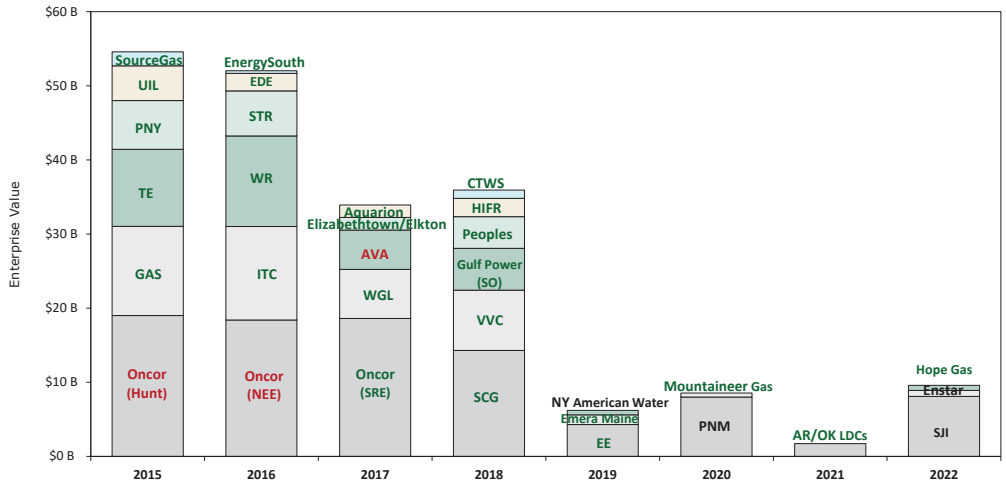
We have been playfully predicting the return of the merger of equals or low premium deals in our industry outlooks for the past several years. One year we will be right. That being said, if there ever was a backdrop that called for the reemergence of the MOE, arguably, it is now…

Regulated utility M&A in the 2010s was characterized by high-premium/high-multiple cash deals for SMID caps in which the acquirer leaned on low-cost debt in order to maximize EPS accretion. In our view, that ship has largely sailed in the wake of tightening credit markets and the sector's weaker overall credit profiles. As for larger low-premium deals, strong organic growth prospects across the board have justifiably weakened the business case for such combinations. However, growing regulatory risks and tighter capital markets could prompt companies to critically evaluate utility M&A. Benefits

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include the potential for lengthy base rate case stay-outs driven by synergies, advantages related to scale (equipment costs, financing costs, etc.), and, to a lesser extent, regulatory/geographic diversity.

Exhibit 7: Utility Consolidation Slowed Post-2018



Note: Utility M&A deals are listed in the year they were announced and are categorized by completed (green), pending (black) and terminated (red) deals WR's EV is based on the initial deal, which was later revised to be a merger of equals.

Source: SNL Financial LC and Wells Fargo Securities, LLC

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Sub-Sector Review & Outlook: Gas & Water

During 2022, the Gas LDCs and Regulated Electrics each provided a median total return of 5%, while the Water Utilities were down 6%.

- The **Water** premium of 70-75% to Regulated Electrics represents a decrease from ~95% at YE'21. However, in early June '22, it had shrunk to 40-45% as rising interest rates affected high-P/E multiple sectors. But the lower risk nature of the Waters, including limited ratepayer bill pressure from rising commodity prices, seemingly led to 2H'22 relative outperformance. Looking toward '23, we see room for further compression as our generic DDM, which attempts to capture the long runway of growth opportunities associated with infrastructure investment needs and municipal consolidation trends, supports a premium closer to 30%. We also keep in mind that the waters arguably benefit from scarcity considerations (ESG/water funds).
- The **Gas LDCs** continue to trade at 0-5% discounts to Regulated Electrics, which we consider to be fair. The group offers similar near- to intermediate-term EPS growth prospects to Regulated Electrics with arguably lower regulatory risk, given the critical nature of the infrastructure (i.e., safety). That said, absent an acquisition premium, a modest discount is reasonable, in our view, as the electrics offer a more direct way to play clean energy/electrification trends and certain states are looking to discourage gas use.

Both the water and gas groups are small-cap heavy, which put them on our radar for potential near-term challenges as the small-cap universe (electrics included) tends to lack the same degree of flexibility to manage the aforementioned unexpected macro headwinds than their mid- and large-cap brethren often do.

Due, in part, to our higher confidence on execution from mid-caps **ATO** and **NI**, those are our favorite gas utilities in the group, and we favor NI between the two on valuation.

In the water arena, **WTRG** remains our lone Overweight rating, reflecting our overall valuation concerns with the sub-sector. While the only "near-term" catalyst we foresee is the (hopeful) 1H'23 PA approval of the DELCORA acquisition, we do take solace in the fact that WTRG has indicated that investors will not be surprised with the '23 guidance initiation event in January (i.e., 5-7% EPS CAGR).

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Appendix 1 - Utility Coverage Statistics

U.S. REGULATED ELECTRIC UTILITY UNIVERSE

	Symbol	Analyst	Rating	12/13/22 Price ($)	Equity Market Cap (Bil.)	EPS 2022E	EPS 2023E	EPS 2024E	3-5 Yr EPS Growth	P/E 2022E	P/E 2023E	P/E 2024E	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBITDA 2024E	Dividend Payout 2022E
U.S. Small Cap:																
Avista Corporation	AVA		NR	43.55	3.2	NE	NE	NE	5%	NA	NA	NA	13.0x	11.2x	10.4x	--
NorthWestern Corporation	NWE	JR	2	58.51	3.4	3.28	3.55	3.55	3%	17.8x	16.5x	16.5x	12.6x	11.3x	10.4x	77%
PNM Resources	PNM	JR	2	48.90	4.2	2.66	2.68	2.78	5%	18.4x	18.2x	17.6x	12.3x	11.4x	10.5x	55%
Black Hills	BKH	SA	2	70.84	4.6	4.05	4.10	4.30	5%	17.5x	17.3x	16.5x	12.3x	11.6x	10.8x	62%
Portland General Electric	POR	SA	2	49.01	4.4	2.80	2.66	3.05	5%	17.5x	18.4x	16.1x	10.2x	9.4x	9.4x	37530%
Hawaiian Electric Industries	HE	JR	3	41.27	4.5	2.16	2.27	2.42	6%	19.1x	18.2x	17.1x	12.5x	11.9x	11.3x	65%
IDACORP, Inc.	IDA	SA	2	108.31	5.5	5.12	5.06	5.40	4%	21.2x	21.4x	20.1x	13.7x	13.5x	12.5x	62%
Small Cap Regulated Electric Group Median									**5%**	**18.1x**	**18.2x**	**16.8x**	**12.5x**	**11.4x**	**10.5x**	**63%**
U.S. Mid Cap:																
OGE Energy	OGE	SA	2	40.12	8.0	2.08	2.05	2.18	6%	19.3x	19.6x	18.4x	11.3x	11.1x	10.5x	80%
Pinnacle West Capital Corp.	PNW	SA	2	79.39	9.0	4.28	4.12	4.52	6%	18.5x	19.3x	17.6x	11.7x	11.1x	10.2x	81%
Alliant Energy Corp.	LNT	NK	2	56.42	14.2	2.80	2.90	3.07	6%	20.2x	19.5x	18.4x	14.5x	13.6x	11.9x	61%
Evergy, Inc.	EVRG	SA	2	63.25	14.5	3.58	3.80	4.02	6%	17.7x	16.6x	15.7x	11.2x	10.4x	9.7x	68%
CenterPoint Energy	CNP	SA	1	30.91	19.5	1.38	1.49	1.61	8%	22.4x	20.7x	19.2x	12.5x	11.3x	10.2x	52%
CMS Energy Corp.	CMS	NK	1	64.16	18.6	2.89	3.12	3.40	8%	22.2x	20.6x	18.9x	13.6x	12.6x	11.5x	64%
Mid Cap Regulated Electric Group Median									**6%**	**20.2x**	**19.5x**	**18.4x**	**12.5x**	**11.3x**	**10.2x**	**64%**
U.S. Large Cap:																
PG&E Corporation	PCG	NK	1	16.01	31.8	1.10	1.23	1.36	10%	14.6x	13.0x	11.8x	11.0x	9.7x	8.8x	0%
FirstEnergy Corp.	FE	NK	2	42.24	24.2	2.45	2.45	2.65	6%	17.2x	17.2x	15.9x	11.4x	10.9x	10.2x	64%
Entergy Corp.	ETR	NK	1	118.35	24.1	6.40	6.70	7.15	6%	18.5x	17.7x	16.6x	11.8x	11.0x	10.3x	67%
Edison International	EIX	NK	1	67.87	25.9	4.60	4.85	5.20	6%	14.8x	14.0x	13.1x	11.6x	10.6x	9.7x	64%
Ameren Corp.	AEE	NK	1	90.86	23.5	4.05	4.38	4.65	8%	22.4x	20.7x	19.5x	13.6x	12.4x	11.4x	58%
PPL Corporation	PPL	NK	1	29.34	21.6	1.40	1.60	1.72	5%	21.0x	18.3x	17.1x	10.7x	10.0x	9.5x	64%
DTE Energy	DTE	NK	1	120.46	24.8	6.00	6.20	6.65	8%	20.1x	19.4x	18.1x	12.8x	11.6x	10.6x	64%
Consolidated Edison	ED	SA	3	98.51	35.0	4.55	4.80	5.18	6%	21.7x	20.5x	19.0x	11.8x	11.7x	10.9x	69%
WEC Energy Group, Inc.	WEC	NK	1	98.98	31.2	4.40	4.60	4.90	7%	22.5x	21.5x	20.2x	15.2x	14.1x	13.1x	66%
Eversource Energy	ES	NK	1	85.95	29.9	4.10	4.40	4.80	8%	21.0x	19.5x	17.9x	13.6x	13.5x	12.4x	62%
Xcel Energy	XEL	NK	2	71.60	39.2	3.17	3.38	3.60	6%	22.6x	21.2x	19.9x	12.5x	11.5x	10.6x	62%
Exelon Corporation	EXC	NK	2	42.54	42.3	2.27	2.38	2.53	4%	18.7x	17.9x	16.8x	11.4x	10.6x	9.8x	59%
American Electric Power	AEP	NK	1	98.62	53.9	5.02	5.29	5.59	6%	19.6x	18.6x	17.6x	13.5x	12.5x	11.5x	66%
Dominion Energy Inc.	D	SA	2	59.98	50.9	4.10	4.32	4.45	2%	14.6x	13.9x	13.5x	11.8x	10.9x	10.1x	65%
Southern Company	SO	NK	2	71.21	77.5	3.58	3.73	4.10	6%	19.9x	19.1x	17.4x	13.7x	12.8x	11.7x	76%
Duke Energy	DUK	NK	2	103.10	79.4	5.25	5.65	6.00	6%	19.6x	18.2x	17.2x	12.7x	11.6x	10.9x	77%
Large Cap Regulated Electric Group Median									**6%**	**19.8x**	**18.5x**	**17.3x**	**12.2x**	**11.5x**	**10.6x**	**64%**
U.S. Regulated Electric Group Median									**6%**	**19.6x**	**18.4x**	**17.4x**	**12.5x**	**11.5x**	**10.5x**	**64%**

CANADIAN REGULATED UTILITIES

	Symbol	Analyst	Rating	12/13/22 Price (C$)	Equity Mkt Cap (C$Bil.)	EPS 2022E	EPS 2023E	EPS 2024E	3-5 Yr EPS Growth	P/E 2022E	P/E 2023E	P/E 2024E	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBITDA 2024E	Dividend Payout 2022E
Canadian Utilities Ltd.	CU-CA		NR	38.10	10.3			0.00	1%	NA	NA	NA	10.4x	10.4x	NA	--
Emera Inc.	EMA-CA	NK	2	54.14	14.5	2.95	3.10	3.27	4%	18.4x	17.5x	16.6x	12.1x	11.1x	10.3x	94%
Hydro One Ltd.	H-CA	NK	1	37.65	22.5	1.65	1.78	1.88	6%	22.8x	21.2x	20.0x	14.4x	13.3x	12.6x	68%
Fortis Inc.	FTS-CA	NK	2	55.59	26.7	2.75	2.95	3.08	6%	20.2x	18.8x	18.0x	13.1x	12.1x	11.3x	82%
Canadian Regulated Group Median									**5%**	**20.2x**	**18.8x**	**18.0x**	**12.6x**	**11.6x**	**11.3x**	**82%**

Analyst: NK = Neil Kalton, SA = Sarah Akers, JR = Jonathan Reeder; Estimates for companies that are not covered are First Call consensus estimates.

Wells Fargo Securities, LLC. Ratings: 1 - Overweight, 2 - Equal Weight, 3 - Underweight, NR - Not Rated, SR - Suspended Rating

Source: Wells Fargo Securities, LLC estimates, FactSet and Bloomberg

The above figure was priced after the close on 12/13/22

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Attachment D
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DIVERSIFIED UTILITIES - UTILITIES/POWER & UTILITIES/INFRASTRUCTURE

	Symbol	Analyst	Rating	12/13/22 Price ($)	Equity Market Cap (Bil.)	EPS 2022E	EPS 2023E	EPS 2024E	3-5 Yr EPS Growth	P/E 2022E	P/E 2023E	P/E 2024E	EV/EBITDA 2022E	EV/EBITDA 2023E	EV/EBITDA 2024E	Dividend Payout 2022E
Utility/Contracted Renewables																
ALLETE Inc.	ALE	SA	2	65.50	3.7	3.75	3.92	4.18	6%	17.5x	16.7x	15.7x	11.1x	10.5x	9.8x	69%
Algonquin Power & Utilities	AQN	NK	2	7.25	5.0	0.74	0.82	0.90	9%	9.8x	8.8x	8.1x	10.6x	8.6x	7.8x	98%
AVANGRID, Inc.	AGR	NK	2	43.71	16.9	1.95	2.15	2.32	9%	22.4x	20.3x	18.8x	11.3x	10.2x	10.3x	90%
NextEra Energy, Inc.	NEE	NK	1	87.15	173.2	2.87	3.10	3.38	8%	30.4x	28.1x	25.8x	17.5x	16.1x	15.1x	59%
Utility/Contracted Renewables Group Median									**9%**	**19.9x**	**18.5x**	**17.3x**	**11.2x**	**10.3x**	**10.0x**	**80%**
Utility/Energy Infrastructure																
Otter Tail Corporation	OTTR		NR	59.95	2.5	NE	NE	NE	7%	NA	NA	NA	6.6x	9.3x	9.6x	--
AES Corporation	AES		NR	29.27	19.6	NA	NA	NA	8%	NA	NA	NA	11.9x	10.0x	9.3x	--
Public Svc Enterprise Group	PEG	NK	1	61.12	30.5	3.47	3.45	3.80	6%	17.6x	17.7x	16.1x	13.8x	13.4x	11.8x	62%
Sempra Energy	SRE	SA	1	164.66	51.8	8.88	8.90	9.45	6%	18.5x	18.5x	17.4x	15.3x	14.9x	14.0x	52%
Utility/Energy Infrastructure Group Median									**6%**	**18.1x**	**18.1x**	**16.8x**	**12.9x**	**11.7x**	**10.7x**	**57%**

INTERNATIONAL UTILITIES & INFRASTRUCTURE

	Symbol	Analyst	Rating	12/13/22 Price ($)	Equity Market Cap (Bil.)	EPS 2022E	EPS 2023E	EPS 2024E	3-5 Yr EPS Growth	P/E 2022E	P/E 2023E	P/E 2024E	EV/ Adj EBITDA 2022E	EV/ Adj EBITDA 2023E	EV/ Adj EBITDA 2024E	Dividend Payout 2022E
Brookfield Infrastructure Corp.	BIPC	JR	1	43.98	5.0	2.72	3.20	3.55	12%	16.2x	13.7x	12.4x	18.2x	16.5x	15.4x	53%
Brookfield Infrastructure Partners LP	BIP	JR	1	34.94	26.9	2.72	3.20	3.55	12%	12.8x	10.9x	9.8x	18.2x	16.5x	15.4x	53%
Ørsted (DKK)	ORSTED-DK	NK	1	643.70	270.4	18.12	16.54	16.50	12%	35.5x	38.9x	39.0x	15.6x	15.4x	14.5x	69%
Iberdrola SA (€)	IBE-ES		NR	11.00	66.9	0.65	0.70	0.70	9%	17.0x	15.7x	15.7x	NA	NA	NA	57%
EDP Renewables (€)	EDPR-PT		NR	22.11	21.2	0.72	0.71	0.71	4%	30.6x	31.4x	31.4x	NA	NA	NA	12%
Electricite de France SA (€)	EDF-FR		NR	12.00	46.6	-2.66	0.95	0.95	-	-4.5x	12.7x	12.7x	-19.7x	5.5x	4.2x	-22%
National Grid ADR	NGG		NR	62.75	229.7	4.03	4.30	4.30	7%	15.6x	14.6x	14.6x	37.0x	34.3x	32.5x	77%
International Utilities & Infrastructure Group Median									**10%**	**16.2x**	**14.6x**	**14.6x**	**18.2x**	**16.5x**	**15.4x**	**53%**

Analyst: NK = Neil Kalton, SA = Sarah Akers; Estimates for companies that are not covered are First Call consensus estimates; BEP/BEPC & BIP/BIPC estimates are for FFO per unit/share
Wells Fargo Securities, LLC. Ratings: 1 - Overweight, 2 - Equal Weight, 3 - Underweight, NR - Not Rated, SR - Suspended Rating
Source: Wells Fargo Securities, LLC estimates, FactSet and Bloomberg
The above figure was priced after the close on 12/13/22

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NATURAL GAS LOCAL DISTRIBUTION COMPANY (LDC) UNIVERSE

	Symbol	Analyst	Rating	12/13/22 Price ($)	Equity Market Cap (Bil.)	EPS 2022E	EPS 2023E	EPS 2024E	3-5 Yr EPS Growth	P/E 2022E	P/E 2023E	P/E 2024E	EV/ Adj EBITDA 2022E	EV/ Adj EBITDA 2023E	EV/ Adj EBITDA 2024E	Dividend Payout 2022E
Natural Gas Local Distribution Companies (LDCs)																
Northwest Natural Holding Co.	NWN	SA	2	47.88	1.7	2.55	2.78	2.82	5%	18.8x	17.2x	17.0x	10.5x	9.5x	9.0x	76%
Chesapeake Utilities Corp.	CPK	SA	3	119.93	2.1	5.00	5.45	5.76	7%	24.0x	22.0x	20.8x	14.1x	12.9x	12.2x	43%
South Jersey Industries, Inc.	SJI	SA	2	35.03	4.3	1.70	1.78	1.82	5%	20.6x	19.7x	19.2x	14.2x	13.0x	12.0x	73%
Spire Inc.	SR	SA	2	68.00	4.2	3.86	4.14	4.33	5%	17.6x	16.4x	15.7x	13.7x	13.1x	12.1x	75%
New Jersey Resources	NJR	SA	2	49.72	4.8	2.50	2.47	2.75	6%	19.9x	20.1x	18.1x	14.9x	14.0x	12.6x	62%
ONE Gas Inc.	OGS	SA	2	78.33	4.2	4.08	4.14	4.25	5%	19.2x	18.9x	18.4x	12.1x	11.4x	10.3x	61%
Southwest Gas Corp.	SWX	SA	2	71.00	4.8	3.50	4.08	4.32	5%	20.3x	17.4x	16.4x	11.1x	9.6x	9.2x	71%
UGI Corporation	UGI	SA	2	39.08	8.2	2.90	3.00	3.30	7%	13.5x	13.0x	11.8x	9.1x	8.7x	8.2x	49%
NiSource Inc.	NI	SA	1	27.93	11.3	1.45	1.55	1.66	7%	19.3x	18.1x	16.8x	11.5x	10.3x	9.2x	65%
Atmos Energy Corp.	ATO	SA	1	118.53	16.7	5.60 A	6.00	6.42	7%	21.2x	19.8x	18.5x	15.8x	13.7x	12.0x	53%
Natural Gas LDC Group Median Excluding UGI									**5%**	**19.9x**	**18.9x**	**18.1x**	**13.7x**	**12.9x**	**12.0x**	**65%**
Gas LDC Premium/(Discount) to Regulated Electrics										**1%**	**3%**	**4%**	**10%**	**12%**	**14%**	

WATER UTILITY UNIVERSE

	Symbol	Analyst	Rating	12/13/22 Price ($)	Equity Market Cap (Bil.)	EPS 2022E	EPS 2023E	EPS 2024E	3-5 Yr EPS Growth	P/E 2022E	P/E 2023E	P/E 2024E	EV/ Adj EBITDA 2022E	EV/ Adj EBITDA 2023E	EV/ Adj EBITDA 2024E	Dividend Payout 2022E
Artesian Resources	ARTNA		NR	55.10	0.5	NE	NE	NE	-	NA	NA	NA	NA	NA	NA	--
York Water	YORW		NR	46.47	0.7	NE	NE	NE	-	NA	NA	NA	NA	NA	NA	--
Middlesex Water	MSEX		NR	91.44	1.6	NE	NE	NE	-	NA	NA	NA	NA	NA	NA	--
SJW Group	SJW	JR	2	79.84	2.4	2.33	2.50	2.75	7%	34.3x	31.9x	29.0x	16.8x	15.9x	14.7x	62%
California Water Service	CWT	JR	3	63.97	3.5	1.65	1.98	2.25	6%	38.8x	32.3x	28.4x	18.4x	16.0x	14.4x	61%
American States Water	AWR	JR	3	97.17	3.6	2.42	2.70	2.98	7%	40.2x	36.0x	32.6x	22.7x	21.0x	19.2x	66%
Essential Utilities	WTRG	JR	1	48.65	12.8	1.78	1.90	2.05	7%	27.3x	25.6x	23.7x	19.4x	17.1x	15.5x	64%
American Water Works	AWK	JR	2	159.19	28.9	4.49	4.78	5.15	7%	35.5x	33.3x	30.9x	20.6x	18.6x	17.0x	58%
Water Utility Group Median									**7%**	**35.5x**	**32.3x**	**29.0x**	**19.4x**	**17.1x**	**15.5x**	**62%**
Water Utility Premium/(Discount) to Regulated Electrics										**81%**	**75%**	**67%**	**55%**	**49%**	**47%**	

INDEPENDENT POWER PRODUCER UNIVERSE

	Symbol	Analyst	Rating	12/13/22 Price ($)	Equity Market Cap (Bil.)	CAFD/Share 2022E	CAFD/Share 2023E	CAFD/Share 2024E	3-5 Yr CAFD Growth	P/CAFD 2022E	P/CAFD 2023E	P/CAFD 2024E	EV/ Adj EBITDA 2022E	EV/ Adj EBITDA 2023E	EV/ Adj EBITDA 2024E	Dividend Payout 2022E
Alternative Structures:																
Clearway Energy, Inc.	CWEN		NR	33.88	6.8	NE	NE	NE	NE	NA	NA	NA	9.9x	11.2x	11.2x	NA
NuScale Power Corporation	SMR	NK	2	10.34	2.3	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NA
Atlantica Sustainable Infrastructure	AY		NR	27.48	3.1	NE	NE	NE	NE	NA	NA	NA	9.9x	9.2x	8.8x	NA
NextEra Energy Partners LP	NEP	NK	1	76.80	14.4	3.90	4.35	4.90	18.0%	19.7x	17.7x	15.7x	10.7x	9.5x	7.9x	77%
Brookfield Renewable Corp.	BEPC	JR	1	32.12	11.6	1.57	1.78	2.00	10.4%	20.5x	18.0x	16.1x	22.3x	20.2x	18.5x	82%
Brookfield Renewable Partners LP	BEP	JR	1	28.14	18.2	1.57	1.78	2.00	10.4%	17.9x	15.8x	14.1x	22.3x	20.2x	18.5x	82%
Constellation Energy Corporation	CEG	NK	1	90.84	29.7	NE	NE	NE	NE	NE	NE	NE	13.3x	10.8x	9.0x	21%
Alternative Structures Group Median									**10%**	**19.7x**	**17.7x**	**15.7x**	**12.0x**	**11.0x**	**10.1x**	**79%**

Analyst: SA = Sarah Akers, JR = Jonathan Reeder; Estimates for companies that are not covered are First Call consensus estimates; BEP/BEPC & BIP/BIPC estimates are for FFO per unit/share
Wells Fargo Securities, LLC. Ratings: 1 - Overweight, 2 - Equal Weight, 3 - Underweight, NR - Not Rated, SR - Suspended Rating
Source: Wells Fargo Securities, LLC estimates, FactSet and Bloomberg
The above figure was priced after the close on 12/13/22

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Appendix 2 - Financials for Companies with EPS Revisions and/or Rating Change

EVRG Earnings Model						
($ millions except per share data)	2021	2022E	2023E	2024E	2025E	2026E
Revenues	**$5,587**	**$5,746**	**$5,866**	**$6,011**	**$6,174**	**$6,350**
Expenses						
Purchased Power/Fuel/Transmission	1,847	1,889	1,879	1,884	1,888	1,893
Other O&M	1,108	1,114	1,057	1,004	966	943
Depreciation & Amortization	896	929	1,032	1,114	1,204	1,300
Other	381	398	410	423	437	451
Total Expenses	**$4,232**	**$4,330**	**$4,378**	**$4,426**	**$4,496**	**$4,587**
EBIT	**$1,355**	**$1,416**	**$1,488**	**$1,585**	**$1,678**	**$1,764**
EBITDA	**$2,251**	**$2,346**	**$2,520**	**$2,699**	**$2,882**	**$3,063**
Other Income	19	(80)	(52)	(52)	(52)	(52)
Interest Expense	373	396	438	470	505	538
Income Taxes	117	110	116	127	136	144
Tax Rate	*12%*	*12%*	*12%*	*12%*	*12%*	*12%*
Income from Equity Inv., net	8	8	8	8	8	8
Earnings						
Income from Continuing Operations	$892	$838	$890	$945	$994	$1,039
Adjustment for Non-Controlling Interest	12	12	12	12	12	12
Net Income	**$880**	**$826**	**$878**	**$933**	**$982**	**$1,026**
Avg. Diluted Shares Outstanding	230	230	231	232	233	233
EPS	$3.83	$3.58	$3.80	$4.02	$4.22	$4.40
Non-Recurring	(0.29)	0.00	0.00	0.00	0.00	0.00
Ongoing EPS	**$3.54**	**$3.58**	**$3.80**	**$4.02**	**$4.22**	**$4.40**
Q1 EPS	0.55	0.58A				
Q2 EPS	0.85	0.86A				
Q3 EPS	1.98	2.01A				
Q4 EPS	0.16	0.13				

EVRG Supplemental Information	2021	2022E	2023E	2024E	2025E	2026E
Dividend Information						
Dividends Per Share - YE Rate	$2.29	$2.43	$2.55	$2.68	$2.81	$2.95
Dividends Paid Per Share	2.18	2.32	2.46	2.61	2.77	2.93
Payout Ratio	62%	65%	65%	65%	66%	67%
Cash Flow & Balance Sheet Items						
Capital Expenditures (millions)	$1,973	$1,976	$2,117	$2,007	$2,369	$2,200
Book ROE	9.0%	8.8%	9.0%	9.3%	9.4%	9.5%
FFO/Debt	12%	15%	18%	16%	16%	17%
Debt/EBITDA	5.0x	5.1x	5.0x	4.7x	4.7x	4.6x
Common Equity as % of Total Capitalization	45%	44%	44%	44%	44%	43%

Source: Wells Fargo Securities, LLC estimates and company filings

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FTS Earnings Model ($ Canadian millions except per share values)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Revenues	**$9,448**	**$9,371**	**$9,799**	**$10,173**	**$10,565**	**$10,967**	**$11,378**
Expenses							
Energy Supply Costs	2,951	0	0	0	0	0	0
Other O&M	0	5,011	5,088	5,150	5,213	5,276	5,339
Depreciation	0	1,648	1,768	1,888	2,012	2,140	2,276
Other	0	0	0	0	0	0	0
Total Expenses	**$6,979**	**$6,660**	**$6,856**	**$7,038**	**$7,224**	**$7,416**	**$7,615**
EBIT	**$2,469**	**$2,711**	**$2,943**	**$3,136**	**$3,341**	**$3,551**	**$3,763**
EBITDA	**$2,469**	**$4,359**	**$4,711**	**$5,023**	**$5,352**	**$5,691**	**$6,039**
Other Income	173	163	173	175	177	163	166
Interest Expense	1,003	1,057	1,166	1,263	1,358	1,452	1,545
Income Taxes	0	304	315	319	328	329	338
Tax Rate	*0%*	*17%*	*16%*	*16%*	*15%*	*15%*	*14%*
Earnings							
Income from Continuing Operations	$1,405	$1,513	$1,636	$1,729	$1,832	$1,934	$2,047
Discontinued Operations	0	0	0	0	0	0	0
Adjustment for Non-Controlling Interest	1,405	1,513	1,636	1,729	1,832	1,934	2,047
Net Income Available to Common	**$1,231**	**$1,316**	**$1,428**	**$1,511**	**$1,606**	**$1,699**	**$1,801**
Avg. Diluted Shares Outstanding	471	478	485	491	498	504	511
EPS	$2.61	$2.75	$2.95	$3.08	$3.23	$3.37	$3.53
Non-Recurring	0.02	0.00	0.00	0.00	0.00	0.00	0.00
Ongoing EPS	**$2.59**	**$2.75**	**$2.95**	**$3.08**	**$3.23**	**$3.37**	**$3.53**
Q1 EPS	0.77	0.78A					
Q2 EPS	0.55	0.57A					
Q3 EPS	0.64	0.71A					
Q4 EPS	0.63	0.69					

FTS Supplemental Information	2021	2022E	2023E	2024E	2025E	2026E	2027E
Dividend Information							
Dividends Per Share - YE Rate	$2.14	$2.26	$2.36	$2.46	$2.56	$2.67	$2.78
Dividends Paid Per Share	2.05	2.17	2.27	2.37	2.47	2.58	2.69
Payout Ratio	79%	79%	77%	77%	76%	77%	76%
Cash Flow & Balance Sheet Items							
Capital Expenditures ($ Canadian millions)	$0	($3,757)	($4,338)	($4,159)	($4,579)	($4,470)	($4,752)
Book ROE	7.1%	7.3%	7.7%	7.8%	8.0%	8.1%	8.3%
FFO/Debt	11%	11%	11%	11%	11%	11%	11%
Debt/EBITDA	10.3x	6.2x	6.1x	6.0x	6.0x	5.9x	5.8x
Common Equity as % of Total Capitalization	39%	39%	38%	38%	38%	38%	38%

Source: Wells Fargo Securities, LLC estimates and company filings

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IDA Earnings Model						
($ thousands except per share data)	2021	2022E	2023E	2024E	2025E	2026E
Revenues	**$1,458,084**	**$1,483,982**	**$1,516,074**	**$1,579,636**	**$1,646,335**	**$1,742,831**
Expenses						
Purchased Power/Fuel/Power Cost Adjustments	393,691	531,174	541,482	553,135	565,085	577,339
Other O&M	361,297	379,362	393,588	397,524	401,499	405,514
Depreciation	175,555	172,090	192,080	208,635	218,815	227,626
Other	67,184	68,918	70,738	72,076	73,461	74,894
Total Expenses	**$1,128,433**	**$1,151,543**	**$1,197,887**	**$1,231,370**	**$1,258,859**	**$1,285,373**
EBIT	**$329,651**	**$332,439**	**$318,186**	**$348,266**	**$387,475**	**$457,458**
EBITDA	**$505,206**	**$504,529**	**$510,266**	**$556,901**	**$606,290**	**$685,084**
Other Income	39,831	45,081	58,949	58,879	51,686	32,129
Interest Expense	86,698	87,832	99,941	120,868	131,847	147,565
Income Taxes	36,912	30,676	20,926	12,193	15,207	33,129
Tax Rate	*13%*	*11%*	*8%*	*4%*	*5%*	*10%*
Earnings						
Income from Continuing Operations	$245,872	$259,012	$256,268	$274,084	$292,107	$308,893
Discontinued Operations	0	0	0	0	0	0
Adjustment for Non-Controlling Interest	(322)	0	0	0	0	0
Net Income	**$245,550**	**$259,012**	**$256,268**	**$274,084**	**$292,107**	**$308,893**
Avg. Diluted Shares Outstanding	50,645	50,604	50,679	50,754	51,040	51,327
EPS	$4.85	$5.12	$5.06	$5.40	$5.72	$6.02
Non-Recurring	0.00	0.00	0.00	0.00	0.00	0.00
Ongoing EPS	**$4.85**	**$5.12**	**$5.06**	**$5.40**	**$5.72**	**$6.02**
Q1 EPS	0.89	0.91A				
Q2 EPS	1.38	1.27A				
Q3 EPS	1.93	2.10A				
Q4 EPS	0.65	0.84				

IDA Supplemental Information	2021	2022E	2023E	2024E	2025E	2026E
Dividend Information						
Dividends Per Share - YE Rate	$3.00	$3.16	$3.32	$3.48	$3.66	$3.84
Dividends Paid Per Share	2.88	3.04	3.19	3.35	3.52	3.70
Payout Ratio	62%	62%	66%	65%	64%	64%
Cash Flow & Balance Sheet Items						
Capital Expenditures (thousands)	$299,999	$530,481	$720,148	$630,148	$515,148	$430,148
Book ROE	9.3%	9.5%	9.1%	9.4%	9.5%	9.6%
FFO/Debt	18%	20%	15%	16%	16%	17%
Debt/EBITDA	4.0x	4.3x	5.2x	5.2x	5.0x	4.6x
Common Equity as % of Total Capitalization	57%	56%	52%	51%	51%	51%

Source: Wells Fargo Securities, LLC estimates and company filings

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POR Earnings Model (in millions except per share data)	2021	2022E	2023E	2024E	2025E	2026E
Revenues	**$2,396**	**$2,418**	**$2,446**	**$2,600**	**$2,716**	**$2,822**
Expenses						
Purchased Power and Fuel	$822	$807	$818	$834	$851	$868
Production and Distribution	310	286	292	298	304	310
Administrative and Other	336	323	330	336	343	350
Depreciation and Amortization	404	419	433	466	498	529
Taxes Other Than Income Taxes	146	153	158	163	168	173
Total Expenses	**$2,018**	**$1,989**	**$2,031**	**$2,097**	**$2,163**	**$2,229**
EBIT	**$378**	**$429**	**$416**	**$503**	**$553**	**$593**
EBITDA	$782	$849	$849	$969	$1,051	$1,121
Other Income	$26	$17	$32	$31	$30	$30
Interest Expense	137	143	149	160	171	184
Income Taxes	23	52	50	65	73	78
Tax Rate	9%	17%	17%	17%	18%	18%
Earnings						
Net Income	**$244**	**$251**	**$249**	**$309**	**$339**	**$361**
Non-Recurring Items	0	0	0	0	0	0
Avg. Diluted Shares Outstanding	90	90	94	102	105	108
EPS	$2.72	$2.80	$2.66	$3.05	$3.22	$3.35
Non-Recurring Items	0.00	0.00	0.00	0.00	0.00	0.00
Operating EPS (Diluted)	**$2.72**	**$2.80**	**$2.66**	**$3.05**	**$3.22**	**$3.35**
Q1 EPS	1.07	0.81A				
Q2 EPS	0.36	0.72A				
Q3 EPS	0.56	0.65A				
Q4 EPS	0.73	0.62				

POR Supplemental Information	2021	2022E	2023E	2024E	2025E	2026E
Dividend Information						
Dividends Paid Per Share - YE Rate	$1.72	$1.81	$1.90	$2.00	$2.10	$2.20
Dividends Paid Per Share	$1.68	$1.77	$1.86	$1.95	$2.05	$2.15
Payout Ratio	62%	63%	70%	64%	64%	64%
Cash Flow & Balance Sheet Items						
Capital Expenditures (millions)	$700	$750	$1,150	$1,081	$1,050	$1,075
Book ROE	9.2%	9.1%	8.3%	9.0%	9.1%	9.1%
FFO/Debt	16%	17%	18%	20%	20%	20%
Debt/EBITDA	4.2x	4.2x	4.5x	4.2x	4.1x	4.1x
Common Equity as % of Total Capitalization	45%	44%	46%	47%	47%	47%
Equity Ratio Ex. ST Debt	45%	44%	48%	49%	49%	49%

Source: Wells Fargo Securities, LLC estimates and company filings

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SO Earnings Model ($ millions except per share data)	2021	2022E	2023E	2024E	2025E	2026E
Revenues	**$23,113**	**$24,256**	**$25,110**	**$26,288**	**$27,299**	**$28,313**
Expenses						
Fuel, Purchased Power & Gas	6,964	7,714	7,751	7,822	7,894	7,967
Other O&M	6,088	5,568	5,675	5,785	5,892	6,001
Depreciation	3,565	3,647	3,877	4,129	4,384	4,642
Other	2,798	1,310	1,336	1,363	1,390	1,418
Total Expenses	**$19,415**	**$18,239**	**$18,640**	**$19,099**	**$19,560**	**$20,027**
EBIT	**$3,698**	**$6,018**	**$6,470**	**$7,189**	**$7,740**	**$8,286**
EBITDA	**$7,263**	**$9,665**	**$10,347**	**$11,318**	**$12,123**	**$12,928**
Other Income	722	617	625	619	618	627
Interest Expense	1,844	2,018	2,198	2,401	2,613	2,821
Income Taxes	267	865	921	1,030	1,097	1,169
Tax Rate	*11%*	*19%*	*19%*	*20%*	*20%*	*20%*
Earnings						
Income from Continuing Operations	$2,309	$3,751	$3,976	$4,378	$4,648	$4,923
Preferred Stock Dividend of Sub	15	14	14	14	14	14
Non-Controlling Interest	(99)	(99)	(99)	(99)	(99)	(99)
Net Income	**$2,393**	**$3,836**	**$4,060**	**$4,463**	**$4,733**	**$5,008**
Avg. Basic Shares Outstanding	1,061	1,073	1,089	1,089	1,089	1,089
EPS	$2.26	$3.58	$3.73	$4.10	$4.35	$4.60
Non-Recurring Adjustments	(1.15)	0.00	0.00	0.00	0.00	0.00
Ongoing EPS	**$3.41**	**$3.58**	**$3.73**	**$4.10**	**$4.35**	**$4.60**
Q1 EPS	0.98	0.97A				
Q2 EPS	0.84	1.07A				
Q3 EPS	1.23	1.31A				
Q4 EPS	0.36	0.24				

SO Supplemental Information	2021	2022E	2023E	2024E	2025E	2026E
Dividend Information						
Dividends Per Share - YE Rate	$2.64	$2.72	$2.88	$3.04	$3.20	$3.36
Dividends Paid Per Share	2.62	2.70	2.86	3.02	3.18	3.34
Payout Ratio	77%	75%	77%	74%	73%	73%
Cash Flow & Balance Sheet Items						
Capital Expenditures (millions)	$7,240	$9,200	$9,484	$9,119	$9,069	$9,344
Book ROE	12.9%	13.1%	13.1%	14.0%	14.4%	14.7%
FFO/Debt	14%	15%	14%	14%	14%	14%
Debt/EBITDA	7.2x	5.7x	5.8x	5.6x	5.5x	5.4x
Common Equity Ratio	33%	34%	33%	32%	32%	32%

Source: Wells Fargo Securities, LLC estimates and company filings

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SR Earnings Model						
($ millions except per share data)	2022	2023E	2024E	2025E	2026E	2027E
Revenues	**$2,199**	**$2,158**	**$2,230**	**$2,310**	**$2,375**	**$2,436**
Expenses						
Natural Gas & Propane	924	815	821	826	832	838
Other O&M	450	487	494	501	508	516
Depreciation & Amortization	237	253	270	288	308	328
Other	180	183	186	189	192	195
Impairment	0	0	0	0	0	0
Total Expenses	**$1,790**	**$1,737**	**$1,771**	**$1,805**	**$1,840**	**$1,877**
EBIT	**$408**	**$421**	**$460**	**$505**	**$535**	**$560**
EBITDA	**$646**	**$673**	**$730**	**$794**	**$843**	**$887**
Other Income	(9)	(9)	(9)	(9)	(9)	(9)
Interest Expense	120	123	131	139	150	160
Income Taxes	59	57	63	69	73	76
Tax Rate	*21%*	*20%*	*20%*	*19%*	*19%*	*19%*
Earnings						
Net Income	$221	$232	$257	$288	$304	$315
Less: Income allocated to participating securities	0	0	0	0	0	0
Less Preferreds	15	15	15	15	15	15
Net Income	**$206**	**$217**	**$242**	**$273**	**$288**	**$300**
Avg. Diluted Shares Outstanding	52	54	56	58	59	59
EPS	$3.95	$4.05	$4.28	$4.70	$4.92	$5.06
Non-Recurring	(0.09)	0.09	0.05	0.00	0.00	0.00
Ongoing EPS	**$3.86**	**$4.14**	**$4.33**	**$4.70**	**$4.92**	**$5.06**
Q1 EPS	1.14	1.18				
Q2 EPS	3.42	3.91				
Q3 EPS	0.01	(0.08)				
Q4 EPS	(0.66)	(0.87)				

SR Supplemental Information	2022	2023E	2024E	2025E	2026E	2027E
Dividend Information						
Dividends Per Share - YE Rate	$2.74	$2.88	$3.01	$3.15	$3.29	$3.43
Dividends Paid Per Share	2.74	2.88	3.01	3.15	3.29	3.43
Payout Ratio	71%	70%	70%	67%	67%	68%
Cash Flow & Balance Sheet Items						
Capital Expenditures (millions)	($552)	($700)	($663)	($640)	($660)	($680)
Book ROE	8.1%	8.2%	8.2%	8.6%	8.6%	8.6%
FFO/Debt	11.9%	13.5%	13.3%	13.3%	13.6%	13.9%
Debt/EBITDA	6.8x	6.7x	6.2x	5.9x	5.7x	5.6x
Common Equity as % of Total Capitalization	36%	38%	40%	40%	41%	41%

Source: Wells Fargo Securities, LLC estimates and company filings

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Appendix 3 - Acronyms:

DDM - Dividend Discount Model

DELCORA - Delaware County Regional Water Quality Control Authority

EEI - Edison Electric Institute

FERC - Federal Energy Regulatory Commission

GW - Gigawatt

IRA - Inflation Reduction Act

ISO - Independent System Operator

LDC - Local Distribution Company

mmBtu - Million British Thermal Units

NECEC - New England Clean Energy Connect

PSC - Public Service Commission

RNG - Renewable Natural Gas

SMR - Small Modular Reactor

TAM - Total Addressable Market

T&D - Transmission & Distribution

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1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY

2=Equal Weight: Total return on stock expected to be -10% to +10% over the next 12 months. HOLD

3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

As of December 13, 2022
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Equity Research

WELLS FARGO

Price Target Change — November 7, 2022

Natural Gas LDCs

NiSource Inc. (NI)

NI: Analyst Update Falls Short of Expectations; but Share Weakness Offers Opportunity

Our Call

While NI's 6-8% annual EPS growth target through '27 (off '21A) is a solid growth rate among electric/gas peers, it is disappointing in the context of the pre-existing 7-9% target through '24; if investors relied on the 7-9%, then the implication for growth in '25-27 is 5-7%. That falls short of expectations in light of previous mgmt. comments around seeking to extend the robust growth combined with the strategic review.

In response, shares fell 5.9% on 11/7 (vs. S&P Utilities -1.9%) and now trade at 4-5% P/E discounts to peers. We think this represents an attractive entry point considering NI's generally constructive regulatory treatment, ample investment opportunities, and no near-term equity needs. That said, given a somewhat disappointing update following a thorough business/strategic review, we think mgmt. is back in a position of needing to regain investors' confidence.

What Happened. The modestly disappointing growth update appears to reflect a more cautious approach to capital investments by NI, which now expects an 8-10% rate base CAGR (thru '27) versus the prior 10-12% (thru '24). Mgmt. indicated that the change was appropriate in consideration of affordability challenges and higher financing costs. Aside from the growth update, mgmt. announced plans to explore the sale of an interest in NIPSCO (electric and gas) up to a 19.9%. We view this as an efficient financing source, but note that the strategic option that was more in line with investor expectations was a sale of one of the LDCs; we reserve final judgement until an actual transaction is announced.

EPS Outlook & Thesis. We worked the various new disclosures and recent rate case updates through our model. There are no change to our '22E & '23E EPS of $1.45 & $1.55; we lower our '24E & '25E to/from $1.66/1.72 & $1.78/1.82, maintain our '26E of $1.90, and initiate '27E at $2.02. With shares trading at 4-5% P/E discounts to gas/electric peers, we reiterate our Overweight rating. We think NI merits a modest premium considering the 6-8% EPS growth rate, solid credit metrics (we model in the 15-16% range including an equity sale in NIPSCO) and generally constructive regulatory treatment, though we note that it may take some time and execution for shares to re-rate following today's update. We lower our price target to $28/sh (16.8x on our '24E EPS of $1.66) from $31/sh, reflecting a slightly lower '24E EPS and lower peer group multiple.

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Rating	Overweight
Ticker	**NI**
Price Target/Prior:	**$28.00/$31.00**
Upside/(Downside) to Target	**8.1%**
Price (11/04/2022)	**$25.89**
52 Week Range	$23.78 - 32.58
Shares Outstanding	405,952,999
Market Cap (MM)	$10,510
Enterprise Value (MM)	$20,131
Average Daily Volume	4,124,365
Average Daily Value (MM)	$107
Dividend (NTM)	$0.94
Dividend Yield	3.6%
Net Debt (MM) - last reported	$9,621
ROIC - Current year est.	10%
3 Yr EPS CAGR from current year (unless otherwise noted)	5%

$ EPS	2021A	2022E Curr.	2022E Prior	2023E Curr.	2023E Prior
Q1 (Mar)	0.77 A	0.75 A	NC	-	NC
Q2 (Jun)	0.13 A	0.12 A	NC	-	NC
Q3 (Sep)	0.11 A	0.10 E	0.11E	-	NC
Q4 (Dec)	0.39 A	0.48 E	0.47E	-	NC
FY	1.37 A	1.45 E	NC	1.55 E	NC
P/E	18.9x	17.9x		16.7x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

All estimates/forecasts are as of 11/7/2022 unless otherwise stated. 11/7/2022 17:06:14EST. Please see page 5 for rating definitions, important disclosures and required analyst certifications.
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Acronyms:

LDC - Local Distribution Company

Financials

NI Earnings Model ($ millions except per share data)	2021	2022E	2023E	2024E	2025E	2026E	2027E
Revenues	**$4,901**	**$5,174**	**$5,491**	**$5,784**	**$6,151**	**$6,419**	**$6,678**
Expenses							
Cost of Gas, Purchased Power & Fuel	1,392	1,402	1,407	1,416	1,425	1,433	1,442
O&M	1,409	1,416	1,500	1,485	1,485	1,485	1,485
Depreciation & Amortization	748	810	882	968	1,061	1,144	1,218
Other	289	292	296	300	304	309	313
Total Expenses	**$3,838**	**$3,920**	**$4,085**	**$4,169**	**$4,275**	**$4,372**	**$4,458**
EBIT	**$1,063**	**$1,254**	**$1,406**	**$1,614**	**$1,876**	**$2,048**	**$2,219**
EBITDA	**$1,811**	**$2,064**	**$2,288**	**$2,583**	**$2,937**	**$3,192**	**$3,437**
Other Income	41	41	41	41	41	41	41
Interest Expense	341	374	434	482	615	670	720
Income Taxes	132	221	243	282	312	341	370
Tax Rate	*17%*	*24%*	*24%*	*24%*	*24%*	*24%*	*24%*
Earnings							
Net Operating Earnings	$630	$700	$770	$892	$989	$1,078	$1,171
Preferred Dividends	55	55	28	0	0	0	0
Noncontrolling Interest	4	4	39	91	99	105	110
Income from Continuing Operations	**$571**	**$641**	**$703**	**$801**	**$891**	**$973**	**$1,061**
Avg. Diluted Shares Outstanding	417	442	455	484	502	513	524
Ongoing EPS	**$1.37**	**$1.45**	**$1.55**	**$1.66**	**$1.78**	**$1.90**	**$2.02**
Q1 EPS	0.77	0.75A					
Q2 EPS	0.13	0.12A					
Q3 EPS	0.11	0.10A					
Q4 EPS	0.39	0.48					

NI Supplemental Information	2021	2022E	2023E	2024E	2025E	2026E	2027E
Dividend Information							
Dividends Per Share - YE Rate	$0.88	$0.94	$1.00	$1.07	$1.15	$1.23	$1.31
Dividends Paid Per Share	0.88	0.94	1.00	1.07	1.15	1.23	1.31
Payout Ratio	64%	65%	65%	65%	65%	65%	65%
Cash Flow & Balance Sheet Items							
Capital Expenditures (millions)	$1,838	$2,538	$2,893	$3,155	$3,263	$2,842	$2,847
Book ROE	10.2%	9.9%	9.7%	10.0%	10.5%	10.6%	10.6%
FFO/Debt	11%	14%	15%	16%	15%	15%	16%
Debt/EBITDA	5.9x	5.5x	4.7x	4.7x	4.6x	4.6x	4.5x
Common Equity as % of Total Capitalization	38%	38%	40%	38%	37%	38%	39%

Source: Wells Fargo Securities, LLC estimates and company filings

Investment Thesis, Valuation and Risks

NiSource Inc. (NI)

Investment Thesis

We rate shares Overweight, as we do not think NI's robust long-term infrastructure growth opportunities and supportive regulatory treatment are properly reflected in the current share price.

Target Price Valuation for NI: $28.00 from $31.00

Our $28/sh price target is based on a P/E multiple analysis (16.8x, a 0-5% premium to the 2023 blended gas/electric peer group multiple of ~16.5x, on our '24E EPS).

Risks to Our Price Target and Rating for NI

Risks include lower-than-expected sales growth, unfavorable regulatory developments, unexpected cost pressures, and incidents on the gas system, which could result in shareholder liabilities.

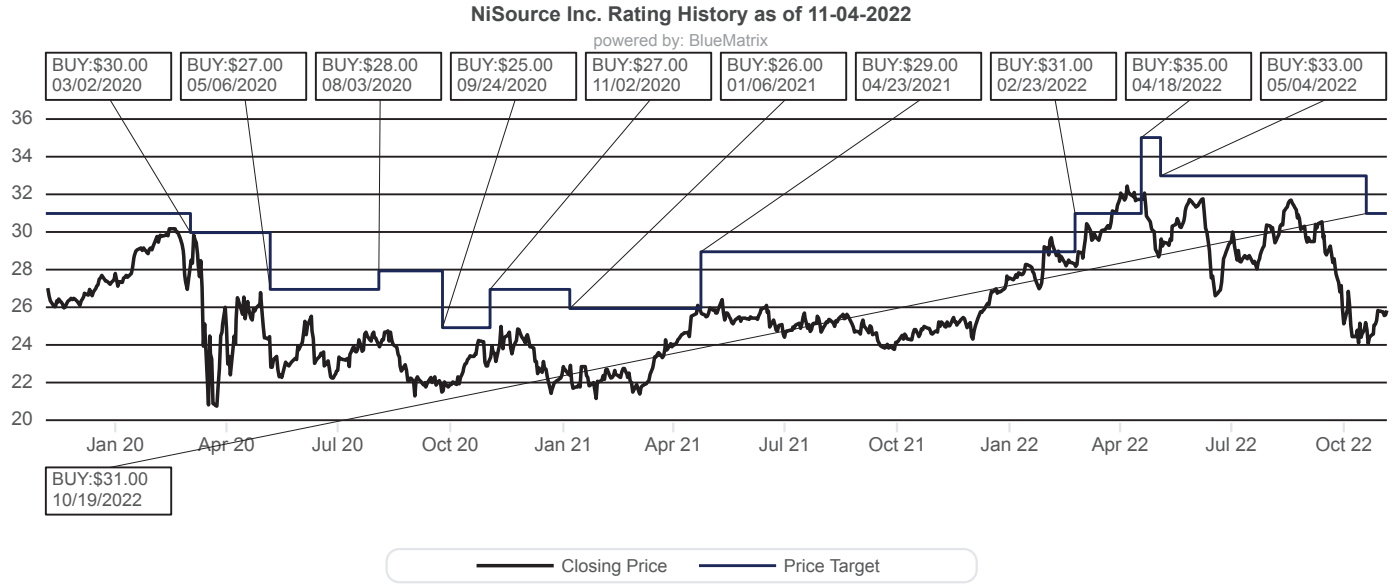
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2=Equal Weight: Total return on stock expected to be -10% to +10% over the next 12 months. HOLD

3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

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ARGUS

NYSE: NI

NISOURCE INC

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving nearly 4 million natural gas customers and 500,000 electric customers in six states. NiSource's principal subsidiaries include Columbia Gas, 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, March 3, 2023

ARGUS RATING: BUY

- Maintaining BUY
- NiSource recently posted above-consensus 4Q22 EPS and raised its 2023 guidance.
- It also boosted its dividend by 6% to an annualized $1.00. The current yield is about 3.7%.
- We are maintaining our 2023 EPS estimate and initiating a 2024 EPS estimate.
- The company is pursuing the sale of a minority stake in its NIPSCO utility in order to strengthen the balance sheet.

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. 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

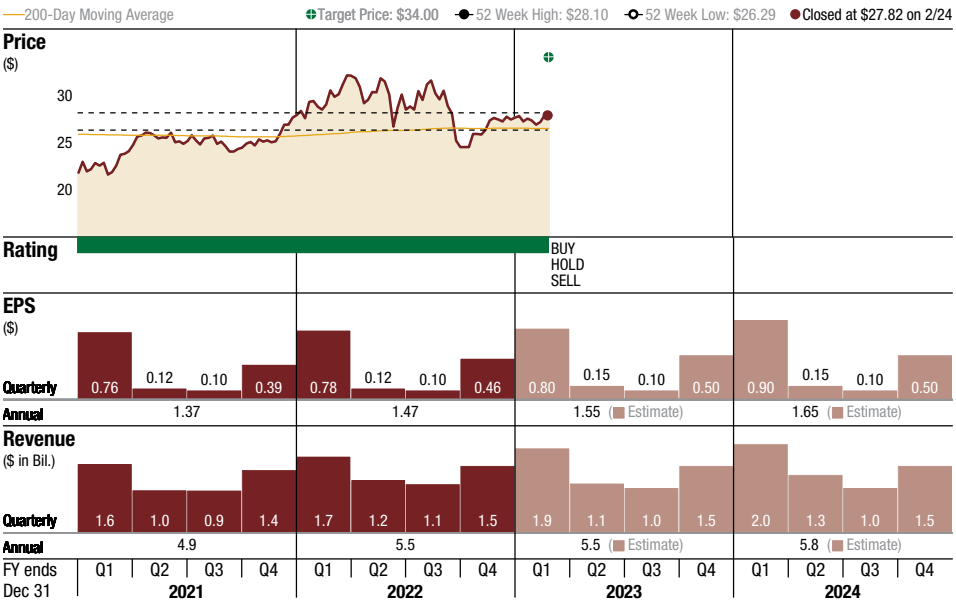
NI shares have outperformed over the past quarter, falling fractionally while the S&P 500 has fallen 2%. They have also outperformed the broad market over the past year but have underperformed over the past five years.

NiSource reported 4Q22 results on February 22. The company posted adjusted net income of $221 million or $0.50 per share, up from $166.7 million or $0.39 per share a year earlier. EPS beat the consensus forecast of $0.48. Revenue rose to $1.7 billion.

Full-year adjusted net income rose to $648.2 million or $1.47 per share from $571.2

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: 70% Buy, 30% 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	**$27.70**
Target Price	**$34.00**
52 Week Price Range	**$23.78 to $32.59**
Shares Outstanding	**412.51 Million**
Dividend	**$1.00**

Sector Overview

Sector	**Utility**
Sector Rating	**MARKET WEIGHT**
Total % of S&P 500 Market Cap.	**2.00%**

Financial Strength

Financial Strength Rating	**MEDIUM**
Debt/Capital Ratio	**59.0%**
Return on Equity	**10.0%**
Net Margin	**13.7%**
Payout Ratio	**0.65**
Current Ratio	**0.55**
Revenue	**$5.85 Billion**
After-Tax Income	**$804.10 Million**

Valuation

Current FY P/E	**17.87**
Prior FY P/E	**18.84**
Price/Sales	**1.95**
Price/Book	**1.89**
Book Value/Share	**$14.63**
Market Capitalization	**$11.43 Billion**

Forecasted Growth

1 Year EPS Growth Forecast
5.44%
5 Year EPS Growth Forecast
4.00%
1 Year Dividend Growth Forecast
6.38%

Risk

Beta	**0.75**
Institutional Ownership	**93.10%**

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Analyst's Notes...Continued

million or $1.37 per share in 2021. Revenue rose 19% to $5.85 billion.

Along with the results, management raised its 2023 adjusted EPS guidance to $1.54-$1.60 from $1.50-$1.57. It projects capex of $3.3-$3.6 billion in 2023, $2.6-$2.9 billion in 2024, 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 2028.

EARNINGS & GROWTH ANALYSIS

NiSource has two segments: Gas Distribution Operations (74% of revenue) and Electric Operations (26%). In 4Q, Gas Distribution operating revenue rose 24.9% to $1.26 million, while Electric Operations revenue increased 9% to $447.8 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, the company has had rate case settlements approved in Ohio, Pennsylvania, and Maryland.

We are maintaining our 2023 adjusted EPS estimate of $1.55 and initiating a 2024 forecast of $1.65.

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 operating expenses and working capital. As part of this effort, it is also planning to sell a minority stake in its NIPSCO utility.

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 at the end of 2022 and net available liquidity of $1.56 billion. Debt totaled $9.6 billion and accounted for 58.9% of total capitalization.

The company expects to make capital investments of approximately $15 billion through 2027.

In February 2023, NiSource raised its quarterly dividend by 6%

Growth & Valuation Analysis

GROWTH ANALYSIS ($ in Millions, except per share data)	2018	2019	2020	2021	2022
Revenue	5,115	5,209	4,682	4,900	5,851
COGS	4,114	2,890	2,695	2,848	3,600
Gross Profit	1,000	2,319	1,987	2,051	2,251
SG&A	—	—	—	—	—
R&D	—	—	—	—	—
Operating Income	126	1,305	961	1,015	1,162
Interest Expense	347	371	365	337	357
Pretax Income	-231	507	-31	707	956
Income Taxes	-180	124	-17	118	165
Tax Rate (%)	—	24	—	17	17
Net Income	-51	383	-18	585	804
Diluted Shares Outstanding	357	376	384	417	443
EPS	-0.18	0.87	-0.19	1.27	1.70
Dividend	0.78	0.80	0.84	0.88	0.94
GROWTH RATES (%)					
Revenue	5.5	1.2	-11.5	5.8	21.3
Operating Income	-86.4	936.7	-26.3	5.5	14.5
Net Income	—	—	—	—	37.5
EPS	—	—	—	—	33.9
Dividend	11.4	2.6	5.0	4.8	6.8
Sustainable Growth Rate		3.4	-2.6	1.9	5.1
VALUATION ANALYSIS					
Price: High	$28.11	$30.67	$30.46	$27.85	$32.59
Price: Low	$22.44	$24.69	$19.56	$21.09	$23.78
Price/Sales: High-Low	2.0 - 1.6	2.2 - 1.8	2.5 - 1.6	2.4 - 1.8	2.5 - 1.8
P/E: High-Low	— - —	35.3 - 28.4	— - —	21.9 - 16.6	19.2 - 14.0
Price/Cash Flow: High-Low	8.6 - 6.9	13.6 - 10.9	9.6 - 6.2	9.6 - 7.3	10.8 - 7.9

Financial & Risk Analysis

FINANCIAL STRENGTH	2020	2021	2022
Cash ($ in Millions)	117	84	41
Working Capital ($ in Millions)	-620	-825	-2,076
Current Ratio	0.73	0.70	0.55
LT Debt/Equity Ratio (%)	189.2	170.0	158.0
Total Debt/Equity Ratio (%)	200.0	181.5	193.4
RATIOS (%)			
Gross Profit Margin	42.4	41.9	38.5
Operating Margin	20.5	20.7	19.9
Net Margin	-1.6	10.8	12.8
Return On Assets	-0.3	2.3	2.9
Return On Equity	-1.5	10.3	13.1
RISK ANALYSIS			
Cash Cycle (days)	35.2	35.4	40.7
Cash Flow/Cap Ex	0.6	0.7	0.6
Oper. Income/Int. Exp. (ratio)	0.9	3.1	3.7
Payout Ratio	64.6	229.7	79.8

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Analyst's Notes...Continued

to $0.25, or $1.00 annually, for a yield of about 3.7%. We think the dividend is safe and likely to grow modestly over time. Our dividend estimates are $1.00 for 2023 and $1.04 for 2024.

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 nearly 4 million natural gas customers and 500,000 electric customers in six states. NiSource's principal subsidiaries include Columbia Gas, 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

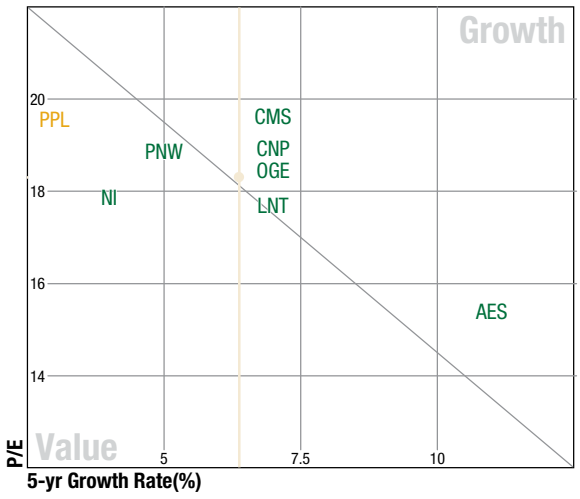
We think that NI shares are attractively valued at current prices near $27. On the fundamentals, the shares trade at 18-times our 2023 EPS estimate, above the average multiple of 16 for comparable electric and gas utilities. They are also trading at a price/book multiple of 1.9, slightly below the peer average of 2.0. The price/cash flow ratio is 7.9, below the peer average of 10. The dividend yield of about 3.7% is near the industry average. We are reiterating our BUY rating on NI with a 12-month target price of $34.

On March 3, BUY-rated NI closed at $27.70, up $0.43.

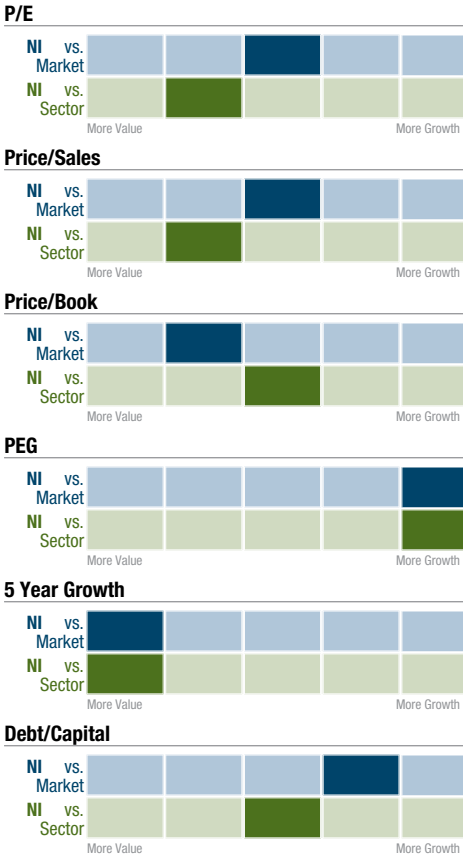
Peer & Industry Analysis

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	20,178	3.0	19.6	9.6	14.3	HOLD
CNP	Centerpoint Energy Inc.	17,882	7.0	18.9	11.3	10.0	BUY
CMS	CMS Energy Corporation	17,429	7.0	19.6	9.7	4.6	BUY
AES	AES Corp.	16,787	11.0	15.4	-4.3	7.4	BUY
LNT	Alliant Energy Corp.	13,077	7.0	17.7	16.3	26.9	BUY
NI	Nisource Inc. (Holding Co.)	11,426	4.0	17.9	13.7	6.5	BUY
PNW	Pinnacle West Capital Corp.	8,649	5.0	18.9	11.2	24.7	BUY
OGE	OGE Energy Corp.	7,170	7.0	18.5	19.7	8.2	BUY
Peer Average		**14,075**	**6.4**	**18.3**	**10.9**	**12.8**	



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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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March 14, 2023 | 07:59 ET~

IN Fact

BMO Capital Markets

FLASH NiSource

NI-NYSE	Rating	Price: Mar-13	Target	Total Rtn
	Outperform	$27.33	$31.00	17%

NIPSCO Settlement Reached - Key Execution Amidst Macro Uncertainty

Bottom Line:

NI and certain parties (including the Office of Utility Consumer Counsel) filed a comprehensive settlement in the NIPSCO electric rate case. The settlement proposes a revenue increase of $291.8mm, with a 9.8% ROE and a 51.63% equity ratio. We see the settlement as a positive de-risking event if approved as filed. NIPSCO anticipates a final order on the settlement agreement by August 23, 2023. **We reiterate our Outperform rating and our $31 price target.**

Key Points

On March 10, NI and other key parties (including the Office of Utility Consumer Counsel) entered into a comprehensive settlement in its NIPSCO electric rate case. The company anticipates an order from the IURC by August 23, 2023, with new rates effective as of September 1, 2023.

The settlement proposes a revenue increase of $291.8mm compared with the company's original request of ~$395mm. The rate-making parameters include a 9.80% ROE and a 51.63% equity ratio.

The rate change would be implemented in at least two steps. The first step would come shortly after an IURC order with balances subject to refund through the June 30, 2023, verification period. The second step would be expected on March 1, 2024, utilizing balances through December 31, 2023. Additionally, there could be an interim increase between the steps if the Dunn's Bridge I or Indiana Crossroads Solar projects are not in service by June 30, 2023.

Opposing parties have until March 31, 2023, to file any opposition against the proposed settlement.

If approved as filed, it would represent another significant regulatory item the company has been able to settle and evidence of continued execution from NI's management team.

NI has been one of the best performers in the group year-to-date outperforming peers by ~8.1% which includes ~5.6% of outperformance over the past month. **However, we continue to view shares of NI favorably especially given ongoing macroeconomic uncertainty as NI offers balance sheet cushion and a quiet regulatory calendar with above-average growth at an attractive ~1% discount to the group on 2025 P/E.**

Accordingly, NI remains a key part of our BMO barbell. We reiterate our Outperform rating and our $31 price target.

For disclosure statements, including the Analyst Certification, please refer to page(s) 2 to 5.

Utilities, Power & Renewables

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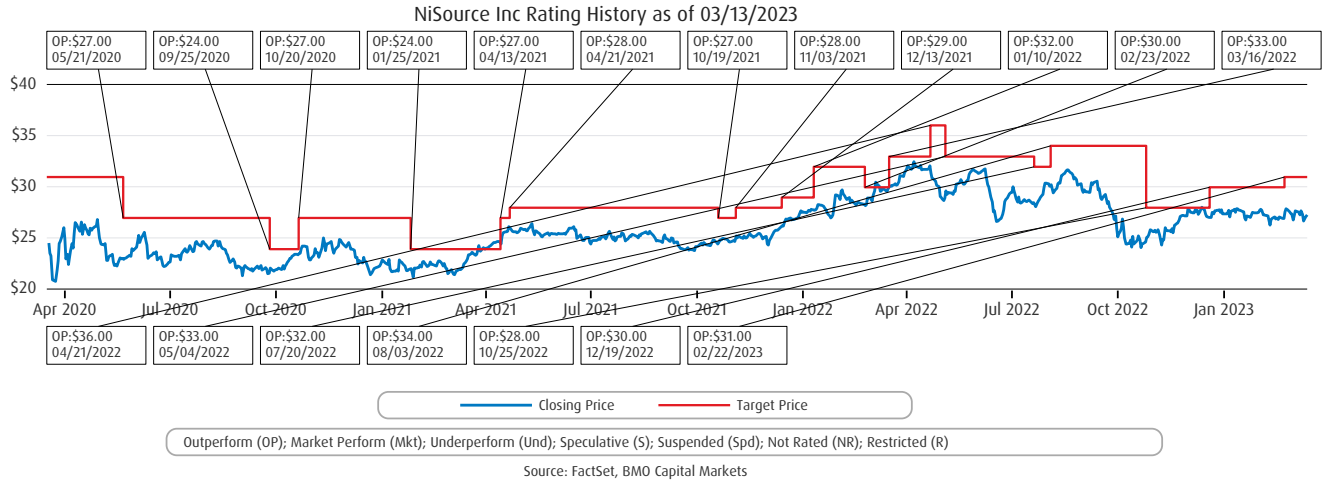
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Company Description

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



Source: FactSet, BMO Capital Markets

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Analyst's Certification

I, James M. Thalacker, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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Company Specific Disclosures

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 2025E 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 (March 13, 2023)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	48.2 %	18.7 %	53.7 %	53.3 %	58.2 %	57.7%
Hold	Market Perform	48.9 %	14.7 %	42.7 %	44.7 %	39.3 %	37.5%
Sell	Underperform	2.9 %	21.4 %	3.7 %	1.8 %	2.0 %	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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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;
Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;
(S) = Speculative investment;
Spd = Suspended - Coverage and rating suspended until coverage is reinstated;
NR = No Rated - No rating at this time; and
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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

(January 2010 - April 2013)
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Sent: Wednesday, February 1, 2023 12:12 PM
To: Weisenburger \ Michael \ V
Subject: BofA Utilities: NI US: Painting Path for a Constructive Indiana Rate Case Outcome: Minority Sale Too - BUY - United States

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NiSource Inc

Painting Path for a Constructive Indiana Rate Case Outcome: Minority Sale Too

Reiterate Rating: BUY
PO:32.00 USD | Price:27.75 USD
Equity | 01 February 2023

Key takeaways

- Indiana rate case intervenor testimony reasonable starting point for settlement conversations. 9.2% ROE and prepaid pension.
- Breakdown of O&M adjustments includes focus on admin/general, pension, cost, and depreciation. All reasonable areas to note.
- Reiterate Buy. Constructive outcome in Indiana rate case key to supporting positive re-rating from here. Minority sale too.

FULL REPORT

Intervenor filings in NIPSCO rate case were reasonable

Intervenor testimony was filed in the NIPSCO Indiana rate case, the most critical regulatory proceeding ongoing for NiSource currently. The Office of the Utility Consumer Counselor (OUCC) recommends a +$246Mn (+16%) multi-step revenue increase for NIPSCO (Docket 45772) with

+$191Mn in step 1 (~September 2023) and +$55Mn March 2024. The OUCC does not support the variable cost tracker (VCT) which represented the third step of NIPSCO's requested increase. The $246Mn OUCC supported increase compares with ~$394Mn total aggregate rate increase request, implying ~62% of NIPSCO's proposed increase. Importantly the OUCC testimony effectively supported the entirety of NIPSCO's proposed capex/rate base at $5,979Mn vs $5,946 request with the higher OUCC relating to ~$33Mn Michigan City & Schahfer accumulated depreciation. *Support for rate base is consistent with our base case.*

Cost of capital and O&M the key areas for parties to work

The OUCC recommendation was premised on 9.2% ROE (top-end of the 8.5-9.2% range for a gradual decrease) and notes that the overall rate of return would still be higher than market at the proposed equity ratio. UCC recommends a ~49% regulatory capital structure vs 51-52% proposed by NIPSCO with the delta pertaining to prepaid pension plan, an area that the parties were able to reach an agreement on last rate case. This is comparable with the ~58% guided to by NiSource view of investor supplied capital. The largest proposed operating & maintenance adjustment is -$17.3Mn for administrative and general where the OUCC believes that a reduction is warranted due to "poor performance". The proposed adjustment would normalize to the 2nd highest quintile level. Other proposed adjustments relate to pension, depreciation, coal costs, vegetation management, and other incentive compensation. **See full report for details.**

Reiterate Buy as NiSource continues to progress in Indiana

We reiterate our Buy rating on NiSource following the generally constructive regulatory developments. The shares outperformed utility peers (XLU) by 3% in January, but are still -5% over 12 months. If NiSource can reach a constructive outcome in the pending NIPSCO rate case, we see a path for continue positive re-rating to be more aligned with a premium valuation. Favorable regulatory updates should also help the pending minority interest sale process.



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NI: NIPSCO Rate case settled – key positive. Terms TBD

Northern Indiana Public Service Co (NIPSCO – NiSource [NI] subsidiary) filed a notice of settlement agreement in principle with key parties in its pending electric rate case (Docket 45772). NIPSCO filed on March 6th with the Indiana Utility Regulatory Commission (IURC) that it has a settlement on **all issues** with the Indiana Office of Utility Consumer Counselor, NIPSCO Industrial Group, NLMK Indiana, and Walmart. No parties expressed an objection to the settlement. The fully settlement is ordered to be filed by March 10th followed by any opposition testimony by March 31st. The hearings have been continued to April 26th with the statutory deadline for the proceeding extended to August 23rd after receiving NIPSCO consent.

*We look for details on the key settlement terms, but it is positive that the agreement on **all issues** with key parties is positive. Based on our detailed review of intervenor testimony, we thought a settlement was likely and this is an expected constructive update. We maintain Buy on shares of NI which are increasingly de-risked and offer above-average growth at a discounted valuation. See our latest here: A Bright Spot in an Uncertain Utility World.*

AEP/D: VA orders fuel audit for APCo

The Virginia State Corporation Commission (SCC) approved a higher fuel rate for Appalachian Power Company (APCo - American Electric Power [AEP] subsidiary) with mitigation elements (Docket PUR-2022-00139). The SCC approved recovery of $361Mn deferred fuel over a two-year period with a +$20/month increase versus +$33/month without mitigation. The SCC ordered the SCC Staff to conduct a fuel audit for 2019-2022 including an assessment of the utility's coal procurement processes. In the Order the SCC stated it was "deeply concerned about the significant rate increase", specifically the timing coming during the higher-usage winter months (November 1 interim rates) and following other APCo rate increases. The SCC reaffirmed its core policy that regulated utilities are legally entitled to recovery prudent fuel costs.

Fuel cost recovery and timing has become more contentious across the US given the more challenging economic backdrop compounded by energy costs increasing faster than the rate of inflation. We maintain Neutral on shares of AEP which has a balanced risk-return profile but a growing number of regulatory risks, including fuel cost recovery in West Virginia. See PowerPoints: AEP West Virginia 06 February 2023. Maintain Underperform on shares of Dominion where we see further downside to Consensus EPS estimates and a challenging path forward to improve the balance sheet metrics.

PNM/AGR: Parties withdraw appeal, stage set for action

Avangrid (AGR), Iberdrola (IBE), and PNM Resources (PNM) jointly filed a motion for stipulated dismissal of its appeal in the denied PNM-AGR/IBE merger. Separately we provide updates on AGR Maine regulatory datapoints. **Please see full report.**

09 March 2023

Equity
United States
Utilities

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NIPSCO: Northern Indiana Public Service Company

IURC: Indiana Utility Regulatory Commission

SCC: State Corporation Commission

APCo: Appalachian Power Company

PRC: Public Regulation Commission

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PNM/AGR: Parties withdraw appeal, stage set for action

Avangrid (AGR), Iberdrola (IBE), and PNM Resources (PNM) jointly filed a motion for stipulated dismissal of its appeal in the denied PNM-AGR/IBE merger. The motion for dismissal and remand was joined by the regulator, New Mexico Public Regulation Commission (PRC). The PRC docket is 20-00222-UT and the New Mexico Supreme Court case is S-1-SC-39152. In the filing, the PRC stated it will pursue an expedited proceeding, noting that the appealing parties requested a decision by April 12th, designed to meet the April 20th merger agreement deadline. The parties requested the NM Supreme Court reduce its response period. The filing notes the party statuses as: International Brotherhood of Electrical Workers Local 611 supporting; Coalition for Clean Affordable Energy, Western Resource Advocates (WRA), and others supportive but expecting to update the record; the Attorney General neither supporting nor opposing; and New Energy Economy **opposing**. The original regulatory settlement had support from the vast majority of parties but not from New Energy Economy so the opposition is consistent with prior positioning.

The decision to withdraw the appeal is consistent with public messaging from Iberdrola & Avangrid in an attempt to get the merger back on track. While the timeline appears tight, we still believe that the newly appointed PRC (two participating with one recusal) will approve the transaction between IBE/AGR and PNM. We maintain Buy on shares of PNM which trades at a discount to our view of the fundamentals. Conversely, we maintain Underperform on shares of AGR which have below-average EPS growth and above-average regulatory & large project risk.

US Utilities: Beantown Buzz Returns – Latest Conversations with AGR & PNM: 3/2/23

AGR: Positive ME regulatory datapoints

Counsel for Central Maine Power (CMP - Avangrid subsidiary) filed a letter in CMP's outstanding electric rate case docket (Docket #2022-00152) requesting on behalf of CMP and the Office of Public Advocate (OPA) that the Hearing Examiners schedule a **settlement conference**. The letter cites that the OPA and CMP believe that '*settlement discussions would be worthwhile at this procedural step in the proceeding and suggest that the Hearing Examiners schedule a conference for the last week of March*'.

Further, the Maine Public Utilities Conference (PUC) sided with CMP and ruled that a continuing obligation to file a quarterly report on CMP's SQI Metrics and to report a rolling 18-month average pursuant to a February 2022 order is no longer necessary. The utility will provide metrics nearly identical to SQI metrics quarterly, pursuant to an August 27, 2022 amendment to Commission Rule Chapter 320. CMP stated that having the MPUC rely solely on the Chapter 320 quarterly filing instead of relying on the Chapter 320 filing **and** the legacy filings related to the Feb. 2022 order will help avoid confusion. The legacy SQI metrics measure (1) percentage of business calls answered within 30 seconds (benchmark 80% of more), (2) call-abandonment rate (benchmark of 7% or less), (3) bill-error rate (benchmark of 0.4% of less) and (4) percentage of estimated bills (benchmark of no more than 1%).

We note that these small positive Maine regulatory updates support an improved regulatory backdrop in Maine versus only a few years ago. A CMP electric rate case settlement would be constructive and signal a clear improvement in AGR-Maine regulatory relationships. Nevertheless, we see resolution of AGR's rate cases in New York and Connecticut, and its ongoing proceedings around offshore wind projects and New England Clean Energy Connect (NECEC) as more critical for the company and shares near-term. *We remain cautious that favorable regulatory and political developments will materialize. Maintain Underperform on shares of AGR given above-average regulatory and earnings risk, despite improving ME regulatory datapoints.*

Avangrid: 4Q22: Pro-forma 2023 guide underwhelms. EPS CAGR reaffirmed as of Sept 2022 22 February 2023

CEG: NY hydrogen pilot advances. Watching Treasury rules

Constellation Energy (CEG) announced that its 1MW demonstration pilot hydrogen facility has begun operations. The electrolyzer at the Nine Mile Point nuclear plant in New York is supported by $5.8Mn Department of Energy (DOE) funding with 1.25MW of electricity generating 560kg/day of clean hydrogen, more than satisfying the nuclear plant's operational needs. CEG is utilizing a Proton Exchange Membrane (PEM) electrolyzer manufactured by Nel Hydrogen. Nel recently announced a final investment decision (FID) for a PEM electrolyzer manufacturing facility in Connecticut which will bring ~500MW run-rate production in 2025 with a 260Mn NOK investment. Longer-term, CEG guides to $900Mn investment 2023-2025 for clean hydrogen investments at its nuclear assets with ~250MW and ~33,450tpa hydrogen.

The successful advancement of the project is a small positive and consistent with our views. The clean hydrogen opportunity could be very material for CEG and other US nuclear plants in 2026+ depending on the finalization of the US Treasury tax credit regulations. Key focus areas are the (1) hourly vs annual matching; and (2) 'additionality' of resources. An hourly or more real-time standard would be beneficial for baseload nuclear owners whereas an annual standard would facilitate alignment with more wind/solar. Maintain Neutral on shares of CEG which have a balanced risk/return profile at the current level.

Nuclear fuel security a key focus area for CEG and the industry

Separately, Constellation CEO Joe Dominguez will be testifying today at the US Senate Energy and Natural Resources Committee regarding the risk of inadequate US supply of nuclear fuel.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Constellation Energy Corp: PTC Protection Only Part of the Equation: Downgrade to Neutral After Strong Run	Paul Zimbardo	21 February 2023
US Utilities & IPPs: PowerZone: Nuclear Renaissance Hit a Speedbump. A Tale of Two Unicorns	Paul Zimbardo	07 March 2023

Recent research below

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
TPI Composites: We're Early & We Know It: Good Risk-Reward: Reiterate Buy	Julien Dumoulin-Smith	09 March 2023
US Utilities & IPPs: PowerPoints: VST Vision Feedback, PNW Appeal, FE PA Consolidation, & TELL CFO	Julien Dumoulin-Smith	08 March 2023
Maxeon Solar Technologies: FY22 Review: All the right things in all the right places, PO to $32	Julien Dumoulin-Smith	08 March 2023
Southern Company: Management meeting takeaways: Slow and steady	Julien Dumoulin-Smith	08 March 2023
Atlantica Sustainable Infrastructure: Growth clarity and strategic review improve outlook; Upgrade to Buy	Julien Dumoulin-Smith	08 March 2023
CMS Energy: Above-average EPS growth warrants widening relative premium, U/G to Buy	Julien Dumoulin-Smith	08 March 2023
Enlight Renewable Energy Ltd: First US listed DevCo, Line of sight and clear IRA upside. Initiate at Buy, $23 PO.	Julien Dumoulin-Smith	07 March 2023
Pinnacle West: Slightly sunnier outlook but renewables could be uphill battle	Julien Dumoulin-Smith	07 March 2023
Vistra Energy: Can "Green" Plus "Brown" Work? The Market Will Tell Us	Julien Dumoulin-Smith	07 March 2023
Vistra Energy: Energy Harbor Acquisition Brings a New Nuclear Competitor: Deal Thoughts & More	Julien Dumoulin-Smith	06 March 2023
Nextracker Inc: Initiate at Neutral: Best in breed but NXT looks fairly valued post IPO	Julien Dumoulin-Smith	06 March 2023

Exhibit 1: 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$ 27.7	B-1-7
AEP	AEP US	American Elec Power	US$ 89.3	A-2-7
D	D US	Dominion Energy	US$ 54.96	A-3-7
PNM	PNM US	PNM Resources Inc.	US$ 49.16	B-1-7
AGR	AGR US	Avangrid	US$ 39.32	A-3-7
CEG	CEG US	Constellation Energy	US$ 78.07	C-2-7

Source: BofA Global Research

Price objective basis & risk

American Electric Power (AEP)
Our price objective of $95 is based on sum-of-the-parts (SOTP) analysis. We ascribe a peer forward FY25E P/E multiple (15.9x) with a 1.0x premium for its Texas transmission and distribution utilities and transmission-only utilities segments and a 0x premium (in-line multiple) for Ohio. Vertically integrated utilities are assigned a -2x discount on regulatory and execution risks. 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 return on equity (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.

Avangrid (AGR)
Our $37 PO is based on an 2025E sum of the parts analysis. The core utilities are valued on by applying discounts to the base sector P/E of 16.0x/17.1x 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 10x 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.

Constellation Energy Corp (CEG)
Our $88 Price Objective is based on a 8.8% 2025E equity Free Cash Flow yield (FCF yield) on an unhedged/'open' basis. The 8.8% FCF yield represents a weighted average of 8.0% (first quartile) for the support FCF and 14.9% (third quartile) for merchant FCF, utilizing energy comparables.

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, capital, and fuel 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 $52 using a 2025E sum-of-the-parts analysis. For the utilities we apply the comparable electric (15.8x) and gas (16.8x) peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply -1.5 discount for for base Virginia (-9%). 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 at: 13x EV/EBITDA Cove Point, 5x Millstone (13% FCF Yield), and 5x for renewables. 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. We lastly include prospective interest rate exposure that is not impacting near-term estimates due to hedges.

Risk to achievement of the Price Objective are 1) regulatory, legislative, and political actions, 2) ability to earn or exceed the regulatory allowed ROE, 3) capital markets and equity requirements, 4) changes to the capital expenditure and rate base forecast for both regulated & unregulated segments, 5) volatility in interest rates and pension returns, 6) changes in commodity prices, 7) natural disasters, 8) inflation, & 9) offshore wind construction.

NiSource Inc (NI)
Our $32 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 16.3x for gas and 15.8x for electric. 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 utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

Positive and negative risks to our Price Objective are changes in 1) regulatory, political, and legislative outcomes, 2) ability to execute on capital expenditure plan, 3) inflation, operating expense, and interest rates as they influence earned rates of return, 4) customer count and load growth, 5) commodities, 6) natural disasters, 7) pension plan returns, 8) equity and asset sale needs.

PNM Resources Inc. (PNM)
Our $50 price objective is based on a 2024E sum of the parts valuation methodology utilizing P/E multiples for each electric business segment. The electric peer P/E multiple is grossed up for +5% reflect capital appreciation across the sector, consistent with our approach for the coverage universe. We apply a 17.1x 2024E P/E multiples are applied to each subsidiary in New Mexico, Texas, and Federal as well as the parent HoldCo: PNM, FERC PNM, TMNP, Parent.

Risks to the achievement of our price objective and estimates are 1) regulatory, political, and legislative outcomes, 2) ability to control costs and achieve the allowed return on equity - including on AMI capital, 3) interest rates volatility, 4) pending M&A activity, 5) changes in interest rates, 6) natural disasters, and 7) inability to achieve capital expenditure guidance.

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
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Allete Inc	ALE	ALE 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
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE 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
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC 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				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP 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
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	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
	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
	Pinnacle West	PNW	PNW 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
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	82	59.85%	Buy	65	79.27%
Hold	32	23.36%	Hold	21	65.63%
Sell	23	16.79%	Sell	14	60.87%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	72	48.98%	Buy	51	70.83%
Hold	38	25.85%	Hold	29	76.32%
Sell	37	25.17%	Sell	25	67.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

[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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Assessing SVB fallout for clean energy and utilities

We provide our initial thoughts on the Silicon Valley Bank (SIVB -SVB Financial Group [Not Rated]) - see details here for Clean Energy and for Hawaiian Electric examining the banking subsidiary reports. The California utilities confirmed no exposure to Silicon Valley Bank, not a surprise given the larger market capitalizations. AES Corp (AES) has syndicated loans originated by SVB. AES indicated that the repayments will be under the original terms and AES will have the right to approve a new buyer if outside the existing lending group. AES has ~$921Mn of syndicated project financing/green bonds at its AES DE (distributed energy) IV and VIII issuers. AES states is SVB portion is significantly smaller, and the company expressed confidence in the ability to replace as a lending source, if needed. *Maintain Buy on shares of AES which trade at an attractive relative valuation.*

NRG/VVNT: Merger closes despite litigation

On Friday March 10th NRG Energy (NRG) announced the successful close of Vivint Smart Home (VVNT), completing the transaction at the original terms despite legal uncertainty. Many investors we had spoken to were optimistic that NRG could renegotiate the transaction or extract other favorable adjustments which did not materialize. Vivint had a $189 mn litigation loss related to allegations of improper sales practices and has other litigation pending against the company. Our base case was that NRG acquired Vivint on the original terms and we continue to view the acquisition as a net negative for shares of NRG but largely priced-in after the steep underperformance after the transaction. We subsequently upgraded shares to Neutral from Underperform in conjunction with the improvement in the commodity backdrop (i.e. decline) which we think should help improve NRG's prospective profitability. We look to see if/how NRG alters Vivint's sales practices. After Vistra's Energy Harbor (ENGH - Not Covered) transaction we would expect NRG to look to highlight its nuclear and retail EBITDA. We see a risk that NRG loses incremental investor attention as it does not have the same scale of clean owned generation. *Maintain Neutral on shares of NRG with an approximately balanced risk/reward.*

NI: NIPSCO settlement achieved

Northern Indiana Public Service Company (NIPSCO - NiSource [NI] subsidiary) filed the details of the settlement (Docket 45772) on Friday March 10th with a +$292Mn revenue increase relative to the $395Mn request and the +$246Mn Office of the Utility Consumer Counselor (OUCC) recommendation with +$191Mn September 2023 and +$55Mn March 2024. See report for additional background: NiSource Inc: Painting Path for a Constructive Indiana Rate Case Outcome: Minority Sale Too 01 February 2023

From our review of the intervenor testimony around O&M and settlement details, we believe this is a constructive outcome and supportive of NI's financial targets. Maintain Buy on shares of NI which continue to trade at a discount to utility peers despite an improving backdrop.

Please see full report for more on FirstEnergy and nuclear cost data.

13 March 2023

Equity
United States
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FE: Ohio proceedings to resume

Last week an Ohio jury convicted former Ohio Speaker Larry Householder in a trial related to bribery and public corruption surrounding Ohio House Bill 6 (HB6). HB6 was legislation designed to benefit FirstEnergy (FE) and its then unregulated subsidiary FirstEnergy Solutions - now Energy Harbor. The Ohio Attorney General (AG) Dave Yost issued a statement and made a court filing requesting to lift the stay on discovery in the civil case after resolution of the criminal trial. The AG is pursuing an investigation into "FirstEnergy executives who funded the corrupt Householder Enterprise". The AG continued: "The discovery process may yield additional information that will reveal an expanded number of defendants who participated in the corrupt Householder Enterprise." A statement was released by former FE CEO Chuck Jones attorney: "Mr. Jones did not make or authorize any payment of any money to any public official in exchange for any official act," she said. "He did not engage in any unlawful activity or violate any of FirstEnergy's policies. Mr. Jones is not aware of any other FirstEnergy employee engaging in unlawful activities in their dealings with government officials." FE did not comment in the media articles we reviewed.

Shares of FE were not negatively impacted during the Householder trial and the company has made strides in advancing from the legacy issues, but we still see tail risks with litigation and state audits proceeding. Our conversations with ESG-oriented investors indicate limited receptivity for shares due to the events surrounding the Deferred Prosecution Agreement (DPA). Separately, Vistra's Energy Harbor acquisition is subject to US Department of Justice (DOJ) approval as it relates to the events of Ohio's HB6. Maintain Underperform on shares of FE. Our more cautious view of FE shares is unrelated to the legacy Ohio issues, and we do not embed any future negative impact for the company.

SMR: Amends agreement to support cost increase up to $89/MWh

NuScale Power (SMR – Not Covered) filed an amendment to its development cost reimbursement agreement which in part increase the target cost to $89/MWh from $58/MWh as part of other agreement changes. NuScale disclosed that it may be required to refund a portion of net development costs if the Nuclear Regulatory Commission (NRC) does not issue the Standards Design Approval (SDA) for the NuScale six-module 77MWe NuScale Power module design within one-year of NRC formally beginning the review.

We continue to closely monitor the nuclear industry economics, including the outlook for small modular reactors. Small modular reactors are generally targeting late in the 2020s and it will be critical for the technology to materially reduce its levelized cost of energy to represent a larger portion of the energy mix. Northwestern Corp recently announced plans to explore a deployment: US Utilities & Clean Tech: NWE Nuclear 03 March 2023

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Clean Tech: Clean Energy Fear: Silicon Valley Bank Sends Investors Running to the Exits	Julien Dumoulin-Smith	13 March 2023
Public Service Enterprise Group: Straight Talk Analyst Day: Few unanswered questions. Reiterate Buy	Julien Dumoulin-Smith	13 March 2023
US Liquefied Natural Gas: BTU Beats: Lower prices supportive of tendering activity, but volatility ahead	Julien Dumoulin-Smith	13 March 2023
Hawaiian Electric Industries: Watching the American Savings Bank given challenging macro conditions	Julien Dumoulin-Smith	13 March 2023

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

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AES	AES US	AES Corp	US$ 22.90	B-1-7
NRG	NRG US	NRG Energy	US$ 30.88	B-2-7
NI	NI US	NiSource Inc	US$ 27.33	B-1-7
FE	FE US	FirstEnergy	US$ 38.80	B-3-7

Source: BofA Global Research

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Price objective basis & risk

AES (AES)

Our price objective is $31 and is based on a sum of the parts analysis applying a blended valuation approach which is the summation of: 1) EV/EBITDA approach for US Renewable Generation using an 8.0x 2024E base for US peer plus a premium/discount, 2.) NPV approach for DevCo using a 10% discount on 5.5GW+ of annual renewables beyond '23 given market dynamics, 3.) EV/EBITDA approach for Legacy Southland (US), 4.) NPV for Warrior Run (US) 5.) P/E approach for US Utilities using a 15.9x 2025E base for US peers plus a premium/discount, 6.) EV/EBITDA approach for LATAM non-public subsidiaries using a 7.4x 2024E base for peers plus a premium/discount, 7.) Mark-to-market value of publicly listed LATAM subsidiaries, 8.) Asia Generation is marked to carrying value while the Asian LNG import facility is valued on EPS accretion relative to total build cost, and 9.) EV/EBITDA 2024E multiple for Europe generation (except Jordan, which we mark to sales price). We also credit the company with its investment in Uplight and Fluence.

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.

FirstEnergy (FE)

The $38 Price Objective is based on a sum-of-the-parts valuation. Our multiples are driven by relative P/E premiums/discounts to the 15.8x 2025E regulated peer multiple. Peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector, a consistent approach across our coverage universe. We apply -2x discount to reflect rate review risk, below average risk, and pension exposure. We subtract out the holding company debt given the above-average leverage

Upside/downside risks are 1) regulatory/political/legislative outcomes, 2) ability to earn the allowed ROEs and/or other changes in regulatory earnings, 3) weather and natural disasters, 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, and 8) taxes.

NiSource Inc (NI)

Our $32 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 16.3x for gas and 15.8x for electric. 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 utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

Positive and negative risks to our Price Objective are changes in 1) regulatory, political, and legislative outcomes, 2) ability to execute on capital expenditure plan, 3) inflation, operating expense, and interest rates as they influence earned rates of return, 4) customer count and load growth, 5) commodities, 6) natural disasters, 7) pension plan returns, 8) equity and asset sale needs.

NRG Energy (NRG)
Our $35 Price Objective is based on 2025E 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. All three segments are initially valued at 7x EV/FCF including Generation, Retail & Vivint.

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.

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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
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Allete Inc	ALE	ALE 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
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE 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
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC 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				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP 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
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA

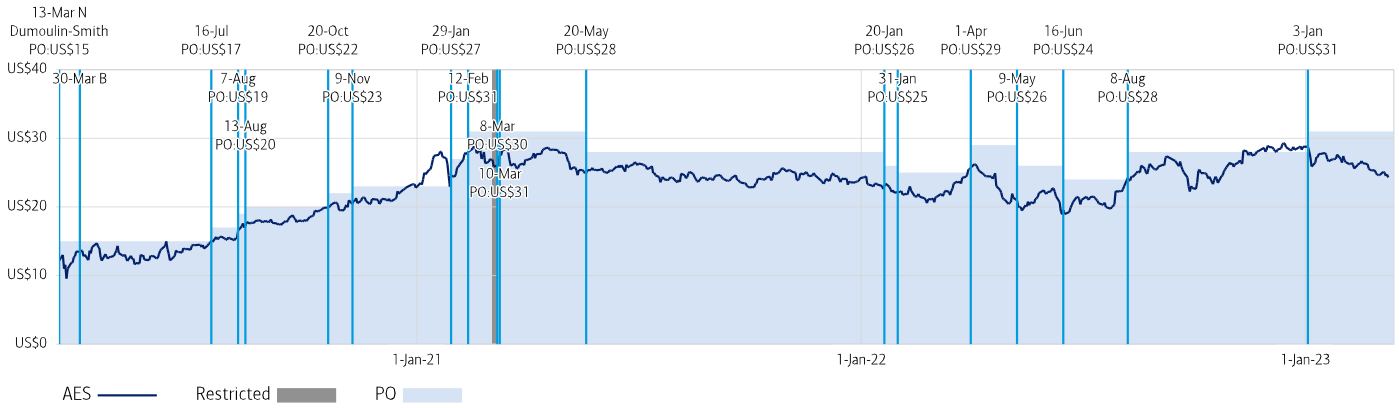
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	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
	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
	Pinnacle West	PNW	PNW 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
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

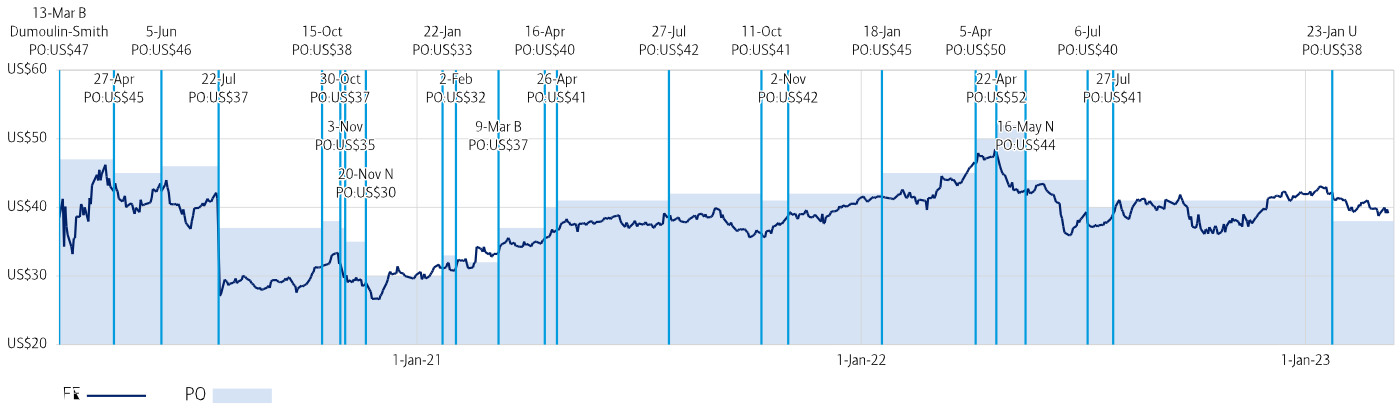
AES Corp (AES) Price Chart



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

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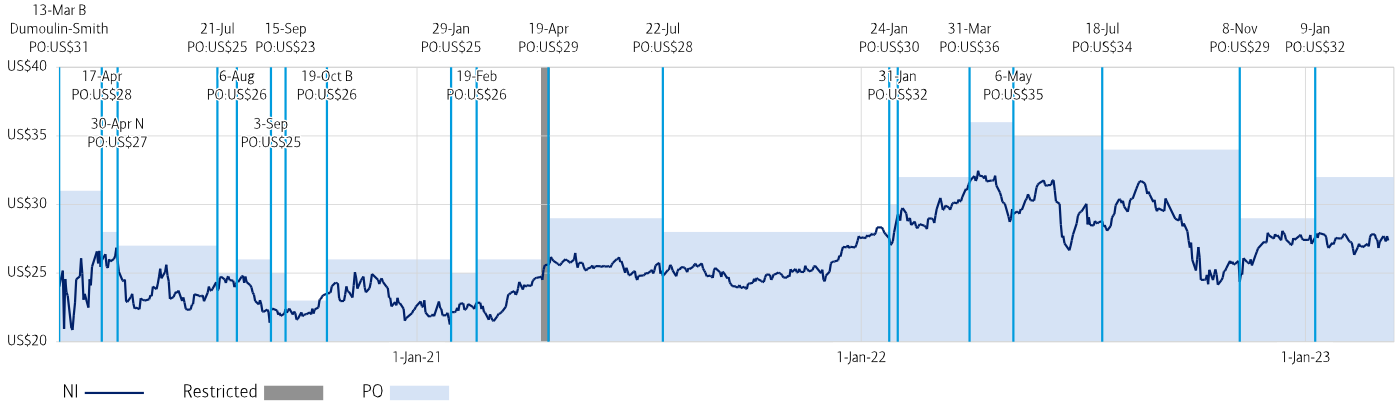
FirstEnergy (FE) Price Chart



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

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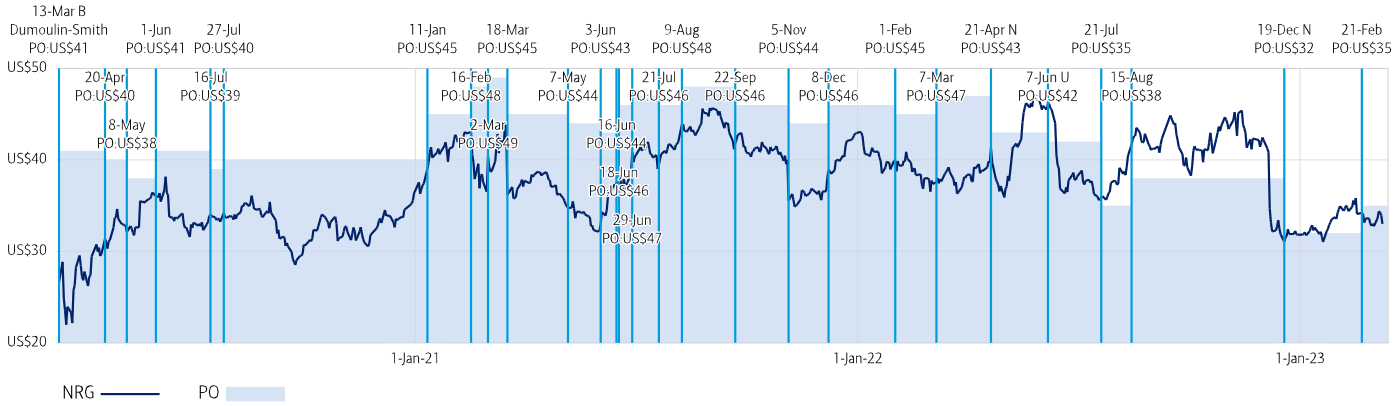
NiSource Inc (NI) Price Chart



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NRG Energy (NRG) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	82	59.85%	Buy	65	79.27%
Hold	32	23.36%	Hold	21	65.63%
Sell	23	16.79%	Sell	14	60.87%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	72	48.98%	Buy	51	70.83%
Hold	38	25.85%	Hold	29	76.32%
Sell	37	25.17%	Sell	25	67.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

[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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Crowding considerations key as investor flock to safety

We provide our latest quarterly analysis of 13-F ownership data in our "*Who owns what?*" series in which we compile crowding data by examining a broad group of ~40 investment funds, including 17 hedge funds (HFs) and 23 "long-only" (LO) funds. Utilities have caught up a bid relative to the overall market in recent days as investors flock to safer asset groups amid the fallout from the latest bank failures and broad financial uncertainty. Yet, utilities have underperformed the broader equity markets year-to-date with another challenging 4Q earnings cycle and unfavorable weather introducing new challenges across many utilities (DTE, NEE). Although the data is ~80 days old, the positioning information is vital in these periods of acute unwinds and de-grossing. For a full comparison with our 9/30 analysis, please see our report: Positioning Tells Bifurcated Story: Explaining Some of Relative Performances.

HFs double-down on NI, DTE, CMS, & PPL

Popular hedge fund names remain NiSource (NI), DTE Energy (DTE), PPL Corp (PPL) and CMS Energy (CMS). HFs further added to these positions in 4Q22. We see elevated risk of crowding for DTE near-term as the utility faces a challenging 2023 driven by unfavorably weather, recent ice storms and growing regulatory tension following the large rate increase request. We maintain our Buy on shares of DTE given the overly discounted valuation although acknowledge the riskier backdrop. DTE has underperformed -3% YTD, likely with crowding a factor. By contrast, the most popular long-only names were American Electric Power (AEP), Xcel Energy (XEL), Entergy (ETR) and Sempra (SRE). HFs and LOs continue to disagree across a broad base of utility names. AEP, Centerpoint (CNP), Sempra (SRE) and Ameren (AEE) were popular among long-onlys while ownership concentration was more muted across hedge funds. Consistent with 9/30/2022 13-F data, PPL remains a hedge fund favorite although shares are relatively under owned by LOs. Relative weakness of PPL is likely due at least in part to the crowding dynamics, exasperating the mixed datapoints of late.

Where has positioning changed most? D, EVRG, ETR

Dominion (D) and Evergy (EVRG) positioning changes differed significantly across hedge fund versus LOs – HFs were buyers of both D and EVRG in 4Q22 despite cautionary updates for either utility into EEI. By contrast, D and EVRG were among the most sold names for LOs. Both hedge funds and LOs sold shares of ETR during 4Q22, although LO ownership of ETR remains relatively strong, a slight risk. We downgraded ETR to Neutral in Jan. 2023 given the increasingly cautious regulatory backdrop. Aside from ETR, Alliant (LNT) and FirstEnergy (FE) saw most significant change in HF positioning. Nextera Energy (NEE) was well-owned by LOs as of 12/31/2022 while HFs were sellers in 4Q22. We await 1Q23 13-F data for updates on NEE positioning following a cautionary 4Q22 update which prompted our d/g of NEE shares to Neutral. PG&E Corp (PCG) gained traction among both HF and LO investors in 4Q22, a positive signal as investors grow more comfortable with the increasingly de-risked outlook. We think PCG's dividend reinstatement expected mid-year 2023 should further support PCG ownership data. Ownership data supports PSE&G Corp (PEG) which remains relatively under owned by both LOs and HFs.

22 March 2023

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HF: Hedge Fund

LO: Long-only

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40 large investors analyzed

We examine 13-F ownership disclosures for a broad group of 40 representative investment funds. This includes 17 hedge funds and 23 funds with typically longer-term investment horizons ("long only"). We believe that this sample captures a diverse group of investor styles and approaches to investing.

Exhibit 1: Investment funds included in our data analysis
17 Hedge Funds and 23 'Long-Only' Investors

Hedge Funds	Mutual Funds
Adage Capital Management	Capital Research & Management
AllianceBernstein	Columbia Management Investment Advisers
Balyasny Asset Management	Pictet Asset Management
Citadel Advisors	T. Rowe Price Associates
Coann Capital	Magellan Asset Management
Cohen & Steers Capital Management	Fidelity Management & Research
D. E. Shaw	Nuveen Asset Management
ExodusPoint Capital Management	Wellington Management
Hite Hedge Asset Management	Maple-Brown Abbott
Holocene Advisors	Tiaa-Cref Investment Management
Millennium Management	Invesco Capital Management
Point72 Asset Management	Duff & Phelps Investment Management
PointState Capital	Voya Investment Management
Schonfeld Strategic Advisors	Franklin Templeton
Verition Fund Management	Neuberger Berman
W.H. Reaves & Co.	Jennison Associates
Zimmer Partners	Loomis, Sayles & Co.
	Amp Capital Investors
	Kayne Anderson Capital Advisors
	Van Eck Associates
	Lord, Abbett & Co.
	Mondrian Investment Partners
	First Trust Advisors

Source: BofA Global Research

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Below, we show various statistics to assess relative ownership. Due to differing firm sizes, we analyze the data in different ways. This approach is consistent with our prior analyses for comparability. The concentration approach could be the most meaningful, as it shows the breadth of ownership. This is likely is a better representation of positioning crowding, as it should correlate better with relative performance around events and grossing events. Additionally, it shows whether the investment opportunity has resonated with a wider number of investors, whereas even median ownership can be skewed by larger investor positions.

- **Median – All:** The median percentage ownership of total utility stock shares outstanding, for *all* funds in the group, including those with no ownership.
- **Median – Owned:** The median percentage ownership of total stock shares outstanding, for only those funds in the group which own shares.
- **Concentration:** The number of funds that own shares in each respective stock.

We caution against overreliance on any one source of crowding when assessing a position, but this information can help, particularly around sizing when constructing a portfolio.

Where is crowding risk most apparent?

We see the most astute crowding risk for shares of DTE given the challenged near-term outlook driven by elevated regulatory risk related to 2023 ice storms and the utilities large rate increase request. Nevertheless, shares trade at a steep discount to peers

despite above-average long-term earnings outlook, backstopping hedge fund's support of the name. PCG ownership improved in 4Q22, unsurprising given 2022 share outperformance as investor grow more comfortable with the business outlook. PPL remains a hedge-fund favorite although relative under-owned by LOs.

Companies with persistently low ownership include Edison International (EIX), Avangrid and Pinnacle West. Concentration is more pronounced for LOs relative to HFs, specifically across CNP, AEE, CMS and WEC Energy (WEC).

We see low ownership of PEG as an opportunity still among HFs and LOs.

Exhibit 2: Large Cap 12/31/2022 Hedge Fund and 'Long Only' Positioning Analysis – Segmented by Utility Peer Group
Presenting the ownership profile for hedge funds and "long onlys" for median, median of those who own, and number of funds holding a position (concentration).

		Hedge Funds 12/31/2022			'Long Only' 12/31/2022		
		Median - All	Median - Owned	Concentration	Median - All	Median - Owned	Concentration
Diversified Utilities							
Avangrid	AGR	0.000%	0.011%	8	0.000%	0.012%	12
NextEra Energy	NEE	0.000%	0.019%	10	0.153%	0.175%	19
Sempra Energy	SRE	0.003%	0.015%	11	0.162%	0.238%	20
Regulated Premium							
Ameren	AEE	0.026%	0.106%	12	0.109%	0.486%	16
CenterPoint Energy	CNP	0.025%	0.049%	12	0.114%	0.580%	17
Alliant Energy	LNT	0.013%	0.086%	14	0.131%	0.370%	16
CMS Energy	CMS	0.162%	0.177%	16	0.069%	0.482%	17
Eversource Energy	ES	0.007%	0.059%	12	0.087%	0.135%	19
WEC Energy	WEC	0.003%	0.022%	10	0.036%	0.455%	16
Xcel Energy	XEL	0.039%	0.057%	14	0.180%	0.259%	19
Regulated Value							
American Electric Power	AEP	0.001%	0.016%	10	0.215%	0.245%	20
Dominion Energy	D	0.075%	0.076%	16	0.133%	0.183%	20
DTE Energy	DTE	0.191%	0.278%	16	0.075%	0.353%	16
Duke Energy	DUK	0.010%	0.038%	13	0.069%	0.090%	20
Consolidated Edison	ED	0.003%	0.092%	10	0.017%	0.074%	15
Edison International	EIX	0.000%	0.005%	8	0.049%	0.149%	16
Entergy	ETR	0.007%	0.122%	12	0.172%	0.351%	20
Evergy	EVRG	0.143%	0.200%	15	0.065%	0.188%	16
Exelon	EXC	0.085%	0.093%	16	0.070%	0.334%	16
FirstEnergy	FE	0.077%	0.159%	14	0.035%	0.229%	15
NiSource	NI	0.223%	0.347%	16	0.125%	0.309%	16
PG&E Corporation	PCG	0.067%	0.102%	14	0.096%	0.245%	16
Public Service Enterprise Group	PEG	0.030%	0.075%	12	0.114%	0.142%	18
Pinnacle West	PNW	0.022%	0.051%	13	0.020%	0.070%	14
PPL Corp	PPL	0.175%	0.292%	15	0.024%	0.067%	17
Southern Energy	SO	0.005%	0.037%	13	0.052%	0.149%	18

Source: Factset & BofA Global Research

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The most significant change in positioning QoQ for hedge funds was a reduction in weighting for Alliant (LNT), Entergy (ETR), and FirstEnergy (FE) with a fairly significant increased ownership for Evergy (EVRG), DTE Energy (DTE), and Dominion Energy (D). Dominion ownership concentration increased significantly with 16 of 17 funds reviewed owning shares. Exelon ownership concentration increased with 16 of 17 funds reviewed owning shares although percentage ownership of total utility stock shares decreased. EIX saw the largest decline in number of funds owning (4) and had 8 of 16 showing positions at YE22. This was the lowest among hedge funds, tied with Avangrid (AGR).

Exhibit 3: Large Cap 12/31/2022 vs. 9/30/2022 Hedge Fund Positioning Analysis QoQ – Sorted by Most HF Median
Overall EVRG, DTE, PPL, CMS got more crowded. D ownership increased although off a low base as of 9/30/2022.

		QoQ Change		
	Ticker	Median - All	Hedge Funds 12/31/2022 Median - Owned	Concentration
Alliant Energy	LNT	-0.120%	-0.132%	-
Entergy	ETR	-0.072%	-0.092%	(3)
FirstEnergy	FE	-0.041%	0.019%	(1)
Ameren	AEE	-0.032%	0.004%	(1)
Sempra Energy	SRE	-0.024%	-0.040%	(2)
Exelon	EXC	-0.022%	-0.038%	3
American Electric Power	AEP	-0.018%	-0.054%	(2)
NextEra Energy	NEE	-0.017%	-0.003%	(6)
WEC Energy	WEC	-0.014%	-0.022%	(2)
Eversource Energy	ES	-0.014%	0.019%	(1)
Southern Energy	SO	-0.009%	0.008%	-
Consolidated Edison	ED	-0.009%	-0.022%	-
Edison International	EIX	-0.007%	-0.024%	(4)
Avangrid	AGR	0.000%	-0.001%	1
Duke Energy	DUK	0.001%	0.013%	-
Public Service Enter. Group	PEG	0.004%	0.024%	(2)
Pinnacle West	PNW	0.014%	-0.016%	1
NiSource	NI	0.016%	0.076%	2
CenterPoint Energy	CNP	0.016%	-0.020%	2
Xcel Energy	XEL	0.018%	0.003%	2
CMS Energy	CMS	0.044%	0.038%	1
PPL Corp	PPL	0.048%	0.132%	2
PG&E Corporation	PCG	0.059%	0.004%	2
Dominion Energy	D	0.071%	0.010%	6
DTE Energy	DTE	0.099%	0.164%	2
Evergy	EVRG	0.110%	0.073%	2

Source: Factset & BofA Global Research

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Exhibit 4: Large Cap 12/31/2022 vs. 9/30/2022 Long Only Positioning Analysis QoQ – Sorted by Most LO Median
Sorting by equities that got less crowded including WEC and D

		QoQ Change		
		Median-All	'Long Only' 12/31/2022 Median-Owned	Concentration
WEC Energy	WEC	-0.075%	0.098%	-
Dominion Energy	D	-0.062%	-0.060%	-
Entergy	ETR	-0.057%	-0.006%	-
Evergy	EVRG	-0.032%	-0.051%	(1)
CMS Energy	CMS	-0.029%	0.064%	-
Eversource Energy	ES	-0.027%	0.000%	-
FirstEnergy	FE	-0.020%	0.027%	(1)
American Electric	AEP	-0.018%	-0.030%	-
PG&E Corporation	PCG	-0.009%	0.106%	(1)
Ameren	AEE	-0.004%	-0.008%	(1)
Sempra Energy	SRE	-0.001%	0.073%	(1)
Duke Energy	DUK	-0.001%	-0.004%	(1)
DTE Energy	DTE	0.000%	0.051%	1
Alliant Energy	LNT	0.000%	-0.027%	-
Avangrid	AGR	0.000%	0.002%	-
Xcel Energy	XEL	0.001%	-0.038%	1
Southern Energy	SO	0.002%	0.017%	(1)
Consolidated Edison	ED	0.002%	0.014%	-
Edison International	EIX	0.003%	0.022%	-
PPL Corp	PPL	0.004%	0.009%	-
Pinnacle West	PNW	0.005%	0.003%	(1)
CenterPoint Energy	CNP	0.013%	-0.132%	-
Exelon	EXC	0.020%	-0.036%	1
NiSource	NI	0.020%	0.105%	(1)
NextEra Energy	NEE	0.034%	-0.009%	-
Public Service	PEG	0.038%	-0.002%	-

Source: Factset & BofA Global Research

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Where do hedge funds and long onlys agree and disagree?

Both were sellers of Entergy, FirstEnergy, WEC Energy and American Electric Power and both were buyers of PG&E Corp and PPL Corp. WEC is a top performing regulated utility in 2023, +5% relative outperformance, most of which came in the last two weeks. WEC's longest track record of meeting and exceeding its own guidance (and often Consensus) is coveted in times of broader financial stress. In contrast, while hedge funds were buying Dominion, Long Onlys were selling. Dominion saw among the largest decline in ownership. Evergy and Exelon were other names where hedge funds and long onlys differed.

Below we show the reports in the series:

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: Positioning Tells Bifurcated Story: Explaining Some of Relative Performances	Julien Dumoulin-Smith	15 December 2022
US Utilities & IPPs: Half time: Who owns what? HF/LO 6/30/22 ownership & crowding trends	Julien Dumoulin-Smith	06 September 2022
US Utilities & IPPs: Who Owns What? The Post-Ukraine HF/LO Ownership Shift (3/31/22 13-F Data)	Julien Dumoulin-Smith	20 May 2022
US Utilities & IPPs: Who Owns What? Analyzing YE21 HF/LO Trading Patterns. Watching Macro Matters	Julien Dumoulin-Smith	28 February 2022
US Electric Utilities & IPPs: Who Owns What? What is Crowded? Analyzing HF/LO Trading Patterns	Julien Dumoulin-Smith	25 August 2021

Exhibit 5: Primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
DTE	DTE US	DTE Energy	US$ 106.29	A-1-7
ETR	ETR US	Entergy Corp.	US$ 103.15	B-2-7
NEE	NEE US	NextEra Energy	US$ 75.36	B-2-7
PCG	PCG US	PG&E Corp.	US$ 15.97	C-1-9

Source: BofA Global Research estimates

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Price objective basis & risk

DTE Energy (DTE)

We value DTE Energy at $139 using a sum-of-the-parts (SOTP) approach. We value the utility segment on a 2025E 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 16.5x and 16.8x, respectively). Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We value the DTE Vantage segment on a multiple of 2025 EPS - the grossed-up electric multiple of 17.3x 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 17.5x multiple to both the interest expense and corporate overhead expenses at the parent. Risks are: 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 $119 Price Objective is based on a sum-of-the-parts analysis. The 2025E electric utilities average P/E of 16.4x is grossed-up +5%, to reflect capital appreciation across the sector. We apply in-line P/E multiples to the subsidiaries except for +1x Texas to reflect the constructive regulation environment and -1x Louisiana & New Orleans based upon historical contentious proceedings and growing concerns about prospective storm recovery. We net out 50% of the parent HoldCo long-term debt and apply a P/E multiple to 50% of the interest expense.

Positive and negative risks to achievement of our Price Objective are: (1) regulatory, political, and legislative changes, (2) natural or nuclear disasters including hurricanes, (3) ability to deploy capital expenditures consistent with guidance, (4) earned rates of returns at the jurisdictions, (5) interest rates fluctuations, (6) equity issuances relative to management's forecast and access to capital markets, (7) pension and nuclear decommissioning fund performance and (8) costs and operational volumes at the remainder of the wholesale commodity subsidiary.

NextEra Energy (NEE)

Our $80 PO is derived using an sum-of-the-parts (SOTP) approach, with the utilities and parent segment valued on a 2025E P/E basis, and the generation segment valued on a 2025E 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 25E peer multiples of 15.8x for electric and 27.6x 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 3x premium for FPL and Gulf. For NEER, we apply a peer EV/EBITDA multiple of 9.5x, which we adjust depending on asset type. We give contracted renewables and 8x premium given fuel type and contracted nature. We utilize a DCF of new renewable for projects beyond 2024 and include a 12x terminal multiple. We value contracted nuclear on a DCF approach using an 8% discount rate. We apply a 1x premium multiple to pipelines, -4.5x 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/political/legislative outcomes, 2) weather and natural disasters, 3) commodity price changes, 4) fluctuations in stock prices for NextEra Energy Partners, 5) renewable development margins & margin, and 6) election commission review

PG&E Corporation (PCG)
Our PO of $19 reflects an in-line P/E versus the respective electric (15.8x) and gas (16.4x) peer P/E groups with both grossed-up by 5% to reflect capital appreciation across the sector) based on 2025E. 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 are: 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 monetizations, 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
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR 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
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC 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				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP 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
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith

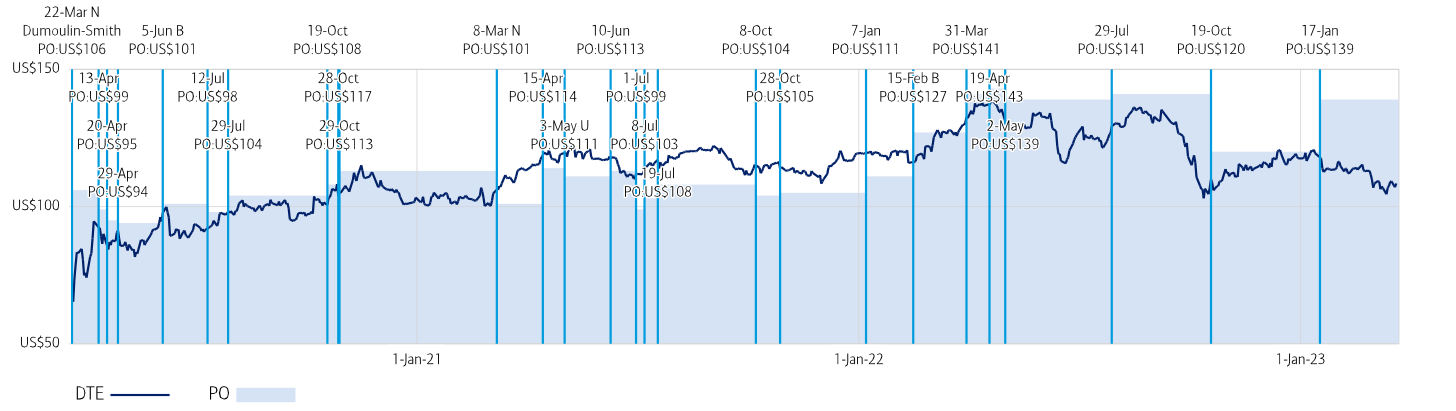
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM 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
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	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
	Pinnacle West	PNW	PNW 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
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

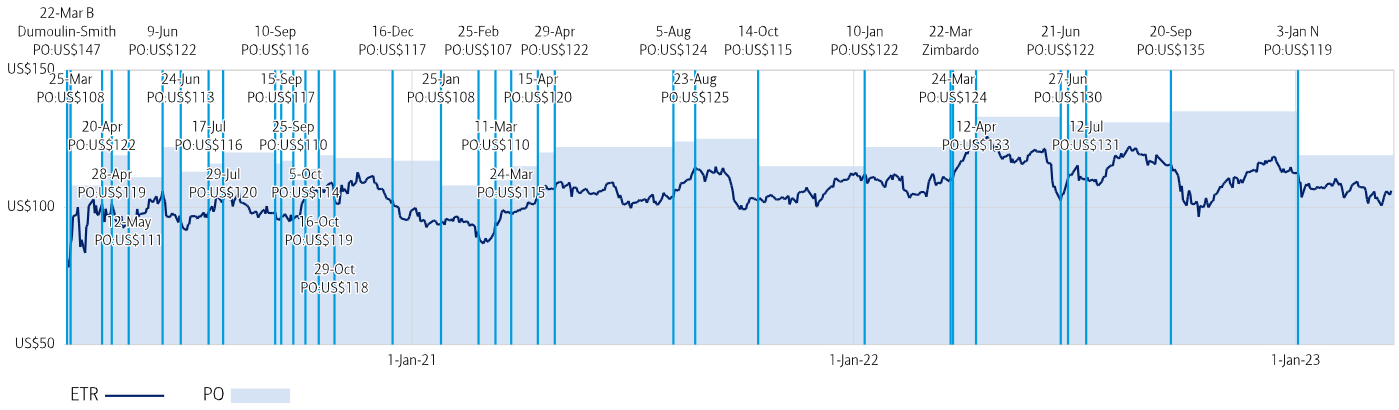
DTE Energy (DTE) Price Chart



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

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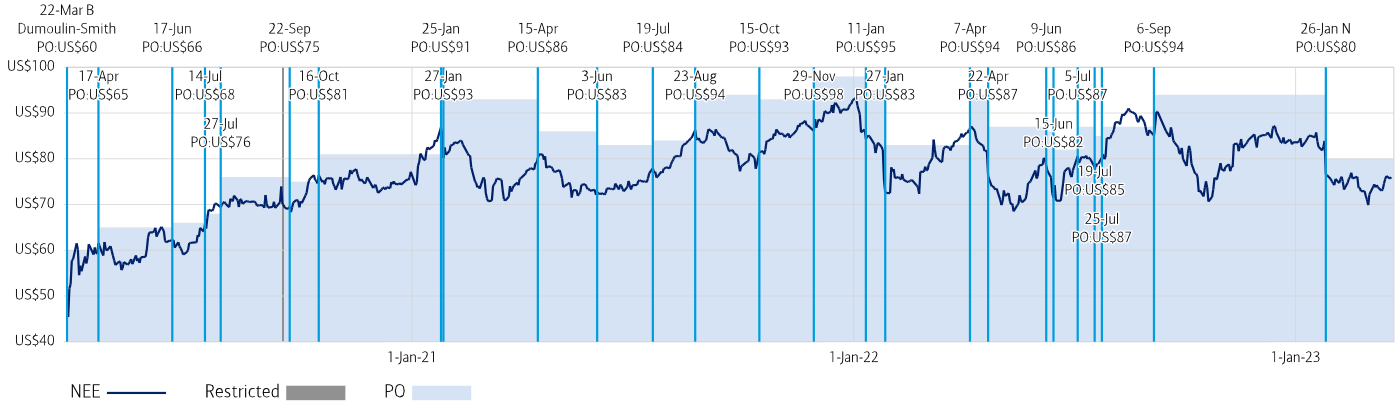
Entergy Corp. (ETR) Price Chart



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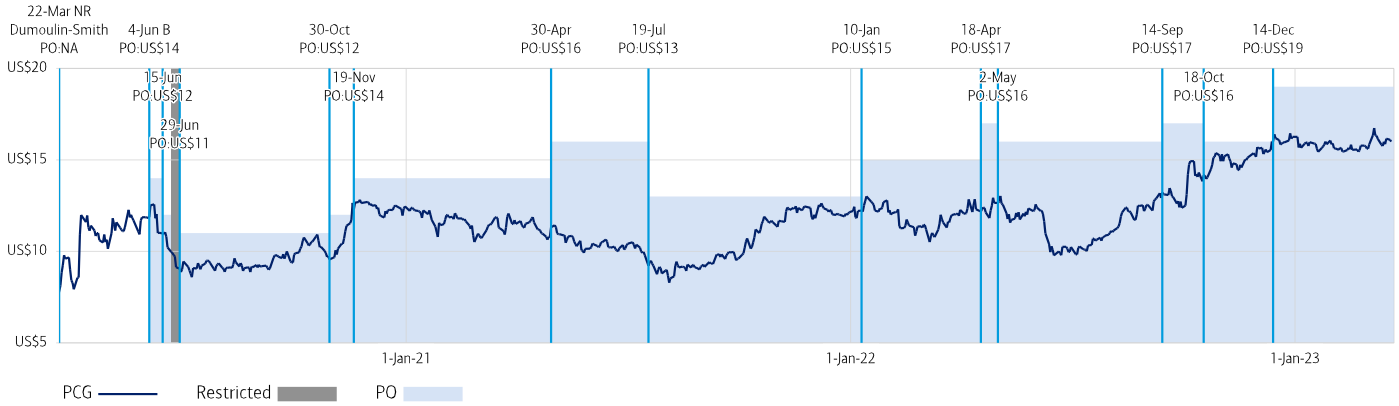
NextEra Energy (NEE) Price Chart



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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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Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	72	48.98%	Buy	51	70.83%
Hold	38	25.85%	Hold	29	76.32%
Sell	37	25.17%	Sell	25	67.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
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Sell	831	23.58%	Sell	404	48.62%

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Underperform	N/A	≥ 20%

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D: Natural gas utility sales a potential part of biz review

According to an industry media report, Dominion Energy (D) is initiating an auction process for "several" natural gas local distribution companies (LDCs) as part of its publicly disclosed comprehensive business review. Dominion has stated that repairing and then strengthening its credit metrics is a priority for the process. Dominion discloses the following natural gas LDCs rate base: $4.2Bn Ohio, $3.0Bn Utah, Wyoming, & Wexpro (Questar), and $2.0Bn North Carolina. Dominion also has $1.0Bn integrated natural gas rate base in South Carolina (SCANA). While Dominion has not refreshed its long-term capital plans, gas distribution was a favorable contributor with 8% utility rate base CAGR, including unregulated renewable natural gas. If Dominion does pursue significant regulated sales, we believe there could be dis-synergies from formerly allocated costs as well as reduced purchasing power scale & diversity. *See the full report for additional thoughts. Reiterate Underperform on shares of D, which is expensive with downside to Street estimates and faces a protracted process to regain investor confidence.*

CEG: Nuclear reactor penetration weld defect

During the planned Nine Mile Point Unit 1 (Nine Mile) nuclear refueling outage, Constellation (CEG) identified a metal weld defect which is unacceptable under American Society of Mechanical Engineers (ASME) standards. The "dissimilar weld is on reactor penetration N2E". Operator Constellation filed a non-hour emergency event (#56421) with the Nuclear Regulatory Commission (NRC) under the condition of "principal safety barriers, being seriously degraded". No US nuclear plants reported defects in 2022 NRC reportable events. Nine Mile has been offline for refueling since March 13th after a glidepath into the refueling starting in mid-January. For reference the 2019 refueling outage began March 18th and the plant was back to full output on May 8th, notably longer than Constellation's ~21-day average refueling. The 2021 refueling was faster, spanning March 22 to April 14. Nine Mile Point is one of the most important plants in CEG's portfolio due the hydrogen pilot project and broader ambitions for hydrogen production.

We look to see if this event has implications for maintenance capex or other financial impact. While nuclear refueling outages are typically non-events, infamously Duke's Crystal River nuclear plant in Florida had containment structure damage during a steam generator replacement. EDF in Europe has seen a reduction in its operational capacity due to pipe weld cracking. Constellation emphasized the differences between its assets and EDF's: (1) boiling water reactor [BWR] vs pressurized water reactors [PWB]; (2) operating service conditions; (3) configurations; and (4) welding practices. CEG has a long-standing program to assess for any deterioration of metal welds and the Nine Mile finding was part of that process. Repairs for the cracking are in progress per CEG. *By no means do we anticipate a significant impact for shares of CEG at this point but nuclear refuelings do come with risks. Maintain Neutral on shares of CEG which are trading approximately at fair value.* *See background on nuclear cost structure here.*

See full report for more on Dominion, Indiana legislation (DUK/NI), Oklahoma legislation (OGE/AEP).

24 March 2023

Equity
United States
Utilities

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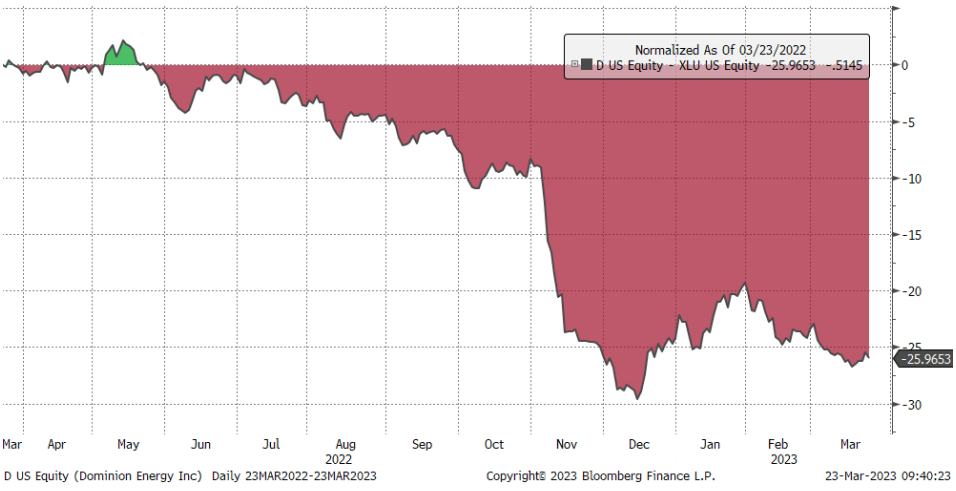
LDC: Local distribution company
RNG: Renewable natural gas
NRC: Nuclear Regulatory Commission
PBR: performance-based rates
FFO: Funds from operations
SB: Senate Bill | HB: House Bill

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D: Business review process starts to pick up pace (Cont.)

If Dominion does pursue Gas LDC sales, these could be accretive to our EPS forecasts depending on the price, but we reiterate our Underperform rating. There have been two high profile LDC sale processes/strategic reviews recently that did not result in LDC sales: Southwest Holdings (SWX) and Black Hills Corp (BKH). These processes faced challenges before the recent significant erosion in financial market and credit conditions in the recent weeks. Additionally, selling high FFO/Debt utilities is credit dilutive and could come with tax leakage. This reduces the effective P/E on a sale. As a result, asset sales will need to be significantly higher than the nominal amount of straight common equity needed. Finally, we increasingly believe that Dominion will sell a large piece of its regulated Virginia offshore wind project. Under the new Virginia law, this sale would be at 1x rate base with the premium returned to ratepayers at the State Corporation Commission (SCC) discretion. Due to the statutorily limited rate base multiple, offshore wind sales could perhaps be the most EPS dilutive option. While it would reduce risk and future financing needs, this could be an offset to more accretive LDC sales. Separately, Dominion placing its offshore wind assets on the market would increase the supply in the market, a negative for Eversource and Avangrid own publicly disclosed sale processes. We continue to believe that the market underappreciates the quantum of credit repair necessary and overstates EPS.

Exhibit 1: Dominion Energy (D) Relative Equity Performance versus Utilities Sector (XLU)
Dominion has underperformed the sector -5% YTD, -10% from since January 31st



Source: Bloomberg

BofA GLOBAL RESEARCH

Initial investor feedback to the media report was cautious that Dominion was considering such a large quantum of asset sales. The report indicates that Dominion is in the early stages of an auction process and has not made definitive decisions.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Dominion Energy: The Dawning of A New Day in Virginia: Why We Are Still Negative Post Legislation	Paul Zimbardo	27 February 2023
US Utilities & IPPs: PowerPoints: D-Day in VA, EVRG Earnings, PNM Beat/Guide Up, & PPL Note Offering	Julien Dumoulin-Smith	24 February 2023
Dominion Energy: Bull/Bear Feedback, Legislative Battle Shifts to Media Campaigning	Paul Zimbardo	13 February 2023
Dominion Energy: Virginia's Rebellion: Why We Are Still Cautious As Business Erodes	Paul Zimbardo	09 February 2023
Dominion Energy: Downgrade Feedback & Virginia Deep Dive: Why We Are Still Underperform	Paul Zimbardo	05 December 2022
Dominion Energy: Another Reset Ahead Puts Shares in Penalty Box: Downgrade to Underperform	Paul Zimbardo	09 November 2022

DUK/NI: Indiana busy legislative session ongoing

The Indiana legislative session activity has been picking up with the recent enactment of Senate Bill 9 (SB9) that was signed by the Governor yesterday. SB9 has been described by opponents as a "blank check for Indiana's Monopoly Electric Utilities". SB9 would be positive for Duke Energy (DUK) and NiSource (NI). Legislation we are tracking includes House Bill 1007 (utility owned generation, performance based rates, affordability, etc.), Senate Bill 9 referenced above (environmental compliance recovery), SB298 (infrastructure improvement charges), SB451 (carbon sequestration pilot), HB1417 (deferred cost and accounting regulatory reforms), HB1420 (transmission competition), HB 1421 (construction work in progress expansion), SB114 (overdue utility bill receivership), SB176 (small modular reactors), and SB170 (felony for intimidating utility workers).

SB335/HB1453 (climate solutions task force), HB1604 (climate change studies), SB33 (solar and wind equipment disposal studies), SB390 (solar and wind 'ready communities'), HB1401 (wind asset transaction requirements), and HB1173 (limitations on utility scale batteries) all relate to clean energy reforms.

Less relevant for the regulated utilities but also worth monitoring are the Environmental, Social, and Governance (ESG) related bills HB1008 and SB292.

We are watching the closest for implications from HB1007 which has broad support. The bill would require that the Indiana generation mix consider reliability, affordability, stability, resiliency, stability, and environmentally sustainability. A framework for performance-based rates (PBR) would begin by September 1, 2023 which could consider multi-year rate plans, performance incentive mechanisms (PIMs), and other elements. Oklahoma also has pending PBR legislation discussed in the next section.

Investors have been acutely focused on state legislative sessions across the US but Indiana has received less attention than many other states such as Virginia, Connecticut, or Kentucky. While the legislative action in Kentucky has been viewed as less constructive for the energy transition, we view HB1007 and many of the other draft bills as potentially positive for the regulated utilities in the state, depending on final enactment and implementation. A shift towards multi-year rate plans would be constructive as well as other elements that could provide additional visibility into earnings and cash flow recovery for investments. Indiana is most material for NiSource (NI) but other states with operations include Duke Energy (DUK), AES Corp (AES), CenterPoint via Vectren (CNP), and American Electric Power (AEP). We maintain Buy on shares of NI which are increasingly derisked and offer above-average growth at a discounted valuation. We also maintain Buy on DUK which trades at attractive relative valuations. We continue to view Indiana as one of the more constructive regulatory jurisdictions.

OGE/AEP: OK PBR legislation controversial

The Oklahoma Corporation Commission (OCC) held a special Commission meeting on March 20th regarding Senate Bill 1103 (SB1103) titled the "Ratepayer Protection Act". Oklahoma Gas & Electric (OG&E – OGE Corp [OGE] subsidiary) described the bill as good for customers and decried the misinformation about the bill. OG&E indicated that the bill would lead to more effective regulation, greater customer protections, and stabilize customer bills - particularly fuel costs via two-weeks of gas storage for 80% of maximum daily quantity. OG&E indicated that it currently has capacity for 70% of its needs. Other elements of the legislation that OG&E spoke positively of included performance-based rates (PBR) with annual reviews. 75% of earnings above the ROE +/- 50bp dead-band would be credited or otherwise returned to customers with the 25% balance "retained by the utility and reinvested in the utility's power delivery infrastructure" with a return earned on those capital investments. The rate case timeline was described by OG&E as "more streamlined", but the Commission disagreed with shorting the timeframe for consumer comments to 75 days from 120 days. All riders aside from fuel and securitization would be eliminated under the PBR proposal.

OG&E publicly supports the legislation and the OCC stated that consumer and business entities opposed. At the special meeting, some parties such as the US Department of Defense and Wal-Mart spoke out against PBR based on Massachusetts and Louisiana experiences. Public Utilities Division (PUC) stated that the legislation was far too skewed in favor of the utilities and negative for ratepayers. PUD does not support the legislation and critiqued most aspects of the legislation.

Chairman Hiett introduced a motion for the OCC to formally oppose the legislation and instruct their legislative liaison accordingly. New Commissioner David abstained from voting due to pending rate cases with performance-based rates but did indicate reservations. Vice-Chair Commissioner Anthony ultimately did not participate in the motion to oppose due to the degree of uncertainty on the evolving legislation. Anthony wanted to complete pending OCC work before taking a position on the pending bill.

The special Commission meeting was fairly contentious based on the Commissioner and stakeholder commentary. Depending on the implementation of PBR, the legislation could be favorable for the regulated utilities OGE and American Electric Power (AEP) with increased earnings visibility as well as a potential capital opportunity for gas storage. Maintain Neutral on shares of OGE and AEP which are approximately trading at fair value.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Hannon Armstrong: Investor Day Recap: Reframing the Story Amid Cloudy Macro – Maintain Neutral	Julien Dumoulin-Smith	23 March 2023
UGI Corp.: Protracted return to growth at AmeriGas; reiterate Underperform	Julien Dumoulin-Smith	23 March 2023
Fortis: No-drama execution to start the year, still some reg challenges ahead	Dariusz Lozny, CFA	23 March 2023
US Utilities & IPPs: PowerPoints: MISO Transmission, NY Gas, SMR Nuclear, NWE, & Crypto Mining	Julien Dumoulin-Smith	23 March 2023
Array Technologies: 4Q22 Recap: Conservative Communication Leaves Room for Upside; Reiterate Buy	Julien Dumoulin-Smith	22 March 2023
US Utilities & IPPs: Who owns what? Assessing yet another risk factor, crowding, into challenging '23	Julien Dumoulin-Smith	22 March 2023
US Alternative Energy: The private-public divide: The bigs to get bigger as resi financing hits road blocks	Julien Dumoulin-Smith	22 March 2023

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
D	D US	Dominion Energy	US$ 53.21	A-3-7
CEG	CEG US	Constellation Energy	US$ 74.42	C-2-7
DUK	DUK US	Duke Energy	US$ 92.95	A-1-7
NI	NI US	NiSource Inc	US$ 26.37	B-1-7
OGE	OGE US	OGE Energy Corp	US$ 35.14	B-2-7
AEP	AEP US	American Elec Power	US$ 86.85	A-2-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

American Electric Power (AEP)

Our price objective of $95 is based on sum-of-the-parts (SOTP) analysis. We ascribe a peer forward FY25E P/E multiple (15.9x) with a 1.0x premium for its Texas transmission and distribution utilities and transmission-only utilities segments and a 0x premium (in-line multiple) for Ohio. Vertically integrated utilities are assigned a -2x discount on regulatory and execution risks. 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 return on equity (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.

Constellation Energy Corp (CEG)
Our $88 Price Objective is based on a 8.8% 2025E equity Free Cash Flow yield (FCF yield) on an unhedged/'open' basis. The 8.8% FCF yield represents a weighted average of 8.0% (first quartile) for the support FCF and 14.9% (third quartile) for merchant FCF, utilizing energy comparables.

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, capital, and fuel 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 $52 using a 2025E sum-of-the-parts analysis. For the utilities we apply the comparable electric (15.8x) and gas (16.8x) peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply -1.5 discount for for base Virginia (-9%). 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 at: 13x EV/EBITDA Cove Point, 5x Millstone (13% FCF Yield), and 5x for renewables. 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. We lastly include prospective interest rate exposure that is not impacting near-term estimates due to hedges.

Risk to achievement of the Price Objective are 1) regulatory, legislative, and political actions, 2) ability to earn or exceed the regulatory allowed ROE, 3) capital markets and equity requirements, 4) changes to the capital expenditure and rate base forecast for both regulated & unregulated segments, 5) volatility in interest rates and pension returns, 6) changes in commodity prices, 7) natural disasters, 8) inflation, & 9) offshore wind construction.

Duke Energy (DUK)
Our $107 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2025E P/E multiples. We apply a 3x multiple premium to Duke's operations in FL and 2x in IN to reflect more favorable regulatory environments (and potential generation opps in IN). We apply a 2x multiple to the Carolinas given upside to spending in improving regulatory construct combined with latest IRP & wider legislative reforms into 2023. We value the other regulated electric utilities at 15.8x and the gas utilities at peer group multiples of 16.6x 2025E 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 2025E EV/EBITDA basis. We use 8.0x multiples for midstream and 9.0x for transmission segments. 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.

NiSource Inc (NI)
Our $32 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 16.3x for gas and 15.8x for electric. 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 utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

Positive and negative risks to our Price Objective are changes in 1) regulatory, political, and legislative outcomes, 2) ability to execute on capital expenditure plan, 3) inflation, operating expense, and interest rates as they influence earned rates of return, 4) customer count and load growth, 5) commodities, 6) natural disasters, 7) pension plan returns, 8) equity and asset sale needs.

OGE Energy Corp (OGE)
Our OGE PO is $39/share based on a sum of the parts. For the utility and holdco we apply the FY25 peer multiple of 16.0x. Electric peer P/E multiple is grossed up for +5% to reflect capital appreciation across the sector, a consistent methodology across our coverage universe. We apply a 1x premium for incremental growth not yet embedded in plan as well as the above-average balance sheet metrics

Upside and downside risks are changes in: 1) regulatory, legislative, and political outcomes, 2) ability to earn the allowed rate of return, 3) interest rates and commodity costs, 4) customer and sales growth, particularly energy and data mining customers, 5) natural disasters, 6) credit rating agency requirements, 7) capital expenditure plan, and 8) request for proposal outcomes.

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.

Special Disclosures

BofA Securities is currently acting as Financial Advisor to IRG Acquisition Holding LLC in connection with its proposed acquisition of American Electric Power Co Inc's 1,365-megawatt unregulated, contracted renewables portfolio, which was announced on February 23, 2023.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR 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
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC 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				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP 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
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM 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
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	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
	Pinnacle West	PNW	PNW 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
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	82	59.85%	Buy	65	79.27%
Hold	32	23.36%	Hold	21	65.63%
Sell	23	16.79%	Sell	14	60.87%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	72	48.98%	Buy	51	70.83%
Hold	38	25.85%	Hold	29	76.32%
Sell	37	25.17%	Sell	25	67.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

[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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. *VOLATILITY RISK RATINGS*, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. *INVESTMENT RATINGS* reflect the analyst's assessment of both a stock's: absolute total return potential as well as its attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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.
BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: American Elec Power, Constellation Energy, Dominion Energy, Duke Energy, NiSource Inc, OGE Energy Corp.
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Power: PJM Capacity Auction Delayed – Expectations Low

Ahead of the forthcoming PJM Interconnection 2024/2025 capacity auction, we prepared our latest expectations with $40/MW-day for RTO and an upside bias for Eastern zones. **Last evening PJM unexpected delayed the auction results** and will post "as soon as possible" with at least one business day notice. The importance of the auction has clearly diminished but total capacity revenues still represented 3-5% of adjusted EBITDA and free cash flow for Vistra (VST) and Constellation Energy (CEG). *We maintain Buy ratings on the three PJM power exposed names: Vistra, Constellation Energy, and PSEG (PEG). We see a positive skew for IPPs, as expectations have been almost non-existent this year on this key datapoint.* See our full forecast here: US Electric Utilities & IPPs: Powering Down? Coal the Wildcard in 2024/2025 PJM Auction: Positive Skew.

ETR: LA PSC Meeting Kickstarts Regulatory Storm

Last week the Louisiana Public Service Commission (PSC) Business & Executive Session meeting discussed Entergy Louisiana (ETR) and subsidiary System Energy Resources Inc. (SERI) in an unflattering light. Specifically, at least two of the Commissioners (Greene & Campbell) made cautious comments about the company's storm cost recovery prudency and reliability. Entergy's proposal for ~$1.6Bn Hurricane Ida storm securitization (LPSC Docket 36350 & Agenda #16) was **neither approved nor denied, simply there was not enough votes to pass the motion for approval.** The Commission reignited discussions about ways in which Entergy shareholders could share in storm costs. Select Commissioner argued that the ultimate standard of just & reasonable rates superseded a prudency determination on storm costs such that the Commission was not legally required to pass 100% of storm costs to customers. The Staff emphasized that storm cost recovery 'was not set in stone' and there was ambiguity based on the Federal and state decisions. The Commissioner commentary was bifurcated with two strongly advocating for Entergy having "skin in the game". Commissioner Greene's actions were the most concerning for the company as he created a presentation discussing his opinion of how poor the company's reliability had been followed, by an open letter titled "PSC Refuses $1.6Bn Entergy Storm Increase". The incremental angle is that 18-year incumbent Commissioner Lambert Boissiere III lost a run-off election to challenger Davante Lewis who made negative comments about Entergy when campaigning and after the election. With regards to SERI (FERC Docket EL20-72 & LPSC Agenda item #14), we did not get the impression that the PSC was interested in a comprehensive settlement. See background here: Louisiana Volatility for ETR at SERI plus LPSC Election.

The latest regulatory updates for Entergy have clearly been negative and raise questions about the ability to achieve constructive outcomes. We look to engage more with Louisiana stakeholders to see if there are areas of positive alignment such as Entergy's forthcoming storm resiliency/hardening proposal anticipated in the upcoming days or renewables. As a result, we maintain Buy on shares of ETR with the potential for improvement with the key assumption that the company gets full storm cost recovery.

See full report for comment on Indiana regulated utilities.

20 December 2022

Equity
United States
Utilities

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RTO: Regional Transmission Organization
IPP: Independent Power Producers
PSC: Public Service Commission
LPSC: Louisiana Public Service Commission
SERI: System Energy Resources Inc
IURC: Indiana Utility Regulatory Commission

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Indiana Utilities: Regulatory catch-up remains constructive

We recently engaged with Indiana stakeholders to discuss the latest regulatory backdrop for the utilities in the state. Our conversation touched on key areas of focus for the Indiana Utility Regulatory Commission (IURC). Not surprisingly, customer affordability is issue number one with residential rates up +14% y/y statewide based on September data from the Energy Information Administration (EIA), outpacing broader inflation during this time period. This reflects both higher base rates as well as fuel pass throughs. Opportunities for reducing customer bills in the near term appear fairly limited as utilities and policymakers have utilized 'low hanging fruit'. Here we see Northern Indiana Public Service Co (NIPSCO – NiSource [NI] subsidiary) as differentiating itself for proactively reducing 2023-2024 capital as a measure to mitigate rate increases. Based on our conversations we do not believe that the capital reduction was coordinated with or otherwise dictated by regulators, with the company maintaining real-time communications with the IURB as it developed its updated plan.

Overall we sense an appetite from regulators for original and novel ("creative") ideas for cutting costs, with the IURB preferring that utilities bring proposals rather than being put in a place as a regulator to impose policy. One specific lever that remains available is reduction of the 7% state sales tax applicable to utility bills. Given relatively strong state finances this could be an area of alignment, but legislative action would be necessary. Another key theme highlighted during our discussion is regional coordination among members of the Midcontinent Independent System Operator (MISO) on resource adequacy. Here our stakeholder conversation suggests an acute focus on improved communication and data-sharing across states including Indiana, particularly notable as participants have different reporting standards and resource planning processes. Overbuild of renewables was a risk flagged, though likely this remains relatively remote in the near term.

We did not perceive any incremental shift in tone toward changes in ownership of utilities, either via outright consolidation or stake sales in the form of DUK's 19.9% sale announced in 2021. The IURC indicated an overall level of satisfaction with the 'early and often' communication model that utilities take when considering a transaction, which in our view suggests a constructive stance. CenterPoints' (CNP) Vectren and AES Indiana (AES Corp [AES] subsidiary) were highlighted as utilities with improved relationships across the state of Indiana, though still with some room for improvement on bringing creative solutions to deal with bill inflation.

We walk away from our conversations continuing to view Indiana as a constructive regulatory jurisdiction. We maintain Buy on shares of CNP, AES, and NI each of which trade at their respective attractive risk/reward profiles.

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

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
CEG	CEG US	Constellation Energy	US$ 87.41	C-1-7
PEG	PEG US	Public Service	US$ 59.10	A-1-7
VST	VST US	Vistra Energy	US$ 23.92	B-1-7
ETR	ETR US	Entergy Corp.	US$ 112.56	B-1-7
NI	NI US	NiSource Inc	US$ 27.02	A-1-7
CNP	CNP US	CenterPoint Energy	US$ 29.94	B-1-7
AES	AES US	AES Corp	US$ 28.34	B-1-7

Source: BofA Global Research

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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.

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.

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.

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 $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.

Public Service Enterprise Group (PEG)
Our $67 PO is derived from our 2025 sum of the parts valuation. For the regulated utilities we utilize the electric (16.4x) and gas (16.4x) 2025E sector P/E multiples, which we then gross-up by 5% to reflect capital appreciation across the sector. We apply an in-line group multiple to PSE&G Utility given the utility's below-average growth forecast, which is offset by our view that New Jersey remains a favorable jurisdiction, with PSE&G Utility offering low-risk transmission & distribution (T&D) profile.

Positive or negative risks to achievement of the price objective 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, 6) inflation, 7) interest rates, and 8) pension returns.

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.

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
	Allete Inc	ALE	ALE 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
	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
	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
	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
	SolarEdge Technologies	SEDG	SEDG 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				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP 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
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG 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
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX 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
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

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	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
	Pinnacle West	PNW	PNW 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
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI 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%

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No 4Q fireworks anticipated after November Analyst Day

We reiterate our Buy rating on the shares of NiSource into 2023 after the company's November 2022 Analyst Day, which set a more conservative outlook. See our deep dive here: Our Updated Take on Shares Post A-Day: 'Terminal EPS' Intact - Reiterate Buy 08 November 2022. With freshly updated guidance and no major developments over the past two months, we anticipate a relatively low-key 4Q call with consistent messaging. We will be listening for management characterization of the NIPSCO electric rate case process with February the critical settlement window. **See details in the full report.**

Indiana fills the calendar for 2023 – lots to watch

After the recent resolution of the Ohio and Pennsylvania rate cases we have characterized the regulatory outlook as 'relatively quiet'; however, there are still critical proceedings in Indiana to watch. For NIPSCO we are monitoring the **(1)** Electric rate case; **(2)** minority interest sale process; **(3)** request for proposals; and **(4)** fuel adjustment clause increase. There is some degree of comfort in Indiana's track record of generally being constructive and NiSource's proactive efforts to reduce the bill impact. NI reduced capex to moderate the customer bill increase closer to ~3% CAGR from ~5% under the prior plan and has also proposed staggered increases in September 2023 (+8%), March 2024 (+3%), & July 2024 (+5%). Based on our latest stakeholder check-in, we still see a solid relationship with key parties. Nevertheless, it is a +17% rate increase request (+$19 per month) and will draw attention. *Our investor conversations have focused on the significant Indiana activity as an overhang on shares, limited near-term positive re-rating. A reasonable settlement of the Indiana rate case could be the catalyst beyond NIPSCO sale.*

Valuation: Increase PO +$3/sh on MtM

Our PO increases +$3/sh to $32 based primarily upon the peer multiple increases – details on Page 6. We slightly increase our FY22-FY23 estimates based on our detailed earnings walk in the full report; however, trim the long-term 2026-2027 estimates to embed additional conservatism. Our new 2021A-2027E EPS CAGR of 7.5% is still above the 6-8% midpoint, but now more aligned with consensus forecasts.

Estimates (Dec) (US$)	2020A	2021A	2022E	2023E	2024E
EPS	1.32	1.37	1.45	1.55	1.67
GAAP EPS	1.33	1.27	1.63	1.55	1.67
EPS Change (YoY)	0%	3.8%	5.8%	6.9%	7.7%
Consensus EPS (Bloomberg)			1.45	1.54	1.69
DPS	0.84	0.88	0.94	1.00	1.08
Valuation (Dec)					
P/E	20.9x	20.2x	19.0x	17.8x	16.5x
GAAP P/E	20.8x	21.7x	16.9x	17.8x	16.5x
Dividend Yield	3.0%	3.2%	3.4%	3.6%	3.9%
EV / EBITDA*	16.7x	16.8x	13.8x	12.5x	11.0x
Free Cash Flow Yield*	-5.3%	-5.1%	-7.6%	-14.6%	-8.9%

* For full definitions of *iQmethod℠* measures, see page 10.

09 January 2023

Equity

Key Changes

(US$)	Previous	Current
Price Obj.	29.00	32.00
2022E EPS	1.44	1.45
2023E EPS	1.54	1.55
2022E EBITDA (m)	2,047.6	2,132.9
2023E EBITDA (m)	2,352.0	2,360.6
2024E EBITDA (m)	2,660.4	2,664.5
2022E DPS	0.99	0.94

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Stock Data

Price	27.61 USD
Price Objective	32.00 USD
Date Established	9-Jan-2023
Investment Opinion	A-1-7
52-Week Range	23.78 USD - 32.59 USD
Mrkt Val (mn) / Shares Out (mn)	12,242 USD / 443.4
Average Daily Value (mn)	101.91 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

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

NIPSCO: Northern Indiana Public Service Company
MtM: Mark to Market
O&M: Operating and maintenance
FAC: Fuel Adjustment Clause
RFP: Request for Proposal

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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%	4.6%	4.7%	5.0%
Return on Equity	10.2%	10.8%	10.8%	9.9%	10.2%
Operating Margin	22.0%	20.6%	23.9%	25.5%	28.3%
Free Cash Flow	(654)	(620)	(928)	(1,785)	(1,090)

iQmethod℠ **– Quality of Earnings***

(US$ Millions)	2020A	2021A	2022E	2023E	2024E
Cash Realization Ratio	2.2x	2.1x	2.5x	2.5x	2.3x
Asset Replacement Ratio	2.4x	2.5x	3.1x	4.1x	3.4x
Tax Rate	18.3%	16.8%	19.2%	21.0%	21.0%
Net Debt-to-Equity Ratio	167.4%	133.5%	139.9%	112.3%	108.7%
Interest Cover	2.8x	3.0x	3.8x	2.9x	3.3x

Income Statement Data (Dec)

(US$ Millions)	2020A	2021A	2022E	2023E	2024E
Sales	4,697	4,900	5,454	5,830	6,156
% Change	-9.8%	4.3%	11.3%	6.9%	5.6%
Gross Profit	3,587	3,507	3,818	4,168	4,469
% Change	-2.4%	-2.2%	8.9%	9.2%	7.2%
EBITDA	1,757	1,755	2,133	2,361	2,664
% Change	9.3%	-0.1%	21.5%	10.7%	12.9%
Net Interest & Other Income	(339)	(304)	(341)	(506)	(523)
Net Income (Adjusted)	**508**	**571**	**643**	**720**	**908**
% Change	**2.6%**	**12.6%**	**12.6%**	**12.0%**	**26.0%**

Free Cash Flow Data (Dec)

(US$ Millions)	2020A	2021A	2022E	2023E	2024E
Net Income from Cont Operations (GAAP)	511	530	724	720	908
Depreciation & Amortization	726	748	827	874	923
Change in Working Capital	(249)	(260)	0	0	0
Deferred Taxation Charge	(29)	112	148	185	230
Other Adjustments, Net	145	88	(73)	0	0
Capital Expenditure	(1,758)	(1,838)	(2,555)	(3,564)	(3,150)
Free Cash Flow	**-654**	**-620**	**-928**	**-1,785**	**-1,090**
% Change	**-198.5%**	**5.2%**	**-49.6%**	**-92.4%**	**39.0%**

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	692	713	768
Other Current Liabilities	1,753	2,128	2,128	2,128	2,128
Long-Term Debt	9,220	9,183	10,226	10,525	11,339
Other Non-Current Liabilities	4,704	4,954	5,103	5,288	5,518
Total Liabilities	**16,203**	**16,884**	**18,149**	**18,653**	**19,753**
Total Equity	**5,752**	**7,273**	**7,736**	**9,922**	**11,050**
Total Equity & Liabilities	**21,955**	**24,157**	**25,885**	**28,576**	**30,803**

* For full definitions of ***iQ***method℠ measures, see page 10.

Company Sector

Natural Gas-Local Distribution Companies

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving over 3 million natural gas customers and 500,000 electric customers across six states through its local Columbia Gas and NIPSCO franchises. Key states are Indiana, Ohio, Pennsylvania, Kentucky, Virginia, and Maryland. There is a smaller Federally regulated electric transmission business as well. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

We rate NiSource (NI) Buy premised on an above-average 6-8% EPS growth profile, improving balance sheet, opportunity for accretive asset sales, and decarbonization investment opportunity. The company's 2022 Investor Day update detailed annual growth within the with a relatively smooth growth profile an advantage vs some peers with non-linear growth. Shares can positively re-rate with successful execution of the Indiana plan.

Stock Data

Average Daily Volume	3,691,210

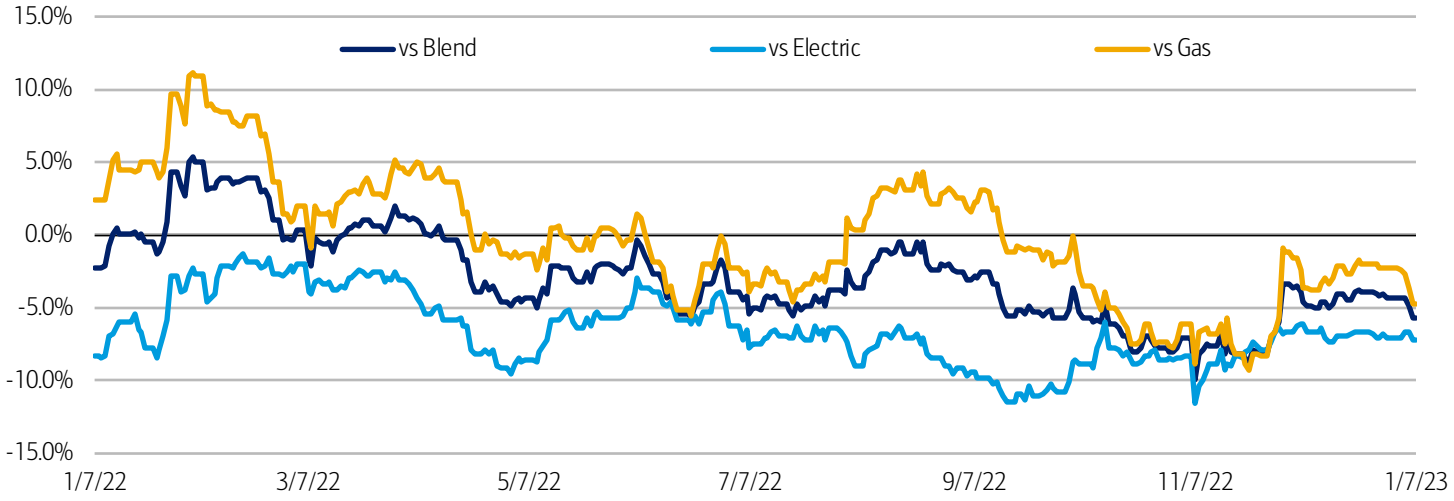
Quarterly Earnings Estimates

	2021	2022
Q1	0.77A	0.75A
Q2	0.13A	0.12A
Q3	0.11A	0.10A
Q4	1.10A	0.48E

NiSource: Remain positive on the outlook

We reiterate our Buy rating on the shares of NiSource into 2023 where we see a busy but manageable Indiana regulatory calendar. Even constructive jurisdictions had unexpected negative curveballs in 2022, notably Wisconsin and Michigan, so we are cognizant of the risks here. In a world where we see more risks than opportunities overall (2023 outlook report here: Risks Outnumber Opportunities in the "Lost Year"), we see NiSource's plan as reasonable. The actions to proactively reduce the customer bill impacts (capex reduction and staggering rate increases) should help to deliver constructive outcomes. We see mgmt. as having already 'taken the hit' for customer affordability as part of its efforts to its state regulators.

Exhibit 1: NI Relative 2023E P/E versus Similar P/E Peers (Dark Blue) and Overall Utilities Index (Light Blue)
NiSource should be able to re-rate positively if it can successfully execute in 2023



Source: Company Filings, Bloomberg, & BofA Global Research

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All eyes on Indiana

Critical period of rate case commencing

In the NIPSCO Electric rate case (Cause 45772) the current procedural schedule calls for intervenor testimony by January 20th and NIPSCO rebuttal testimony by February 16th. There is a formal settlement opportunity through February 27th which could influence the subsequent schedule. Currently there are hearings scheduled for March 13-31st and an outside 300-day statutory deadline of August 2nd. *Depending on the updates before the late February 2023 earnings call, this could be an opportunity for management to share thoughts on intervenor testimony at a high-level and the prospects for a settlement, assuming one has not been reached yet.*

Of the estimated +$19/month increase from the rate case, NiSource has proposed +$10/month effective September 2023, +$3/month effective March 2024, and +$6/month effective July 2024.

Further details on Indiana broadly are available below:

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: PowerPoints: ETR nukes offline, DUK/AES Indiana renewables, & HE regulatory	Julien Dumoulin-Smith	22 December 2022
US Utilities & IPPs: PowerPoints: PJM Capacity Auction, ETR Cautious Update, & Indiana Check-In	Julien Dumoulin-Smith	20 December 2022
US Utilities & IPPs: Fuel on My Mind: Indiana, West Virginia, & Kentucky Latest States to Watch	Julien Dumoulin-Smith	01 December 2022

Fuel adjustment clause drawing additional attention

The quarterly Fuel Adjustment Clause (FAC) proceeding has had higher than usual media and intervenor attention due to the magnitude (Cause 38706 FAC-137). NIPSCO is requesting a +$6-9/month increase in February 2023 which follows a +$5/month increase in the prior FAC period. Unfortunately, NIPSCO had significant major forced outages during 3Q22 at Schahfer 16 (continue downtime after significant turbine damage), Schahfer 17-18 (boiler tube leaks), and Michigan City 12 (superheat spray valve). Peer Southern Indiana Gas and Electric Company (CNP CenterPoint subsidiary) has made a larger application as well.

See further details on Indiana and fuel proceedings across the US broadly in our report: Fuel on My Mind: Indiana, West Virginia, & Kentucky Latest States to Watch 01 December 2022

Expect elevated scrutiny in these proceeds with elevated power/gas prices during a period of unplanned generator outages.

4Q22/FY22 EPS In-Line

Our $0.48 4Q22 adjusted EPS estimate puts NiSource FY22E EPS at $1.45, in-line with its recently tightened FY22 guidance midpoint of $1.44-$1.56. There is +$0.09 YoY improvement in 4Q22, a large increase which is common given the seasonality of the business and timing of rate relief under the general rate cases and trackers. A key assumption is that the YTD trend of sharply higher operation & maintenance (O&M costs) moderate. Management noted that there are some discrete drivers of the +8% YoY YTD and that the rate could inflect favorably.

Exhibit 2: NiSource (NI) 4Q22 Earnings Drivers Walk
Penny beat on 4Q22 but FY22 in-line

NI Earnings Walk	4Q22
4Q21 Adjusted EPS Actual	**$0.39**
Rate Relief	
Indiana Gas GRC + Riders	0.04
Pennsylvania Gas GRC + Riders	0.04
Ohio Riders	0.03
Other Riders	0.01
O&M	0.01
Depreciation & Amortization	(0.03)
Interest Expense	(0.01)
Other Income: Lower Charitable Contribution YoY	0.01
Dilution	(0.01)
4Q22 Adjusted EPS BofA	**$0.48**
4Q22 Adjusted EPS Consensus	$0.47
BofA *Forecasted* Beat/(Miss) vs Consensus	1.8%
4Q22 Adjusted EPS Implied Guidance	$0.48
FY22 BofAe	$1.45
FY22 Guidance	**1.44-1.46**
FY22 Consensus	**$1.45**
BofA *Forecasted* Beat/(Miss) vs Consensus	0.2%

Source: Company Filings, Bloomberg, & BofA Global Research Estimates.

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FY23: Underpinned by substantial rate relief

The $1.50-$1.57 2023 EPS guidance presented at the Analyst Day appears reasonable to us, but will require a reasonable and timely NIPSCO Electric general rate case outcome. Due to the seasonality of Indiana electric and the proposal to stagger the rate increase, the earnings benefit will be spread into FY24 and FY25. If there is an unfavorable element in Indiana, we would expect management to flex O&M lower and pull-forward some savings into 2023 embedded in the later periods of the plan.

Exhibit 3: NiSource (NI) FY23 and Quarterly Earnings Drivers Walk
BofAe in-line with Consensus for the full year with a 1Q23 miss

NI Earnings Walk	EPS	1Q	2Q	3Q	4Q
FY22A Adjusted EPS	**$1.45**	**$0.75**	**$0.12**	**$0.10**	**$0.48**
Rate Relief					
Gas: Ohio Rate Case: +$68Mn Early 2023	0.12	0.05	0.03	0.01	0.03
Gas: Virginia: September 28, 2022 Interim ~$41Mn	0.05	0.02	0.01	0.01	0.01
Gas: PA Rate Case: +$44.5Mn December 2022	0.08	0.03	0.02	0.01	0.02
Gas: MD Rate Case: +~$5Mn December 2022	0.01	0.00	0.00	0.00	0.00
Gas: IN Rate Case Step 1 +$71.8. Sept 2022	0.05	0.03	0.01	0.01	
Gas: IN Rate Case Step 2 +$71.8. March 2023	0.04		0.01	0.01	0.01
Gas: Ohio Riders ~$50Mn	0.10	0.04	0.02	0.01	0.02
Gas: NIPSCO TDISC: ~$5Mn	0.01	0.00	0.00	0.00	0.00
Gas: Virginia SAVE	0.01	0.00	0.00	0.00	0.00
Gas: Kentucky SMRP	0.01	0.00	0.00	0.00	0.00
Gas: Maryland STRIDE	0.00	0.00	0.00	0.00	0.00
Electric: NIPSCO Rate Case: +$292Mn Ask. Sept '23	0.05			0.01	0.04
Electric: NIPSCO TDISC: $10Mn Aug '22/$7Mn Feb '23	0.03	0.00	0.01	0.01	0.01
Electric: NIPSCO FMCA	0.01	0.00	0.00	0.00	0.00
Customer Growth: ~$5Mn electric/~$5Mn gas per year	0.02	0.00	0.00	0.00	0.00
Fuel Adjustment Clause YoY: Absence of FY22 Drags	0.01		-	0.01	
Normalize Off-System Sales	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)
Higher Taxes Other Than Income	(0.02)	(0.01)	(0.00)	(0.00)	(0.00)
AFUDC	0.04	0.00	0.01	0.01	0.02
O&M	(0.08)	(0.02)	(0.02)	(0.02)	(0.02)
Depreciation & Amortization	(0.16)	(0.03)	(0.04)	(0.05)	(0.05)
Interest Expense	(0.20)	(0.04)	(0.05)	(0.06)	(0.05)
Pension Expense: Reverse Out FY22 Drag	0.02	0.01	0.01	0.01	0.00
Other Income: Reverse Out FY22 COLI Drag	0.03	0.01	0.01	0.01	0.01
Effective Tax Rate	(0.02)	(0.02)	(0.00)	(0.01)	0.01
Dilution	(0.08)	(0.01)	(0.00)	(0.00)	(0.06)
FY23E Adjusted EPS	**$1.55**	**$0.82**	**$0.15**	**$0.09**	**$0.49**
FY23 Consensus	**$1.54**	**$0.86**	**$0.14**	**$0.09**	**$0.49**
BofA *Forecasted* Beat/(Miss) vs Consensus	**0%**	**-4%**	**9%**	**-3%**	**0%**
FY23 Adj EPS Guidance	**1.50-1.57**				
BofA *Forecasted* Beat/(Miss) vs Guidance	**1%**	**4%**	**16%**	**-18%**	**-3%**

Source: Company Filings, Bloomberg, & BofA Global Research Estimates.

BofA GLOBAL RESEARCH

Adjusted EPS Estimates: Now largely in-line with Street

We slightly increase our FY22-FY23 estimates based on our detailed earnings walks above but moderate the long-term 2026-2027 estimates to embed additional conservatism. There is still investor confusion about the intersection of the prior 2021-2024 7-9% and the new 2021-2027 6-8% EPS CAGRs which has been compounded by the messaging of annual 6-8% YoY growth. Management's commentary on the 4Q22 call will be dissected for any change in tone.

Exhibit 4: NiSource (NI) Financial Snapshot
Above average growth forecasted ahead

NiSource (NI) Financial Snapshot	2021A	2022E	2023E	2024E	2025E	2026E	2027E	'21-'27 CAGR
Gas	1.09	1.17	1.18	1.14	1.27	1.39	1.48	5.3%
Electric	0.54	0.56	0.64	0.76	0.80	0.86	0.87	8.3%
Parent/Other	(0.25)	(0.28)	(0.27)	(0.23)	(0.24)	(0.24)	(0.24)	-1.0%
BofA EPS	**1.37**	**1.45**	**1.55**	**1.67**	**1.84**	**2.01**	**2.12**	**7.5%**
2022 Guidance: 6-8% 2021-2027	**$1.37**	**1.44-1.46**	**1.50-1.57**					**7.0%**
Midpoint of CAGR Guidance	**$1.37**	$1.45	$1.54	$1.68	$1.80	$1.92	$2.06	7.0%
Midpoint of Annual/YoY Guidance	**$1.37**	$1.45	$1.54	$1.64	$1.76	$1.88	$2.01	6.6%
2021 Guidance: 7-9% 2021-2024	**$1.37**	**1.42-.148**						**8.0%**
Midpoint of Guidance	**$1.37**	$1.45	$1.54	$1.73	$1.85	$1.98	$2.11	7.5%
BofA vs Guidance	*-0.1%*	*0.0%*	*1.0%*	*-0.4%*	*2.3%*	*4.8%*	*3.0%*	
Consensus	**1.36**	**1.45**	**1.54**	**1.69**	**1.85**	**2.02**		8.1%
BofA vs Consensus	*1.0%*	*0.1%*	*0.5%*	*-1.1%*	*-0.8%*	*-0.2%*	*N/A*	
BofA Change vs Prior	*-0.1%*	*0.7%*	*0.7%*	*0.1%*	*-0.2%*	*-1.3%*	*-1.5%*	
Dividend	*$0.88*	*$0.94*	*$1.00*	*$1.08*	*$1.16*	*$1.26*	*$1.36*	7.5%
Dividend Payout Ratio: 60-70%	*64.3%*	*64.8%*	*64.5%*	*64.6%*	*63.1%*	*62.6%*	*64.2%*	*-0.1%*
FFO/Debt: 14-16%	*12.9%*	*13.4%*	*14.3%*	*15.5%*	*14.8%*	*14.8%*	*14.8%*	*1.8%*

Source: Company Filings, Bloomberg, & BofA Global Research Estimates.

BofA GLOBAL RESEARCH

Valuation: Lift valuation primarily on MtM

The NiSource valuation is based on a 2025 sum of the parts analysis. We apply the latest natural gas (16.1x vs 14.4x previously) and electric (16.0x vs 14.8x previously) base multiples that we gross-up +5% across the coverage universe to reflect sector capital appreciation.

We continue to ascribe a +1x premium for NIPSCO Gas/Electric to reflect the favorable characteristics of the jurisdiction. Indiana has fairly consistently delivered above-average regulatory outcomes. *The +$3/sh increase is driven entirely by the change in group multiple with no material adjustments to our FY25 EPS estimate (-$0.01 vs prior).*

Exhibit 5: NiSource Sum of the Parts Valuation
Attractive potential upside for shares ahead off derisked backdrop – what will be the catalyst however?

NiSource Sum of the Parts Valuation

	2025E EPS		Peer	Prem/ Discount	Base	$/Sh
Gas Utilities						
Group Peer Multiple - Gas & EPS CAGR	**16.1x**	x **5.0%** =	**16.9x**			
Columbia Gas of OH	$0.50		16.9x	**0.0x**	16.9x	$8.49
Columbia Gas of PA	$0.33		16.9x	**0.0x**	16.9x	$5.50
NIPSCO Gas	$0.25		16.9x	**1.0x**	17.9x	$4.53
Columbia Gas of VA	$0.11		16.9x	**0.0x**	16.9x	$1.84
Columbia Gas of KY	$0.06		16.9x	**0.0x**	16.9x	$0.95
Columbia Gas of MD	$0.03		16.9x	**0.0x**	16.9x	$0.47
Total Gas Utilities	**$1.27**		**16.9x**	**0.2x**	**17.1x**	**$21.77**
Electric Utilities						
Group Peer Multiple - Electric & EPS CAGR	**16.0x**	x **5.0%** =	**16.8x**			
NIPSCO Electric	$0.80		16.8x	**1.0x**	17.8x	$14.26
Total Utility	**$2.07**				*17.4x*	**$36.03**
-Parent EPS Drag (ex-Interest Expense)	-$0.10		0.0x		17.0x	-$1.72
-Parent Interest Drag (Calculated Below)	-$0.14					-$2.64
Total EPS *(incl. debt drag)*	**$1.8**					

Holdco Debt @ Parent, *not* allocated to Utilities	Balance	Weight	Weighted	$/Sh
(50% Netting out parent debt + assumed converts)	-$1,600	50%	-$800	-$1.47
(50% P/E multiple on Interest Exp)	5.9%	50%	-$642	-$1.18

Grand Total Equity Value	**$31.67**
Shares Outstanding 2025E	546
Total Potential Equity Value	**$32.00**
Current NiSource Stock Price	$27.13
Potential Stock Return	18.0%
FY1 Dividend Yield	3.7%
Total Potential Return	**21.6%**

Source: Company Filings, Bloomberg, & BofA Global Research Estimates.

BofA GLOBAL RESEARCH

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
NiSource Inc: Our Updated Take on Shares Post A-Day: 'Terminal EPS' Intact - Reiterate Buy	Julien Dumoulin-Smith	08 November 2022
US Utilities & IPPs: PowerPoints: DUK/AES Indiana renewables	Julien Dumoulin-Smith	22 December 2022
US Utilities & IPPs: PowerPoints: Indiana Check-In	Julien Dumoulin-Smith	20 December 2022
US Utilities & IPPs: Fuel on My Mind: Indiana, West Virginia, & Kentucky Latest States to Watch	Julien Dumoulin-Smith	01 December 2022
US Utilities & IPPs: PowerPoints: NI Analyst Day Takes	Julien Dumoulin-Smith	07 November 2022
US Utilities & IPPs: Regulatory Updates: NI IN Deal	Julien Dumoulin-Smith	07 November 2022
NiSource Inc: Mitigation Boosts Flexibility to hit Targets; Strategic Options are the Next Key Focus	Julien Dumoulin-Smith	04 August 2022

Price objective basis & risk

NiSource Inc (NI)
Our $32 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 16.1x for gas and 16.0x for electric. 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 utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

Positive and negative risks to our Price Objective are changes in 1) regulatory, political, and legislative outcomes, 2) ability to execute on capital expenditure plan, 3) inflation, operating expense, and interest rates as they influence earned rates of return, 4) customer count and load growth, 5) commodities, 6) natural disasters, 7) pension plan returns, 8) 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
	Allete Inc	ALE	ALE 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
	Array Technologies	ARRY	ARRY 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
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	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
	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
	SolarEdge Technologies	SEDG	SEDG 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

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
NEUTRAL				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP 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
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG 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
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX 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
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
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	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
	Pinnacle West	PNW	PNW 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
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI 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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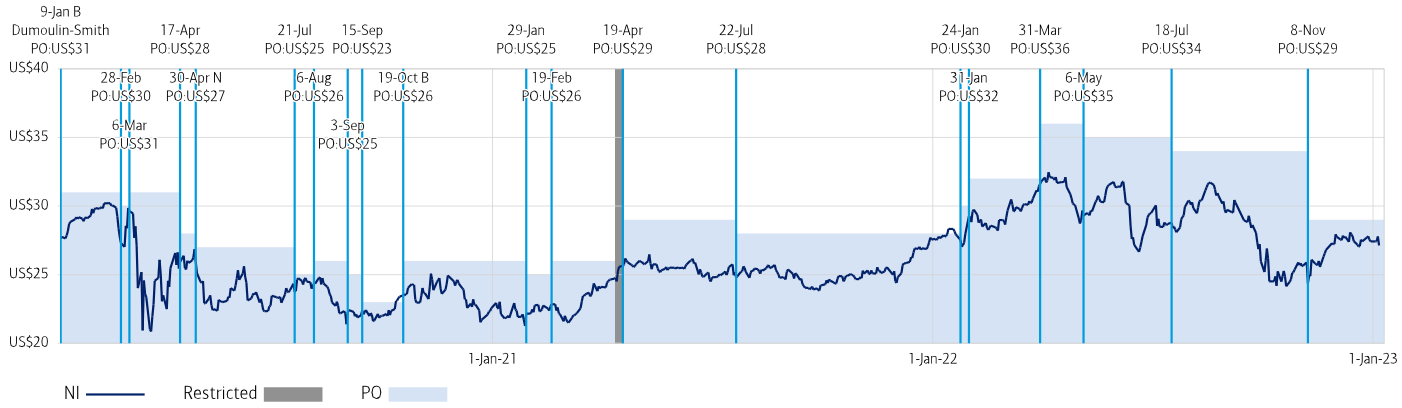
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NiSource Inc (NI) Price Chart



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

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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	82	59.85%	Buy	65	79.27%
Hold	32	23.36%	Hold	21	65.63%
Sell	23	16.79%	Sell	14	60.87%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	72	48.98%	Buy	51	70.83%
Hold	38	25.85%	Hold	29	76.32%
Sell	37	25.17%	Sell	25	67.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

[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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Big updates ahead as part of annual updates

4Q earnings calls is a pivotal opportunity for many companies to comprehensively update financial guidance, for some the first time in over a year. Many updated their outlooks with 3Q earnings or the Edison Electric Institute (EEI) Financial Conference but there is still a large swath of our universe who has not yet reflected the significantly changed macro backdrop. While interest rates have moderated to start 2023, they still represent a significant headwind for many. See our Year Ahead 2023 report for details on key themes such as operating and maintained (O&M) inflation, higher interest rates, pension pressures, and Inflation Reduction Act (IRA): 23 Themes for 2023: Risks Outnumber Opportunities in the "Lost Year". The most anticipated updates are from **NEE** (renewables post-IRA and EPS guidance), **EXC** (EPS CAGR roll-forward), **CEG** (capital allocation), **SO** (2023, 2024, and LT guidance), **ES** (offshore wind, capex, and LT guidance), **AES** (2023 and LT guidance), **SRE** (LNG and capex updates), **OGE/PNW/EIX/ALE** (2023 guidance), **HE** (utility EPS CAGR), **IDA** (2023 guidance and rate case timing), and **POR** (4Q22 actuals & 2023 guidance). We have revised our POs for LNT, WEC, EIX, PEG, and SO – see inside for details.

Wait and see mode for litany of companies still

Many companies owe significant guidance updates to the market but are not expected to come with 4Q earnings due primarily to regulatory uncertainty but also select business reviews and asset sales. This includes **D/AQN** (business reviews), **MDU/SWX** (spin-offs), **NWE/EVRG** (rate case/regulatory), **FE** (CEO search & asset sale), **AEP** (asset sales), and more.

Regulatory rebuttal: opportunity for companies to respond

While somewhat distant history for some, this will be the first earnings call for select management teams to address the latest regulatory developments over the past few months: AEP, AGR, DTE, EMA, ETR, EVRG, HE, LNT, NI, SO, WEC, and California utilities. *We reiterate our preference for companies with lighter regulatory calendars and more affordable utility bills ahead. Natural gas and coal prices have eased in the last two months which should dampen some bill impacts; however, we expect continued inflation for at least 2023 given the regulatory lag inherent in fuel adjustment clauses.*

Prefer quiet updates: Top picks still PPL, PCG, & PEG

Our **top picks of PPL, PCG, and PEG** are unchanged but with higher conviction from even a few weeks ago. PPL's business update was better than even our optimistic expectations with the premium dividend growth an under-appreciated facet. PCG has struggled out of the gates in 2023 due to a mix of a broad market revision out of 2022 winners but with the acute near-term overhang from Victim Trust sales. With solid fundamentals intact, we reiterate Buy. Lastly PEG should benefit from a third-party valuation datapoint on unregulated nuclear M&A. Our NJ stakeholder engagement still shows a constructive regulatory landscape for reliability investments - look for a nice capex bump at the mid-March Analyst Day. Other equities that should have more derisked or otherwise quiet calls are AWK, PCG, DUK, NRG, and VST. NI may be in a position to provide a Indiana rate case settlement update.

24 January 2023

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PO Changes:
LNT: $55 (from $56)
WEC: $103 (from $98)
EIX: $56 (from $52)
PEG: $66 (from $67)
SO: $64 (from $68)

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BofA Vs Consensus & Key Changes

Exhibit 1: BofA vs Consensus 2022 & 2023 Adjusted EPS
Comparing where BofA is the most different from Street

Regulated Premium Utilities	Ticker	2022 BofAe	2022 Cons	Delta	2023 BofAe	2023 Cons	Delta
Alliant Energy Corp	LNT	$2.77	$2.79	-0.6%	$2.87	$2.88	-0.4%
Ameren Corp.	AEE	$4.08	$4.07	0.2%	$4.36	$4.36	0.0%
American Water Works	AWK	$4.44	$4.45	-0.3%	$4.73	$4.77	-0.9%
CMS Energy Corporation	CMS	$2.88	$2.88	0.0%	$3.10	$3.11	-0.4%
Centerpoint	CNP	$1.37	$1.38	-1.1%	$1.47	$1.49	-1.2%
DTE Energy	DTE	$6.00	$6.01	-0.2%	$6.15	$6.25	-1.6%
Essential Utilities	WTRG	$1.77	$1.77	-0.3%	$1.87	$1.89	-1.2%
Eversource Energy	ES	$4.13	$4.10	0.8%	$4.36	$4.38	-0.4%
NextEra Energy	NEE	$2.94	$2.88	2.1%	$3.23	$3.10	4.1%
WEC Energy Group Inc.	WEC	$4.40	$4.40	0.1%	$4.59	$4.61	-0.4%
Xcel Energy Inc.	XEL	$3.16	$3.16	-0.1%	$3.37	$3.38	-0.2%

Regulated Value Utilities	Ticker	2022 BofAe	2022 Cons	Delta	2023 BofAe	2023 Cons	Delta
American Electric Power, Inc	AEP	$5.05	$5.02	0.6%	$5.23	$5.30	-1.3%
Avangrid Inc.	AGR	$2.29	$2.28	0.3%	$2.30	$2.28	1.0%
Consolidated Edison	ED	$4.60	$4.54	1.4%	$4.92	$4.82	2.1%
Dominion Energy	D	$4.12	$4.11	0.2%	$4.31	$4.31	-0.1%
Duke Energy	DUK	$5.24	$5.30	-1.1%	$5.61	$5.67	-1.0%
Edison International	EIX	$4.56	$4.57	-0.3%	$4.59	$4.77	-3.8%
Entergy Corp.	ETR	$6.32	$6.38	-1.0%	$6.61	$6.74	-2.0%
Evergy, Inc	EVRG	$3.63	$3.58	1.3%	$3.65	$3.68	-0.8%
Exelon Corp.	EXC	$2.28	$2.26	0.9%	$2.35	$2.36	-0.5%
FirstEnergy Corp.	FE	$2.45	$2.44	0.5%	$2.41	$2.49	-3.4%
NiSource Inc	NI	$1.45	$1.45	0.1%	$1.55	$1.54	0.5%
OGE Energy Corp	OGE	$2.12	$2.09	1.6%	$2.03	$2.05	-1.1%
PG&E Corporation	PCG	$1.10	$1.10	-0.2%	$1.29	$1.23	5.3%
Pinnacle West Capital Co.	PNW	$4.32	$4.27	1.2%	$4.01	$4.14	-3.2%
PPL Corporation	PPL	$1.41	$1.40	0.4%	$1.62	$1.59	1.8%
Public Service Enterprise Group	PEG	$3.43	$3.46	-0.7%	$3.45	$3.47	-0.4%
Southern Company	SO	$3.58	$3.59	-0.2%	$3.61	$3.71	-2.7%
Sempra Energy	SRE	$9.02	$8.84	2.1%	$9.00	$9.00	0.1%

Source: Company Filings, Bloomberg, BofA Global Research

Exhibit 2: BofA 2022-2024 Adjusted EPS Estimates and Price Objectives
Breakdown of our changes from previous

Regulated Premium Utilities	Rating	Ticker	Prior				Revised				% Change			
			PO	2022E	2023E	2024E	PO	2022E	2023E	2024E	PO	2022E	2023E	2024E
Alliant Energy Corp	Neutral	LNT	$56	2.77	2.87	3.08	$55	2.77	2.87	3.08	-2%	0%	0%	0%
Ameren Corp.	Buy	AEE	$96	4.08	4.36	4.70	$96	4.08	4.36	4.70	0%	0%	0%	0%
American Water Works	Underperform	AWK	$134	4.44	4.73	5.14	$134	4.44	4.73	5.14	0%	0%	0%	0%
CMS Energy Corporation	Neutral	CMS	$68	2.88	3.10	3.35	$68	2.88	3.10	3.35	0%	0%	0%	0%
Centerpoint Energy	Buy	CNP	$30	1.37	1.47	1.59	$30	1.37	1.47	1.59	0%	0%	0%	0%
DTE Energy	Buy	DTE	$139	6.00	6.15	6.76	$139	6.00	6.15	6.76	0%	0%	0%	0%
Eversource Energy	Underperform	ES	$76	4.13	4.36	4.69	$76	4.13	4.36	4.69	0%	0%	0%	0%
NextEra Energy	Buy	NEE	$94	2.92	3.21	3.52	$94	2.94	3.23	3.50	0%	1%	1%	-1%
WEC Energy Group Inc.	Buy	WEC	$98	4.40	4.61	4.92	$103	4.40	4.59	4.90	5%	0%	0%	0%
Xcel Energy Inc.	Buy	XEL	$76	3.16	3.37	3.65	$76	3.16	3.37	3.65	0%	0%	0%	0%
Regulated Value Utilities	**Rating**	**Ticker**	**Prior**				**Revised**				**% Change**			
			PO	2022E	2023E	2024E	PO	2022E	2023E	2024E	PO	2022E	2023E	2024E
American Electric Power, Inc	Neutral	AEP	$98	5.05	5.23	5.61	98.00	5.05	5.23	5.61	0%	0%	0%	0%
Avangrid Inc.	Underperform	AGR	$38	2.29	2.30	2.56	38.00	2.29	2.30	2.56	0%	0%	0%	0%
Consolidated Edison	Neutral	ED	$95	4.60	4.92	5.31	95.00	4.60	4.92	5.31	0%	0%	0%	0%
Dominion Energy	Underperform	D	$57	4.12	4.31	4.57	57.00	4.12	4.31	4.57	0%	0%	0%	0%
Duke Energy	Buy	DUK	$112	5.24	5.61	6.00	112	5.24	5.61	6.00	0%	0%	0%	0%
Edison International	Underperform	EIX	$52	4.56	4.57	4.76	56.00	4.56	4.59	4.85	8%	0%	0%	2%

Exhibit 2: BofA 2022-2024 Adjusted EPS Estimates and Price Objectives
Breakdown of our changes from previous

Regulated Premium Utilities	Rating	Ticker	Prior				Revised				% Change			
			PO	2022E	2023E	2024E	PO	2022E	2023E	2024E	PO	2022E	2023E	2024E
Entergy Corp.	Neutral	ETR	$119	6.32	6.61	7.06	119	6.32	6.61	7.06	0%	0%	0%	0%
Evergy, Inc	Underperform	EVRG	$58	3.63	3.65	3.89	58.00	3.63	3.65	3.89	0%	0%	0%	0%
Exelon Corp.	Buy	EXC	$47	2.28	2.35	2.53	47.00	2.28	2.35	2.53	0%	0%	0%	0%
FirstEnergy Corp.	Underperform	FE	$38	2.45	2.41	2.46	38.00	2.45	2.41	2.46	0%	0%	0%	0%
NiSource Inc	Buy	NI	$32	1.45	1.55	1.67	32.00	1.45	1.55	1.67	0%	0%	0%	0%
OGE Energy Corp	Buy	OGE	$41	2.12	2.03	2.21	41.00	2.12	2.03	2.21	0%	0%	0%	0%
PG&E Corporation	Buy	PCG	$19	1.11	1.27	1.48	19.00	1.10	1.29	1.47	0%	-1%	2%	-1%
Pinnacle West Capital Co.	Underperform	PNW	$64	4.32	4.01	4.31	64.00	4.32	4.01	4.31	0%	0%	0%	0%
PPL Corporation	Buy	PPL	$34	1.41	1.62	1.73	34.00	1.41	1.62	1.73	0%	0%	0%	0%
Public Service Enterprise Group	Buy	PEG	$67	3.44	3.46	3.87	66.00	3.43	3.45	3.68	-1%	0%	0%	-5%
Southern Company	Underperform	SO	$68	3.58	3.74	4.00	64.00	3.58	3.61	4.00	-6%	0%	-3%	0%
Sempra Energy	Buy	SRE	$173	9.02	9.00	9.62	173	9.02	9.00	9.62	0%	0%	0%	0%

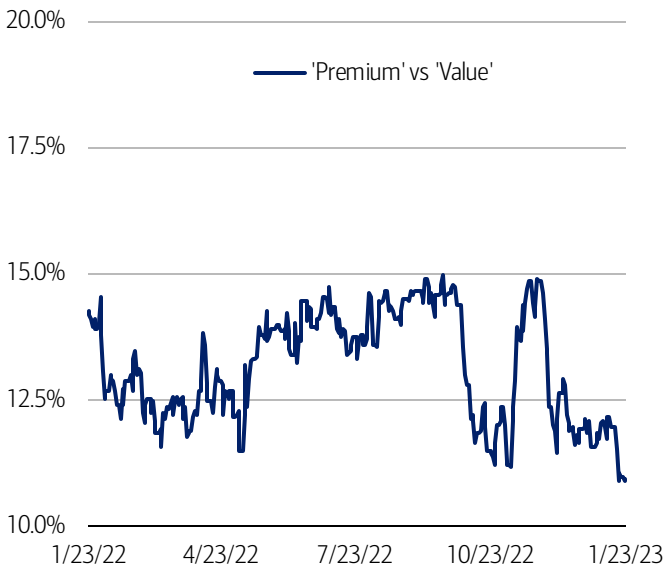
Source: Company Filings, Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

Premium De-Rates & Gas Re-Rates

The premium vs value spread has compressed even further to the lowest point in the last year, despite the recent decline in interest rates over the past month. We have also seen natural gas utilities positive re-rate to near parody with electric utilities, partially due to some companies negatively rebasing.

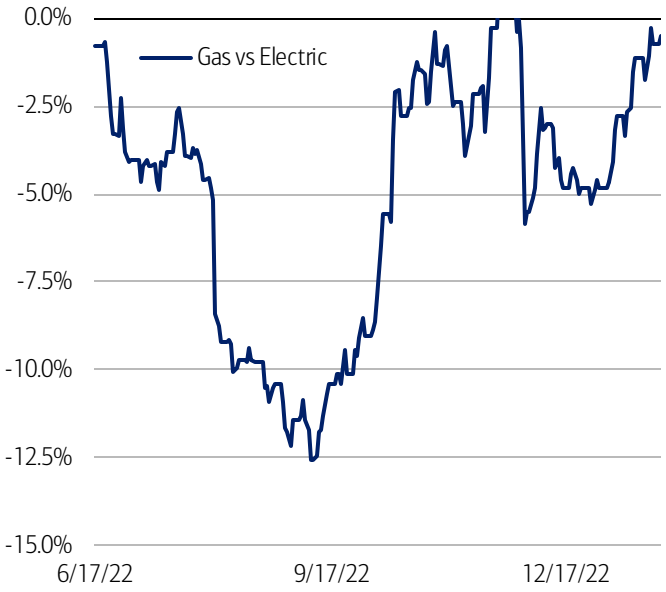
Exhibit 3: Premium vs Value Utility Relative Premium 2024E (%)
The positive valuation spread for high-P/E utilities has declined



Source: Company Filings, Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 4: Gas vs Electric Relative (Discount) 2024E (%)
Gas utilities have seen their discount collapse throughout 2022



Source: Company Filings, Bloomberg, BofA Global Research

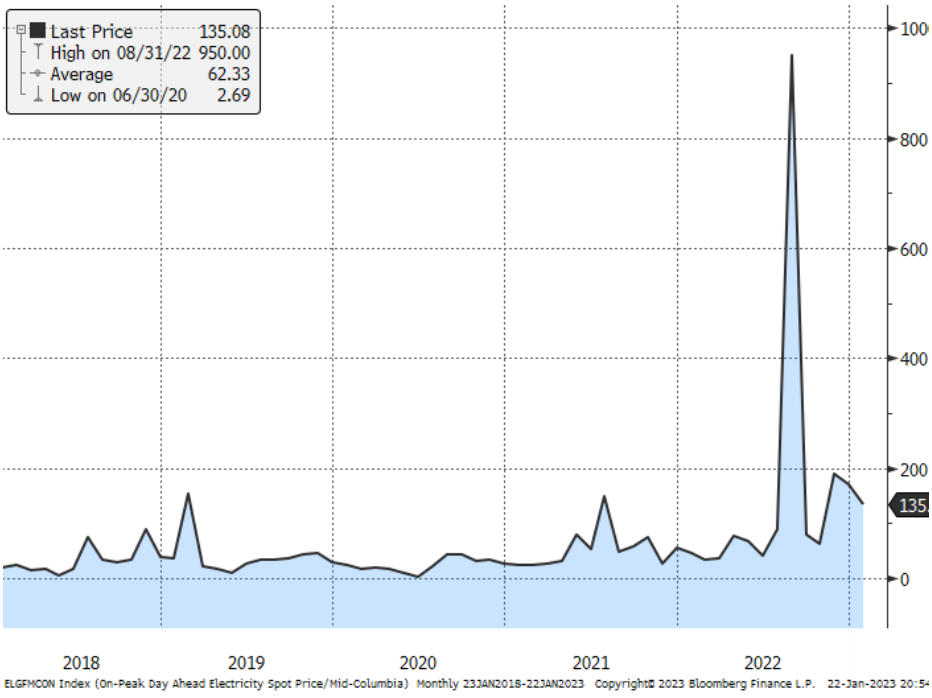
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Northwest SMID Lightning Round: Cautious updates ahead

Utilities in the northwest United States and California have faced significantly higher natural gas and thus power prices in December 2022 as shown in the Exhibit below Mid-Columbia On-Peak Day Ahead Electricity Spot Prices were significantly higher YoY in December. The elevated prices have continued into January 2023 with a $159/MWh average to start the year versus $44/MWh for the same period in 2022. This creates an earnings headwind for 4Q22 as well as 1Q23/FY23 with shareholder assuming some risk in the regulatory power cost adjustment mechanisms (PCAM). This is a negative driver for **Avista Corp (AVA), Northwestern Corp (NWE), and Portland General Electric.** Avista has already filed two 8K updates about receiving margin calls from high commodity costs that forced the company to take on additional short term borrowings.

While the same dynamics are not critical factors for **Idacorp's (IDA)** Idaho Power subsidiary, we see cost pressure in 4Q22 and anticipate an overall subdued earnings profile in FY23 ahead of the anticipated rate case. IDA management has discussed for years the merits of utilizing its unique regulatory tax construct before a rate case filing which would imply a decline in earned ROE to ~9.4% from the ~9.8% we currently anticipate in FY22. This should generally be expected by investors but could come as a surprise to some who forecast more linear growth ahead.

Exhibit 5: Mid-Columbia On-Peak Day Ahead Electricity Spot Prices
December 2022 and January 2023 power prices have been significantly elevated



Source: Bloomberg

BofA GLOBAL RESEARCH

Ameren Corp. (AEE)

The latter months of 2022 saw previously highly regarded jurisdictions including Michigan and Wisconsin come out with uncharacteristically cautious rulings impacting premium utility stocks. While admittedly IL rates are up disproportionately vs adjacent states due to its restructured nature, some investors have flagged AEE as a potential next shoe to drop given its premium valuation and exposure to Missouri via its recently filed electric rate case. The Staff testimony was less constructive than we hoped but we still see a path for a reasonable outcome - US Utilities & IPPs: PowerPoints: AEE MO Staff 11 January 2023. We are comparably less concerned here - looking at Ameren's recent regulatory outcomes, mgmt. has consistently achieved constructive solutions in Missouri, a track record that stands in sharp contrast to peer in-state peers. Reiterate Buy on attractive valuation as shares have pulled back along with the rest of the premium utility group.

(Originally Published on Jan 6, 2023)

A busy regulatory calendar ahead for 2023

We remain constructive on Ameren's ability to negotiate a number of key regulatory hurdles in 2023, including its latest Missouri electric rate case as well as its inaugural multi-year rate plan (MYRP) filing in Illinois along with an Illinois gas filing ahead of the expiry of the Qualifying Infrastructure Plant (QIP) rider at the end of 2023. Another non-rate case proceeding worth watching are the Certificate of Convenience and Necessity (CCN) applications for two solar projects pursuant to Ameren Missouri's latest integrated resource plan (IRP). We review key data points and catalysts below.

- **Missouri Electric rate case (docket #2023-0031)** – We continue to flag the Missouri rate case as comparably lower-risk vs. in state peers, looking back at AEE's strong track record of settlements and overall magnitude of the ask - Ameren's Missouri request would result in a CAGR of +2.3% vs. 2017's levels if approved – current rates reflect a CAGR of +0.5% from 2017. Given the increase is well below the Plant in Service Accounting (PISA)-mandated cap of 2.85%, we see comparably less risk that Ameren will be subject to disallowance risk as Evergy was earlier in 2022. See our earlier note on AEE for additional detail: Ameren Corporation: A steady ship in an increasingly stormy Midwest 23 December 2022.

- **Illinois Multi-Year Rate Plan (MYRP**) – Following statutory adoption of the MYRP for IL electric utilities, Ameren filed its inaugural multi year plan case, with the goal of putting new rates in place for 2024. According to Bloomberg consensus, the average forecast for the 30Y US Treasury is approximately 3.9% for 2023, which would equate to a 9.7% authorized ROE under the current formulaic ROE that adds 580 bps to the bond benchmark. With Ameren's IL Gas ROE of 9.67% as the closest available proxy, we see limited downside to ROEs under the new MYRP mechanism, particularly as the gas rate was set in 2021 when overall rates were lower. We also look to potential upside via embedded performance metrics which could improve (or reduce) the authorized return by up to 24 bps. Bottom line, do not perceive too much risk, although novel exposure to a new construct has raised some attention given jump in state rates.

- **IL Gas rate case** – The IL Gas utility is expected to make a rate case filing in 2023 for rates effective 2024. Of note is the coming expiry of the QIP rider which had previously allowed 50% of annual capex. The rider has drawn unfavorable coverage in the press (largely for Chicago utility People's Gas) and with the current focus on customer rates we do not expect it to be renewed. Illinois Gas is eligible to file with a forward test year which should mitigate lag somewhat. The current ROE of 9.67% was authorized in early 2021 and thus we do not see significant downside here given the broader move in rates in the ensuing two years.

- **Missouri solar (docket #s 2022-0244 & 2022-0245)** – Ameren currently has pending applications with the MPSC for two solar projects: 200 MW Huck Finn and

150 MW Boomtown. The facilities target in service dates of Q4 2024. Historically Ameren has not added new generation spend to its formal capital plan until the approval of the CCN application. Given that both remain pending and decisions from the MPSC are not expected until later this year, we do not anticipate that these two projects will be formally rolled into the capital plan. In particular the MPSC staff's opposition to the Boomtown project suggests these dockets are more than just procedural. From an earnings perspective neither project alone moves the needle significantly, and as they are not likely to be included in the capex roll-forward the risk here is to the degree that there is upside to the plan, rather than a potential disallowance of capital already included in guidance.

2023 EPS Walk: In line with Street

We forecast that Ameren will deliver EPS of $4.36 in 2023, in line with Street expectations. Key drivers and unknows are below.

- **Key drivers –** We expect the 2022 Missouri electric rate case to be the largest individual driver in 2023, with a back-weighted impact given the expectation for rates in place Jul 1. Our forecast assumes a revenue increase of $150m pretax which is just under half of the initial company ask. We also assume higher Operations and Maintenance (O&M) given continuing inflationary pressures, although not at the same order of magnitude as in '22 and offset slightly by the absence of pressure from company-owned life insurance (COLI) which was a -10c drag through the first 3 quarters of '22 and is largely a mark to market effect. We also assume upside vs. the 2022 ROE for IL electric with a +8c impact corresponding roughly to a +100 bps improvement y/y. Our forecast assumes normal weather which would be a modest drag on '22 results, weighted toward the first half of the year.

- **Swing factors –** Our forecast assumes normal weather, flat y/y asset returns resulting in no mark-to-market COLI gains or losses, and a UST largely in line with Bloomberg consensus. The other items that can swing our EPS forecast are 1) outcome of the MO electric rate case where our sub-50% of revenue requirement assumption is less than that achieved in the last settlement, 2) retail sales growth where we see +5c y/y, and 3) O&M where we see continued pressure, though not to the same degree as what the company saw in '22.

Exhibit 6: Ameren EPS walk
'23 EPS estimate unchanged, consistent with mgmt. long term CAGR

	EPS	Q1	Q2	Q3	Q4
FY22A EPS	4.08	0.97	0.80	1.74	0.58
Weather	-0.08	-0.02	-0.06	-0.02	0.02
Tax Timing & Other	0.02	0.00	0.02	-0.03	0.03
Ameren Missouri					
Electric new rates '21 rate case	0.01	0.00	0.01	0.00	0.00
Electric new rates '22 rate case	0.22	0.00	0.00	0.15	0.07
Retail sales	0.05	0.02	0.02	0.01	0.01
PISA	0.04	0.01	0.01	0.01	0.01
Energy efficiency incentives	-0.03	-0.01	-0.01	-0.01	0.00
O&M including COLI	-0.10	-0.02	-0.02	-0.03	-0.03
Other	0.00	0.00	0.00	0.00	0.00
Ameren Transmission					
Higher rate base	0.11	0.03	0.03	0.03	0.03
ROE	0.00	0.00	0.00	0.00	0.00
Ameren Illinois					
Electric higher rate base	0.07	0.02	0.02	0.02	0.01
30Y UST - 50 bps is $0.04 EPS	0.08	0.02	0.02	0.02	0.02
Gas capital rider (50% of capex)	0.04	0.01	0.01	0.01	0.01
O&M including COLI	-0.05	-0.02	-0.02	-0.02	-0.01

Exhibit 6: Ameren EPS walk
'23 EPS estimate unchanged, consistent with mgmt. long term CAGR

	EPS	Q1	Q2	Q3	Q4
Parent/Other					
Share count dilution	-0.07	-0.02	-0.02	-0.02	-0.02
Parent drag / interest / COLI	-0.04	-0.02	-0.02	-0.02	0.00
FY23E Adjusted EPS	4.36	0.98	0.80	1.85	0.74
FY 23 Consensus	4.36	1.03	0.84	2.01	0.65
BofA Beat (Miss) vs. Consensus	0%	-5%	-4%	-8%	13%

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Estimates

We maintain our forecast for Ameren earnings, having recently refreshed our estimates. Our 2022-26 EPS CAGR is at the midpoint of mgmt's guidance range at +7.2% using the original 2022 midpoint of $4.05 as a baseline. Our estimates are slightly below Street consensus on '25-26 which we attribute to our lower estimates at Ameren Missouri – note this reflects a degree of conservatism on earned ROE outcomes given recent regulatory orders. Regulatory execution remains a critical question mark in the coming quarters and we expect Ameren to be able to maintain its long-run trajectory targeting 6-8% EPS growth over time.

Exhibit 7: Ameren estimates
Our estimates are consistent with $4.25-4.45 guidance

	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Ameren Missouri	$1.74	$1.77	$2.02	$2.09	$2.21	$2.43	$2.58	$2.77
Ameren Illinois Electric	$0.59	$0.58	$0.64	$0.77	$0.79	$0.82	$0.84	$0.89
Ameren Illinois Gas	$0.34	$0.40	$0.42	$0.46	$0.48	$0.50	$0.53	$0.56
Ameren Transmission	$0.75	$0.88	$0.90	$0.91	$0.99	$1.05	$1.13	$1.23
Other	-$0.07	-$0.13	-$0.14	-$0.14	-$0.10	-$0.10	-$0.10	-$0.10
Total EPS	$3.35	$3.50	$3.84	$4.08	$4.36	$4.70	$4.98	$5.35
Guidance			*3.75-3.95*	*4.00-4.15*				
EPS CAGR off 2022 ($4.05)					7.7%	7.7%	7.1%	7.2%
YoY Growth	-0.5%	4.5%	9.7%	6.3%	6.8%	7.8%	6.0%	7.4%
Prior Estimates				*4.08*	*4.36*	*4.70*	*4.98*	
Consensus				$4.07	$4.36	$4.67	$5.01	$5.41
Average Earned ROE (Auth in parenthesis)								
Missouri (Auth: electric 9.4-9.8%, gas 9.4-9.95%)	10.3%	9.9%	10.2%	9.2%	9.0%	9.3%	9.3%	9.3%
Illinois (Auth: electric 580bps + 30yr T, gas 9.87%)	10.0%	10.2%	10.3%	10.4%	10.4%	10.5%	10.5%	10.5%
BofA 30-yr Treasury assumption		*1.50%*	*2.10%*	*2.50%*	*3.60%*	*3.80%*	*3.80%*	*3.80%*
ATXI (10.02% plus 50bps adder)	10.82%	10.52%	10.26%	10.52%	10.52%	10.52%	10.52%	10.52%
Consolidated FFO/Debt	20.9%	19.0%	17.9%	16.6%	16.3%	16.4%	16.3%	16.3%

Source: BofA Global Research estimates, Bloomberg

BofA GLOBAL RESEARCH

Valuation

We mark to market our valuation to reflect the latest peer multiples of 16.0x for electric and 16.1x for gas utilities. As a result of the change our PO remains $96. We maintain our Buy rating given the double digit total return implied by our sum of the parts valuation.

Exhibit 8: AEE valuation
PO remains $96, reiterate Buy

Ameren Sum of the Parts Valuation - 2025E
All figures in $Mn except per share

Regulated Utilities	2025 EPS	P/E Multiple			
		Peer	Prem/ Discount	Adjusted Multiple	Base
Group Peer Multiple - Electric		16.0x			
Group EPS CAGR - Electric		5.00%			
Effective Multiple - Electric		16.8x			
Group Peer Multiple - Gas		16.1x			
Group EPS CAGR - Gas		5.10%			
Effective Multiple - Gas		16.9x			
Ameren Missouri	$2.58		2.0x	18.8x	$48.48
Ameren Illinois Electric	$0.84		2.0x	18.8x	$15.87
Ameren Illinois Gas	$0.53		2.0x	18.9x	$9.96
Ameren Transmission	$1.13		4.0x	20.8x	$23.52
Parent/Unallocated Items	-$0.10		2.0x	18.8x	-$1.86
Total Implied Utilities	**$4.98**				**$95.97**
Shares outstanding	264				
Implied P/E	19.3x				
Valuation					$96

Source: BofA Global Research estimates, company report, Bloomberg

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Ameren Corporation: 2023 EPS preview: Intact outlook amid elevated regulatory hurdles in near term	Julien Dumoulin-Smith	06 January 2023
Ameren Corporation: A steady ship in an increasingly stormy Midwest	Julien Dumoulin-Smith	23 December 2022
US Utilities & IPPs: PowerPoints: PPL EPS CAGR, AEE MO Staff, ETR Moody's, NY Bills, & SR Gas	Julien Dumoulin-Smith	11 January 2023

Alliant Energy (LNT)

After the company released its 2023 EPS guidance and updated capital plan with its Q3 update, we expect that LNT will post EPS of $2.87, which represents y/y growth of +5% over the initial '22 midpoint of $2.74.

LNT mgmt. is messaging that 2023 will be at the low end of its long-run CAGR range as there are no rate step-ups in place (rate base growth accounting for uplift), weather normalization will be a modest headwind, retail sales growth will moderate from 2022's pace, and inflation continues to pressure O&M. However given mgmt.'s commitment to long-run consistent EPS growth we do not expect the messaging to deviate from the 5-7% target even for one year, using the original '22 midpoint of $2.74 as a baseline – note that growth from our actual forecast in '22 will be more modest at +4%.

Exhibit 9: LNT EPS walk
Project 2023 EPS of $2.87

	EPS	1Q	2Q	3Q	4Q
FY22A Adjusted EPS	2.77	0.77	0.63	1.04	0.33
WPL	0.17	0.01	0.01	0.01	0.14
IPL	0.02	0.01	0.01	0.01	-0.01
D&A	-0.08	0.01	0.01	0.01	-0.11
Weather	-0.04	-0.03	0.00	-0.01	0.00
Retail sales	0.02	0.01	0.01	0.01	0.01
O&M savings	0.06	0.02	0.02	0.02	0.02
AFUDC	0.03	0.01	0.01	0.01	0.01
Interest expense	-0.05	-0.01	-0.01	-0.01	-0.01
Parent drag	0.00	0.00	0.00	0.00	0.00
Share count dilution	-0.03	-0.01	-0.01	-0.01	-0.01
FY23E Adjusted EPS	2.87	0.78	0.67	1.07	0.36
FY23 Consensus	2.89	0.80	0.64	1.02	0.45
BofA Beat(Miss) vs Consensus	0%	-2%	4%	5%	-20%
FY23 Adj EPS Guidance (BofAe)	$2.82-2.96				

Source: BofA Global Research, Bloomberg

Estimates

We maintain our estimates which we had previously taken down incrementally to reflect a) WI ROE risk and b) IA solar ROE risk given an uncertain outcome in the advance ratemaking docket. We still see a CAGR above 6% from the '22 midpoint through most of the forecast period.

Our updated estimates are 1-2c below Street consensus. LNT has one of the better track records of compounding low-vol EPS growth in the sector and we expect the mgmt. team to be able to manage through the current challenging environment better than most, though acknowledge a potentially tricky regulatory setup heading in to 2023.

Exhibit 10: LNT estimates
Non-linear growth sees a pickup back above midpoint in '24+

EPS by Segment	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Interstate Power & Light (IPL)	$1.19	$1.30	$1.40	$1.43	$1.45	$1.51	$1.61	$1.69
Wisconsin Power & Light (WPL)	$0.97	$1.00	$1.07	$1.22	$1.28	$1.42	$1.51	$1.66
American Transmission Co (ATC)	$0.13	$0.13	$0.13	$0.15	$0.16	$0.17	$0.18	$0.18
Parent/Other	$0.02	$0.00	$0.03	-$0.03	-$0.03	-$0.02	-$0.02	-$0.02
Total	$2.31	$2.43	$2.63	$2.77	$2.87	$3.08	$3.28	$3.50
Prior Estimates				$2.77	$2.87	$3.08	$3.28	
Guidance				2.67-2.81	2.82-2.96			
Consensus				$2.79	$2.89	$3.08	$3.29	$3.50
Consensus CAGR					5.3%	6.0%	6.2%	6.3%
CAGR off 2022 midpoint of $2.74					4.6%	6.0%	6.2%	6.3%

Source: BofA Global Research, Bloomberg

Valuation

We mark to market our valuation to reflect the latest electric peer multiple of 15.9x. Our PO moves down incrementally to $55 from $56 as a result of the update, and we reiterate our Neutral rating given the modestly positive total return implied by our sum of the parts valuation.

Exhibit 11: LNT valuation
PO $55, reiterate Neutral

All figures in USD millions except per share

Regulated Utilities	2025 Net Income	EPS	P/E Multiple			
			Peer	Prem/ Discount		Base
Group Peer Multiple - Electric			15.9x			
Group EPS CAGR - Electric			5.00%			
Relative Utility Group P/E Multiple			16.7x		Applied multiple	
Interstate Power & Light (IPL)	$421	$1.66	16.7x	0.0x	16.7x	$7,030
Wisconsin Power & Light (WPL)	$395	$1.56	16.7x	1.0x	17.7x	$6,995
American Transmission Co (ATC)	$46	$0.18	16.7x	4.0x	20.7x	$950
EPS (w/o Parent)	**$862**	**$3.40**				**$14,974**
Parent NI	-$29	-$0.12	16.7x	1.0x	17.7x	($521)
Total Implied					20.0x	$14,074
Shares Outstanding (2023E)						254
Total Equity Value Per Share						**$55.0**
Total Return Analysis						
Price Objective						$55.0
Implied Return						2.1%
Dividend Yield						3.4%
Total Return						**5.4%**

Source: BofA Global Research, Bloomberg

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Alliant Energy Corporation: Downgrade to Neutral: Regulatory risks crop up ahead of critical '23	Julien Dumoulin-Smith	07 December 2022
US Utilities & IPPs: PowerPoints: EIX vs PCG, PCG FVT, IDA, ED Settlement, LNT Mgmt, & ES OSHA News	Julien Dumoulin-Smith	17 January 2023
US Electric Utilities & IPPs: Power Points: LNT solar, MN utility regulation, DUK/PPL valuation, Cali Gas	Julien Dumoulin-Smith	04 January 2023

Avangrid (AGR)

We reiterate Underperform on shares of Avangrid which has pressure on long-term earnings and cash flows that require successful rate case outcomes across the portfolio. We will be closely watching the pending CT, NY, and ME rate cases but we remain cautious given affordability considerations and below-average historical customer satisfaction. The shareholder funded customer relief in Connecticut increased the political and regulatory risk across all New England utilities broadly in our view. See background here: CT utilities 'shareholder contribution plan' could leave intervenors wanting more 01 December 2022

The outlook for offshore wind projects has eroded with Avangrid publicly describing its Commonwealth Wind project as having a negative net present value (NPV). On January 19th Commonwealth Wind filed a petition of appeal at the Massachusetts Department of Public Utilities (DPU) requesting that Supreme Judicial Court for Suffolk County vacate the DPU's Final Order. Details in DPU Dockets 22-70/22-71/22-72. Industry datapoints have indicated erosion for projects broadly (see Orsted's impairment announcement here) and we see reduced returns for Commonwealth Wind and Park City Wind. Vineyard Wind construction appears to be progressing on time but we are still view Avangrid's exposure to large project risk as deserving a discount relative to regulated utility peers.

At its Analyst Day management provided initial directional FY23 adjusted EPS guidance of approximately flat YoY at $2.20-$2.40, consistent with $2.20-$2.38 FY22 guidance. *Currently we estimate $2.30 FY23, slightly above $2.29 Consensus median; however, the outcome and timing of the pending PNM transaction are critical variables.* 3Q22 YTD 2022 earnings contribution has lagged our expectations with a reliance on merchant power and tax items to offset weaker networks (utilities). Networks have approximately flat net income YTD YoY and are -9% (-$0.12) with the $1.22 YTD 2022 consistent with $1.22 YTD 2020. We do not anticipate a change in the 6-7% 2022-2025 EPS CAGR recently initiated at the September 2022 Analyst Day but we see headwinds from additional dilution, interest expense, and other factors. Aside from FY23+ EPS guidance we will be closely watching the renewables development backlog for positive evolution post-Inflation Reduction Act.

From our investor conversations and the 13-F data, Avangrid remains a consensus underweight name for investors based upon the track record of missing long-term EPS targets. For example AGR has 5.5% of float short, one of the highest for regulated utilities.

Avangrid: Dissecting Investor Day EPS outlook: Identifying upside and pressure points 03 October 2022

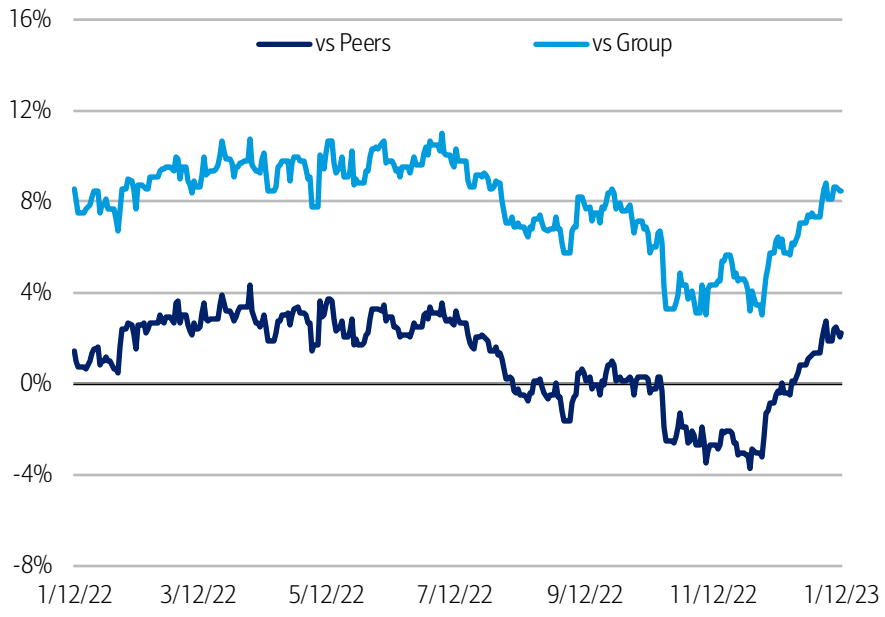
CMS Energy Corporation (CMS)

Maintain Neutral on shares of CMS which have performed well in recent weeks and trade at a deserved premium to peers.

(Originally published on Jan 17, 2023)

CMS inflected to trading at ~2% premium to premium peers following the late-December settlement announcement in the 2023 electric rate case. The announcement followed a less favorable MPSC decision in MI peer DTE's 2023 electric rate case. The settlement enables continued, de-risked earnings growth near the top-end of management's 6-8% EPS range. Following FY22 outperformance, driven in part by favorable weather, CMS returned approx. $47Mn (pre-tax) in 4Q22 to customers via refunds and grants. We expect 2023 electric rates, and 2022 cost pull-forward will enable continued cost latitude in 2023, which will accrue to further growth into 2024. In sharp contrast to DTE, we forecast CMS has room to spend or pull-forward 45Mn incremental O&M in FY23, while still earning near the top-end of the preliminary guidance range – we estimate $3.10 FY23 EPS versus $3.05-$3.11 guidance range. All said, we expect CMS's 2023 electric rate case settlement and 2022 cost flexibility prompts continued execution on above-average growth in 2023+. We believe CMS is deserving of its premium valuation given the increasingly de-risked, above-average growth outlook. Yet, we estimate lower total shareholder return relative to other premium peers, especially following recent outperformance. We reiterate Neutral given our view that CMS shares trade in-line with fair value.

Exhibit 12: CMS Energy (CMS) Relative Price to Earnings (P/E) based on FY24 Consensus
CMS trades at ~2% premium to 'premium' peers following recent outperformance.



Source: BofA Global Research estimates, Company Filings, Bloomberg

BofA GLOBAL RESEARCH

FY23 Walk: Comfortably at high-end of '23 EPS range

We forecast $3.10 FY23 EPS versus $3.11 FY23 Consensus and at the high end of management $3.05-$3.11 preliminary guidance range. Management is expected to provide a 'final' guidance range as of 4Q22 earnings, which will be based on FY22 EPS.

- **Key Drivers:** +$161Mn CMS electric rate increase ($155 Mn annual revenue increase plus +$6Mn surcharge) and +$170Mn increase in gas rates effective October 2022. Reversal of 2022 tax benefit -5c FY23 EPS drag. -19c weather reversal following favorable FY22 weather. +4c reversal of 3Q22 storm costs. Additionally, we expect +7Mn share dilution from the Covert acquisition - the 3Q

10Q details that three separate forward contracts were priced in August for 2.944Mn shares at $67.78 (price as of 9/30), 1.678Mn shares at $69.59 (price as of 9/30), and 1.783Mn shares at $68.29 (price as of 9/30). Assuming $68 share price for at-the-market (ATM) transaction to fund Covert, this would result in -4c/sh drag.

- **Swing factors:** Northstar Clean Energy growth. Management indicated potential for asset improvements that drive Northstar earnings growth in FY23. Additionally, we model -16c drag from elevated O&M spend, although it remains unclear whether management will leverage this cost latitude to further pull-forward O&M spend or grant customer refunds, deferring earnings to future years. Nevertheless, we see enhanced flexibility for management to flex costs in 2023 and secure 2024 growth at the high-end of the range. Lastly, we expect CMS will file its gas rate case in 1H23, with new rates effective 4Q23.

Exhibit 13: CMS FY23 Quarterly Walk
We forecast $3.10 2023 adj. EPS versus $3.11 Consensus / $3.08 guidance midpoint.

	EPS	1Q23	2Q23	3Q23	4Q23
FY22A Adjusted EPS	2.88	1.20	0.53	0.56	0.59
Consumers Electric					
Rate increase ($161m est.)	0.42	0.10	0.10	0.10	0.10
Storm Costs	0.04	0.00	0.00	0.04	0.00
Retail Sales	0.04	0.01	0.01	0.01	0.01
Weather	-0.19	-0.14	0.00	-0.05	0.00
Consumers Gas					
Rate Increase ($170m effective Oct 2022)	0.33	0.11	0.11	0.11	0.00
New rates effective 2023 Oct 1	0.04	0.00	0.00	0.00	0.04
Tax reversal	-0.05	-0.04	-0.01	-0.01	-0.01
D&A, interest expense, non income tax	-0.22	-0.06	-0.06	-0.06	-0.04
Northstar Clean Energy	0.02	0.01	0.01	0.01	0.01
O&M	-0.16	-0.04	-0.04	-0.04	-0.04
Enterprises	0.00	0.00	0.00	0.00	0.00
Effective tax rate	0.00	0.00	0.00	0.00	0.00
Share Count Dilution	-0.04	0.00	-0.01	-0.01	-0.01
FY23E Adjusted EPS	3.10	1.15	0.64	0.66	0.65
FY23 Consensus	3.11	1.18	0.57	0.67	0.67
BofA Beat(Miss) vs Consensus					
FY23 Adj EPS Guidance	$3.05-$3.11				

Source: BofA Global Research estimates, Company Filings, Bloomberg

BofA GLOBAL RESEARCH

FY22 Walk: Top-end of guidance

We forecast $2.88 FY22 EPS, in-line with guidance and the mid-point of management updated $2.87-$2.89 guidance range.

- **4Q Key Drivers:** +9c reversal of 4Q21 storm restoration costs. +8c from weather normalization following unfavorable 4Q21. +11c from Consumers Gas rate case effective October 2022. We forecast $47Mn pre-tax in 4Q22 customer refunds and grants will result in -12c 4Q22 EPS drag. The company imbedded cost flexibility in FY22 earnings guidance and can therefore absorb 12c lower EPS while earnings at the top-end of the original 2022 guidance range.

Exhibit 14: CMS FY22 Quarterly Walk
Expect $2.88 FY23 EPS, in-line with the midpoint of the company's updated guidance range.

	EPS	1Q22	2Q22	3Q22	4Q22
FY21A Adjusted EPS	2.65	1.09	0.55	0.54	0.47
Consumers Electric					
Rate increase ($27m)	0.05	0.02	0.01	0.01	0.01
Storm Costs	0.21	0.00	0.00	0.12	0.09
Retail Sales	0.02	0.01	0.01	-0.01	0.01
Weather	0.21	0.16	0.00	-0.03	0.08
Consumers Gas					

Exhibit 14: CMS FY22 Quarterly Walk
Expect $2.88 FY23 EPS, in-line with the midpoint of the company's updated guidance range.

	EPS	1Q22	2Q22	3Q22	4Q22
Tax benefits ($27m)	0.09	0.06	0.01	0.01	0.01
New rates effective 2022 Oct 1	0.11	0.00	0.00	0.00	0.11
D&A, interest expense, non income tax	-0.27	-0.05	-0.06	-0.01	-0.15
O&M	-0.17	-0.06	0.00	-0.08	-0.03
Enterprises	-0.02	-0.02	0.01	0.00	-0.01
Effective tax rate	0.00	0.00	0.00	0.00	0.00
Share Count Dilution	0.00	0.00	0.00	0.00	0.00
FY22E Adjusted EPS	2.88	1.20	0.53	0.56	0.59
FY22 Consensus	2.88	1.12	0.45	0.52	0.60
BofA Beat(Miss) vs Consensus	0%	7%	18%	6%	-2%
FY22 Adj EPS Guidance	2.87-2.89				

Source: BofA Global Research estimates, Company Filings, Bloomberg

BofA GLOBAL RESEARCH

EPS Estimates

We maintain 2023+ EPS estimates in-line with prior forecasts. We expect CMS will grow at the **top end** of the 6-8% LT CAGR range through the forecast period.

Exhibit 15: CMS Estimates
Maintain CMS EPS estimates at high end of LT guidance CAGR.

EPS	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Electric	1.79	2.00	1.95	2.20	2.29	2.41	2.52	2.67	2.84
Gas	0.82	0.91	1.04	1.14	1.23	1.35	1.48	1.57	1.67
Utility	2.61	2.91	2.99	3.34	3.52	3.76	4.00	4.23	4.51
Enterprises	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12	0.12
Parent	(0.38)	(0.70)	(0.98)	(0.59)	(0.54)	(0.52)	(0.51)	(0.49)	(0.51)
Consolidated EPS	**2.49**	**2.47**	**2.65**	**2.88**	**3.10**	**3.35**	**3.60**	**3.86**	**4.11**
y/y EPS % change			7.4%	8.8%	7.4%	8.3%	7.5%	7.0%	6.7%
Guidance				*2.85-2.89*					
Consensus				2.88	3.11	3.37	3.62	3.85	
Prior BofAe				2.89	3.12	3.38	3.63		
EPS CAGR off 2022 midpoint of $2.87				**2.87**	7.9%	8.1%	7.9%	7.7%	7.5%
Guidance					6-8%	6-8%	6-8%	6-8%	6-8%

Source: BofA Global Research estimates, Company Filings, Bloomberg

BofA GLOBAL RESEARCH

Valuation: $68 PO

Our valuation is based on a sum of the parts analysis with a 16.5x electric and 16.8x gas 2025 base peer multiple. We maintain EPS estimates in-line with prior forecasts, and reiterate our confidence that management can earn at the top-end of their 6-8% CAGR range. We continue to value the Enterprises segment on a blended DCF (Dearborn Industrial) and EV/EBITDA for remaining peakers. The EV/EBITDA multiple applied to the peakers is 4x, relatively conservative and resulting in a minimal impact on our valuation given our 2025 EBITDA estimate is $4Mn. Accordingly, we see the majority of equity value derived from the regulated business.

Exhibit 16: CMS SOTP Valuation
Shares trade at a reasonable premium

CMS Sum of the Parts	Valuation	EPS	2025 Net Income	Multiple			Equity Value
Utility				Peer	Prem/ Discount	Base	Base
Group Peer Multiple - Electric				16.5x			
Group EPS CAGR - Electric				5.00%			
				17.3x			
Consumers - Electric	P/E	2.52	$760		2.0x	19.33x	$14,685
Group Peer Multiple - Gas				16.8x			
Group EPS CAGR - Gas				5.10%			

Exhibit 16: CMS SOTP Valuation
Shares trade at a reasonable premium

CMS Sum of the Parts	Valuation	EPS	2025 Net Income		Multiple		Equity Value
				17.7x			
Consumers - Gas	**P/E**	1.48	$446		**2.0x**	19.66x	$8,772
Corp & Other	**P/E**	(0.51)	($154)		**2.0x**	19.33x	($2,975)
HoldCo Debt Adjustment							
Add Back: 50% of Interest Expense		0.30	$90		**2.0x**	19.33x	$1,733
Subtract: HoldCo Debt (Net out 50%)		3,985	($1,993)				($1,993)
Utility Equity Value			**2025 EBITDA**				**$20,223**
Non-Utility				**Peer**	**Prem/ Discount**	**Base**	
				7.0x			
DIG	**DCF**						$171
Other Peakers	**EV/EBITDA**		$4		**-3.0x**	4.00x	$15
Total Non-Utility Value							$186
Total Equity Value							$20,409
Shares Outstanding							301
Rounded 12 Month Valuation							**$68**

Source: BofA Global Research estimates, Company Filings, Bloomberg

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: Michigan 4Q Preview: Tale of Two Rate Cases. DTE '23 challenged, CMS de-risked	Julien Dumoulin-Smith	17 January 2023
US Utilities & IPPs: PowerPoints: CT Outages, CMS MI Settle, D VA Governor, ES MA Case, & ETR Nukes	Julien Dumoulin-Smith	23 December 2022
US Utilities & IPPs: PowerPoints: CMS MI Settlement?, IDA 206, PCG Layoffs & Rate Case Latest	Julien Dumoulin-Smith	14 December 2022

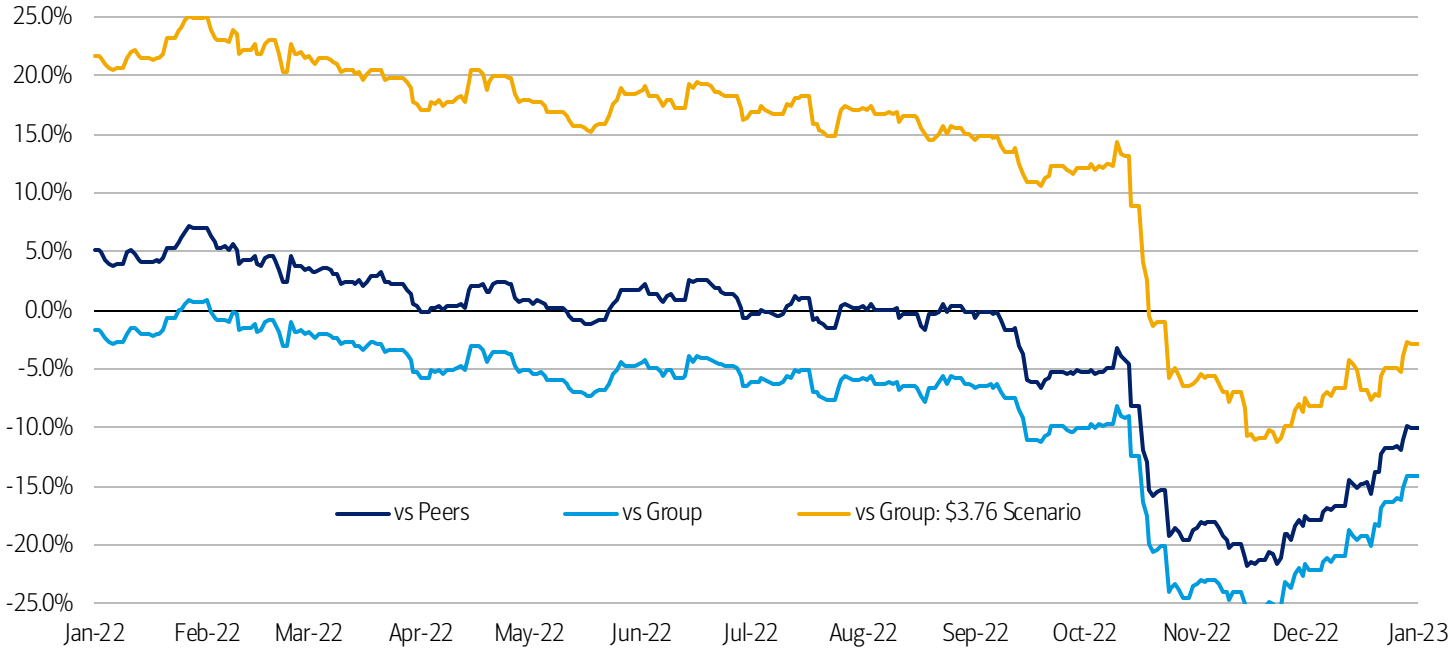
Dominion Energy (D)

We reiterate Underperform on shares of Dominion despite the potential for the business review reset to be less negative than our estimates. Our view is that the dilutive implications of management's business review are not fully priced in. Dominion has outperformed utility peers +4% in early January 2023 trading +9% from the mid-December lows with the exuberance about a positive reversion. As we turn the page into 2023, we are closely focused on the Virginia legislative session as it relates to the ongoing business review. There has been a litany of draft bills in both the House and the Senate with potential significant impacts on Dominion and other Virginia utilities. The path forward for the company will be challenged with expectation of an equity issuance and pivotal rate case. With the offshore wind construction and uncertainty for the 2024 Virginia legislative session, we believe a large discount for shares is warranted. One of the most interesting proposals is to allow for a minority interest sale in the offshore wind asset, potentially achieving our view of Dominion's objectives. This would allow the company to reduce Virginia earnings mix and large project risk while raising capital.

We emphasize that it is still very early in the VA legislative cycle, and we anticipate more proposals as well as material modifications to existing bills. Virginia Governor Youngkin has previously discussed a five-year rolling review of the Virginia Clean Economy Act (VCEA) as well as his desire to exit the Regional Greenhouse Gas Initiative (RGGI). We reviewed the initial 500+ draft legislation introduced for the 2023 legislative session based upon the initial pre-filings.

The legislative session is short at just 30 days (odd-number years) starting January 11th and ending February 25th. The legislature can be reconvened beginning April 12th for an additional 15 days and the Governor can request a special session as well. Key topics for this legislative session include the typical high-profile areas: abortion, corporate tax cuts, education, marijuana, and of course energy. Every seat of the VA General Assembly will be up for election in 2023 and there are expected to be key leadership transitions that could shift the balance of power. **We are closely watching for the Governor's view on legislation to inform our view of shares.**

Exhibit 17: D Relative 2024E P/E versus Similar P/E Peers (Dark Blue) and Overall Utilities Index (Light Blue)
D has positively re-rated off the lows



Source: Company Filings, Bloomberg, BofA Global Research

Media reports suggest Dominion Energy is collaborating on draft House Bill 1770/Senate Bill 1265 includes proposal to reduce Dominion's Virginia revenue by ***at least $300Mn***. Favorable changes proposed would lead to a more prescriptive ROE/equity ratio 'southeast' comparable universe from a broader pool of 'peer utilities'. This could have the effect of increasing the base allowed ROE to ~10% from 9.35% and equity ratio to ~53.5% from 52.2%. This would be above the ~9.4% national average awarded in 2023. This compares with D's current authorized 9.35% ROE where we assume a 10.3% ROE in our current reset scenario (9.35% + 70bp). The utility's draft bill stipulates (1) returning both Dominion and Appalachian Power Company (American Electric Power [AEP] subsidiary) to **two-year rate review schedules** (versus the triennial / three-year rate review currently) and (2) rolling rate adjustment clauses (RACs) into base rates.

The original draft of HB1770 appears to have an initial -$0.27 EPS impact before a potential positive offset from an increased in equity ratio and ROE that would bring the adverse impact closer to ~$0.20. With the new stronger biennial review proposed, we continue to believe that a -$0.33 'Virginia Earnings Above Allowed Adjustment' is prudent in 2023+. *See details in our notes below.*

We continue to forecast $4.31 FY23, in-line with Consensus median but above the $4.17 mean. Even if there is legislation enacted, we do not expect a rate change to be effective before January 2024. Our FY23 reset scenario case is $3.51.

What do we expect with the 4Q22 call? Not much

Assuming that legislation has not been enacted, we do not foresee management as being in a position to provide significant updates. Dominion is unlikely to provide FY23 guidance or change its 1Q23 dividend, a change from the expected pattern although not surprising given the magnitude of the ongoing review. On the 3Q22 earnings call management spent significant time detailing the "path" to +6.5% growth in 2023 but did not reaffirm its guidance or initiate FY23. Similarly, we do not anticipate Dominion updating its traditional financial metrics like capital expenditures but some of the less critical elements could be refreshed such as pension returns and funding status.

With the quantum of the business review reset ahead, we and investors we speak to are less focused on near-term earnings. For FY22 we expect $4.12 adjusted EPS, consistent with Consensus and in-line with the narrowed $4.04-$4.18 guidance. The company has gone to efforts indicating that it was targeting precisely 6.5% growth.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Dominion Energy: Downgrade Feedback & Virginia Deep Dive: Why We Are Still Underperform	Paul Zimbardo	05 December 2022
Dominion Energy: Another Reset Ahead Puts Shares in Penalty Box: Downgrade to Underperform	Paul Zimbardo	09 November 2022

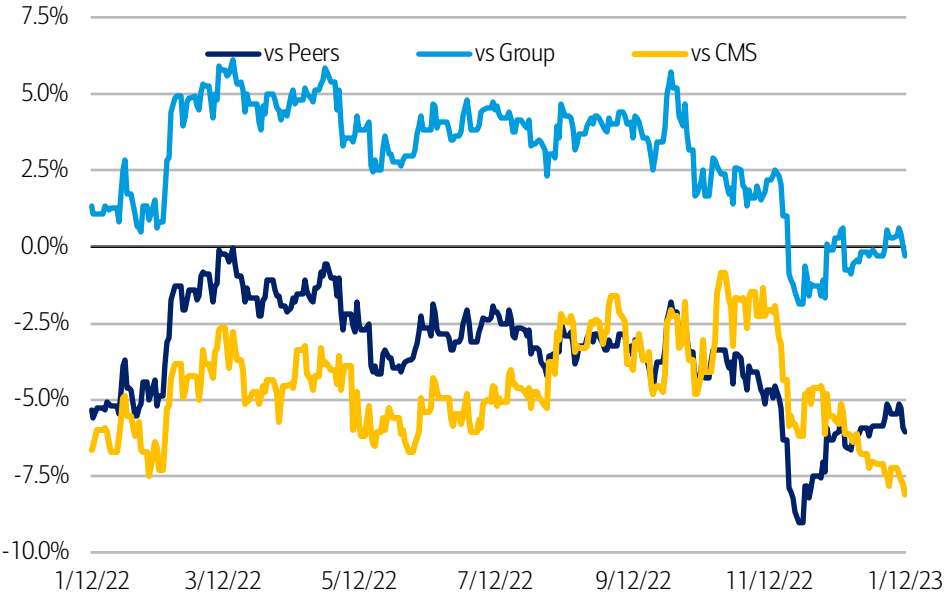
DTE Energy Co. (DTE)

More recently, DTE has underperformed MI peer CMS Energy (CMS) following DTE's less favorable MPSC final order in its 2023 electric rate case, while CMS has outperformed premium peers following its settlement agreement (see details on pg 14). While we believe DTE's 2023 electric rate case order will impair the company's ability to meet the mid-point of the 2023 EPS guidance range– we forecast $6.15 2023 EPS versus $6.25 Consensus / guidance midpoint – we see long-term growth intact.

(Originally published on Jan 17, 2023)

Michigan utilities, DTE Energy (DTE) and CMS Energy (CMS), underperformed the broader utilities group in 4Q22 amid growing investor caution around Michigan as a 'premium' utility jurisdiction. The Michigan Public Service Commission (MPSC) scrutiny of MI utilities' storm management and grid reliability efforts prompted investor concerns that the MI regulatory backdrop was growing more cautious (details in report: *US Electric Utilities & IPPs: Power Points: MPSC reliability efforts 09 September 2022*). Additionally, we do not expect DTE will update its 2023 guidance range during 4Q22 earnings, prior to the resolution of its petition for rehearing. During Electric Edison Institute (EEI), DTE updated its long-term EPS CAGR guidance to 6-8% from 5-7% prior and detailed its latest Integrated Resource Plan which should drive rate base growth and support customer affordability through 2030+ (details in report: *US Utilities & IPPs: PowerPoints: DTE IRP 04 November 2022*). Reiterate Buy on shares of DTE despite 2023 earnings risk with shares trading at an overly discounted valuation.

Exhibit 18: DTE Energy (DTE) Relative Price to Earnings based on FY24 Consensus
Following 4Q22 underperformance, DTE now trades at greater than 5% discount to peers.



Source: BofA Global Research estimates, Bloomberg

BofA GLOBAL RESEARCH

O&M contingency – how realistic is $120Mn in O&M cuts?

While $120Mn in O&M cuts in 2023 may seem an ambitious target amid accelerating inflationary cost pressures, we flag that DTE has historically succeeded in shedding O&M to counter unexpected earnings pressures. For example, DTE planned to cut up to $120Mn at the onset of the COVID-19 pandemic to mitigate earnings pressures from declining load. While we do not believe DTE leveraged the full $120Mn in 2020 O&M cuts due to higher-than-expected 2020 residential load growth, we see the COVID O&M contingency plan as an important precedent for management to achieve $100Mn+ cost flex. Additionally, management has cited up to $130Mn in O&M cuts during the 2008

recession. DTE's consolidated O&M is over $2,500Mn, therefore $120Mn in O&M flex represents ~5% of DTE total O&M.

As of today, we do not believe our assumptions for ~$120Mn in cost cuts are overly ambitious. Yet we acknowledge risk that DTE's ability to flex O&M akin to historical cost contingency plans will be challenged by rising inflation across capital equipment, financing costs and labor. Additionally, the MPSC's enhanced oversight over MI utilities vegetation management efforts likely discourages significant cuts from DTE's tree-trimming and veg. management O&M program. We look for further clarity on the company's O&M contingency plan during 4Q22 earnings, assuming the company is unsuccessful in securing an electric rate case rehearing and revised MPSC final order.

FY23 Walk: Expect '23 EPS at lower-half of 2023 guide

We forecast $6.15 FY23 EPS versus $6.25 Consensus. BofAe 2023 EPS is at the lower end of management's $6.09-$6.40 guidance range.

- **Key Drivers:** +12c from DTE Electric's 2023 rate case. This assumes the November MPSC final order holds (+30.6Mn revenue increase), and DTE's petition for rehearing in the case is unsuccessful. -21c weather reversal following favorable MI weather YTD 2022 (-13c electric, -8c gas). +20c ($50Mn pre-tax) O&M savings from the 2022 Trenton Channel and St. Clair coal plant retirements. Additionally, +2c savings at DTE Gas as DTE filed for $5Mn refund to gas customers in 4Q22 which will reverse out in 2023. Per management commentary, we expect 40c drag from elevated depreciation and interest at DTE Electric and 8c drag at DTE Gas.

    - **Variable Rate Debt:** In June, DTE Energy (parent) entered into a $1.125Bn unsecured, variable rate term loan with December 2023 maturity. Pursuant to mandatory draw obligations, DTE drew $400Mn in August 2022 from the facility and an additional $400Mn in 4Q22, for a total of $800Mn outstanding. The loan bears interest at secured overnight financing rate (SOFR) plus 0.90%, although it is possible DTE locked-in fixed rates via hedges. This likely results in incremental interest cost drag in 2023 – we forecast **13c 2023 EPS drag**. DTE added language in the 3Q 10Q around its exposure to rising interest rates, citing *'DTE Energy currently expects its primary source of long-term financing to be the issuance of debt and is monitoring the impact of rising interest rates on the cost of borrowing.'* Additionally, DTE's 10Q cites $1.4Bn of floating rate debt as of September 30, 2022 versus only $815Mn disclosed as of June 30, 2022.

    - **Remarketable Senior Notes (RSN):** We discussed the remarketing of DTE's 2019 RSN issued in consort with the 2019 Midstream acquisition in our 3Q22 Michigan utilities preview (see report). We predicted that the $1.3Bn remarketing would increase near-term interest cost pressures given recent interest rate movements. However, the 10Q disclosed that DTE Energy successfully remarketed the $1.3Bn 2019 Series F 2.25% remarketable service notes in August 2022. As a result of the remarketing, the interest rate was reset to **4.22%**. This is slightly lower than 5% BofAe, creating less of a drag on 2023 EPS versus BofAe. We now forecast -7c/sh 2023 EPS drag from the remarketing of RSNs versus -11c/sh prior.

- **Swing factors:** We embed $120Mn O&M cuts ($100Mn DTE Electric / $20Mn DTE gas), assuming DTE is unsuccessful in securing a revised MPSC final order. We await the 4Q22 earnings call for further clarity on a cost contingency plan. The company plans to file a new electric and gas rate case in March 2023, and we expect both rate cases effective in November 2023. We credit the company with a more favorable 2024 electric and gas rate case (+$0.05 4Q23 benefit assuming rate

effective November 2023), although we await the company's Spring 2023 rate case filings. We imbed +10c earnings uplift from retail sales, although this is a key unknown.

Exhibit 19: DTE Energy (DTE) 2023 Walk
We estimate $6.15 2023 EPS, slightly above the lower-end of management guidance range and below $6.25 Consensus.

DTE Earnings Walk	EPS	1Q23	2Q23	3Q23	4Q23
FY22A Adjusted EPS	6.01	2.31	0.88	1.60	1.21
DTE Electric					
DTE 2023 Electric Rate Case (+30.6Mn)	0.12	0.04	0.04	0.04	0.02
DTE 2024 Electric Rate Case	0.05	0.00	0.00	0.00	0.05
Weather	-0.13	-0.04	-0.08	-0.03	0.01
Storm Costs - Q3 and Q4	0.01	0.00	0.00	0.01	0.00
O&M	0.66	0.16	0.16	0.16	0.16
D&A, Interest, Other	-0.40	-0.10	-0.10	-0.10	-0.10
Retail Sales	0.10	0.03	0.03	0.03	0.03
DTE Gas					
Weather	-0.08	-0.06	-0.02	0.00	0.00
Rate Increase (Potentially effective 4Q23)	0.05	0.00	0.00	0.00	0.05
O&M	0.11	0.03	0.03	0.03	0.03
D&A, Interest, Other	-0.08	-0.02	-0.02	-0.02	-0.02
DTE Vantage	0.12	0.03	0.03	0.03	0.03
Energy Trading	-0.01	-0.14	0.04	0.09	0.01
Corp & Elimination	-0.12	-0.03	-0.03	-0.03	-0.01
Share Count Dilution	-0.27	-0.12	-0.05	-0.08	-0.02
FY23E Adjusted EPS	6.15	2.08	0.91	1.72	1.46
FY23 Consensus	6.25	2.00	1.07	1.95	1.13
BofA Beat(Miss) vs Consensus	-2%	4%	-15%	-12%	29%
FY23 Adj EPS Guidance	$6.09-$6.40				
Share Count - 2022	197	194	194	194	202
Share Count - 2023	205	205	205	205	205

Source: BofA Global Research estimates, Company Filings, Bloomberg

BofA GLOBAL RESEARCH

FY22 Walk: Midpoint of '22 guide

We forecast $6.00 FY22 EPS / $1.21 4Q22 EPS, at the midpoint of management's $5.90-$6.10 FY22 guidance range and in-line with $6.01 FY22 / $1.20 4Q22 Consensus estimates.

- **4Q Key Drivers:** +35c at DTE Electric related to reversal of $70mn tax impact in 4Q21. We forecast -2c drag related to the approved $5Mn 4Q22 revenue refund at DTE Gas. Additionally, we imbed +7c benefit related to unfavorable 4Q21 weather reversal and slightly favorable weather in 4Q22 at DTE Gas. Lastly, expect -18c drag at corporate from the reversal of favorable one-time items in 4Q21 and -4c drag following the stock repurchase from the 2019 midstream transaction. We forecast the stock repurchase in November 2022 resulted in +11Mn higher shares outstanding.

- **4Q Swing factors:** Retail sales growth in 4Q22. We forecast de-minimus impact from retail sales growth in 4Q, although we expect sales growth will accelerate in 2024+ with the introduction of larger-scale commercial and industrial (C&I) contracts.

Exhibit 20: DTE Energy (DTE) 2022 Walk
We estimate $6.00 '22 EPS, at the midpoint of mgmt. guidance and in-line with $6.01 Consensus.

DTE Earnings Walk	EPS	1Q22	2Q22	3Q22	4Q22
FY21A Adjusted EPS	5.99	1.99	1.22	1.72	1.05
Corp & Other Adjustment		0.01	0.00	-0.01	0.00

Exhibit 20: DTE Energy (DTE) 2022 Walk
We estimate $6.00 '22 EPS, at the midpoint of mgmt. guidance and in-line with $6.01 Consensus.

DTE Earnings Walk	EPS	1Q22	2Q22	3Q22	4Q22
DTE Electric					
DTE Electric Rate Case 2022	0.01	0.00	0.00	0.00	0.01
Weather	-0.09	0.02	-0.06	-0.05	0.00
$102m Increase (Alt Rate Case)	0.35	0.00	0.06	0.16	0.13
$30m Amortization Deferral	0.15	0.04	0.03	0.05	0.03
Storm Costs - Q3 and Q4	0.04	0.00	0.00	0.03	0.01
D&A, Interest, Other	-0.17	-0.09	-0.26	-0.08	0.26
Retail Sales	0.05	0.06	-0.01	0.00	0.00
DTE Gas					
Weather	0.16	0.06	0.02	0.01	0.07
$84m Rate Increase	0.28	0.14	0.03	0.06	0.05
$20m ADIT return from '21	-0.06	-0.03	-0.03		
D&A, Interest, Other	-0.14	-0.03	-0.03	-0.03	-0.05
DTE Vantage	-0.43	-0.07	-0.03	-0.24	-0.09
Energy Trading	-0.13	0.16	-0.07	-0.17	-0.05
Corp & Elimination	0.03	0.05	0.01	0.15	-0.18
Share Count Dilution	-0.04	0.00	0.00	0.00	-0.04
FY22E Adjusted EPS	6.00	2.31	0.88	1.60	1.21
FY22 Consensus	6.01	2.06	1.00	1.57	1.20
BofA Beat(Miss) vs Consensus	0%	12%	-12%	2%	1%
FY22 Adj EPS Guidance	5.90-6.10				
Share Count - 2021	194	194	194	194	194
Share Count - 2022	197	194	194	194	202

Source: BofA Global Research estimates, Company Filings, Bloomberg

BofA GLOBAL RESEARCH

EPS Estimates: Maintain 2024+ estimates

Our estimates imply LT EPS CAGR in 6-8% range, in-line with management's updated guidance CAGR.

Exhibit 21: DTE EPS Estimates
Decrease FY23 estimates, maintain 2024+ estimates in-line with prior.

	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E
DTE Electric	3.70	3.87	4.21	4.47	4.76	4.90	5.31	5.62	5.93	6.22
DTE Gas	0.88	0.98	1.01	1.10	1.22	1.27	1.38	1.48	1.58	1.68
Total utility	**4.57**	**4.85**	**5.22**	**5.57**	**5.98**	**6.17**	**6.68**	**7.09**	**7.51**	**7.90**
Non-utility segment										
DTE Vantage	0.90	0.72	0.78	0.91	0.48	0.57	0.65	0.71	0.76	0.82
Energy Trading	0.22	0.16	0.20	0.27	0.14	0.13	0.11	0.11	0.11	0.11
Corp & Eliminations	(0.67)	(0.58)	(0.57)	(0.71)	(0.59)	(0.72)	(0.69)	(0.62)	(0.61)	(0.61)
Total non-utility	**0.45**	**0.30**	**0.40**	**0.46**	**0.03**	**(0.02)**	**0.07**	**0.20**	**0.27**	**0.32**
DTE Consolidated	**6.30**	**6.31**	**7.19**	**5.99**	**6.00**	**6.15**	**6.76**	**7.29**	**7.77**	**8.23**
Guidance		*5.97-6.33*	*6.90-7.10*	*5.70-5.98*	*5.90-6.10*	*6.09-6.40*				
y/y % change					0.1%	2.5%	9.9%	7.9%	6.6%	5.8%
Consensus		6.24	7.02	5.92	6.01	6.25	6.68	7.18		

	Base	2021E	2022E	2023E	2024E	2025E	2026E	2027E
EPS CAGR off 2022 original midpoint	5.84			5.4%	7.6%	7.7%	7.4%	7.1%

Source: BofA Global Research estimates, Company Filings, Bloomberg

BofA GLOBAL RESEARCH

Valuation: Reiterate Buy, $139 PO

Our valuation is based on a 2025 sum of the parts basis using 16.5x electric and 16.8x gas 2025 peer multiples. **We maintain the 2x premium applied to DTE estimates given our view that the recent Michigan PSC final order is *not* indicative of a deteriorating regulatory backdrop. Rather, we believe C&I load growth, transmission and distribution (T&D) hardening and clean energy transition targets in MI affirms the jurisdiction premium jurisdiction going forward.** We stress our recent dialogues maintain a positive bias to the state. We maintain the relative discount applied to Vantage to reflect robust peer valuations, especially considering the latest federal policy developments. We maintain Buy on shares of DTE given our view that long-term (2024+) growth remains intact and double-digits implied potential total return.

Exhibit 22: DTE Sum-of-the-parts (SOTP) Valuation
PO to $139 ($120 prior) given multiple MtM and valuation roll-forward to 2025.

DTE Energy Segments	2025 EPS	Premium /(Discount)	Group Multiple	Applied Multiple	Value ($/sh)
Utility					
Group Peer Multiple - Electric			16.5x		
Group EPS CAGR - Electric			5.00%		
DTE Electric (Distribution)	$5.62	2.0x	17.3x	19.3x	109
Group Peer Multiple - Gas			16.8x		
Group EPS CAGR - Gas			5.10%		
DTE Gas	$1.48	2.0x	17.7x	19.7x	29
Utility Equity Value per Share					138
Non-Utility	2025 EPS	Premium /(Discount)	Group Multiple	Applied Multiple	
DTE Vantage	$0.71	0.0x	17.3x	17.3x	12
Energy Trading	$0.11	-17.7x	17.7x	0x	0
Non-Utility Equity Value per Share					12
Parent Company Expense	2024 EPS	Premium /(Discount)	Group Multiple	Applied Multiple	
Parent Company Drag	(0.30)	0.0x	17.5x	17.5x	-5
Parent Company Interest Expense	($0.32)	0.0x	17.5x	17.5x	-6
12 Month Price Objective					**139**
Shares outstanding					205

Source: BofA Global Research estimates, Company Filings, Bloomberg

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: Michigan Utilities 3Q22 Preview: Where do we stand ahead of 2023 updates?	Julien Dumoulin-Smith	19 October 2022
US Utilities & IPPs: PowerPoints: AGR OSW, DTE regulatory, Macro, D Virginia, ERCOT, SWX AZ & More	Julien Dumoulin-Smith	19 December 2022
US Utilities & IPPs: Power Points: DTE EEI update, LNT IA regulatory, ATO 3Q, energy storage	Julien Dumoulin-Smith	11 November 2022
DTE Energy: MPSC issues lower-than-expected electric revenue increase, FY23 cost latitude is key	Julien Dumoulin-Smith	21 November 2022
US Utilities & IPPs: PowerPoints: CT Outages, CMS MI Settle, D VA Governor, ES MA Case, & ETR Nukes	Julien Dumoulin-Smith	23 December 2022

Edison International (EIX)

We remain less constructive on Edison International (EIX) due to its relatively high unfavorable exposure to interest rates at the parent and utility for wildfire expenses. EIX shares have pared back losses year-to-date given the recent moderation in interest rates which should alleviate some earnings pressure 2023+. Compared to 2022 'highs' of 6% we estimate pro-forma financing costs have moderated to ~5.2%. This is slightly below EIX assumed interest rate expectations of 5.3-6.1% as of the 3Q22 call. Yet, we continue to forecast 3.4% '21-'25 EPS CAGR, below management's 5-7% EPS CAGR guidance and 5.2% Street. Aside from interest rates, there is additional pressure from the parent preferred stock issued in 2021 which resets in 2026/2027. The California Cost of Capital Mechanism (CCM) remains an area of potential 2024-2025 upside. However, we do not yet imbed higher return on equity (ROE) in 2024+ estimates given ambiguity over whether (1) the CCM will trigger (2) the CCM trigger will actualize higher CA ROEs amid affordability pressures (see details here: US Utilities & IPPs: California Reset? Refocusing on Core Outlook Post Wildfire Season 13 December 2022). Reiterate Underperform on shares of EIX given the below-average earnings growth outlook which we believe is underappreciated by the Street.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Edison International: One Step Forward, Two Steps Back: Legacy Liabilities Increase Once Again	Paul Zimbardo	02 November 2022
US Utilities & IPPs: California Reset? Refocusing on Core Outlook Post Wildfire Season	Julien Dumoulin-Smith	13 December 2022
US Utilities & IPPs: California Cost of Capital: ALJ proposal more positive than the headline read	Julien Dumoulin-Smith	11 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: The Golden State Rundown: Upgrade Sempra & Downgrade Edison International	Julien Dumoulin-Smith	14 July 2022

Adjusted EPS: Increase 2024+ on lower rates, but CAGR remains pressured

We estimate ~3.4% '21-'25 EPS CAGR. This is higher than BofAe previous ~2.9% '21-'25 EPS CAGR as of our last model update given the recent moderation in Treasury rates. **However, we remain well below 5.2% Consensus '21-'25 EPS CAGR and the company's 5-7% EPS CAGR.** Our estimates are approx 4-6% below Consensus EPS 2023-2025, and we see above-average risk of an upcoming earnings reset. Management has described 'non-linear' growth in 2023, and we forecast <1% growth in 2023. We await further clarity from management on potential interest rate offsets.

Exhibit 23: Edison international Financial Snapshot
EIX has one of the lowest EPS CAGRs in our coverage universe at ~3.5%,

Edison International (EIX) Mini Model	2019A	2020A	2021A	2022E	2023E	2024E	2025E	'21-'25
Southern California Edison (SCE)								
Authorized Capital Structure and Allowed Return on Equity (ROE)								
CPUC Authorized Equity Capital %	48.0%	52.0%	52.0%	52.0%	52.0%	52.0%	52.0%	**0.0%**
FERC Authorized Equity Capital %	47.5%	47.5%	47.5%	47.5%	47.5%	47.5%	47.5%	**0.0%**
CPUC Authorized ROE %	10.3%	10.3%	10.3%	**10.3%**	**9.9%**	9.9%	9.9%	**-0.9%**
FERC Authorized ROE %	11.2%	10.3%	10.3%	10.3%	10.3%	10.3%	**10.0%**	**-0.7%**
Rate Base Mix ($Mn)								
CPUC Ratebase (Average)	24,738	26,369	27,907	30,895	33,831	35,712	38,580	**8.4%**
Guidance	24,560	27,000	28,100	31,300	33,506	35,604	38,961	
FERC Ratebase (Average)	6,175	6,491	6,900	7,495	8,072	8,624	9,300	**7.7%**
Guidance	6,140	6,600	7,200	7,400	8,044	8,646	9,139	
Total Ratebase (Average)	**30,913**	**32,860**	**34,807**	**38,390**	**41,903**	**44,336**	**47,880**	**8.3%**
Total Ratebase (Avg)	30,913	32,860	34,807	38,390	41,903	44,336	47,880	**8.3%**
Guidance: Average of Range Case and Projections	30,800	33,800	35,300	38,500	41,550	44,250	48,100	**8.0%**
BofA vs Guidance (%)	**0.4%**	**-2.8%**	**-1.4%**	**-0.3%**	**0.8%**	**0.2%**	**-0.5%**	
% FERC	20%	20%	20%	19%	19%	20%	19%	
Rate Base EPS								
Shares (Diluted)	340	373	380	383	386	387	388	**0.6%**
Rate Base EPS	**4.57**	**4.64**	**4.83**	**5.28**	**5.55**	**5.85**	**6.27**	**6.8%**
Guidance	**4.49**	**4.75**	**4.89**	**5.33**			**6.58**	
SCE Operational Variances & Costs Excluded From Authorized								

Exhibit 23: Edison international Financial Snapshot
EIX has one of the lowest EPS CAGRs in our coverage universe at ~3.5%,

Edison International (EIX) Mini Model	2019A	2020A	2021A	2022E	2023E	2024E	2025E	'21-'25
Financial, Operation, & Other (Non-AFUDC & Political/Donations)	0.11	0.19	0.11	0.21	0.20	0.29	0.19	
AFUDC	0.21	0.23	0.23	0.24	0.23	0.25	0.29	
Civic, Political, and Donations	(0.10)	(0.08)	(0.07)	(0.08)	(0.07)	(0.07)	(0.07)	
California Franchise Tax Board Refund			0.10					
SCE Cost of Debt & Preferred	0.09	0.09	0.09	-				
CSRP Track 1 Decision				0.12				
Wildfire 2021 GRC Track 3: Likely Immaterial				0.00				
Z-Factor Advice Letter Approval	0.04							
Energy Efficiency	0.05	0.01	-	0.00				
Public Safety Power Shutoff (PSPS) Proposed $10Mn Penalty				-				
Incremental Wildfire Mitigation Not in Reg Assets/Incentive Comp		(0.14)	(0.13)	(0.15)	(0.15)	(0.15)	(0.15)	
SB901/AB 104: Debt Issuance for Fund Contribution		(0.09)	(0.08)	(0.09)	(0.09)	(0.09)	(0.09)	
SB901/AB 104: Additional Disallowed Executive Compensation		(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	
Wildfire Claims Payment Debt Interest Expense			**(0.03)**	**(0.17)**	**(0.27)**	**(0.41)**	**(0.43)**	
Prior GRC True-Up	0.20							
FERC Settlements	0.09							
Other	(0.26)	(0.06)	(0.08)	(0.04)				
Total SCE Operational Variances & Costs Excluded from Auth.	**0.44**	**0.14**	**0.13**	**0.03**	**(0.15)**	**(0.18)**	**(0.27)**	**(0.10)**
Guidance		0.20	0.13	(0.08)			**(0.13)**	
SCE Core EPS	**5.01**	**4.78**	**4.96**	**5.32**	**5.41**	**5.67**	**6.00**	**4.9%**
Guidance	**5.14**	**4.96**	**4.98-5.06**	**4.72-5.02**				
SCE CPUC Implied Earned ROE	*10.73%*	*10.68%*	*10.64%*	*10.38%*	*9.60%*	*9.56%*	*9.41%*	
SCE CPUC Implied Earned ROE ex-Unrecoverable	*11.47%*	*11.50%*	*11.50%*	*11.47%*	*10.73%*	*10.91%*	*10.72%*	
SCE CPUC Implied Earned ROE ex-AFUDC & Unrecoverable	*10.87%*	*10.87%*	*10.89%*	*10.89%*	*10.21%*	*10.38%*	*10.17%*	
Earned ROE Delta	*0.57%*	*0.57%*	*0.59%*	*0.59%*	*0.28%*	*0.45%*	*0.24%*	
EIX Parent & Other								
Operating Expense & Other		(0.11)	(0.12)	(0.16)	(0.17)	(0.17)	(0.18)	
Interest Expense		(0.27)	(0.25)	(0.28)	(0.33)	(0.34)	(0.35)	
Preferred Dividend	(0.31)	-	(0.16)	(0.31)	(0.31)	(0.31)	(0.31)	
Total Parent & Other Drag	**(0.31)**	**(0.37)**	**(0.53)**	**(0.76)**	**(0.81)**	**(0.83)**	**(0.84)**	**12.2%**
Guidance	**-0.33**	**-0.41**	**-0.55**	**-0.72**			**-0.65**	
Total EPS (Diluted)	**4.70**	**4.52**	**4.59**	**4.56**	**4.59**	**4.85**	**5.16**	**3.4%**
Prior BofA	*4.70*	*4.52*	*4.59*	*4.56*	*4.57*	*4.76*	*5.08*	
BofA Change vs Prior (%)	0.0%	0.0%	0.0%	0.0%	0.5%	1.9%	1.6%	
Consensus		**4.52**	**4.51**	**4.59**	**4.80**	**5.15**	**5.53**	**5.2%**
BofA vs Consensus (%)		**0.1%**	**1.7%**	**-0.5%**	**-4.3%**	**-5.9%**	**-6.6%**	

Source: BofA Global Research estimates, Company Filings, Bloomberg

2022 Drivers

We maintain our FY22 EPS estimate at $4.56. Key drivers include CPUC revenue uplift, less drag from O&M versus 1Q22-3Q22, higher depreciation rate following 2021 GRC change, higher net financing costs at the utility. We estimate -8c/sh tax impact following favorable +8/sh from the 4Q21 tax settlement with California Franchise Tax Board (FTB). Our FY22 EPS estimate is slightly lower than $4.58 midpoint of management guidance and $4.59 Consensus due to our assumptions of higher financing costs at the parent. Yet, our $0.58 4Q22 is in-line with $0.58 Consensus.

Exhibit 24: EIX 2022 Drivers
Forecast $4.56 FY22 EPS, below $4.58 guidance midpoint and $4.59 Consensus.

EIX Earnings Walk	EPS	1Q22	2Q22	3Q22	4Q22
FY21A Core EPS	**$4.58**	**$0.79**	**$0.94**	**$1.69**	**$1.16**
SCE	**4.89**				
Changes in Revenue					
CPUC Revenue	1.07	0.35	0.34	0.19	0.19
CPUC Revenue - GRC Track 2/Track 3 & Other	0.42	0.51	0.26	(0.35)	
CPUC Revenue - CSRP Decision	0.08			0.08	
CPUC Cost of Debt & Preferred Equity	-				-
CPUC Cost of Common Equity	-				-
CPUC Utility-Owned Storage: $900-$1,000Mn August '22	0.02		0.01	0.01	0.01
FERC and Other Operating Revenue	0.14	0.04	0.03	0.02	0.04
O&M: Less benefit early in GRC. Reversing '21 low expenses	(1.01)	(0.33)	(0.46)	(0.18)	(0.04)
Public Safety Power Shutoff (PSPS) Proposed $10Mn Penalty	-			-	
Wildfire Related Claims: Not related to financing	0.01			0.01	
Wildfire Related Claims: $3Bn debt 2020-2021 + 2022 $2.4Bn	(0.09)	(0.01)	(0.01)	(0.04)	(0.04)
Depreciation: Rate Change in 2021 GRC	(0.66)	(0.10)	(0.12)	(0.33)	(0.11)
Net Financing Costs	(0.19)	(0.06)	(0.05)	(0.04)	(0.03)
Income Taxes	0.31	(0.08)	0.06	0.43	(0.10)
Property and Other Taxes	(0.02)	0.01	-	(0.03)	-
Other Income and Expenses	0.07	0.01	-	0.03	0.03
Dilution	(0.04)	(0.00)	(0.01)	(0.01)	(0.02)
EIX Parent and Other	**(0.37)**				
Pref Div: March '21, $1.25Bn @ 5.375% Nov '21 $750Mn @ 5%	(0.16)	(0.06)	(0.02)	(0.04)	(0.03)
Interest Expense: $600Mn April Term Loan @ SOFR+70bp	(0.03)		(0.00)	(0.01)	(0.01)
EEG	0.01		0.01		
Other	0.06		(0.03)	0.06	0.03
FY22A Core EPS	**$4.56**	**$1.07**	**$0.94**	**$1.48**	**$1.08**
2022 Consensus	**$4.59**	**$0.86**	**$0.93**	**$1.52**	**$1.08**
BofA *Forecasted* Beat/(Miss) vs Consensus	**-0.5%**	**24.3%**	**1.5%**	**-3.1%**	**0.0%**
FY21 Core EPS Guidance	**$4.48-$4.68**				
BofA *Forecasted* Beat/(Miss) vs Guidance	**-0.4%**				

Source: BofA Global Research estimates, Company Filings, Bloomberg

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Valuation: PO to $56 ($52 prior) on valuation roll-forward

Our Edison International valuation is based on a 2025 sum-of-the-parts analysis for the core regulated utilities with discrete adjustments for the California wildfire risk profile. We utilize the base 2025E electric (15.9x versus 16.4x 2024E previously) peer 2025E P/E which we gross-up +5% to reflect capital appreciation across the sector, consistent with our coverage universe. We apply an unchanged -3x discount to the California CPUC jurisdictional regulated utilities primarily to reflect the below-average prospective growth profile. The +$4/sh increase in our PO is driven by the valuation roll forward to 2025E from 2024E prior.

Exhibit 25: Edison International Sum of the Parts Valuation
Negative potential total return even after above-average dividend yield

Edison International Sum Of the Parts Valuation

Base Electric P/E Calculation	Group Peer P/E		Group EPS CAGR		Group Valuation P/E
	15.9x		5%		16.7x
	15.9x	+	0.8x	=	16.7x

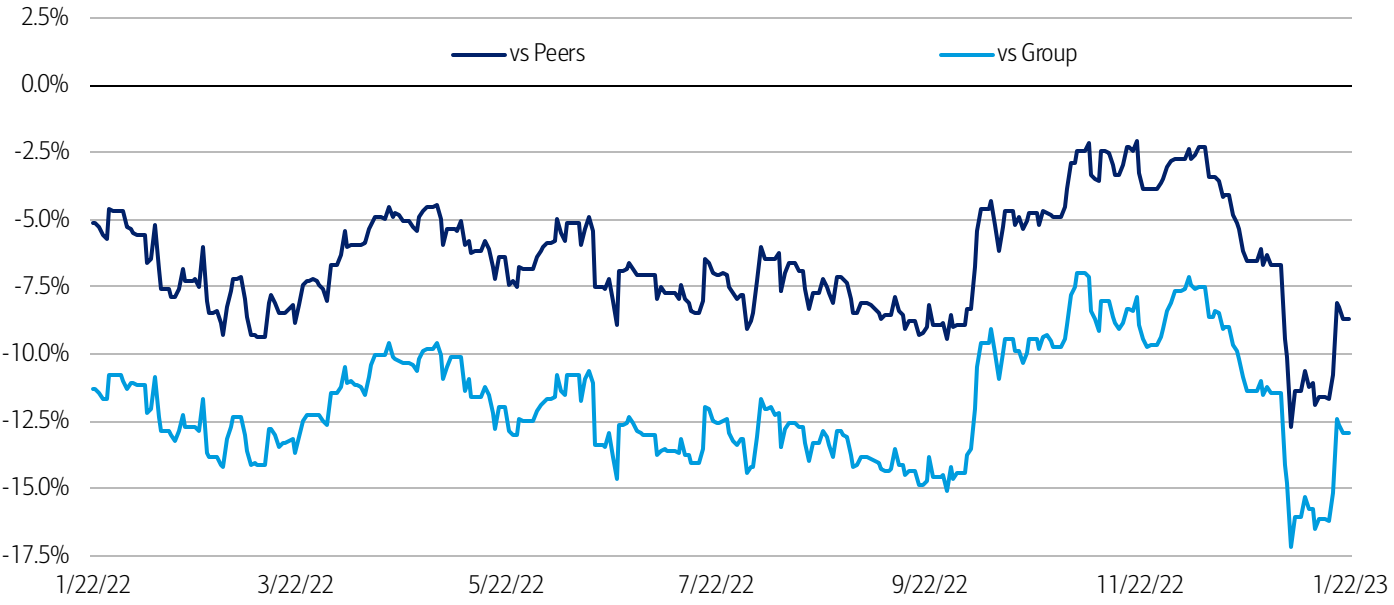
Core Regulated Electric Utilities	2025 EPS	Premium/(Discount)		Multiple Applied	$ per Share
Southern California Edison - CPUC Ratebase	$5.13	-3.0x	-18%	13.7x	$70.23
Southern California Edison - CPUC Variances	(0.27)	-3.0x	-18%	13.7x	($3.68)
Southern California Edison - FERC	$1.14	-1.0x	-6%	15.7x	$17.90
Total Regulated Utilities	**$6.00**	**-2.6x**	**-16%**	**14.1x**	**$84.46**
Parent Debt Adjustments	**$Mn**	**Weight**		**Weighted Value ($Mn)**	
Parent Debt	3,737	50%		1,869	($4.83)
Parent Expenses	**2025 EPS**	**Premium/(Discount)**		**Multiple Applied**	
HoldCo Interest Expense - 50% Weighting	($0.18)	-3.0x	-18%	13.7x	($2.41)
Corporate SG&A	(0.18)	-3.0x	-18%	13.7x	($2.46)
Preferred Dividend	(0.31)	-3.0x	-18%	13.7x	($4.22)
Total Parent & Other	**($0.66)**	**7.3x**	**44%**	**21.0x**	**-$13.91**
Wildfire Adjustments	**$Mn**	**Weight**		**Weighted Value ($Mn)**	
Annual wildfire fund reimburse.($3.2B cap 2021 3Yr impact)	(1,067)	33%		(352)	($12.45)
NPV of Ongoing Wildfire Contribution ($945mn over 10yrs)	(664)	100%			($1.71)
Total Wildfire Adjustments					**-$14.17**
Total Equity Value per Share					**$56.00**
Potential Price Appreciation					-16.1%
NTM Yield					4.3%
Potential Total Return					**-11.78%**

Source: BofA Global Research estimates, Company Filings, Bloomberg

Entergy Corp (ETR)

We maintain Neutral on shares of Entergy which we appropriately see trading at a discounted valuation to peers given the above-average uncertainty into the outlook. The 4Q22 call should focus squarely on regulatory developments in recent weeks and months, specifically Louisiana and System Energy Resources Inc. (SERI). The Louisiana Public Service Commission (PSC) outcome on storm cost securitization was a favorable development given the cautious public statements by Commissioners into the meeting. Nevertheless, we are looking for additional signs that the regulatory relationships across its Gulf footprint are intact. Entergy has one of the most attractive long-term capital investment opportunity sets from decarbonization, industrial reshoring, and energy export exposure. In order to convert the capital spending into above-average EPS growth, ETR will need to find alignment with its retail regulators in all key jurisdictions. *From our investor conversations, Entergy is much debated but the consensus appears to be that some are avoiding the equity until there are tangible data points to show that the regulatory profile is intact. Key areas that investors and we are focused on include the three storm hardening proposals (capex magnitude and recovery mechanism) and SERI complaints that ETR has quantified as representing over $2Bn.*

Exhibit 26: ETR Relative 2024E P/E versus Similar P/E Peers (Dark Blue) and Overall Utilities Index (Light Blue)
ETR has had volatile equity performance of late



Source: Company Filings, Bloomberg, & BofA Global Research

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Quarterly and annual earnings should largely be an after-thought with FY23 outlook provided and recently reaffirmed by management. FY22 $6.37 is slightly above the midpoint of narrowed $6.25-$6.45 guidance and we are comfortable with our estimate given a fairly neutral weather backdrop and management's efforts to pull-forward O&M to date. FY23 BofA $6.61 is a Street-low and toward the low-end of $6.55-$6.85 guidance outlook range below $6.75 Consensus which is above the guidance midpoint. We do not expect Entergy to change its FY23+ earnings expectations but we do see more pressures on the outlook than our initial impressions of the June 2022 Analyst Day.

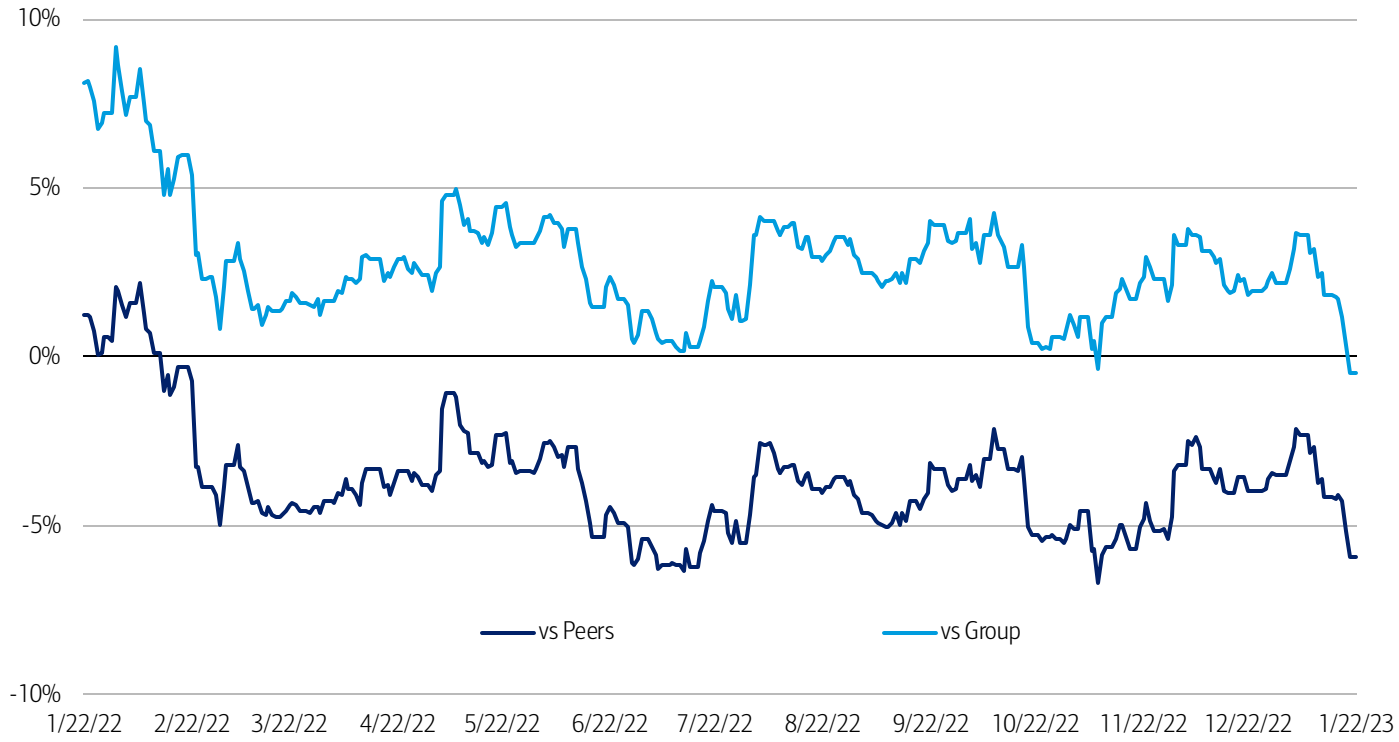
BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Entergy: Storm cost settlement removes key overhang, cautionary LA backdrop remains	Paul Zimbardo	19 January 2023
Entergy: Storm clouds gather over Louisiana: Downgrade to Neutral as risks grow	Paul Zimbardo	03 January 2023

Eversource Energy (ES)

Ahead of the long anticipated 4Q22 refresh, we reiterate Underperform on Eversource Energy (ES) where we do not expect management to increase its long-term EPS growth rate. For much of 2022 including as recently as the mid-November Financial Conference, Eversource management highlighted that their long-term EPS guidance implied upside above 7%. We have perceived more cautiousness of late and see risk of a disappointing update with the backdrop of an earnings call as ratepayers receive high January bills. We believe that the three core legs of the bull argument are overly optimistic: offshore wind proceeds, capex & regulated returns net of interest and O&M, and balance sheet equity needs.

Exhibit 27: ES Relative 2024E P/E versus Similar P/E Peers (Dark Blue) and Overall Utilities Index (Light Blue)
ES has de-rated but we remain cautious



Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Over the past year, our long-term EPS forecast has been below guidance and most buyside investors that we speak to for a few key reasons: (1) lower offshore wind development proceeds as project economics have declined materially with higher interest rates; (2) underappreciated drag from pension losses, parent/operating company interest, and O&M; (3) higher equity issuance to repair the deteriorating credit metrics [negative outlook at Moody's], and (4) conservatism on regulatory capex in light of affordability concerns. While more subdued offshore proceeds has increasingly become investors base case, few reflect the lower pension earnings and quantum of equity we believe is likely. See the recent Sunrise Wind impairment details here: US Utilities & Clean Tech: Offshore Wind Latest Headwind: Ørsted Impairs Sunrise Wind – ES Joint Venture 20 January 2023. The most probable area of positive upside surprise is management including more utility capex but we emphasize that the shift to offshore contractual transmission capex is an emerging shift on the risk/quality spectrum.

What is the bull case?

The optimistic view is that Eversource could 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 could lead to ES offering an above-average EPS growth rate and returning to its historical premium to the group.

ES has a relatively light regulatory calendar in 2023 with long term constructs in many jurisdictions. ES has positive environmental, social and governance (ESG) attributes and is one of the few predominately transmission and distribution (T&D) investment opportunities. We certainly acknowledge that ES has less regulatory activity in the near term than many other companies, a positive characteristic. What unfavorables ES have is some of the highest electric and gas bills in the United States. This leads to top decile political risk as evidenced by the frequent gubernatorial, legislative, and attorney general involvement. Our New England stakeholder conversations indicate a clear interest in learning more about the shareholder contribution to Connecticut ratepayers but not neighboring states. While the risk should ebb as we exit winter, the potential for an adverse political 'lightning bolt' at any moment should limit a positive re-rating.

Shareholder base could rotate with more T&D and ESG competition

ES has one of the highest foreign ownership levels, which has grown in recent years due in part to European investors looking to invest in the U.S. offshore wind buildout. ES was also an early adopter of ESG disclosures and 'embracing the principals.' Between ES exiting its offshore wind business where returns ultimately did not live up to our expectations and other companies improving their ESG focus, we see a further risk of de-rating.

More and more investors we speak to are focused on emission rate of change (ie decrease) where by definition ES is lower by not owning any thermal generation today. Additionally post the Inflation Reduction Act, we and many investors increasingly prefer integrated utilities over pure T&D with the thesis that generation (renewables) will take an increasing share of the investment mix. In ES' deregulated states, this generation investment will accrue to third party developers and risks "crowding out" some distribution investments.

FY22 adjusted EPS had been tracking quite well but the Operation Fuel item and higher interest expense could dampen results. BofA $4.13 FY22 EPS is ahead of $4.10 Consensus median and is near the top-end of the $4.04-$4.14 narrowed guidance range. In recent year's ES has delivered towards the midpoint of the annual guidance range. If that trend continues, there would be ~1% EPS downside to our forecast. For FY23 our $4.36 is similar to $4.38 Consensus with +6% YoY growth. Our estimate incorporates substantially a full year of debt paydown from the offshore wind strategy review underway which could be an area of timing moderation to our estimate.

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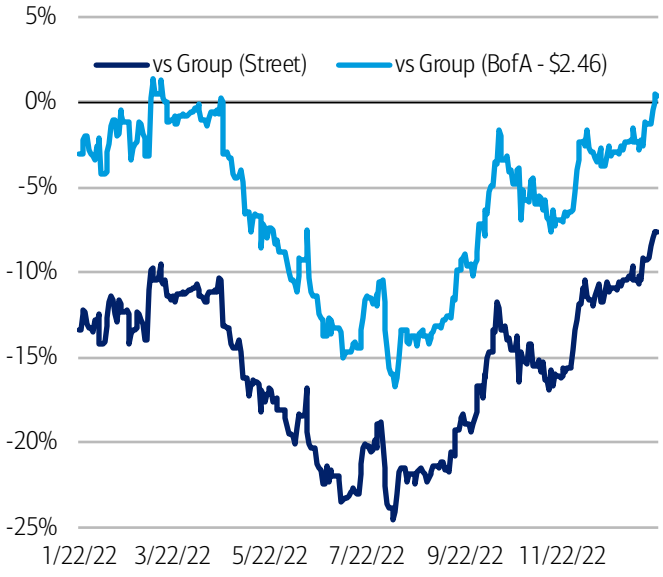
Title: Subtitle	Primary Author	Date Published
US Utilities & Clean Tech: Offshore Wind Latest Headwind: Ørsted Impairs Sunrise Wind – ES Joint Venture	Paul Zimbardo	20 January 2023
US Utilities & IPPs: CT utilities 'shareholder contribution plan' could leave intervenors wanting more	Julien Dumoulin-Smith	01 December 2022
Eversource Energy: Remain Cautious on Prospects Post-IRA: How much capex can the team deliver?	Paul Zimbardo	19 September 2022
Eversource Energy: Life after offshore: contemplating the pro forma regulated profile & pension negative	Paul Zimbardo	03 August 2022
Eversource Energy: Revisiting Offshore Wind Strategy after Earlier Reset: How much value is there?	Paul Zimbardo	05 May 2022
Eversource Energy: Blown Away: Elevated Risks as Offshore Uncertainty Mounts: D/G to Underperform	Julien Dumoulin-Smith	23 February 2022

FirstEnergy (FE)

We reiterate Underperform on shares of FE with a challenged risk/reward profile based on net dilution from the higher pension expense that we do not believe management can fully offset. We believe that investor expectations are overly optimistic regarding the asset sale plan that FE has articulated as well as the external CEO search. *FirstEnergy has significantly re-rated in recent months, with +17% trough-to-peak performance through January 22nd despite our view that the fundamentals are weaker than peers. We are now the only Underperform versus 10 Buys and 5 Neutrals, per Bloomberg. On our new lowered numbers, FE is trading at a premium to the group despite the above-average risks, weaker balance sheet (pro-forma for asset sales), and adverse catalysts ahead.*

Further details are available in our January 23rd downgrade: FirstEnergy: Downgrade to Underperform: Next Reset Ahead. Can a New CEO Right the Ship? 23 January 2023

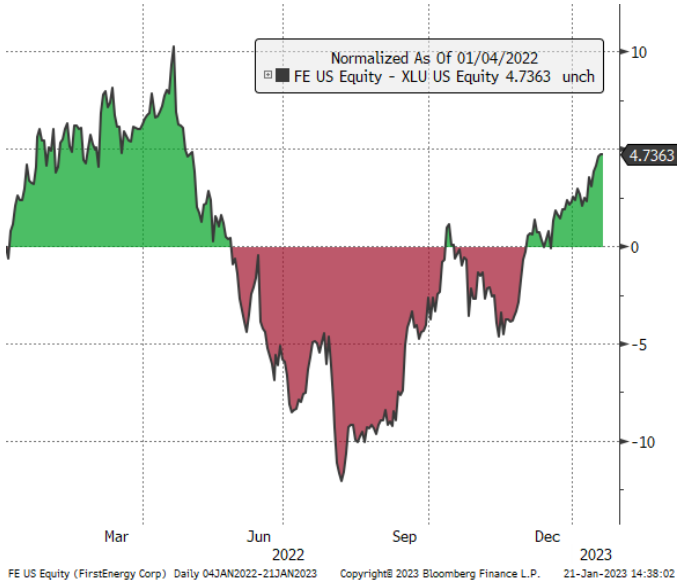
Exhibit 28: FE Relative 2024E P/E versus Utilities Peers (XLU)
While FE appears to trade at a ~8% discount on Street, we are much lower



Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 29: FE Equity Performance vs Utilities Peers (XLU)
FE has significantly outperformed in recent weeks and months



Source: Bloomberg

BofA GLOBAL RESEARCH

2023 Drivers: BofA -3% below Consensus

We forecast $2.41 2023 EPS, -3% below $2.49 Consensus and -6% lower than $2.55-$2.60 targeted operating midpoint. While management has implied an ability to offset more of the $0.45 pension headwind with Signal Peak contribution, this would create a more challenging base year for a prospective 2023+ EPS CAGR.

- **Key Drivers:** +4c/sh uplift from Distribution rates and riders in 2023. Ohio rate credits are $60Mn in 2023 versus $80Mn in 2024, resulting in +3c YoY EPS uplift. We estimate $1,490Mn rate base growth at Transmission. However, EPS growth from higher Transmission investment should taper off in 2H23, following the 1H23 expected ~30% FE Transmission sale. -4c/sh decrease from 19.9% FET sale on May 31, 2022.

- **Pension & Offsets:** Consistent with management commentary, we expect -45c/sh pension headwind in 2023. Management detailed 30c/sh in offsets. We anticipate +12c/sh corporate O&M offset and +16c/sh regulated O&M offset. We flag the +16c/sh regulated O&M costs is supported by ~14c/sh O&M pull-forward in FY22. Additionally, we forecast +~7-8c/sh related to 2022 debt paydown. Thus, we credit management with achieving -10c/sh drag related to pension headwind on a net basis (versus -15c/sh guidance as of 3Q22 earnings call).

- **Swing factors: 1H23 FET Sale.** We assume 30% FET sale, consistent with mgmt commentary, which would lead to proforma ~51% FET ownership by year-end 2023. Given $485Mn BofAe FET earnings in 2023, we estimate -13c/sh 2H23 impact from the divestment. This is mostly offset by +12c/sh favorable EPS from corporate debt paydown in 2H23. Yet, we flag that the sale does not appear *accretive* (-1c initially), with the post-tax interest cost benefits falling slightly short of the full 2023 net income impact. Relative dilution should be accentuated over time due to decelerated core ratebase growth. **Signal Peak** income remains another key unknown. Strong 2022 coal prices drove BofAe ~18c/sh EPS uplift in 2022 (see details in Exhibit 7). We expect positive YoY EPS variance from still-elevated coal prices in 1H23 will be offset by moderation in 2H23 Signal Peak earnings. All said, expect net no impact to annual FY23 EPS from Signal Peak earnings following a strong FY22.

Exhibit 30: FirstEnergy 2023 Earnings Walk
We forecast $2.41 FY23 EPS versus $2.49 Consensus.

FE Earnings Walk	EPS	1Q23	2Q23	3Q23	4Q23
FY22A Adjusted EPS	**$2.45**	**$0.60**	**$0.53**	**$0.79**	**$0.53**
Distribution: Rates & Riders	0.04	0.01	0.01	0.01	0.01
OH Rider AMI (Grid Mod II - $626Mn over four years)	0.01	-	-	0.00	0.00
OH Rider DCR:$580Mn annual capex = $10-$15Mn revenue	0.02	0.00	0.01	0.01	0.00
NJ AMI: **2023-2025.** $90Mn program via IIP	0.00	0.00	0.00	0.00	0.00
NJ EE: $203Mn 2021-2024	0.00	0.00	0.00	0.00	0.00
NJ EV Charging: $40Mn 2022-2025	0.00	0.00	0.00	0.00	0.00
PA LTIIP: Up to $572Mn '20-'24: $180MN as of 9/30/21	0.01	0.00	0.00	0.00	0.00
PA Smart Meter: ~$100Mn FY22	0.00	0.00	0.00	0.00	0.00
WV Solar: $100Mn 2022-2025	0.00	0.00	0.00	0.00	0.00
Other	-	-	-	-	-
Distribution: Weather-Adjusted Demand	-	-	-	-	-
Distribution: Weather Demand	(0.04)	(0.02)	-	(0.03)	0.01
Ohio Rate Credits: $60Mn 2023	0.03	0.01	0.01	0.01	0.01
Vegetation Management Accounting Policy Change	-	-	-	-	-
Regulated Generation Commodity Margin Demand	-	-	-		-
Transmission Investment: +$1,490Mn rate base @ 80%	0.08	0.02	0.02	0.02	0.02
Transmission Divestiture: 19.9% in FET. May 31, 2022	(0.04)	(0.02)	(0.02)	-	-
2023 T&D Divestment: BofAe 30% FET Sale	(0.13)	-	-	(0.06)	(0.06)
Operating Expense – Regulated	0.16	0.04	0.04	0.04	0.04
Pension/OPEB – Regulated	(0.45)	(0.11)	(0.11)	(0.11)	(0.11)
Net Financing Costs: Regulated	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)
Operating Expense – Parent	0.12	0.03	0.03	0.03	0.03
Pension/OPEB – Parent	-	-	-	-	-
Net Financing Costs: Parent. HoldCo and Revolver	0.19	0.04	0.04	0.06	0.06
Net Financing Costs: Parent. Reduced Penalty Interest Rate	0.01	0.00	0.00		
Effective Tax Rate	-				
Accretion / Dilution	0.01	0.00	0.00	0.00	0.00
Signal Peak Mining Income	-	0.05	0.01	(0.03)	(0.03)
Other: Reversal of 2021 Negatives & Other	-				
FY23E Adjusted EPS	**$2.41**	**$0.64**	**$0.57**	**$0.71**	**$0.49**
FY23 Consensus	**$2.49**	**$0.66**	**$0.54**	**$0.80**	**$0.52**
BofA *Forecasted* Beat/(Miss) vs Consensus	**-3%**	**-2%**	**5%**	**-10%**	**-5%**
FY23 Adj EPS Guidance					
BofA *Forecasted* Beat/(Miss) vs Guidance	**-6%**				

Source: Company Filings, Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

2022 Drivers: In-line with Consensus

We forecast $2.45 FY22 EPS slightly above $2.44 Consensus and $0.53 4Q22 EPS versus $0.52 Consensus.

- **4Q Key Drivers:** +1c/sh from slightly warmer weather across FE jurisdictions versus 4Q21. -3c/sh drag from vegetation management accounting changes, less drag versus 1Q-3Q22 given FE started implementing the policy late-2021. +4c/sh full quarter impact from Corporate debt paydown.

- **Swing factors:** Signal Peak mining income. Expect similar YoY uplift versus 3Q22, although we note Signal Peak cut production by ~30% in December 2022. O&M pull forward: forecast similar YoY O&M reduction as 3Q22.

Exhibit 31: First Energy 2022 Earnings Walk
We forecast $2.45 FY22 EPS versus $2.44 Consensus / $2.40 midpoint of mgmt guidance.

FE Earnings Walk	EPS	1Q22	2Q22	3Q22	4Q22
FY21A Adjusted EPS	**$2.60**	**$0.69**	**0.59**	**0.82**	**$0.51**
Distribution: Rates & Riders	0.03	(0.01)	0.02	0.01	0.01
OH Rider AMI: $516Mn Sept '19-Aug '22. $340Mn as of 12/31/21	0.02	0.00	0.01	0.00	0.00
OH Rider DCR:$580Mn annual capex = $10-$15Mn revenue	0.02	0.00	0.01	0.00	0.00
NJ AMI: **2023-2025.** $90Mn program via IIP	-				
NJ EE: $203Mn 2021-2024	0.00	0.00	0.00	0.00	0.00
NJ EV Charging: $40Mn 2022-2025	0.00	0.00	0.00	0.00	0.00
PA LTIIP: Up to $572Mn '20-'24: $180MN as of 9/30/21	0.01	0.00	0.00	0.00	0.00
PA Smart Meter: ~$100Mn FY22	0.01	0.00	0.00	0.00	0.00
WV Rural Broadband: $70Mn **2023-2025**	-	-	-	-	-
WV Solar: $100Mn 2022-2025	0.00	0.00	0.00	0.00	0.00
Other	(0.03)	(0.02)	0.00	(0.00)	(0.00)
Distribution: Weather-Adjusted Demand	(0.03)	0.00	(0.01)	(0.01)	(0.01)
Distribution: Weather Demand +$0.03 1Q-3Q 2021	0.03	0.01	(0.01)	0.02	0.01
Ohio Rate Credits: $80Mn 2022	(0.11)	(0.03)	(0.03)	(0.03)	(0.03)
Vegetation Management Accounting Policy Change	(0.18)	(0.05)	(0.05)	(0.05)	(0.03)
Regulated Generation Commodity Margin Demand	-	-	-		-
Transmission Investment: +$1,490Mn rate base @ 80%	0.10	0.03	0.01	0.03	0.03
Transmission Divestiture: 19.9% in FET. May 31, 2022	(0.04)	-	(0.01)	(0.01)	(0.02)
Operating Expense – Regulated	(0.14)	(0.02)	(0.06)	(0.03)	(0.03)
Pension/OPEB – Regulated	(0.00)	(0.01)	0.01	(0.01)	0.01
Net Financing Costs: Regulated	0.01	(0.01)	0.01	0.01	(0.00)
Operating Expense – Parent	0.04	0.02	0.01	0.01	0.01
Pension/OPEB – Parent	-	-	-	-	-
Net Financing Costs: Parent. HoldCo and Revolver	0.09	0.01	0.02	0.02	0.04
Net Financing Costs: Parent. Reduced Penalty Interest Rate	0.01			0.00	0.00
Effective Tax Rate - Corp. 20.5% 2021 vs 21-24% 2022	(0.03)		0.01	(0.02)	(0.02)
Dilution: $1Bn @ $39.08	(0.14)	(0.04)	(0.04)	(0.04)	(0.02)
Signal Peak Mining Income	0.18	0.01	0.05	0.06	0.06
Other: Reversal of 2021 Negatives & Other	0.03	(0.00)	0.01	0.01	0.01
FY22E Adjusted EPS	**$2.45**	**$0.60**	**$0.53**	**$0.79**	**$0.53**
FY22 Consensus	**$2.44**	**$0.62**	**$0.53**	**$0.79**	**$0.52**
BofA *Forecasted* Beat/(Miss) vs Consensus	**0%**	**-3%**	**2%**	**0%**	**1%**
FY22 Adj EPS Guidance	**$2.30-$2.50**	**$0.55-$0.65**	**$0.46-$0.56**	**$0.70-$0.80**	**$0.47-$0.57**
BofA *Forecasted* Beat/(Miss) vs Guidance	**2%**	**0%**	**5%**	**5%**	**5%**
	2.40	**0.60**	**0.51**	**0.75**	**0.50**
Weighted Shares in 2021	545.3	543.0	544.0	544.0	550.0
Weighted Shares in 2022	571.6	571.0	571.0	572.0	572.6

Source: BofA Global Research estimates, Company Filings, Bloomberg

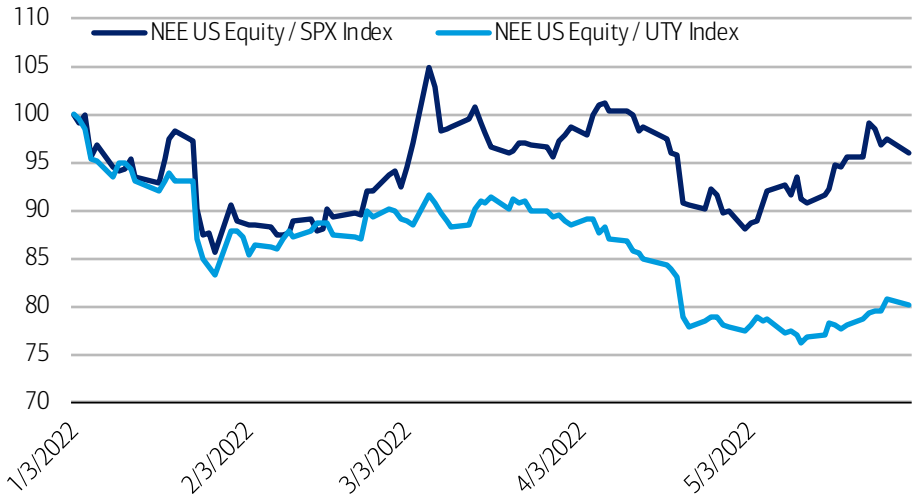
NextEra Energy (NEE)

(Originally published on Jan 19, 2023)

Stock performance through 2022

NEE was a stark underperformer early in 2022, which we believe is largely due to the U.S. Commerce Department's investigation into potential solar panel tariff circumvention across the industry. Announced in March, the investigation spurred NEE to disclose expectations for 2.1-2.8 GW of 2022 solar/storage projects may shift to 2023 due to the investigation. Despite mgmt. stressing renewable development plans were to remain unchanged for 2021-2024 in total, shares clearly were adversely affected.

Exhibit 32: NEE relative stock performance
Start of 2022 through tariff waive

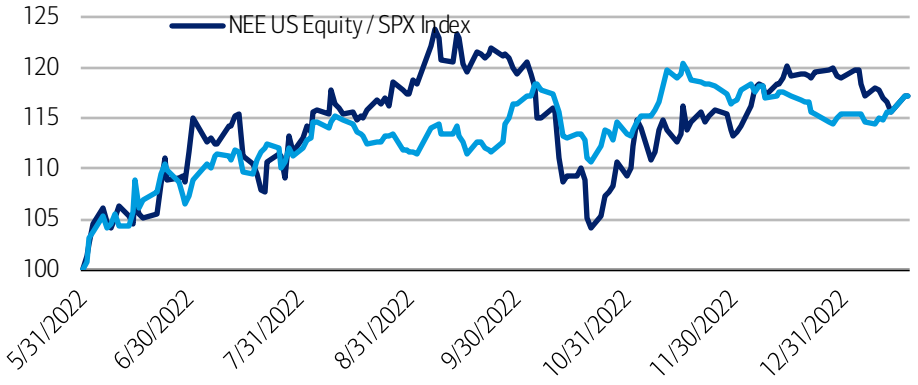


Source: Bloomberg, BofA Global Research

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Beginning in June, NEE shares shifted trajectory to outperformance following President Biden's tariff waive, effectively negating effects from the Commerce Department investigation. With a duration of 24-months, the exemption provided renewable developers (and investors) with improved visibility to near-term project progress.

Exhibit 33: NEE relative stock performance
Tariff waive to present – yes, Analyst day, IRA and cresting of rate concerns appear to have contributed to recovery.



Source: Bloomberg, BofA Global Research

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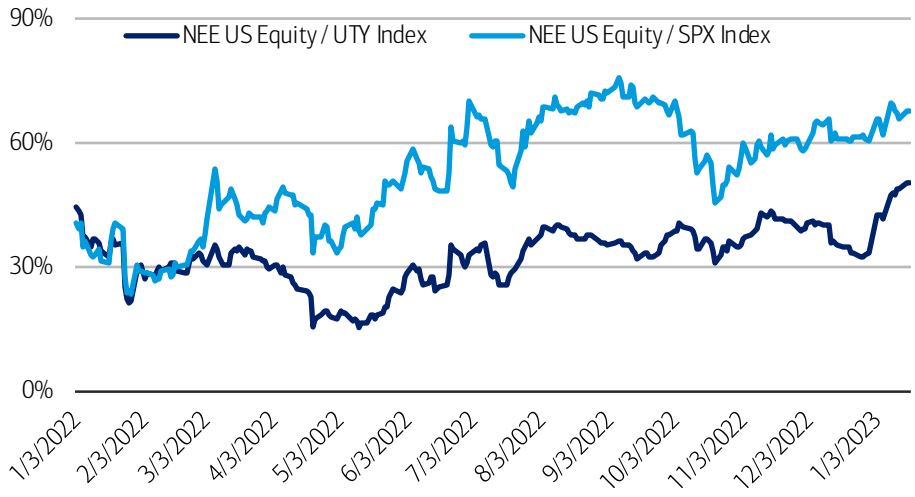
A similar dynamic can be seen in valuation, with NEE's premium vs. peers and the broader market shrinking early on in 2022 before rebounding mid-year and climbing higher following the passage of the IRA. Critically in the near-term we continue to watch backlog trends across all segments.

Explaining the latest & what we expect on 4Q:

We broadly do not expect meaningful upside to forward year targets on procurements considering the robust expectations set at the Analyst Day. Recall at this time the update contemplated a roll-off of wind production tax credits (PTCs) which would have led too robust procurement in 2025. We expect delayed upside to wind (expect weaker adds on this front) to be offset by more solar & storage procurement, bolstered by novel hydrogen procurement. Also expect updates on the RNG front (given its 3Q acquisition of existing waste-gas gen assets). Critically look for an update on repowering activities given extended credits too following 3Q commentary: expect this to be only modest initially.

On balance, clearly a positive setup on 4Q and 2023 EPS estimates, but don't anticipate a big uptick yet from IRA. With rules still outstanding from IRS on how to interpret the IRA we note some delays in procurement activity despite what some investors may otherwise have been expecting. This should still prove a positive call; moreover, with many investors still subtly cautious about datapoints on Florida, the lack of any new disclosed negatives on either the call or embedded in the 10k will drive shares higher regardless of any renewable datapoints. Investors need to appreciate wariness of many around FPL – this will still drive incremental moves in shares thru 1H. We also attribute rally of late to seeming 'cresting' of rate concerns across infrastructure investors, driving disproportionate move higher in NEE shares vs many peers.

Exhibit 34: NEE relative valuation
Forward P/E vs. peers and S&P 500: returning to near its former highs as bid for utility-scale returns



Source: Bloomberg, BofA Global Research

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4Q22 and FY23 Earnings Walks

We forecast 4Q22 adj. EPS of $0.54, **a 9% beat vs. Consensus and 18% beat vs. implied guidance**. Key positive drivers include growth at FPL (+$0.05), NEER investment (+$0.04) and the reversal of one-time expenses in 4Q21 (~$140 mil. or $0.07/share). We acknowledge uncertainty related to wind performance (we model a -$0.01 drag) as well as potential for D&A creep given renewable deployments.

Exhibit 35: NEE 4Q22E Earnings Walk
We forecast a $0.04/share beat vs. Consensus

NextEra Energy (NEE) Earnings Walk	FY22	1Q22A	2Q22A	3Q22A	4Q22E
Prior Period (FY21)	**$2.54**	**$0.67**	**$0.71**	**$0.75**	**$0.41**
FPL New Rates + Growth	$0.15	$0.04	$0.04	$0.03	$0.04
FPL NW New Rates + Growth	$0.03	$0.01	$0.01	$0.01	$0.01
Rates + Growth	**$0.19**	**$0.05**	**$0.05**	**$0.04**	**$0.05**
Other (O&M, D&A, interest, etc.)	$0.03	$0.00	$0.00	$0.03	$0.00
FPL	**$0.22**	**$0.05**	**$0.05**	**$0.07**	**$0.05**
New Investment (incl Transmission)	$0.06	$0.00	$0.00	$0.02	$0.04
Existing Assets & Storage Assets	$0.06	$0.05	$0.03	-$0.02	-$0.01
Customer Supply & Trading	$0.06	-$0.02	$0.02	$0.06	$0.00
Gas Infrastructure	$0.00	-$0.02	$0.01	$0.01	$0.00
Transmission	$0.02	$0.01	$0.00	$0.01	$0.00
NEER Base	**$0.19**	**$0.02**	**$0.06**	**$0.08**	**$0.03**
Other (D&A, interest, taxes, etc.)	-$0.02	$0.00	$0.00	-$0.02	$0.00
NEER	**$0.17**	**$0.02**	**$0.06**	**$0.06**	**$0.03**
Corporate & Other	$0.02	$0.00	-$0.01	-$0.03	$0.06
Dilution	$0.00	$0.00	$0.00	$0.00	$0.00
Current Period	**$2.94**	**$0.74**	**$0.81**	**$0.85**	**$0.54**
FY22 Diluted Shares	1,980	1,974	1,973	1,979	1,993
FY21 Diluted Shares	1,973	1,973	1,973	1,973	1,973
Consensus Estimates	$2.88	$0.72	$0.76	$0.80	$0.50
FY22 Guidance/Historical Quarters	**2.80-2.90**	$0.75	$0.80	$0.84	$0.46
BofA vs Consensus	2%	3%	7%	7%	9%
BofA vs Guidance/Historical Quarters	3%	-2%	2%	1%	18%

Source: Company filings, BofA Global Research

BofA GLOBAL RESEARCH

For FY23, we forecast adj. EPS of $3.23 (+**4% above current consensus and +6% above the midpoint of guidance**). Here, again, growth at FPL (+$0.05) and new investments at NEER (+$0.09) drive the yoy increase. On the negative side, we forecast a drag from existing wind assets (-$0.07), representing performance normalization following a strong year in 2022, while dilution also represents a slight drag (-$0.01).

Exhibit 36: NEE FY23E Earnings Walk
We forecast FY23 EPS $0.10/share above the high-end of guidance

NextEra Energy (NEE) Earnings Walk	FY23	1Q23A	2Q23A	3Q23A	4Q23A
Prior Period (FY22)	**$2.94**	**$0.74**	**$0.81**	**$0.85**	**$0.54**
FPL New Rates + Growth	$0.18	$0.04	$0.04	$0.04	$0.04
FPL NW New Rates + Growth	$0.03	$0.01	$0.01	$0.01	$0.01
Rates + Growth	**$0.21**	**$0.05**	**$0.05**	**$0.05**	**$0.05**
Other (O&M, D&A, interest, etc.)	$0.00	$0.00	$0.00	$0.00	$0.00
FPL	**$0.21**	**$0.05**	**$0.05**	**$0.05**	**$0.05**
New Investment (incl Transmission)	$0.09	$0.01	$0.01	$0.02	$0.05
Existing Assets & Storage Assets	-$0.07	-$0.04	-$0.07	$0.03	$0.00
Customer Supply & Trading	$0.02	$0.00	$0.00	$0.00	$0.00
Gas Infrastructure	$0.02	$0.00	$0.01	$0.01	$0.00
Transmission	$0.02	$0.00	$0.01	$0.01	$0.00
NEER Base	**$0.07**	**-$0.01**	**-$0.04**	**$0.06**	**$0.06**
Other (D&A, interest, taxes, etc.)	$0.00	$0.00	$0.00	$0.00	$0.00
NEER	**$0.07**	**-$0.01**	**-$0.04**	**$0.06**	**$0.06**
Corporate & Other	$0.05	$0.01	$0.02	$0.02	$0.01
Dilution	-$0.05	-$0.01	-$0.01	-$0.02	-$0.01
Current Period	**$3.23**	**$0.79**	**$0.83**	**$0.96**	**$0.65**
FY23 Diluted Shares	2,014	1,993	1,993	2,021	2,049
FY22 Diluted Shares	1,980	1,974	1,973	1,979	1,993
Consensus Estimates	$3.11	$0.58	$0.80	$0.99	$0.62
FY22 Guidance/Historical Quarters	**2.98-3.13**	$0.77	$0.84	$0.88	$0.56
BofA vs Consensus	4%	37%	4%	-3%	4%
BofA vs Guidance/Historical Quarters	6%	2%	-1%	9%	15%

Source: Company filings, BofA Global Research

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Valuation: Reiterate Buy after move up

We reiterate our $94 PO which is based on our sum-of-the-parts (SOTP) analysis. While our PO is unchanged, we do make a few key changes to our SOTP. First, we roll forward to 2025 EPS and EBITDA (from 2024 previously) and assign corresponding 2025 peer multiples of 16.3x and 9.8x. We also increase the premium on contracted renewables to 8x (from 4x) to reflect the value uplift afforded by NEE's recent decision to adopt the PTC (production tax credit) for solar deployments (vs. ITC [investment tax credit] previously). We see a clear positive backdrop to prospects on assets altogether. For our DCF of new renewables in 2025+, we now formally include a terminal multiple in our Devco to perpetuity value of the IRA (Inflation Reduction Act) passage. For gas infrastructure we increase the discount to -3x (vs. -1x previously) given recent declines in natural gas pricing. We attribute recent strength to bid for renewables altogether as prospects for renewable deployment in declining commodity environment for poly and panels contribute to renewed enthusiasm. We agree on wider pivot back to utility-scale.

Exhibit 37: Updated valuation keeps value split 60/40 in favor of the Utility
See full details below; summary below.

NextEra Energy (NEE) Simplified SOTP:	2025	Metric	Multiple	Prem (Disc.)	$/Sh	Prior
Utilities (FPL, Gulf Power, Transmission. Water)	$2.57	EPS	21.2x	30%	$54.42	*$53.84*
Unregulated Energy Resources	$8,454	EBITDA	17.1x	75%	$40.76	*$40.65*
NextEra Energy Partners (NEP) LP Stake	$101	Shares	$76	$/sh	$3.68	*$4.05*
NextEra Energy Partners (NEP) GP Stake	$157	FCF	13.9x		$1.04	*$1.41*
Corporate & Other	-$0.34	EPS	17.1x	5%	-$5.75	*-$6.00*
NextEra Energy	**3.50**	**EPS**	**26.9x**	**57%**	**$94**	***$94***
Dividend Yield					2.0%	
Total Return Potential					**11.6%**	

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
NextEra Energy: Looking for subtle positive revisions with 4Q; Maintain Buy, $94 PO	Julien Dumoulin-Smith	19 January 2023
US Utilities & IPPs: PowerPoints: ETR, GNRC, UGI/AEP Mgmt, PCG FVT, NEE/PCG Insurance, TELL, Power	Julien Dumoulin-Smith	02 November 2022
NextEra Energy: 3Q22: Still Waiting for IRA Benefit - Lackluster Initial Update. Buys into RNG	Julien Dumoulin-Smith	28 October 2022

See full details below:

Exhibit 38: NEE Sum-of-the-Parts
Implies a $94 PO

All figures in $mn except per share	Metric	Valuation Metric	Peer	Prem/ Discount	Low	Base	High	Equity Value Low	Equity Value Base	Equity Value High
Utility-Business										
	2025 EPS		Peer	Prem/ Discount	Low	Base	High	Low	Base	High
Group Peer Multiple - Electric	-		16.3x	-	-	-	-	-	-	-
Group EPS '21-'25 CAGR - Electric	-		5.00%	-	-	-	-	-	-	-
	-			-	-	-	-	-	-	-
			17.1x	-	-	-	-	-	-	-
Florida Power & Light	$2.26	P/E		4.0x	20.1x	**21.1x**	22.1x	$45.54	$47.81	$50.07
NextEra Transmission	$0.13	P/E		5.0x	21.1x	**22.1x**	23.1x	$2.72	$2.84	$2.97
NextEra Water	$0.01	P/E		0.0x	26.8x	**27.8x**	28.8x	$0.24	$0.25	$0.26
Florida Power & Light NW	$0.17	P/E		4.0x	20.1x	**21.1x**	22.1x	$3.35	$3.52	$3.69
Utility-Business value per share								**$51.9**	**$54.4**	**$57.0**
NextEra Energy Resources (Non-utility Business)		**Valuation Metric**		**Valuation**				**Enterprise Value**		
	2025EBITDA		Peer	Prem/ Discount	Low	Base	High	Low	Base	High
Contracted Assets			9.8x							
Contracted Renewables	$3,442	EV/EBITDA		8.0x	16.8x	**17.8x**	18.8x	$57,819	$61,261	$64,702
NPV of Renewable Development ('24+)		DCF			9%	**9%**	9%	$42,124	$42,124	$42,124
Contracted Nuclear	$577									
Point Beach	$475	DCF			8%	**8%**	8%	$3,032	$3,032	$3,032
Contracted Gas (MA, NJ, NY)	$59	EV/EBITDA		1.0x	9.8x	**10.8x**	11.8x	$578	$637	$696
Texas pipelines (NET)	$200	EV/EBITDA		1.0x	9.8x	**10.8x**	11.8x	$1,960	$2,160	$2,360
Less: NEP EBITDA (adjusted for Equity Earnings)	-$903	EV/EBITDA		**7.5x**	16.3x	**17.3x**	18.3x	-$14,735	-$15,639	-$16,542
Plus: DCF of Existing Tax Credits	$4,295	DCF			5%	**5%**	5%	$4,295	$4,295	$4,295
Plus: DCF of Future Tax Credits	$34,834	DCF			5%	**5%**	5%	$34,834	$34,834	$34,834
Less: DCF of Future DMI Benefits	-$7,766	DCF			5%	**5%**	5%	-$7,766	-$7,766	-$7,766
Merchant Assets										
Merchant Wind (Texas) - Open	$234	EV/EBITDA		4.0x	12.8x	**13.8x**	14.8x	$2,992	$3,226	$3,460
Hedge Value	$8	DCF			6%	**6%**	6%	$488	$488	$488
Other	$16	EV/EBITDA		-1.0x	7.8x	**8.8x**	9.8x	$124	$140	$156
Merchant Nuclear (Seabrook Plant in ISO-NE/NH)	$202	DCF			8%	**8%**	8%	$1,560	$1,560	$1,560
Oleander & Stanton	$92	EV/EBITDA		-1.0x	7.8x	**8.8x**	9.8x	$718	$810	$902
Other Assets										
Pipelines	$392	EV/EBITDA		1.0x	9.8x	**10.8x**	11.8x	$3,844	$4,236	$4,628
Gas Infrastructure (E&P)	$882	EV/EBITDA		-3.0x	5.8x	**6.8x**	7.8x	$5,116	$5,998	$6,880
Customer Supply & Trading	$641	EV/EBITDA		-1.0x	7.8x	**8.8x**	9.8x	$5,000	$5,641	$6,282
RNG	$123	DCF @ 8%		Implied Multiple ->		**8.1x**		$996	$996	$996
Less: Allocated Corporate G&A	-$350	EV/EBITDA		0.0x	8.8x	**9.8x**	10.8x	-$3,080	-$3,430	-$3,780
Total NEER	**$8,454**					**17.1x**		**$139,899**	**$144,603**	**$149,307**
Less Debt										
NEE Total Debt								$85,144	$85,144	$85,144
-FP&L & Gulf Debt								-$24,062	-$24,062	-$24,062
-Transmission, Water, RNG Associated Debt								-$2,106	-$2,106	-$2,106
NEER & NECH Debt								$58,976	$58,976	$58,976
NextEra Energy Resource Equity Value								**$80,923**	**$85,627**	**$90,331**
Corporate & Other	**-$0.34**	P/E		0.0x	16.1x	17.1x	18.1x	-$5.41	-$5.75	-$6.09
Total Equity Value per share excl. NEP								**$85.0**	**$89.4**	**$93.9**
NextEra Energy Partners										
		NEE Owned Shares	NEP Share ($/sh)							
LP Market Value per Share		101.44	$76				$7,730	$3.68	$3.68	$3.68
GP Fee Value per Share							$2,188	$1.04	$1.04	$1.04
NEP Equity Value per share								**$4.7**	**$4.72**	**$4.7**
Total NextEra Energy Value per Share								**$90.0**	**$94.0**	**$99.0**

Source: BofA Global Research estimates

NiSource Inc. (NI)

No fireworks anticipated on 4Q after Nov. Analyst Day

We reiterate Buy on shares of NiSource into 2023 after the company's November 2022 Analyst Day which set a more conservative outlook. See our deep dive here: Our Updated Take on Shares Post A-Day: 'Terminal EPS' Intact - Reiterate Buy 08 November 2022. With freshly updated guidance and no major developments over the past two months, we anticipate a relatively low-key 4Q call with consistent messaging. We will be listening for management characterization of the NIPSCO electric rate case process with February the critical settlement window. Intervenor testimony was filed on January 20th and our initial read did not indicate material negative areas of disagreement but we intend to dive deeper.

Even constructive jurisdictions had unexpected negative curveballs in 2022, notably Wisconsin and Michigan, so we are cognizant of the risks here. In a world where we see more risks than opportunities overall (2023 outlook report here: Risks Outnumber Opportunities in the "Lost Year"), we see NiSource's plan as reasonable. The actions to proactively reduce the customer bill impacts (capex reduction and staggering rate increases) should help to deliver constructive outcomes. We see mgmt. as having already 'taken the hit' for customer affordability as part of its efforts to its state regulators.

4Q22/FY22 EPS In-Line

Our $0.48 4Q22 adjusted EPS estimate puts NiSource at $1.45, in-line with its recently tightened FY22 guidance midpoint of $1.44-$1.56. There is +$0.09 YoY improvement in 4Q22, a large increase which is common given the seasonality of the business and timing of rate relief under the general rate cases & trackers. A key assumption is that the YTD trend of sharply higher operation & maintenance (O&M costs) moderate. Management noted that there are some discrete drivers of the +8% YoY YTD and that the rate could inflect favorably.

Exhibit 39: NiSource (NI) 4Q22 Earnings Drivers Walk
Penny beat on 4Q22 but FY22 in-line

NI Earnings Walk	4Q22
4Q21 Adjusted EPS Actual	**$0.39**
Rate Relief	
Indiana Gas GRC + Riders	0.04
Pennsylvania Gas GRC + Riders	0.04
Ohio Riders	0.03
Other Riders	0.01
O&M	0.01
Depreciation & Amortization	(0.03)
Interest Expense	(0.01)
Other Income: Lower Charitable Contribution YoY	0.01
Dilution	(0.01)
4Q22 Adjusted EPS BofA	**$0.48**
4Q22 Adjusted EPS Consensus	$0.47
BofA *Forecasted* Beat/(Miss) vs Consensus	1.8%
4Q22 Adjusted EPS Implied Guidance	$0.48
FY22 BofAe	$1.45
FY22 Guidance	**1.44-1.46**
FY22 Consensus	**$1.45**
BofA *Forecasted* Beat/(Miss) vs Consensus	0.2%

Source: Company Filings, Bloomberg, BofA Global Research

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FY23: Underpinned by substantial rate relief

The $1.50-$1.57 2023 EPS guidance presented at the Analyst Day appears reasonable but will require a reasonable and timely NIPSCO Electric general rate case outcome. Due to the seasonality of Indiana electric and the proposal to stagger the rate increase, the earnings benefit will be spread into FY24 and FY25. If there is an unfavorable element in Indiana, we would expect management to flex O&M lower and pull-forward some savings into 2023 embedded in the later periods of the plan.

Exhibit 40: NiSource (NI) FY23 and Quarterly Earnings Drivers Walk
BofAe in-line with Consensus for the full year with a 1Q23 miss

NI Earnings Walk	EPS	1Q	2Q	3Q	4Q
FY22A Adjusted EPS	**$1.45**	**$0.75**	**$0.12**	**$0.10**	**$0.48**
Rate Relief					
Gas: Ohio Rate Case: +$68Mn Early 2023	0.12	0.05	0.03	0.01	0.03
Gas: Virginia: September 28, 2022 Interim ~$41Mn	0.05	0.02	0.01	0.01	0.01
Gas: PA Rate Case: +$44.5Mn December 2022	0.08	0.03	0.02	0.01	0.02
Gas: MD Rate Case: +~$5Mn December 2022	0.01	0.00	0.00	0.00	0.00
Gas: IN Rate Case Step 1 +$71.8. Sept 2022	0.05	0.03	0.01	0.01	
Gas: IN Rate Case Step 2 +$71.8. March 2023	0.04		0.01	0.01	0.01
Gas: Ohio Riders ~$50Mn	0.10	0.04	0.02	0.01	0.02
Gas: NIPSCO TDISC: ~$5Mn	0.01	0.00	0.00	0.00	0.00
Gas: Virginia SAVE	0.01	0.00	0.00	0.00	0.00
Gas: Kentucky SMRP	0.01	0.00	0.00	0.00	0.00
Gas: Maryland STRIDE	0.00	0.00	0.00	0.00	0.00
Electric: NIPSCO Rate Case: +$292Mn Ask. Sept '23	0.05			0.01	0.04
Electric: NIPSCO TDISC: $10Mn Aug '22/$7Mn Feb '23	0.03	0.00	0.01	0.01	0.01
Electric: NIPSCO FMCA	0.01	0.00	0.00	0.00	0.00
Customer Growth: ~$5Mn electric/~$5Mn gas per year	0.02	0.00	0.00	0.00	0.00
Fuel Adjustment Clause YoY: Absence of FY22 Drags	0.01		-	0.01	
Normalize Off-System Sales	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)
Higher Taxes Other Than Income	(0.02)	(0.01)	(0.00)	(0.00)	(0.00)
AFUDC	0.04	0.00	0.01	0.01	0.02
O&M	(0.08)	(0.02)	(0.02)	(0.02)	(0.02)
Depreciation & Amortization	(0.16)	(0.03)	(0.04)	(0.05)	(0.05)
Interest Expense	(0.20)	(0.04)	(0.05)	(0.06)	(0.05)
Pension Expense: Reverse Out FY22 Drag	0.02	0.01	0.01	0.01	0.00
Other Income: Reverse Out FY22 COLI Drag	0.03	0.01	0.01	0.01	0.01
Effective Tax Rate	(0.02)	(0.02)	(0.00)	(0.01)	0.01
Dilution	(0.08)	(0.01)	(0.00)	(0.00)	(0.06)
FY23E Adjusted EPS	**$1.55**	**$0.82**	**$0.15**	**$0.09**	**$0.49**
FY23 Consensus	**$1.54**	**$0.86**	**$0.14**	**$0.09**	**$0.49**
BofA *Forecasted* Beat/(Miss) vs Consensus	**0%**	**-4%**	**9%**	**-3%**	**0%**
FY23 Adj EPS Guidance	**1.50-1.57**				
BofA *Forecasted* Beat/(Miss) vs Guidance	**1%**	**4%**	**16%**	**-18%**	**-3%**

Source: Company Filings, Bloomberg, & BofA Global Research

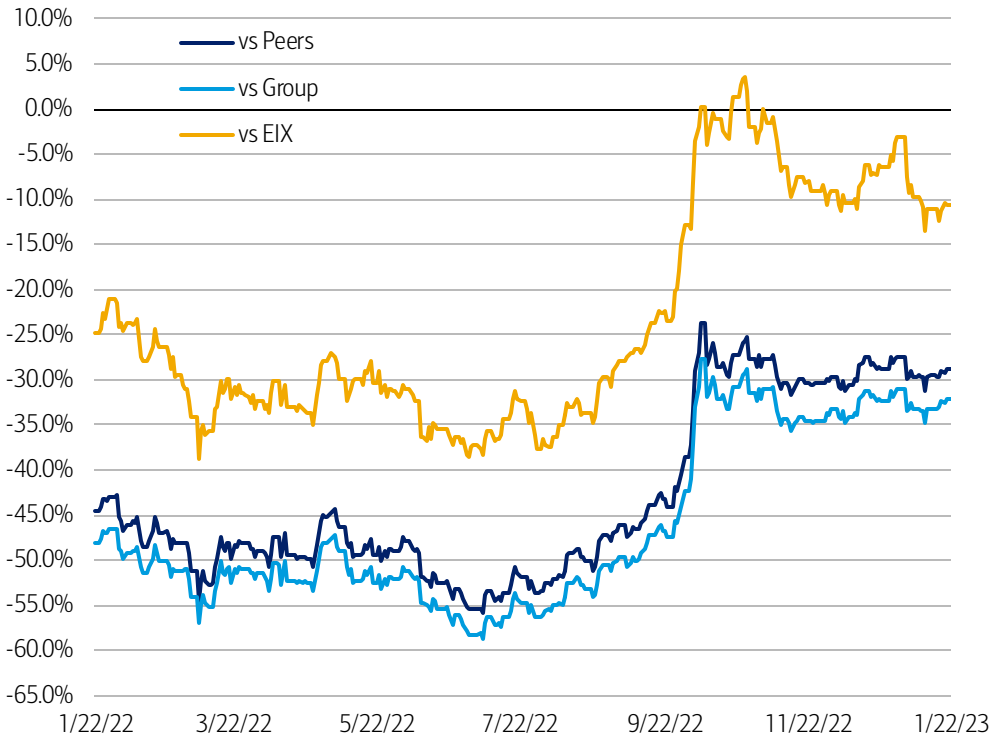
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See our detailed 4Q22 for more on regulatory proceedings and the outlook: NiSource Inc: The Hoosier Rundown: Indiana in the spotlight with lots of activity ahead 09 January 2023

PG&E Corporation (PCG)

PG&E Corp made strides to de-risk the outlook in 2022. Key developments include S&P 500 inclusion, undergrounding/nuclear legislative progress, non-nuclear generation asset sales to defer equity issuance and self-insurance settlement. While PCG outperformed the broader utilities group and CA peer Edison International (EIX) in 2H22, this trend has reverted YTD in part driven by extreme rainstorms in PCG's California jurisdiction and interest rate moderation unwinding the relative PCG vs. EIX pair trade. However, we see an increasingly favorable set-up for PCG into 2023. The advancement of PCG's 10k undergrounding plan should support above-average rate base and earnings growth that will kickstart in 2023. We monitor settlement updates in PCG's outstanding General Rate Case (GRC), although favorable California Public Utilities Commission (CPUC) decisions in 2022 cement a more constructive CA regulatory environment. Recent acceleration of Fire Victims Trust (FVT) share sales has pressured the stock in recent weeks. Yet, progress towards the removal of the FVT overhang should support outperformance in the medium-term. While favorable 2022 developments chipped away at the relative discount of PCG shares to utility peers, PCG shares continue to trade at ~6x discount (>30% discount) to the overall utility group. We reiterate Buy on PCG with shares trading at an overly discounted valuation despite above-average earnings growth and an increasingly derisked business profile. Affordability pressures and 2023 wildfire season remain key risks to monitor in 2023 but are overly priced-in considering the more constructive regulatory and political backdrop in California.

Exhibit 41: PCG Relative 2024E P/E versus Utilities Peers (XLU) and EIX
PCG outperformance has moderated YTD, and shares continue to trade at steep discount to utility peers



Source: BofA Global Research estimates, Bloomberg

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BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: California Reset? Refocusing on Core Outlook Post Wildfire Season	Julien Dumoulin-Smith	13 December 2022
US Utilities & IPPs: California Cost of Capital: ALJ proposal more positive than the headline read	Julien Dumoulin-Smith	11 November 2022
US Utilities & IPPs: California 3Q22: Dawn of a New Day for PCG and California Outlooks	Julien Dumoulin-Smith	18 October 2022
PG&E Corporation: Early stages of the re-rating, despite wildfire season. Constructive updates	Julien Dumoulin-Smith	14 September 2022
US Utilities & IPPs: The Golden State Rundown: Upgrade Sempra & Downgrade Edison International	Julien Dumoulin-Smith	14 July 2022

2023 Walk: FY23 EPS above high-end of PCG guidance

We forecast $1.29 FY23 adj. EPS, above the high-end of management's $1.19-$1.23 EPS guidance range and $1.22 Consensus. BofAe $1.29 FY23 EPS represents ~**18%** EPS growth versus BofAe $1.09 FY22 EPS. **The primary driver our above-average EPS forecast is PCG's 2022 and 2023 rate base guidance implies ~17% rate base growth in 2023, above 9.5% '21-'26 rate base CAGR.** *We expect management's FY23 EPS guidance imbeds conservatism, and FY23 EPS will comfortably exceed the high-end of the guidance range.*

- **Key Drivers:** +19c/sh EPS uplift from BofAe +8,500Mn transmission and distribution (T&D) rate base growth. This is partially offset by the California Cost of Capital (CoC) Decision which stipulated -25bp reduction to 2023 distribution ROE's. We forecast -3c reduction to 2023 EPS related to the CoC decision (details here: US Utilities & IPPs: California Cost of Capital: ALJ proposal more positive than the headline read 11 November 2022). -2c/sh from Unrecoverable interest expense given mgmt guidance. We forecast +6c/sh EPS uplift related to PCG's -2% annual cost savings target. While some of the cost savings will not impact EPS, we expect a similar EPS uplift as 2022.

- **Swing factors:** We assume +141Mn shares are issued in 2023 related to ~16Mn equity units issued in 2020. This would lead to -4c drag from According to PCG's 10K, the equity units represent the right to receive between 138Mn and 168Mn PG&E Corp common stock on settlement date. The settlement date of the equity unit purchase contracts is August 16, 2023, subject to postponement / acceleration. Due to the non-nuclear generation sale, PCG will not require incremental equity in 2023-2024.

Exhibit 42: PG&E Corp 2023 Earnings Walk
We forecast $1.29 FY23 EPS, +5% above the high-end of management's FY23 guidance range

PCG Adjusted Core Earnings Per Share Walk	FY23	1Q23	2Q23	3Q23	4Q23
FY22A Adjusted EPS	1.10	0.30	0.25	0.29	0.27
Ratebase Growth / AFUDC	0.19	0.05	0.05	0.05	0.05
2023 Cost of Capital Reduction Assumed	(0.03)	(0.01)	(0.01)	(0.01)	(0.01)
Unrecoverable Interest Expense: $370-$430 in FY23 vs $340-$370Mn FY22	(0.02)	(0.00)	(0.00)	(0.00)	(0.00)
Tax Benefits and Other Timing: 28% Statutory vs Assumed ~22%	0.02		0.02		
Cost savings: 2% per year (Not all for earnings)	0.06	0.02	0.02	0.02	0.02
Miscellaneous/Other	-	-	-	-	
Incremental Share Dilution: $100Mn vs $0-$250Mn Guide	(0.04)	(0.00)	(0.00)	(0.02)	(0.02)
FY23E Adjusted EPS	1.29	0.35	0.32	0.32	0.30
FY23 Consensus	1.22	0.26	0.28	0.25	0.26
FY23 Guidance	$1.19-$1.23				
BofA *Forecasted* Beat (Miss) vs. Consensus	6%	35%	15%	27%	15%
BofA *Forecasted* Beat (Miss) vs. Guidance	7%				
	1.21				
2023 Diluted Average Shares Outstanding	2,223	2,152	2,152	2,293	2,293
2022 Diluted Average Shares Outstanding	2,139	2,134	2,141	2,132	2,147

Source: BofA Global Research estimates, Company Filings, Bloomberg

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2022 Walk: In-line with Consensus

We estimate $1.10 FY22 EPS, in-line with $1.10 Consensus and $1.10 midpoint of management guidance. Our $0.27 4Q22 EPS estimate is slightly above $0.26 Consensus.

- **Key Drivers:** +2c YoY rate base growth, consistent with 1Q22-3Q22. We continue to forecast approx +1c/sh EPS uplift per quarter from annual cost savings initiatives. -3c from unrecoverable interest expense. We expect majority of unrecoverable interest is recognized in 2H22 given the 2H acceleration in interest rates. -2c from regulatory items / other consistent with mgmt guidance for ~5-6c/sh drag on EPS from 'other' items (unrecoverable interest, regulatory items, etc.).

Exhibit 43: PG&E Corp 2022 Earnings Walk
We forecast $1.10 FY22 EPS, in-line with $1.10 Consensus / guidance midpoint.

PCG Adjusted Core Earnings Per Share Walk	FY22	1Q22	2Q22	3Q22	4Q22
FY21A Adjusted EPS	1.00	0.23	0.27	0.22	0.28
Ratebase Growth / AFUDC	0.06	0.02	0.01	0.02	0.02
2022 Cost of Capital Reduction Assumed	-	-	-	-	-
Unrecoverable Interest Expense: $340-$370Mn FY22 vs ~$313Mn	(0.05)	(0.01)	-	(0.01)	(0.03)
Timing of Nuclear Refueling	0.01	0.01	-	-	-
Incentive Revenues: Core Procurement Incentive Mechanism (CPIM)	0.01	0.00	-	0.00	0.00
Tax Benefits and Other Timing: 28% Statutory vs Assumed ~22%	(0.00)	0.01	(0.05)	0.02	0.01
Cost savings: 2% per year (Not all for earnings)	0.07	0.03	0.01	0.02	0.01
Wildfire Mitigation Costs Above Authorized	(0.01)	(0.01)	-	-	-
Regulatory Items	(0.03)	-	-	-	(0.02)
Parent Interest Expense	-	-	-	-	-
PSPS Charges	-	-	-	-	-
Miscellaneous/Other	0.03	0.01	-	0.02	
Incremental Share Dilution: $100Mn vs $0-$250Mn Guide	(0.00)	(0.00)	0.00	-	(0.00)
FY22E Adjusted EPS	1.10	0.30	0.25	0.29	0.27
FY22 Consensus	1.10	0.26	0.28	0.25	0.26
FY22 Guidance	$1.07-$1.13				
BofA *Forecasted* Beat (Miss) vs. Consensus	-1%	15%	-11%	15%	-1%
BofA *Forecasted* Beat (Miss) vs. Guidance	-1%				
	1.10	0.25	0.30	0.27	0.31
2022 Diluted Average Shares Outstanding	2,139	2,134	2,141	2,132	2,147
2021 Diluted Average Shares Outstanding	1,985	2,131	2,146	1,985	2,128

Source: BofA Global Research estimate, Company Filings, Bloomberg

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Adjusted EPS: Maintain ~10% CAGR

We maintain FY24+ estimates given our view that the PCG narrative will remain 'landing the plane' at 10% EPS CAGR growth. We see ample cushion for ~10% earnings CAGR given the above-average rate base growth and continued cost savings initiatives. It is unclear whether PCG will roll forward earnings guidance to 2027 during 4Q22 earnings, given the outstanding General Rate Case (GRC) applies to 2023-2026 rate base and earnings. This implies less PCG visibility to 2027 earnings. We monitor for updates in the ongoing GRC, although we note settlement talks underway.

Exhibit 44: PG&E Corp Financial Snapshot
Path to 10% EPS growth remains strong

PCG EPS Estimates	2021E	2022E	2023E	2024E	2025E	2026E	2021-2026E
PCG EPS - BofA	$1.00	$1.10	$1.29	$1.47	$1.53	$1.61	10.0%
Guidance: ~10% EPS Growth from 2021	$0.95-$1.05	$1.07-$1.13	$1.21	$1.33	$1.46	$1.61	
BofA vs Guidance	-0.4%	0.0%	6.2%	10.3%	4.2%	-0.2%	
Consensus EPS	$1.00	$1.10	$1.22	$1.35	$1.45	$1.58	9.7%
BofA vs Consensus	0.0%	-0.1%	5.3%	8.8%	5.4%	1.6%	
BofA Change in Estimates		-0.9%	1.2%	-0.8%	-0.3%	0.4%	
PCG DPS	0.00	0.00	0.29	0.68	0.73	0.80	8.5%
Payout Ratio: ~60% Target Long-Term	0%	0%	23%	46%	48%	50%	

Source: BofA Global Research estimates, Company Filings, Bloomberg

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Valuation: Maintain PO at $19

Our $19 PO reflects an in-line 2025 P/E versus the respective electric (15.8x down from 16.4x 2025E) and gas (maintain at 16.4x 2025E) peer P/E groups with both grossed-up by 5% to reflect capital appreciation across the sector). The lower Electric multiple MtM is offset by slightly higher 2025 EPS estimates. 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.

Exhibit 45: PG&E Sum-of-the-parts Valuation
Maintain Buy on PCG, $19 PO

PG&E Corp (PCG) Sum of the Parts Valuation

Regulated Utilities	2025 EPS	Authorized ROE	P/E Multiple			Equity Value
PG&E Corp			Peer	Prem/ Discount	Base	
Group Peer Multiple - Electric			15.9x			
Group EPS CAGR - Electric			5.0%			
Group Peer Multiple - Gas			16.4x			
Group EPS CAGR - Gas			5.0%			
Electric Businesses						
Electric Utility (CPUC)	$0.56	9.93%	16.7x	0.0x	16.7x	$9.41
FERC Electric Transmission	$0.30	10.45%		0.0x	16.7x	$4.96
Gas Businesses						
Gas Utility (CPUC)	$0.47	9.93%	17.2x	0.0x	17.2x	$8.15
GT&S	$0.21	9.93%		0.0x	17.2x	$3.59
Corp & Other	-$0.02			0.0x	17.2x	-$0.29
Total EPS	$1.53					$25.82
Less: NPV of Ongoing Wildfire Contribution	-$439					-$0.20

	Prob weight	Annual prob-weighted	EPS impact	Multiple	Weighted
Annual wildfire fund reimbursement ($2.7 cap, 3-yr impact)	100%	-900	(0.42)	16.7x	-$6.98
HoldCo Debt Adjustment		Weighting			
Subtract: HoldCo Debt (net out 50%)	1,100	50%			-$0.26
Add Back: 50% of Interest Expense	$0.02	50%			$0.16

Total Equity Value Per Share	$19.00
Current Equity Price	$15.65
Potential Share Price Return	21.4%
NTM Dividend Yield: No DPS Until 2H23	0.9%
Potential Total Return	22.3%

Source: BofA Global Research estimates, Company Filings, Bloomberg

PPL Corp (PPL)

One of the most defensive utilities for 2023 & beyond

We reiterate Buy on shares of PPL which is one of our top picks for 2023 with a clear runway to positive re-rate to a premium versus peers with successful execution. Why do we like PPL so much despite the outperformance? PPL is one of the most defensive utilities with no rate case activity planned through 2026, one of the very few utilities with a 'clear runway'. Regulatory proceedings are a sector risk due to the high commodity environment leading to more stakeholder scrutiny; we witnessed many contentious proceedings in 2022 with challenging outcomes for peers. PPL can achieve this in large part by cutting absolute O&M ~11% 2021-2026 with a -2.5% 2022-2026 CAGR, even more impressive with the elevated inflation backdrop. PPL has one of the longest track records of cost control at its Pennsylvania subsidiary and will deploy the playbook to its newly acquire Rhode Island business. The Kentucky franchise agreed to a base rate stay-out in its last rate case and will implement many of the best practices from Pennsylvania which will help to control rate pressures, leading to goodwill with regulators. Lastly, the above-average balance sheet impressively remains solid without material erosion despite +$2.5Bn incremental capex in the plan.

FY2022 Annual and Quarterly Earnings Drivers

We estimate $0.30 4Q22 adjusted EPS, +9% above $0.27 Consensus but our $1.41 FY22 is in-line with $1.41 Consensus/$1.40 guidance midpoint. YoY earnings improvement comes from the acquired Rhode Island contribution, Pennsylvania transmission, and overall cost control. Our refreshed estimate is slightly above the midpoint and there is a small positive bias from weather and sales growth.

Exhibit 46: PPL FY2022 Annual and Quarterly Earnings Drivers
4Q22 beat but FY22 in-line with Street

Earnings Walk	EPS	1Q	2Q	3Q	4Q
2021E Adjusted EPS	$1.05	$0.28	$0.19	$0.36	$0.22
PA Regulated	**0.61**	**0.16**	**0.13**	**0.16**	**0.15**
Adjusted Margin	-		-	-	-
Base Sales Volume	0.01	0.01	-	-	-
Weather	0.01		-	-	0.01
Transmission Return	0.02		0.01	-	0.01
Transmission Peak Demand	0.03	0.02	0.01	-	-
Transmission ROE Reserve	-		-	-	-
Other	0.02	0.01	-	-	0.01
O&M	(0.02)	(0.03)	-	0.01	0.01
Other	0.04	0.02	0.02		-
Total PA Regulated	**0.72**	**0.19**	**0.17**	**0.17**	**0.19**
Guidance	**0.71**				
KY Regulated	**0.61**	**0.18**	**0.11**	**0.21**	**0.11**
Adjusted Margin					
Base Sales Volume	0.02	-	0.01	-	0.01
Weather	0.01	-	-	0.01	-
Rate Case: New Rates 7/1/21	0.10	0.06	0.04	-	-
O&M	-	-	(0.01)	(0.01)	0.02
Interest Expense	-	-	-	-	-
Other	(0.03)	0.01	(0.01)	(0.01)	(0.02)
Total KY Regulated	**0.71**	**0.25**	**0.14**	**0.20**	**0.12**
Guidance	**0.71**				
RI Regulated	**-**	**-**	**-**	**-**	**-**
Base Contribution: $150Mn earnings TTM 3/31/21					
Return on ~$300Mn capital					
Other					
Total RI Regulated	**0.09**	**-**	**0.01**	**0.04**	**0.04**
Guidance	**0.08**				
Corp & Other	**(0.17)**	**(0.06)**	**(0.05)**	**(0.01)**	**(0.04)**
Interest Expense	0.08	0.04	0.04		-
Other	-				
(Dilution)/Accretion	0.02			0.02	
Other	(0.03)	(0.01)	(0.01)	(0.01)	

Exhibit 46: PPL FY2022 Annual and Quarterly Earnings Drivers
4Q22 beat but FY22 in-line with Street

Earnings Walk	EPS	1Q	2Q	3Q	4Q
Total Corp & Other	(0.10)	(0.03)	(0.02)	-	(0.04)
Guidance	(0.10)				
2022E Adjusted EPS	$1.41	$0.41	$0.30	$0.41	$0.30
2022 Consensus	$1.41			$0.42	$0.27
BofA Expected Beat/(Miss) vs Consensus	0%			-4%	9%
Guidance	$1.35-$1.45				
Expected Beat/(Miss) vs Guidance	2%				

Source: Company Filings, Bloomberg, & BofA Global Research

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FY2023 Annual and Quarterly Earnings Drivers

Our FY23 $1.62 adjusted EPS is +3% above the new $1.50-$1.65 guidance midpoint and +2% higher than $1.59 Consensus. Similar to 2022, the large earnings improvement comes from an incremental 1H23 of Rhode Island earnings and cost reductions, primarily in Kentucky early in the multi-year plan. Corporate drag shaping around taxes could shift earnings a few cents but we still see relatively strong 1H23 based on known factors. PPL indicated that it will provide the detailed segment guidance with the 4Q22 call and the subsidiary guidances are BofA forecasts of anticipated guidance.

Exhibit 47: FY2023 Annual and Quarterly Earnings Drivers
FY23 YoY growth is front-end weighted, creating further momentum for shares

PPL Earnings Walk	EPS	1Q	2Q	3Q	4Q
2022 Adjusted EPS	$1.41	$0.41	$0.30	$0.41	$0.30
PA Regulated	0.71	0.19	0.17	0.17	0.19
Adjusted Margin	-		-	-	-
Base Sales Volume	-		-	-	-
Weather	(0.01)		-	-	(0.01)
Transmission Return	0.02	0.01	0.01	0.01	0.01
Other	-				
O&M	0.03	0.03	-		
Other	-				-
Total PA Regulated	0.75	0.23	0.18	0.17	0.18
Expected Guidance	$0.75				
KY Regulated	0.71	0.25	0.14	0.20	0.12
Adjusted Margin					
Base Sales Volume	0.01	-	0.01	-	-
Weather	(0.01)	-	-	(0.01)	-
O&M	0.06	0.01	0.01	0.01	0.02
Interest Expense	-	-	-	-	-
Other	-	(0.01)	0.01		
Total KY Regulated	0.76	0.25	0.17	0.20	0.14
Expected Guidance	$0.75				
RI Regulated	0.09	-	0.01	0.04	0.04
Base Contribution: $150Mn earnings TTM 3/31/21	0.07	0.04	0.02		
Return on ~$450Mn/$575Mn capital	0.05	0.01	0.01	0.01	0.01
Other	-				
Total RI Regulated	0.20	0.06	0.04	0.05	0.05
Expected Guidance	$0.20				
Corp & Other	(0.09)	(0.03)	(0.02)	-	(0.04)
Other					
Total Corp & Other	(0.09)	(0.03)	(0.02)	-	(0.04)
Expected Guidance	($0.11)				
2023 Adjusted EPS	$1.62	$0.51	$0.37	$0.43	$0.33
2023 Consensus	$1.59	$0.43	$0.35	$0.48	$0.35
BofA Expected Beat/(Miss) vs Consensus	2%	18%	5%	-11%	-6%
2023 Guidance	$1.50-$1.65				
Expected Beat/(Miss) vs Guidance	3%				

Source: Company Filings, Bloomberg, & BofA Global Research

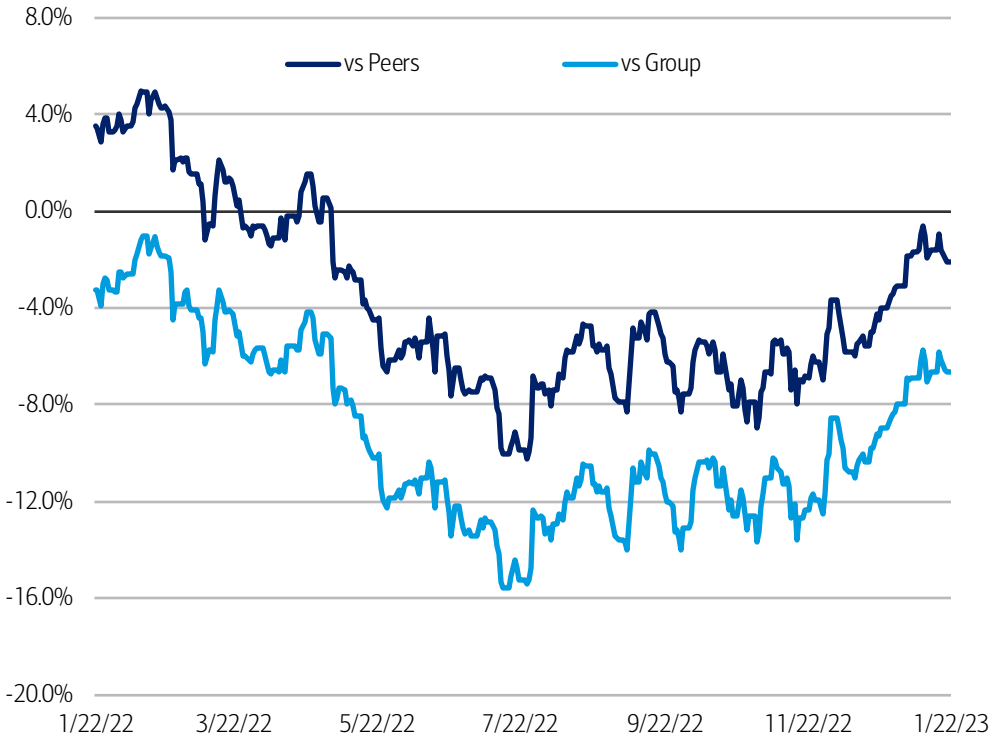
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See our latest thoughts below: PPL Corporation: PPL Takes Another Giant Step in Transformation: A Top Pick for 2023 17 January 2023

Public Service Enterprise Group (PEG)

PSE&G Corp (PEG) shares underperformed the broader utilities group throughout 2022 given the pension headwind and Edison Electric Institute (EEI) earnings update which implied lower-than-expected growth in 2025-2027. However, PEG shares have recovered from losses of late as investors begin to appreciate the relatively de-risked outlook following the EEI EPS 'reset'. PEG recently announced the sale of its stake in Ocean Wind 1 offshore wind project to Orsted. In our view, PEG's exit of its OSW project further derisks the business outlook given the inflationary pressures weighing on offshore wind project returns. All said, investor inbounds on PEG have been relatively muted as 2023 kicks off a quiet year for the company, specifically on the regulatory front. Key near-term catalysts include 4Q22 earnings pension disclosure for 'final' pension drag estimate, Board of Public Utilities (BPU) decision on pension accounting changes and the upcoming 2024/2025 PJM capacity auction. We reiterate Buy on shares of PEG with the company's uniquely low earnings and regulatory risk into 2023 driving de-risked growth outlook. See latest detailed update here: [Public Service Enterprise Group: 2022 disappointed but EPS upside & derisked outlook sets up well for 2023 16 December 2022]

Exhibit 48: PEG US Equity Price to 2024 Earnings (P/E) relative to broader utilities group (XLU)
PEG continues to trade at a discount to peers although shares have pared back losses of late.



Source: BofA Global Research estimates, Company Filings, Bloomberg

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BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Public Service Enterprise Group: 2022 disappointed but EPS upside & derisked outlook sets up well for 2023	Julien Dumoulin-Smith	16 December 2022
Public Service Enterprise Group: The most important EEI meeting? FY23 weak, but LT CAGR intact. Reiterate Buy	Julien Dumoulin-Smith	02 November 2022
US Utilities & IPPs: PowerPoints: PEG Offshore, NWE/AVA Colstrip, ETR LA, SO Vogtle, & ROE Trends	Julien Dumoulin-Smith	18 January 2023
US Utilities & IPPs: PowerPoints: AEP 206 Investigation, PEG/CEG Salem Offline, & DUK Outages	Julien Dumoulin-Smith	28 December 2022
US Electric Utilities & IPPs: PJM Publishes Winter Storm Charge Est of $1-2 Bn: Cautious, but who didn't perform?	Julien Dumoulin-Smith	12 January 2023

2023 Drivers: In-line w/ mgmt. guidance

We forecast $3.45 FY23 EPS versus $3.47 Consensus and $3.45 midpoint of mgmt FY23 EPS guidance.

- **PSE&G Key Drivers:** Increased spending through the newly approved Infrastructure Advancement program and YoY benefit from Conservation Incentive Program (CIP) true-up. +11c/sh from Transmission rate base growth. Management guided that PSE&G operating and maintenance (O&M) will continue to grow at ~3% CAGR through 2023. We forecast -8c/sh 2023 drag. With 2023 the test year for the upcoming 2025 PSE&G Utility rate case, we do not expect management will cut FY23 O&M to offset the pension drag.

- **Carbon-Free, Infrastructure and Other:** Higher FY23 hedged prices, management cites +4/MWh hedge price uplift in FY23. Higher nuclear generation in 2023 versus 2022 from absence of Hope Creek refueling. This is partially offset by lower capacity payments and higher financing costs – we forecast -11c/sh EPS drag from related to higher rates on $3.25Bn in floating rate debt to fund PEG Power collateral postings. Additionally, expect -4c/sh EPS drag at PEG parent related to refinancing of debt at 5.85% versus 2.65%.

- **Pension:** We continue to imbed net -$0.30 pension drag. Critically, this includes +$0.06 from BPU approval of accounting policy decisions and +$0.05 higher return on assets. The BPU decision is expected near-term, and we note the risk of higher pension drag if the BPU rejects PEG's request. Further, we acknowledge the +$0.05 from higher return on assets is a lower quality earnings driver and increases risk to FY23 earnings.

Exhibit 49: PEG 2023 Drivers
We forecast $3.45 FY23 EPS, in-line with the midpoint of management guidance.

PEG Earnings Walk	EPS	1Q23	2Q23	3Q23	4Q23
FY22A Adjusted EPS Prior	$3.43	$1.33	$0.64	$0.86	$0.60
FY22A PSEG Adjusted EPS Prior	$3.08	$1.01	$0.61	$0.80	$0.67
PSE&G Utility	(0.07)	0.03	(0.01)	(0.03)	(0.06)
Transmission	0.07	0.02	0.02	0.02	0.02
Rate Base Growth	0.11	0.03	0.03	0.03	0.03
Other	-0.04	(0.01)	(0.01)	(0.01)	(0.01)
Gas Margin	0.13	0.05	0.03	0.02	0.04
Conservation Incentive Program (CIP) True-Up	0.08	0.02	0.02	0.02	0.02
GSMP II (clause-based recovery) and demand	0.06	0.03	0.01	0.00	0.02
Gas Customer Count Increase	0.00	-	-	-	-
Other	-0.01	(0.00)	(0.00)	(0.00)	(0.00)
Electric Margin	0.11	0.02	0.02	0.03	0.03
Conservation Incentive Program (CIP) True-Up	0.04	0.01	0.01	0.01	0.01
Energy Strong II (clause-based recovery)	0.03	0.01	0.01	0.01	0.01
CEF-EE	0.03	0.01	0.01	0.01	0.01
CEF-EV	0.00	0.00	0.00	0.00	0.00
Infrastructure Advancement Program - Earnings in 2023	0.01	0.00	0.00	0.00	0.00
Other	0.00	-	-	-	-
Other Margin: Appliance Services 1H22	0.00	-	-	-	-
Distribution O&M	-0.08	(0.02)	(0.02)	(0.02)	(0.02)
Distribution D&A	-0.05	(0.01)	(0.01)	(0.01)	(0.01)
Distribution Non-Operating/OPEB	0.00	-	-	-	-
AFUDC	0.00	-	-	-	-
Pension Drivers	-0.21	(0.05)	(0.05)	(0.05)	(0.05)
BPU Accounting Order	0.06	0.015	0.015	0.015	0.015
OPEB Benefit Roll-off	-0.07	0.00	(0.02)	(0.03)	(0.03)
Higher 2023 ROA	0.04	0.01	0.01	0.01	0.01
PSE&G Interest	-0.05	-0.008	-0.014	-0.014	-0.014
Taxes & Other	0.00	0.01	0.02	0.01	(0.03)
Accretion/(Dilution)	0.00	-	-	-	-
FY23A PSEG Adjusted EPS	$3.02	$1.04	$0.60	$0.77	$0.61
FY22A CFIO Adjusted EPS	0.34	0.32	0.03	0.06	(0.07)
Carbon-Free, Infrastructure & Other	0.13	0.01	0.01	0.03	0.08
Electric Gross Margin	0.15	0.03	0.03	0.03	0.06
Capacity payments	-0.09	(0.02)	(0.02)	(0.02)	(0.02)

Exhibit 49: PEG 2023 Drivers
We forecast $3.45 FY23 EPS, in-line with the midpoint of management guidance.

PEG Earnings Walk	EPS	1Q23	2Q23	3Q23	4Q23
Volume / Generation	0.00	-	-	-	-
Re-contracting & Market Pricing	0.22	0.05	0.05	0.05	0.05
Sale of Solar Source	0.00	-	-	-	-
Gas Operations	0.02	0.01	-	-	0.01
Depreciation & Interest	0.00	-	-	-	-
ZECs	0.02	-	-	-	0.02
Pension Drivers	-0.09	(0.02)	(0.02)	(0.02)	(0.02)
OPEB Benefit Roll Off	-0.03	0.00	(0.01)	(0.01)	(0.01)
Higher 2023 ROA	0.02	0.00	0.00	0.00	0.00
Taxes & Other	0.12	0.03	0.03	0.03	0.04
Power Costs	-0.07	-0.04	-0.03	0.00	0.00
O&M	0.05	0.01	0.01	0.01	0.02
Depreciation & Interest	-0.12	-$0.05	-$0.04	-$0.01	-$0.01
Parent & Other - Total YoY Change	**-0.04**	**(0.01)**	**(0.01)**	**(0.01)**	**(0.01)**
Core Operations/Parent Activity	-0.04	-$0.01	-$0.01	-$0.01	-$0.01
Contributions to PSEG Foundation & Other	0.00				
Taxes & Other	0.00				
FY23A CFIO Adjusted EPS	**0.43**	**0.32**	**0.03**	**0.08**	**(0.00)**
FY23E Adjusted EPS	**$3.45**	**$1.36**	**$0.63**	**$0.85**	**$0.61**
FY23 Consensus EPS	**$3.47**	**$0.98**	**$0.59**	**$1.20**	**$1.11**
BofA Expected Beat/(Miss) vs Consensus	**-0.4%**	**39.0%**	**5.8%**	**-29.2%**	**-44.7%**
FY23 Guidance EPS	**3.35-3.55**				
BofA Expected Beat/(Miss) vs Guidance	**0.0%**				

Source: BofA Global Research estimates, Company Filings, Bloomberg

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2022 Drivers: Minimal impact from Salem Creek outage

We forecast $3.43 FY22 EPS versus $3.45 Consensus / midpoint of management guidance. We lower FY22 estimates slightly to account for -$0.01 EPS impact from Salem outage. PEG has 3,700MW of nuclear operating capacity and only bids 3,300 MW of nuclear capacity. This implies 400MW of 'reserve capacity'. During December 2022, 1,100 MW of Salem nuclear plant did not perform, of which 627 MW is attributed to PEG (PEG owns 57% of Salem). In theory, this would indicate net 227 MW of nuclear capacity exposed to penalty (627 MW less 400 MW of 'reserves'). Assuming $97/day capacity payments, net 227 MW of failed nuclear capacity would indicate $8Mn (pre-tax) / $6Mn (post-tax) penalty, or only -$0.01 EPS drag in 4Q22.

Exhibit 50: 2022 Earnings Drivers
We forecast $3.43 FY22 EPS, slightly below $3.45 Consensus / midpoint of mgmt guidance.

PEG Earnings Walk	EPS	1Q22	2Q22	3Q22	4Q22
FY21A Adjusted EPS Prior	**$3.65**	**$1.28**	**$0.70**	**$0.98**	**$0.69**
FY21A PSEG Adjusted EPS Prior	**$2.85**	**$0.94**	**$0.61**	**$0.77**	**$0.53**
PSE&G Utility	**0.23**	**0.07**	**-**	**0.03**	**0.14**
Transmission	**-0.01**	**(0.03)**	**-**	**0.00**	**0.02**
Rate Base Growth	0.09	0.03	0.02	0.02	0.02
FERC ROE settlement	-0.05	(0.02)	(0.02)	(0.01)	0
Other	-0.05	(0.04)	-	(0.01)	-
Gas Margin	**0.13**	**0.08**	**0.02**	**0.01**	**0.02**
Conservation Incentive Program (CIP) True-Up	0.04	0.02	0.01	0.01	0.01
GSMP II (clause-based recovery) and demand	0.08	0.04	0.01	0.01	0.01
Gas Customer Count Increase	0.02	0.02	0.00	0.00	0.00
Other	-0.01	(0.00)	(0.00)	(0.01)	-
Electric Margin	**0.09**	**0.02**	**0.02**	**0.01**	**0.03**
Conservation Incentive Program (CIP) True-Up	0.04	0.01	0.02	0.01	0.01
Energy Strong II (clause-based recovery)	0.03	0.00	0.01	0.01	0.01
CEF-EE	0.04	0.01	0.01	0.01	0.01
AMI	0.00	0.00	0.00	0.00	0.00
Infrastructure Advancement Program - Earnings in 2023	0.00	-	-	-	-
Other	-0.02	0.00	(0.02)	(0.01)	0.01

Exhibit 50: 2022 Earnings Drivers
We forecast $3.43 FY22 EPS, slightly below $3.45 Consensus / midpoint of mgmt guidance.

PEG Earnings Walk	EPS	1Q22	2Q22	3Q22	4Q22
Other Margin: Appliance Services 1H22	0.04	0.02	0.01	0.01	-
Distribution O&M	-0.08	(0.02)	(0.04)	(0.01)	(0.01)
Distribution D&A	-0.03	(0.01)	(0.01)	(0.01)	(0.01)
Distribution Non-Operating/OPEB	0.03	0.01	0.01	0.01	0.01
AFUDC	-0.01	-	(0.00)	(0.00)	(0.00)
Taxes & Other	0.03	(0.01)	(0.02)	(0.01)	0.07
Accretion/(Dilution)	0.04	0.01	0.01	0.01	0.01
FY22A PSEG Adjusted EPS	$3.085	$1.01	$0.61	$0.80	$0.67
FY21A CFIO Adjusted EPS	0.80	$0.34	$0.09	$0.21	$0.16
Carbon-Free, Infrastructure & Other	(0.46)	(0.02)	(0.04)	(0.19)	(0.21)
Electric Gross Margin	-1.09	(0.27)	(0.25)	(0.29)	(0.27)
Capacity payments	-0.55	(0.13)	(0.14)	(0.14)	(0.14)
Volume / Generation	-0.36	(0.08)	(0.06)	(0.13)	(0.09)
Re-contracting & Market Pricing	-0.12	(0.04)	(0.04)	(0.02)	(0.02)
Sale of Solar Source	-0.04	(0.02)	(0.02)	-	-
Gas Operations	0.05	0.04	(0.01)	0.01	0.01
Depreciation & Interest	0.00	-	-		
ZECs	-0.01	-	0.01	-	(0.02)
Taxes & Other	-0.01	-	-	-	(0.01)
Power Costs	0.59	0.21	0.22	0.09	0.07
O&M	0.36	0.10	0.11	0.06	0.09
Depreciation & Interest	0.23	0.11	0.11	0.03	(0.03)
Parent & Other - Total YoY Change	0.00	0.00	(0.02)	0.04	(0.02)
Core Operations/Parent Activity	-0.04	(0.01)	(0.01)	(0.01)	(0.01)
Contributions to PSEG Foundation & Other	0.00				
Taxes & Other	0.04	0.01	(0.01)	0.05	(0.01)
FY22A CFIO Adjusted EPS	0.344	0.32	0.03	0.06	(0.07)
FY22E Adjusted EPS	$3.43	$1.33	$0.64	$0.86	$0.60
FY22 Consensus EPS	$3.45	$1.12	$0.64	$0.84	$0.62
BofA Expected Beat/(Miss) vs Consensus		18.7%	-0.1%	2.7%	-2.2%
FY22 Guidance EPS	3.40-3.50				
BofA Expected Beat/(Miss) vs Guidance	-0.7%				

Source: BofA Global Research estimates, Company Filings, Bloomberg

Valuation: PO to $66 ($67 prior)

We lower our to $66 from $67 prior driven by lower 2025 nuclear EBITDA estimates and multiple MtM. The PEG valuation is based on a sum-of-the-parts valuation analysis. We utilize 15.9x 2025 electric base multiple and 16.4x gas base multiple (from prior 16.4x / 16.4x, respectively), which we gross-up +5% for capital appreciation across the sector, consistent with our overall utility valuation. We continue to value PSE&G Electric and Gas at in-line multiples. We separately account for nuclear plant value, offset by hedges and power long-term debt. Power prices have moderated and we now imbed power PTC floor value. We increase power valuation to a 12% free cash flow (FCF) yield on the nuclear assets now that our estimates are at the implied PTC 'floor'. Please see our latest Constellation Energy Group (CEG) note for detailed methodology (details here: Constellation Energy Corp: Deal or No Deal? That is the question. We see attractive risk/reward near PTC level 20 January 2023).

Reiterate Buy on shares of PEG with shares trading at an overly discounted valuation despite the favorable NJ utility jurisdiction and PEG exposure to nuclear / power.

Exhibit 51: PEG Sum of the Parts Valuation
We lower our PO to $66 ($67 prior).

PEG: Sum of the Parts Valuation

Base Electric P/E Calculation	Group Peer P/E	Group EPS CAGR	Group Valuation P/E
	15.9x	5.0%	16.7x
	15.9x	0.8x	16.7x
Base Gas P/E Calculation	16.4x	5.0%	17.2x
	16.4x	0.8x	17.2x

Core Regulated Utilities	2025 EPS	Premium	Multiple Applied	$ Per Share
PSE&G Electric	2.57	0.0x	16.7x	$42.91
PSE&G Gas	0.83	0.0x	17.2x	$14.24
Total Utility Value	**3.40**	**0.1x**	16.8x	**$57.15**

Carbon-Free, Infrastructure & Other			*Implied*		
PSEG Power: Power & Gas	**2025 EBITDA**	**2025 FCF**	**FCF Yield**	**Value ($Mn)**	**$ Per Share**
Nuclear: Salem, Hope Creek, & Peach Bottom	677	564	12%	$4,721	$9.44
Plus/(Minus): Hedges				(468)	($0.94)
(Minus): Power LT Debt				(867)	($1.73)
BGSS - Gas Marketing	120	90	12%	780	$1.56
Total PSEG Power	**797**	**654**		**4,167**	**$8.33**
Offshore Wind Contribution				**$192**	**$0.38**
PSEG Enterprise/Other:	**2025 EPS**	**(Discount)**	**Multiple Applied**		**$ Per Share**
Long Island Power Authority (LIPA) Compensation	0.07	-3.0x	13.7x		$0.96
Parent HoldCo	(0.04)	0.0x	17.2x		-$0.71
Total Enterprise/Other	**0.03**	**8.6x**	8.6x		**$0.25**
Total Unregulated					**$8.97**
Total PEG Equity Value per Share	**4.04**	**-0.4x**	**16.3x**		**$66.00**
Dividend per Share FY23					**$2.28**
Potential Price Return					**7.6%**
Dividend Yield					**3.7%**
Potential Total Return					**11.3%**
Price as of close 01/23/23					**$61.35**

Source: BofA Global Research estimates, Company Filings, Bloomberg

Southern Company (SO)

We expect SO to post 2023 EPS of $3.61, approx. 2% below Street at $3.69. The company has flagged 2024 as the year that growth will resume with in-servicing of Vogtle, though we see clear downsides to the $4.00-4.30 range previously released. The coming update to the 2024 range is more closely watched than 2023 which will largely be flat y/y based on our numbers. Based on our walk below we expect an initial EPS range of $3.55-3.65.

Exhibit 1: SO EPS walk
Forecast '23 EPS 2% below Street at $3.69

SO Earnings Walk	FY23	1Q22E	2Q22E	3Q22E	4Q22E
Prior Period (FY22)	$3.58	$0.97	$1.07	$1.31	$0.25
Weather (vs Normalize YoY)	-$0.06	$0.02	-$0.08	$0.00	$0.00
Actual Weather (vs Normal '22)	$0.00	$0.00	$0.00	$0.00	$0.00
GP Rates	$0.16	$0.03	$0.05	$0.06	$0.01
Vogtle	-$0.01	-$0.01	$0.00	$0.00	$0.00
AL/MS Growth	$0.26	$0.05	$0.01	$0.10	$0.10
Retail Revenue Impacts	$0.41	$0.07	$0.06	$0.16	$0.11
Retail Sales	$0.02	$0.01	$0.01	$0.01	$0.00
Rates Usage and Pricing	$0.43	$0.08	$0.07	$0.17	$0.11
O&M	$0.00	$0.00	$0.00	$0.00	$0.00
Other (D&A, interest, etc.)	-$0.16	-$0.04	-$0.04	-$0.04	-$0.04
State-Regulated Electrics	$0.21	$0.06	-$0.05	$0.13	$0.07
Nicor	$0.02	$0.00	$0.00	$0.00	$0.00
AGL	$0.03	$0.00	$0.00	$0.00	$0.00
VA & TN	$0.01	$0.00	$0.00	$0.00	$0.00
Retail Revenue Impacts	$0.01	$0.00	$0.01	$0.00	$0.00
O&M	$0.00	$0.00	$0.00	$0.00	$0.00
Other (D&A, interest, taxes, etc.)	-$0.05	-$0.02	-$0.02	-$0.02	-$0.01
Southern Company Gas	-$0.04	-$0.02	-$0.01	-$0.02	-$0.01
New/Existing Assets	$0.00	$0.00	$0.00	$0.00	$0.00
Gain on Wind Sale Reversal	$0.00	$0.00	$0.00	$0.00	$0.00
O&M	$0.00	$0.00	$0.00	$0.00	$0.00
Southern Power	$0.00	$0.00	$0.00	$0.00	$0.00
Other/Interest	-$0.10	-$0.03	-$0.03	-$0.03	-$0.03
Dilution	-$0.04	-$0.03	-$0.03	-$0.01	-$0.01
Current Period	$3.61	$0.95	$0.95	$1.39	$0.32
FY23 Diluted Shares	1,088	1,088	1,088	1,088	1,088
FY22 Diluted Shares	1,079	1,060	1,067	1,088	1,088
Consensus Estimates	$3.69	$0.90	$0.84	$1.43	$0.40
Delta vs Consensus	-2.3%	5.4%	5.1%	-2.8%	-21.4%

Source: BofA Global Research, Bloomberg

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- **Key Drivers** – New rates at Georgia Power will be among the biggest upside drivers with a pre-tax base rate increase of $216m per last year's settlement, or approx. 16c EPS contribution. A new Alabama Power rider will allow for the recovery of $318m of incremental D&A beginning in 2023. We assume only modest upside from growth in retail sales contributing +2c. Normalizing for the impacts of weather will be a modest drag at -6c, as will the recently-announced one month Vogtle delay at -1c. The company is targeting flat O&M on a y/y basis and accordingly we do not see this as a major driver directionally.

- **Swing factors –** Our retail sales forecast assumes only modest growth y/y – the company has previously guided to pre-tax upside of $18m/$35m/$45m for 1% load growth in industrial/commercial/residential sales, accordingly this driver could yet surprise to the upside. Our numbers do not embed additional Vogtle delays aside from the 1 month associated with Unit 3 that was recently disclosed.

Vogtle delay drives a modest EPS impact in '23

SO filed a Nuclear Regulatory Commission (NRC) event notice related to the Vogtle Unit 3 delay disclosed in January. NRC event #56311 occurred on Jan 14 and was related to pre-criticality testing. At a Georgia Public Service Commission (PSC) hearing, the issue was described as a lack of pipe support bracing installation. Staff testimony at the hearing was somewhat cautious, indicating that it is unusual that critical piping components per the design were not installed; staff further noted that additional issues could be identified during the current testing process that could cause further delays still. SO's existing guidance for one quarter's delay is 2c of EPS.

Transition news drives additional questions

The other substantial news item from early 2023 was the announcement that SO has put in place a succession plan - current chairman, president, and CEO Tom Fanning will relinquish the president and CEO titles to Chris Womack who has served as the president of Georgia Power since 2020 and has worked at SO in various roles since 1988. The President title transition will be effective Mar 31 while the CEO title transition will take place following the conclusion of the 2023 meeting of shareholders. The announcement was received with surprise by some investors given the age of the successor is not far from the company's stated retirement age of 65. Additionally, while Vogtle is in late stages of construction and testing, the company had previously indicated that transition would not take place until after the plant is fully in service. Questions from investors mostly centered around whether the timing of the announcement suggests further delays still as both units that are under construction head into critical phases of testing.

Estimates

We tweak our estimates incrementally lower. For 2022 we remain at $3.58 - note that mgmt. did not guide above the top end on the Q3 call with potential for pull-ahead of some expenses to de-risk 2024. We further fine tune our 2023 estimate based on the EPS walk above, moving to $3.61. We assume slightly higher interest expense to finance the $1.7B of overage cost at Vogtle. For 2024 the combination of higher interest expense and one quarter's delay at Vogtle keep our estimate the low end of guidance. While Street have been ticking lower, reflecting skepticism around the 2024 guidance range in particular, our estimates are now 1-2% below consensus. We see a mid-5s CAGR through 2027 making it difficult to see a path for the stock to re-rate above the discount reflected today.

2024 EPS guidance remains very much in focus as investors have largely written off 2023 as a year of "non-linear growth" (note SO is not the only utility with below-target EPS growth targeted in 2023 reflecting overall challenging conditions). SO has been telegraphing an update to a more precise 2024 EPS guidance range, effectively conceding that the lower 10c third ($4.00-4.10) is a more likely starting point. We see downside here and embed a 5c drag associated with one quarter's delay in U4.

Exhibit 52: SO estimates
Our estimates remain 1-2% below Street consensus

Southern Company Financial Snapshot

EPS by Segment/Subsidiary	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	'22-'27
Mississippi Power	0.14	0.15	0.19	0.18	0.18	0.19	0.19	0.20	1.1%
Alabama Power	1.08	1.16	1.27	1.28	1.36	1.41	1.48	1.53	3.8%
Georgia Power	1.72	1.73	1.86	1.94	2.08	2.21	2.31	2.39	5.1%
Total Electric	**2.94**	**3.04**	**3.32**	**3.39**	**3.62**	**3.80**	**3.98**	**4.11**	**5.3%**
Guidance	2.88	3.00	3.18						
Gas LDCs	**0.39**	**0.40**	**0.44**	**0.50**	**0.56**	**0.60**	**0.64**	**0.69**	**9.2%**
Guidance	0.36	0.39	0.44						
SO Power	0.22	0.25	0.23	0.24	0.25	0.26	0.26	0.26	2.9%
Gas Midstream	0.09	0.08	0.08	0.08	0.08	0.08	0.08	0.08	-0.2%
Gas Retail (South Star)	0.05	0.06	0.06	0.07	0.07	0.08	0.08	0.09	5.8%
Total Energy Infrastructure (SO Power + Midstream)	**0.37**	**0.39**	**0.37**	**0.38**	**0.40**	**0.42**	**0.42**	**0.43**	**4.6%**
Guidance	0.37	0.40	0.34						
Other & Eliminations	(0.48)	(0.44)	(0.55)	(0.67)	(0.57)	(0.52)	(0.58)	(0.57)	0.8%
Guidance - Parent Drag	(0.45)	(0.49)	(0.46)						
Consolidated	**3.23**	**3.39**	**3.58**	**3.61**	**4.00**	**4.30**	**4.46**	**4.66**	**5.6%**
Guidance: 5-7% Long-Term	***3.10-3.22***	***3.40***	***3.50-3.60***	**3.76**	**4.00-4.30**	**4.23**	**4.48**	**4.75**	
BofA vs Guidance		**-0.4%**	**1.0%**	**-4.1%**	**-3.5%**	**1.7%**	**-0.4%**	**-2.0%**	
Consensus	**3.20**	**3.39**	**3.59**	**3.69**	**4.06**	**4.35**	**4.50**		
BofA vs Consensus	**0.8%**	**-0.2%**	**0.0%**	**-2.3%**	**-1.3%**	**-1.2%**	**-0.8%**		
BofA Change vs Prior		*-0.1%*	*0.1%*	*-3.5%*	*0.1%*	*0.0%*	*-2.8%*		
Dividend per Share	**2.54**	**2.62**	**2.70**	**2.78**	**2.86**	**2.97**	**3.09**	**3.21**	**3.5%**
Payout Ratio	**78.7%**	**77.3%**	**75.3%**	**77.0%**	**71.4%**	**69.0%**	**69.3%**	**68.9%**	

Source: BofA Global Research, Bloomberg

Valuation

We mark to market our valuation for SO to reflect the latest peer multiples of 15.9x (vs prior 16.4x) for electric and 16.4x (unchanged) for Gas. We additionally tweak our relative valuation for Georgia Power to -1x from in-line on Vogtle timeline risk and for Southern's Gas Utilities to in-line from +1x given peer-average growth trajectory. Our PO moves to $64 from $68 as a result of the changes and we accordingly reiterate our Undeperform rating given negative implied total return.

Exhibit 53: SO valuation
PO to $64, reiterate Underperform

Southern Company (SO) Sum of the Parts Analysis
All figures in $Mn except per share

	2025 EPS	Peer	Prem/ (Discount)	Base P/E	Equity Value
Group Peer Multiple - Electric		**15.9x**			
Group EPS CAGR		**5.0%**			
Electric Utilities		**16.7x**			
Mississippi Power	$0.19		**0.0x**	16.7x	$3.11
Alabama Power	$1.41		**0.0x**	16.7x	$23.56
Georgia Power (ex-CWIP)	$1.80		**-1.0x**	15.7x	$28.20
Nuclear CWIP Earnings	$0.41		**-4.0x**	12.7x	$5.21
Total Electric Utility Value	**$3.80**		**-0.9x**	*15.8x*	**$60.08**
Group Peer Multiple - Gas		**16.4x**			
Group EPS CAGR		**5.0%**			
Gas Utilities		**17.2x**			
Southern Gas Utilities	$0.60	17.2x	**0.0x**	17.2x	**$10.34**
Infrastructure	2025 EPS				
SO Power Core - Wind	**$0.12**		**-2.0x**	14.7x	$1.81
SO Power Core - Solar	**$0.01**		**-2.0x**	14.7x	$0.17
SO Power Core - Gas	**$0.10**		**-2.0x**	14.7x	$1.40
SO Power Core - Other	**$0.03**		**-2.0x**	14.7x	$0.47
SO Gas - Midstream	**$0.08**		**-2.0x**	15.2x	$1.18
SO Gas - Retail	**$0.08**		**-6.0x**	11.2x	$0.86
Net Infrastructure Equity	**$0.42**		**-1.8x**	*14.2x*	**$5.89**
Parent	2025 EPS	**16.0x**			
Parent & Other	-$0.52	16.0x	**0.0x**	16.0x	-$8.31
Add Back: Parent Interest Expense- 50% Weighted	$0.43	16.0x	**0.0x**	16.0x	$3.40
Parent Debt - 50% Weighted	$15,563				-$7.15
Parent & Other					**-$12.06**
Shares Outstanding					1,088
Total Equity Value					**$64.00**
Potential Stock Return					-4.6%
NTM Dividend Yield (%)					4.1%
Total Potential Return					**-0.5%**

Source: BofA Global Research, Bloomberg

WEC Energy (WEC)

We forecast that WEC will post Q3 EPS of $4.59, slightly below Street consensus at $4.61 and near the midpoint of mgmt.'s EPS range. Key upside drivers remain the outcome of the WI utilities' rate settlement, rider spending at the IL gas utilities, and new projects at Energy Infrastructure. Principal headwinds include interest expense and D&A. O&M remains a critical swing factor as the company has had good success in reducing day to day O&M in recent years but in the current inflationary environment has shifted to guiding to 'flattish' year-on-year growth, reflecting the 'flat is the new down' dynamic seen across the sector over the past several quarters. Expect that Q4 will be largely free of long-term updates after the company rolled forward its capital plan in Nov and issued 2023 guidance in Dec. The Q4 call will be the first opportunity for the mgmt team to address Dec's WI rate case decision by the state's commission – we expect a constructive tone that focuses on the rate increases achieved despite commissioners' rhetoric.

Exhibit 54: WEC EPS walk
Forecast growth near midpoint of '23 range

	2023	Q1	Q2	Q3	Q4
FY22A Adjusted EPS	4.40	1.79	0.91	0.96	0.74
Wisconsin	0.25	0.03	0.05	0.15	0.02
Illinois	0.10	0.02	0.04	0.02	0.02
Michigan/Minnesota	0.01	0.00	0.00	0.00	0.01
Weather	0.00	-0.05	0.02	0.03	0.00
O&M	0.00	0.00	0.00	0.00	0.00
D&A	-0.17	-0.04	-0.04	-0.04	-0.05
Fuel	0.00	0.00	0.00	0.00	0.00
ATC	0.00	0.01	-0.02	0.01	0.00
Energy Infrastructure	0.07	0.02	0.01	0.01	0.03
Rabbi Trust performance	0.00	0.00	0.00	0.00	0.00
Interest expense	-0.07	-0.02	-0.02	-0.02	-0.01
Taxes	0.00	0.00	0.00	0.00	0.00
Corp & Elimination	0.00	0.00	0.00	0.00	0.00
Share Count Dilution	0.00	0.00	0.00	0.00	0.00
FY23E Adjusted EPS	4.59	1.76	0.95	1.12	0.76
FY23 Consensus	4.61	1.69	0.92	0.96	0.91
BofA Beat(Miss) vs Consensus	0%	4%	3%	16%	-16%
FY23 Adj EPS Guidance	4.58-4.62				

Source: BofA Global Research, Bloomberg

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Estimates

We update our model to reflect our latest outlook including Wisconsin rate settlement, and company guidance. We continue to see WEC as among the most high-quality EPS growth stories in the sector (if not the highest growth) given mgmt.'s consistent track record of meeting and beating its own targets over time. Our estimates point to the upper end of mgmt.'s newly updated 6.5-7.0% EPS CAGR using the original 2022 range as a baseline, with an assumption that the WI utilities will earn at or slightly above their authorized returns.

Exhibit 55: WEC estimates
See CAGR near mid point of 6.5-7.0% range

WEC EPS Estimates	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Wisconsin Electric (WE)	$1.16	$1.21	$1.25	$1.34	$1.49	$1.62	$1.76	$1.89
Wisconsin Public Service (WPS)	$0.70	$0.73	$0.79	$0.80	$0.80	$0.84	$0.87	$0.91
Wisconsin Gas (WG)	$0.26	$0.24	$0.38	$0.36	$0.43	$0.53	$0.64	$0.74
Peoples Gas (PG)	$0.59	$0.65	$0.65	$0.67	$0.72	$0.77	$0.82	$0.86
North Shore Gas (NSG)	$0.05	$0.06	$0.06	$0.07	$0.07	$0.08	$0.08	$0.09
American Transmission Company (ATC)	$0.42	$0.44	$0.44	$0.46	$0.49	$0.52	$0.56	$0.59
Minnesota Energy / Michigan Gas (MERC/MGU)	$0.12	$0.11	$0.21	$0.22	$0.22	$0.23	$0.24	$0.24
Non-Utility (We Power, BlueWater, Infrastructure)	$0.82	$0.88	$0.96	$1.03	$1.05	$1.09	$1.14	$1.19
Energy Infrastructure	$0.11	$0.20	$0.31	$0.38	$0.41	$0.46	$0.52	$0.58
Parent & Int Expense	(0.34)	(0.21)	(0.34)	(0.36)	(0.38)	(0.44)	(0.47)	(0.50)
BofA Estimate	**$3.79**	**$4.11**	**$4.40**	**$4.59**	**$4.90**	**$5.25**	**$5.63**	**$6.00**
Company Guidance		4.05-4.07	4.38-4.40	4.58-4.62				
Prior Estimates	*$3.79*	*$4.11*	*$4.40*	*$4.61*	*$4.92*	*$5.25*		
CAGR off 2022 original midpoint of $4.31				*6.5%*	*6.6%*	*6.8%*	*6.9%*	*6.9%*
Consensus	$3.76	$4.07	$4.40	$4.61	$4.91	$5.26		
Implied range (off 2022 original range of $4.29-4.33)								
Low			$4.29	$4.59	$4.89	$5.21	$5.54	$5.91
Mid			$4.31	$4.60	$4.91	$5.24	$5.60	$5.98
High			$4.33	$4.61	$4.93	$5.28	$5.65	$6.04

Source: BofA Global Research, Bloomberg

Valuation

We apply the latest peer multiples of 15.9x for electric utilities and 16.4x for gas utilities (vs prior 15.2x and 15.0x). We continue to apply 3.0x relative valuation premiums to most of WEC's utilities given strong execution track record and largely supportive jurisdictions. Our PO moves to $103 and we reiterate Buy on double-digit implied total return and defensive characteristics.

Exhibit 56: WEC valuation
PO to $103, reiterate Buy

Regulated Utilities	2025 EPS	2025 Net Income		P/E Multiple Peer	Prem/ Discount	Base		Equity Value Base	
Group Peer Multiple - Electric				15.9x					
Group EPS 'CAGR - Electric				5.00%					
Group Peer Multiple - Gas				16.4x					
Group EPS CAGR - Gas				5.10%					
Applied Multiple			Electric	16.7x					
			Gas	17.2x					
WI Electric	$1.62		514		3.0x	19.7x		$10,129	$32
WPS	$0.84		265		3.0x	19.7x		$5,224	$16
WI Gas	$0.53	169			3.0x	20.2x		$3,414	$11
Peoples Gas	$0.77		244		3.0x	20.2x		$4,946	$16
North Shore Gas	$0.08		25		3.0x	20.2x		$509	$2
ATC	$0.52		164		4.0x	20.7x		$3,395	$11
We Power (PTF)	$0.59		187		3.0x	19.7x		$3,693	$12
MERC/MGU	$0.23		73		3.0x	20.2x		$1,470	$5
Blue Water	$0.04		12		3.0x	19.7x		$232	$1
Parent & Int Expense	-$0.44		(139)		0.0x	16.7x		($2,327)	($7)
Total Implied Utilities	$4.78		1,514			20.3x		$30,685	$97
						25 EPS	Implied P/E		
Non Utility Energy Infrastructure						$0.46	13.8x	$2,037	$6
Infra projects - announced	NPV value	WACC Applied:		7.8%				$1,958	$6
Infra projects - growth	NPV value							$79	$0
HoldCo Debt Adjustment									
Add Back: 50% of Interest Expense	$0.21	66		19.3x		20.3x	21.3x	$1,396	
Subtract: HoldCo Debt (Net out 50%)	2,770	(1,385)						($1,385)	
Total Equity Value								$32,732	
Valuation								$103	
Shares Outstanding									317
Rounded 12 Month Target Price									
Price Objective								$103	
Upside/Downside potential								10.7%	
NTM Div Yield								3.4%	
Total Return potential								14.0%	

Source: BofA Global Research, Bloomberg

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: PowerPoints: WEC IL, EVRG Governance, Coal Prices, AES, PCG FVT & RNW Refresh	Julien Dumoulin-Smith	10 January 2023
US Utilities & IPPs: PowerPoints: PCG Capex & Block Trade, WEC Guide, ETR SERI, CPI, PJM, & Fusion	Julien Dumoulin-Smith	13 December 2022
WEC Energy Group Inc: WI commission takes hard line on settlement proposal	Julien Dumoulin-Smith	02 December 2022
WEC Energy Group Inc: Another strong roll-forward as long-run guidance even more precise	Julien Dumoulin-Smith	02 November 2022

Xcel Energy Inc. (XEL)

(Originally published on Jan 5, 2023)

Q4 preview: Modest beat, middle of '22 range

We forecast Q4 EPS for XEL at 68c, ahead of Street consensus of 67c. Our estimate implies a full year 2022 result of $3.16, in the middle of the $3.14-3.19 guidance range.

- **Key drivers –** Authorized rate increases at the utilities are the largest y/y drivers on our estimates, with Colorado gas rates going into effect on Nov 1 and contributing an estimated +2c. The other drivers are largely consistent with known and measurables as updated by the company following its Q3 report.

- **Swing factors –** Weather is expected to be largely flattish relative to normal, representing a +5c uptick y/y to account for below average degree days in Q4 of 2021. Retail sales on a normalized basis are assumed at +2% full year (approx. +$100m pretax) for electric and +1% for gas, consistent with the latest company guidance.

Exhibit 57: XEL EPS walk
We see a beat at 68c, $3.16 for full year

	EPS	1Q	2Q	3Q	4Q
FY21A Adjusted EPS	2.96	0.67	0.58	1.13	0.58
NSPW electric and gas ($35m + $10m settlement)	0.07	0.01	0.02	0.02	0.02
PSCo electric ($177m new rates effective Apr 1)	0.16	0.00	0.02	0.06	0.08
PSCo gas - Nov 1, $48m net annualized increase	0.02	0.00	0.00	0.00	0.02
SPS TX electric ($74m revenue request)	0.00	0.00	0.00	0.00	0.00
SPS NM electric ($62m settlement)	0.08	0.02	0.02	0.02	0.02
NSPM North Dakota electric and gas ($7m settlement $7m ask)	0.01	0.00	0.00	0.00	0.00
NSPM Minnesota interim rates ($247m in 2022)	0.45	0.05	0.10	0.16	0.14
Riders - assume lower y/y at $25m given pending rate cases	0.01	0.01	0.00	0.00	0.00
Sales increase & weather	0.13	0.02	0.01	0.02	0.08
Interest expense	-0.17	-0.01	-0.03	-0.04	-0.09
D&A	-0.39	-0.06	-0.10	-0.10	-0.13
O&M	-0.12	-0.02	-0.01	-0.06	-0.03
Property Taxes	-0.07	-0.01	-0.02	-0.03	-0.02
AFUDC	0.00	0.00	0.00	0.00	0.00
Parent	0.01	0.01	0.00	0.00	0.00
Dilution	0.00	0.00	0.00	0.00	0.00
2022 BofAe EPS	3.16	0.70	0.60	1.18	0.68
2022 Consensus	3.17	0.68	0.60	1.21	0.67
BofA Beat (Miss) vs. Consensus	0%	3%	-1%	-2%	1%

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Estimates

With the January 5th report we tweaked our 2022 estimate lower as outlined in the EPS walk above.

For 2023 we expect a result in the upper half of the guidance range issued in November at $3.37. Our ahead of Street numbers in 2024-25 reflect partial upside that is not yet reflected in the company's forecast with correspondingly higher financing via a mix of debt and equity, as the company has previously outlined.

Exhibit 58: XEL estimates
Still see a CAGR at the upper end of the 5-7% range

Subsidiary	2016A	2017A	2018A	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Northern States Power Minnesota (NSPM)	0.96	1.01	0.96	1.05	1.12	1.12	1.26	1.32	1.43	1.51	1.61
Southwestern Public Service (SPS)	0.30	0.30	0.42	0.51	0.56	0.59	0.61	0.64	0.70	0.76	0.80
Public Service Colorado (PSCo)	0.91	0.94	1.08	1.11	1.12	1.22	1.35	1.40	1.55	1.65	1.77
Northern States Power Wisconsin (NSPW)	0.14	0.16	0.19	0.15	0.20	0.20	0.22	0.22	0.23	0.25	0.26
Parent (Excl Mankato)	(0.10)	(0.12)	(0.18)	(0.17)	(0.21)	(0.18)	(0.26)	(0.22)	(0.27)	(0.31)	(0.34)
Consolidated	**2.21**	**2.29**	**2.47**	**2.64**	**2.79**	**2.96**	**3.16**	**3.37**	**3.65**	**3.87**	**4.10**
EPS Growth (%)			*8%*	*7%*	*6%*	*6%*	*7%*	*6%*	*8%*	*6%*	*6%*
Prior Estimates			*2.47*	*2.64*	*2.79*	*2.96*	*3.18*	*3.37*	*3.65*	*3.87*	
Guidance	2.17-2.22	2.25-2.35	2.45-2.49	2.60-2.65	2.75-2.81	2.94-2.98	3.00-3.20	3.30-3.40			
Consensus			2.46	2.62	2.79	2.96	3.17	3.38	3.60	3.82	
Mgmt EPS CAGR: 5-7% off 2020 base ($2.78)	**2.21**	**2.29**	**2.47**	**2.60**	**2.78**	**2.95**	**3.12**	**3.31**	**3.51**	**3.73**	**3.95**
		low	*2.43*	*2.55*	*2.73*	*2.87*	*3.01*	*3.16*	*3.32*	*3.48*	*3.66*
		high	*2.43*	*2.65*	*2.83*	*3.03*	*3.24*	*3.47*	*3.71*	*3.97*	*4.25*
BofAe CAGR off $2.78 in 2020						**6.6%**	**6.7%**	**6.6%**	**7.0%**	**6.8%**	**6.7%**

Source: BofA Global Research estimates, Bloomberg

Valuation

With the January 5th report, we updated our valuation to reflect a +4x premium for XEL's Minnesota utilities and +4x for Southwestern Public Service (SPS). Our previous channel checks with MN-based interveners were constructive (see more here: US Electric Utilities & IPPs: Power Points: LNT solar, MN utility regulation, DUK/PPL valuation, Cali Gas 04 January 2023) and we additionally see SPS as deserving of a premium given solid execution and growth trajectory. We also marked to market to reflect the latest electric utility premium of 16.4x reflecting broad re-rating across the utility space. Our PO remains $76 and we reiterate our Buy rating on XEL given the double-digit total return implied by our updated sum of the parts valuation.

Exhibit 59: XEL valuation
PO is $76, Reiterate Buy

2025E SotP Analysis - BofA
All figures in USD millions except per share

Regulated Utilities	2025 Net Income	EPS	P/E Multiple			
			Peer	Prem/ Discount	Base	Base
Group Peer Multiple - Electric			16.4x			
Group EPS CAGR - Electric			5.00%			
Relative Utility Group P/E Multiple			17.3x			
Northern States Power Minnesota (NSPM)	$848	$1.43	17.3x	4.0x	21.3x	$30.57
Southwestern Public Service (SPS)	$427	$0.70	17.3x	4.0x	21.3x	$14.87
Northern States Power Wisconsin (NSPW)	$139	$0.23	17.3x	3.0x	20.3x	$4.73
Public Service Colorado (PSCo)	$924	$1.55	17.3x	3.0x	20.3x	$31.60
Total/Average Utility Earnings (excl Mankato)	$2,338	$3.92		3.6x		
Parent/Unallocated (excl Mankato)	-$174	-$0.27	17.3x	-3.0x	14.3x	-$3.90
Add back 50% of HoldCo interest	$150	$0.27	17.3x	-3.0x	14.3x	$3.87
Less: 50% of HoldCo Debt	-$3,416					-$6.14
Total	$2,164	$3.65				$76
Shares Outstanding (2024e)						*556*
Total Equity Value Per Share						$76

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Xcel Energy Inc: Winning the Quest for Quiet in 2023; Reiterate Buy and raise PO to $76	Julien Dumoulin-Smith	05 January 2023
US Utilities & IPPs: PowerPoints: XEL NM rate case, Nuclear, PJM data centers, NRG M&A, CEG, AGR	Julien Dumoulin-Smith	22 November 2022
US Electric Utilities & IPPs: PowerPoints: AWK DPS slowing, CNP mgmt/capex, WEC CAGR, OGS, XEL coal	Julien Dumoulin-Smith	01 November 2022

Acronyms for company names:

AES	AES Corp
AQN	Algonquin Power
YAQN	Algonquin Power
ALE	Allete Inc
LNT	Alliant Energy Corp
AEE	Ameren Corp
AEP	American Elec Power
AWK	American Water
AGR	Avangrid
AVA	Avista Corp
CNP	CenterPoint Energy
CMS	CMS Energy
ED	Consolidated Edison
CEG	Constellation Energy
D	Dominion Energy
DTE	DTE Energy
DUK	Duke Energy
EIX	Edison Intl
EMA	Emera
ETR	Entergy Corp.
EVRG	Evergy
ES	Eversource Energy
EXC	Exelon Corp
FE	FirstEnergy
HE	Hawaiian Electric
IDA	Idacorp
MDU	MDU Resources
NEE	NextEra Energy
NI	NiSource Inc

NWE NorthWestern Corp

NRG NRG Energy

OGE OGE Energy Corp

PCG PG&E Corp.

PNW Pinnacle West Capit

POR Portland General

PPL PPL Corp.

PEG Public Service

SRE Sempra Energy

SO Southern Company

SWX Southwest Gas

VST Vistra Energy

WEC WEC Energy Group Inc

XEL Xcel Energy

Exhibit 60: Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
LNT	LNT US	Alliant Energy Corp	US$ 53.88	A-2-7
AEE	AEE US	Ameren Corp	US$ 85.98	A-1-7
AGR	AGR US	Avangrid	US$ 42.63	A-3-7
CMS	CMS US	CMS Energy	US$ 61.71	A-2-7
D	D US	Dominion Energy	US$ 62.97	A-3-7
DTE	DTE US	DTE Energy	US$ 113.77	A-1-7
EIX	EIX US	Edison Intl	US$ 67.03	B-3-7
ETR	ETR US	Entergy Corp.	US$ 106.75	B-2-7
ES	ES US	Eversource Energy	US$ 79.89	A-3-7
EXC	EXC US	Exelon Corp	US$ 41.82	B-1-7
FE	FE US	FirstEnergy	US$ 41.14	B-3-7
NEE	NEE US	NextEra Energy	US$ 82.67	B-1-7
NI	NI US	NiSource Inc	US$ 27.09	B-1-7
PCG	PCG US	PG&E Corp.	US$ 15.73	C-1-9
PPL	PPL US	PPL Corp.	US$ 29.32	B-1-7
PEG	PEG US	Public Service	US$ 60.89	B-1-7
SO	SO US	Southern Company	US$ 66.86	A-3-7
WEC	WEC US	WEC Energy Group Inc	US$ 92.83	A-1-7
XEL	XEL US	Xcel Energy	US$ 68.01	B-1-7

Source: BofA Global Research

Price objective basis & risk

Alliant Energy Corporation (LNT)
Our $55 PO is based on a sum of the parts analysis employing relative premium and discounts to the large cap regulated peer multiple of 15.9x 2025E 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 an in line P/E premium on IPL as we see the rate case overhang being resolved. We apply a 1.0x 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 2025E ratebase weighted peer multiple of 16.0x for electric and 16.1x for gas. 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. At Ameren Transmission, we apply a 4.0x premium to peers to reflect the FERC ROEs and robust growth outlook. 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 2023 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.

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 $68 is based on a SotP relying on 2025E forward P/E multiples for the utility business and a 2025E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 2.0x prem to the average 2025E regulated multiple P/E of 16.5x for the electric segment and of 16.8x for the gas segment, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as continued 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 +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.

Dominion Energy (D)
We value Dominion Energy at $57 using a 2025E sum-of-the-parts analysis. For the utilities we apply the comparable electric (16.1x) and gas (15.7x) peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply -1.5 discount for for base Virginia (-9%). The VA earnings above the allowed are further discounted -100% due to growing uncertainty about sustainability. 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 at: 13x EV/EBITDA Cove Point, 5x Millstone (13% FCF Yield), and 11x for renewables. 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. We lastly include prospective interest rate exposure that is not impacting near-term estimates due to hedges.

Risk to achievement of the Price Objective 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, 7) natural disasters, & 8) offshore wind construction.

DTE Energy (DTE)
We value DTE Energy at $139 using a sum-of-the-parts (SOTP) approach. We value the utility segment on a 2025E 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 16.5x and 16.8x, respectively). Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We value the DTE Vantage segment on a multiple of 2025 EPS - the grossed-up electric multiple of 17.3x 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 17.5x multiple to both the interest expense and corporate overhead expenses at the parent.

Risks are: 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.

Edison International (EIX)
Our $56 PO is based on sum of the parts analysis with a peer 15.9x 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 $119 Price Objective is based on a sum-of-the-parts analysis. The 2025E electric utilities average P/E of 16.4x is grossed-up +5%, to reflect capital appreciation across the sector. We apply in-line P/E multiples to the subsidiaries except for +1x Texas to reflect the constructive regulation environment and -1x Louisiana & New Orleans based upon historical contentious proceedings and growing concerns about prospective storm recovery. We net out 50% of the parent HoldCo long-term debt and apply a P/E multiple to 50% of the interest expense.

Positive and negative risks to achievement of our Price Objective are: (1) regulatory, political, and legislative changes, (2) natural or nuclear disasters including hurricanes, (3) ability to deploy capital expenditures consistent with guidance, (4) earned rates of returns at the jurisdictions, (5) interest rates fluctuations, (6) equity issuances relative to management's forecast and access to capital markets, (7) pension and nuclear decommissioning fund performance and (8) costs and operational volumes at the remainder of the wholesale commodity subsidiary.

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 $47 PO is based on an sum of the parts valuation. Our base electric peer 2025 P/E multiple of 16.3x is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply an in-line multiple across EXC utilities ComEd, PECO, BGE, PHI with above-average growth prospects and below average risks counterbalanced but non-linear growth and inconsistent execution.

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 and interest rates, and 7) changes in credit rating agency metric requirements.

FirstEnergy (FE)
The $38 Price Objective is based on a sum-of-the-parts valuation. Our multiples are driven by relative P/E premiums/discounts to the 15.8x 2025E regulated peer multiple. Peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector, a consistent approach across our coverage universe. We apply -2x discount to reflect rate review risk, below average risk, and pension exposure. We subtract out the holding company debt given the above-average leverage

Upside/downside risks are 1) regulatory/political/legislative outcomes, 2) ability to earn the allowed ROEs and/or other changes in regulatory earnings, 3) weather and natural disasters, 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, and 8) taxes.

NextEra Energy (NEE)
Our $94 PO is derived using an SOTP approach, with the utilities and parent segment valued on a 2025E P/E basis, and the generation segment valued on a 2025E 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 25E peer multiples of 16.3x 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 9.8x, which we adjust depending on asset type. We give contracted renewables and 8x premium given fuel type and contracted nature. We utilize a DCF of new renewable for projects beyond 2024 and include a 12x terminal multiple. We value contracted nuclear on a DCF approach using an 8% discount rate. We apply a 1x premium multiple to pipelines, 3x 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 $32 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 16.1x for gas and 16.0x for electric. 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 utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

Positive and negative risks to our Price Objective are changes in 1) regulatory, political, and legislative outcomes, 2) ability to execute on capital expenditure plan, 3) inflation,

operating expense, and interest rates as they influence earned rates of return, 4) customer count and load growth, 5) commodities, 6) natural disasters, 7) pension plan returns, 8) equity and asset sale needs.

PG&E Corporation (PCG)
Our PO of $19 reflects an in-line P/E versus the respective electric (15.8x) and gas (16.4x) peer P/E groups with both grossed-up by 5% to reflect capital appreciation across the sector) based on 2025E. 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 are: 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 monetizations, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

PPL Corporation (PPL)
Our $34 price objective is based on a sum of the parts methodology applying respective premium/discounts to the 2025E peer group multiple of 16.4x. Electric peer P/E multiple is grossed up by 5% to reflect capital appreciation across the sector, a consistent methodology across our coverage universe. We value all of the utility subsidiaries at +1x premium to the sector to reflect the lack of regulatory activity, above-average credit metrics, transmission earnings mix, and reasonable jurisdictions.

Risks to the achievement of our Rating and Price Objective are: 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 and execution, 7) natural disasters/weather, 8) equity issuance/repurchase plans, 9) corporate taxes, 10) pension returns, and 11) litigation

Public Service Enterprise Group (PEG)
Our $66 PO is derived from our 2025 sum of the parts valuation. For the regulated utilities we utilize the electric (15.9x) and gas (16.4x) 2025E sector P/E multiples, which we then gross-up by 5% to reflect capital appreciation across the sector. We apply an in-line group multiple to PSE&G Utility given the utility's below-average growth forecast, which is offset by our view that New Jersey remains a favorable jurisdiction, with PSE&G Utility offering low-risk transmission & distribution (T&D) profile.

Positive or negative risks to achievement of the price objective 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, 6) inflation, 7) interest rates, and 8) pension returns.

Southern Company (SO)
Our $64 PO is derived from a sum-of-the-parts analysis (SOTP). We use a P/E valuation approach on 2025 and use peer multiples of 15.9x for electric and 16.4x 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 2025 parent interest expense multiple by an electric P/E peer multiple to reflect parent leverage supporting the utilities. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting. Upside/Downside Risks to achievement of the PO are: 1) Vogtle construction timing and costs, 2) regulatory, political, and legislative changes, 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 and sales growth, 7) O&M trends, 8) interest rates, 9) environmental policies and regulations, 10) M&A, and 11) interest rates.

WEC Energy Group Inc (WEC)
Our $103 PO is based on 2025E SoTP, with a large cap electric group multiple of 15.9x and gas regulated multiple of 16.4x. 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 $76. 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 2025E forward P/E multiple of 16.4x 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 4x premium to XEL subsidiaries in MN and NM, and 3x in CO 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 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 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
	Allete Inc	ALE	ALE 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
	Array Technologies	ARRY	ARRY 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
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	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
	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
	SolarEdge Technologies	SEDG	SEDG 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				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP 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
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG 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
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX 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
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

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	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
	Pinnacle West	PNW	PNW 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
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI 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 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	82	59.85%	Buy	65	79.27%
Hold	32	23.36%	Hold	21	65.63%
Sell	23	16.79%	Sell	14	60.87%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	72	48.98%	Buy	51	70.83%
Hold	38	25.85%	Hold	29	76.32%
Sell	37	25.17%	Sell	25	67.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

[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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NiSource Inc

The Hoosier Rundown: Indiana in the spotlight with lots of activity ahead

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09 January 2023 | Equity | United States | Natural Gas-Local Distribution Companies

NI US

Reiterate Rating	Price	Price Objective	Upside	Market Cap	Average Daily Value
BUY	27.61 USD	32.00 ▲ from 29.00 USD	15.9%	12,242 USD(mn)	101.91 USD(mn)

2022E EPS	2023E EPS	ESGMeter™
1.45 ▲ from 1.44 USD	1.55 ▲ from 1.54 USD	High

all data as of 9 January 2023

What is ESGMeter?

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Key takeaways

- Reiterate Buy on NiSource with a subdued 4Q22 call expect but watch for NIPSCO settlement update. PO +$3/sh on MtM.
- Busy Indiana regulatory calendar anchored by rate case, RFP, and fuel proceeding. Separately, minority interest process too.
- Moderating long-term EPS on more conservatism but still see the new financial plan as reasonable. 4Q22/FY22 in-line w/ Street

NIPSCO: Northern Indiana Public Service Company
MtM: Mark to Market
O&M: Operating and maintenance
FAC: Fuel Adjustment Clause
RFP: Request for Proposal

No 4Q fireworks anticipated after November Analyst Day

We reiterate our Buy rating on the shares of NiSource into 2023 after the company's November 2022 Analyst Day, which set a more conservative outlook. See our deep dive here: Our Updated Take on Shares Post A-Day: 'Terminal EPS' Intact - Reiterate Buy 08 November 2022 (https://rsch.baml.com/r?q=d9WEgDfxeTF7JvC-gPbpew). With freshly updated guidance and no major developments over the past two months, we anticipate a relatively low-key 4Q call with consistent messaging. We will be listening for management characterization of the NIPSCO electric rate case process with February the critical settlement window. **See details in the full report.**

Indiana fills the calendar for 2023 - lots to watch

After the recent resolution of the Ohio and Pennsylvania rate cases we have characterized the regulatory outlook as 'relatively quiet'; however, there are still critical proceedings in Indiana to watch. For NIPSCO we are monitoring the **(1)** Electric rate case; **(2)** minority interest sale process; **(3)** request for proposals; and **(4)** fuel adjustment clause increase. There is some degree of comfort in Indiana's track record of generally being constructive and NiSource's proactive efforts to reduce the bill impact. NI reduced capex to moderate the customer bill increase closer to ~3% CAGR from ~5% under the prior plan and has also proposed staggered increases in September 2023 (+8%), March 2024 (+3%), & July 2024 (+5%). Based on our latest stakeholder check-in, we still see a solid relationship with key parties. Nevertheless, it is a +17% rate increase request (+$19 per month) and will draw attention. *Our investor conversations have focused on the significant Indiana activity as an overhang on shares, limited near-term positive re-rating. A reasonable settlement of the Indiana rate case could be the catalyst beyond NIPSCO sale.*

Valuation: Increase PO +$3/sh on MtM

Our PO increases +$3/sh to $32 based primarily upon the peer multiple increases - details on Page 6. We slightly increase our FY22-FY23 estimates based on our detailed earnings walk in the full report; however, trim the long-term 2026-2027 estimates to embed additional conservatism. Our new 2021A-2027E EPS CAGR of 7.5% is still above the 6-8% midpoint, but now more aligned with consensus forecasts.

Estimates & Valuation

Estimates (Dec) (US$)	2020A	2021A	2022E	2023E	2024E
EPS	1.32	1.37	1.45	1.55	1.67
GAAP EPS	1.33	1.27	1.63	1.55	1.67
EPS Change (YoY)	0%	3.8%	5.8%	6.9%	7.7%
Consensus EPS (Bloomberg)			1.45	1.54	1.69
DPS	0.84	0.88	0.94	1.00	1.08
Valuation (Dec)					
P/E	20.9x	20.2x	19.0x	17.8x	16.5x
GAAP P/E	20.8x	21.7x	16.9x	17.8x	16.5x
Dividend Yield	3.0%	3.2%	3.4%	3.6%	3.9%
EV / EBITDA*	16.7x	16.8x	13.8x	12.5x	11.0x
Free Cash Flow Yield*	-5.3%	-5.1%	-7.6%	-14.6%	-8.9%

Quarterly Estimates

Quarterly Earnings Estimates

	2021	2022
Q1	0.77A	0.75A
Q2	0.13A	0.12A
Q3	0.11A	0.10A
Q4	1.10A	0.48E

Key Changes

(US$)	Previous	Current
Price Obj.	29.00	32.00

2022E EPS	1.44	1.45
2023E EPS	1.54	1.55
2022E EBITDA (m)	2,047.6	2,132.9
2023E EBITDA (m)	2,352.0	2,360.6
2024E EBITDA (m)	2,660.4	2,664.5
2022E DPS	0.99	0.94

Stock Data

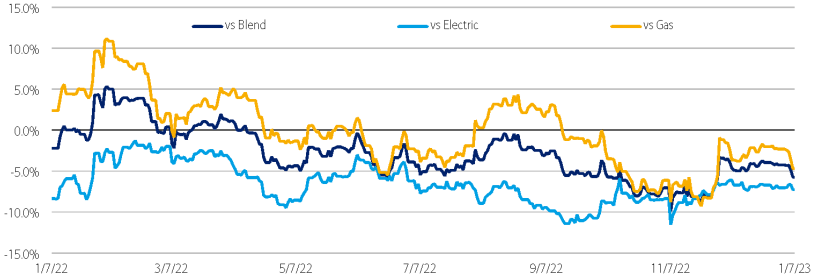
Price	27.61 USD
Price Objective	32.00 USD
Date Established	9-Jan-2023
Investment Opinion	A-1-7
52-Week Range	23.78 USD - 32.59 USD
Mrkt Val (mn) / Shares Out (mn)	12,242 USD / 443.4
Average Daily Value (mn)	101.91 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2022E)	10.8%
Net Dbt to Eqty (Dec-2021A)	133.5%
ESGMeter™	High
Average Daily Volume	3,691,210

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology (https://rsch.baml.com/BofA_ESGMeter)".

NiSource: Remain positive on the outlook

We reiterate our Buy rating on the shares of NiSource into 2023 where we see a busy but manageable Indiana regulatory calendar. Even constructive jurisdictions had unexpected negative curveballs in 2022, notably Wisconsin and Michigan, so we are cognizant of the risks here. In a world where we see more risks than opportunities overall (2023 outlook report here: Risks Outnumber Opportunities in the "Lost Year") (https://rsch.baml.com/r?q=a!WyE2LfABbfXbB93ND6Ow), we see NiSource's plan as reasonable. The actions to proactively reduce the customer bill impacts (capex reduction and staggering rate increases) should help to deliver constructive outcomes. We see mgmt. as having already 'taken the hit' for customer affordability as part of its efforts to its state regulators.

Exhibit 1: NI Relative 2023E P/E versus Similar P/E Peers (Dark Blue) and Overall Utilities Index (Light Blue)
NiSource should be able to re-rate positively if it can successfully execute in 2023



Source: Company Filings, Bloomberg, & BofA Global Research

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All eyes on Indiana

Critical period of rate case commencing

In the NIPSCO Electric rate case (Cause 45772) the current procedural schedule calls for intervenor testimony by January 20th and NIPSCO rebuttal testimony by February 16th. There is a formal settlement opportunity through February 27th which could influence the subsequent schedule. Currently there are hearings scheduled for March 13-31st and an outside 300-day statutory deadline of August 2nd. *Depending on the updates before the late February 2023 earnings call, this could be an opportunity for management to share thoughts on intervenor testimony at a high-level and the prospects for a settlement, assuming one has not been reached yet.*

Of the estimated +$19/month increase from the rate case, NiSource has proposed +$10/month effective September 2023, +$3/month effective March 2024, and +$6/month effective July 2024.

Further details on Indiana broadly are available below:

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: PowerPoints: ETR nukes offline, DUK/AES Indiana renewables, & HE regulatory (https://rsch.baml.com/r?q=vOejtbBPccp0yWNGIsZmwA)	Julien Dumoulin-Smith	22 December 2022
US Utilities & IPPs: PowerPoints: PJM Capacity Auction, ETR Cautious Update, & Indiana Check-In (https://rsch.baml.com/r?q=DBMhU62mmpA-Uu!1WfEYng)	Julien Dumoulin-Smith	20 December 2022
US Utilities & IPPs: Fuel on My Mind: Indiana, West Virginia, & Kentucky Latest States to Watch (https://rsch.baml.com/r?q=9VJhhn9fExFI-ESk6JIXJA)	Julien Dumoulin-Smith	01 December 2022

Fuel adjustment clause drawing additional attention

The quarterly Fuel Adjustment Clause (FAC) proceeding has had higher than usual media and intervenor attention due to the magnitude (Cause 38706 FAC-137). NIPSCO is requesting a +$6-9/month increase in February 2023 which follows a +$5/month increase in the prior FAC period. Unfortunately, NIPSCO had significant major forced outages during 3Q22 at Schahfer 16 (continue downtime after significant turbine damage), Schahfer 17-18 (boiler tube leaks), and Michigan City 12 (superheat spray valve). Peer Southern Indiana Gas and Electric Company (CNP CenterPoint subsidiary) has made a larger application as well.

See further details on Indiana and fuel proceedings across the US broadly in our report: Fuel on My Mind: Indiana, West Virginia, & Kentucky Latest States to Watch 01 December 2022 (https://rsch.baml.com/r?q=9VJhhn9fExFI-ESk6JIXJA)

Expect elevated scrutiny in these proceeds with elevated power/gas prices during a period of unplanned generator outages.

4Q22/FY22 EPS In-Line

Our $0.48 4Q22 adjusted EPS estimate puts NiSource FY22E EPS at $1.45, in-line with its recently tightened FY22 guidance midpoint of $1.44-$1.56. There is +$0.09 YoY improvement in 4Q22, a large increase which is common given the seasonality of the business and timing of rate relief under the general rate cases and trackers. A key assumption is that the YTD trend of sharply higher operation & maintenance (O&M costs) moderate. Management noted that there are some discrete drivers of the +8% YoY YTD and that the rate could inflect favorably.

Exhibit 2: NiSource (NI) 4Q22 Earnings Drivers Walk
Penny beat on 4Q22 but FY22 in-line

NI Earnings Walk	**4Q22**
4Q21 Adjusted EPS Actual	**$0.39**
Rate Relief	
Indiana Gas GRC + Riders	0.04
Pennsylvania Gas GRC + Riders	0.04
Ohio Riders	0.03
Other Riders	0.01
O&M	0.01
Depreciation & Amortization	(0.03)
Interest Expense	(0.01)
Other Income: Lower Charitable Contribution YoY	0.01
Dilution	(0.01)
4Q22 Adjusted EPS BofA	**$0.48**
4Q22 Adjusted EPS Consensus	$0.47
BofA *Forecasted* Beat/(Miss) vs Consensus	1.8%
4Q22 Adjusted EPS Implied Guidance	$0.48
FY22 BofAe	$1.45
FY22 Guidance	**1.44-1.46**
FY22 Consensus	**$1.45**
BofA *Forecasted* Beat/(Miss) vs Consensus	0.2%

Source: Company Filings, Bloomberg, & BofA Global Research Estimates.

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FY23: Underpinned by substantial rate relief

The $1.50-$1.57 2023 EPS guidance presented at the Analyst Day appears reasonable to us, but will require a reasonable and timely NIPSCO Electric general rate case outcome. Due to the seasonality of Indiana electric and the proposal to stagger the rate increase, the earnings benefit will be spread into FY24 and FY25. If there is an unfavorable element in Indiana, we would expect management to flex O&M lower and pull-forward some savings into 2023 embedded in the later periods of the plan.

Exhibit 3: NiSource (NI) FY23 and Quarterly Earnings Drivers Walk

BofAe in-line with Consensus for the full year with a 1Q23 miss

NI Earnings Walk		EPS	1Q	2Q	3Q	4Q
FY22A Adjusted EPS		**$1.45**	**$0.75**	**$0.12**	**$0.10**	**$0.48**
Rate Relief						
Gas: Ohio Rate Case: +$68Mn Early 2023	0.12	0.05	0.03	0.01	0.03	
Gas: Virginia: September 28, 2022 Interim ~$41Mn	0.05	0.02	0.01	0.01	0.01	
Gas: PA Rate Case: +$44.5Mn December 2022	0.08	0.03	0.02	0.01	0.02	
Gas: MD Rate Case: +~$5Mn December 2022	0.01	0.00	0.00	0.00	0.00	
Gas: IN Rate Case Step 1 +$71.8. Sept 2022	0.05	0.03	0.01	0.01		
Gas: IN Rate Case Step 2 +$71.8. March 2023	0.04		0.01	0.01	0.01	
Gas: Ohio Riders ~$50Mn	0.10	0.04	0.02	0.01	0.02	
Gas: NIPSCO TDISC: ~$5Mn	0.01	0.00	0.00	0.00	0.00	
Gas: Virginia SAVE	0.01	0.00	0.00	0.00	0.00	
Gas: Kentucky SMRP	0.01	0.00	0.00	0.00	0.00	
Gas: Maryland STRIDE	0.00	0.00	0.00	0.00	0.00	
Electric: NIPSCO Rate Case: +$292Mn Ask. Sept '23	0.05			0.01	0.04	
Electric: NIPSCO TDISC: $10Mn Aug '22/$7Mn Feb '23	0.03	0.00	0.01	0.01	0.01	
Electric: NIPSCO FMCA	0.01	0.00	0.00	0.00	0.00	
Customer Growth: ~$5Mn electric/~$5Mn gas per year	0.02	0.00	0.00	0.00	0.00	
Fuel Adjustment Clause YoY: Absence of FY22 Drags	0.01		-	0.01		
Normalize Off-System Sales	(0.01)	(0.00)	(0.00)	(0.00)	(0.00)	
Higher Taxes Other Than Income	(0.02)	(0.01)	(0.00)	(0.00)	(0.00)	
AFUDC	0.04	0.00	0.01	0.01	0.02	
O&M	(0.08)	(0.02)	(0.02)	(0.02)	(0.02)	
Depreciation & Amortization	(0.16)	(0.03)	(0.04)	(0.05)	(0.05)	
Interest Expense	(0.20)	(0.04)	(0.05)	(0.06)	(0.05)	
Pension Expense: Reverse Out FY22 Drag	0.02	0.01	0.01	0.01	0.00	
Other Income: Reverse Out FY22 COLI Drag	0.03	0.01	0.01	0.01	0.01	
Effective Tax Rate	(0.02)	(0.02)	(0.00)	(0.01)	0.01	
Dilution	(0.08)	(0.01)	(0.00)	(0.00)	(0.06)	
FY23E Adjusted EPS		**$1.55**	**$0.82**	**$0.15**	**$0.09**	**$0.49**
FY23 Consensus		**$1.54**	**$0.86**	**$0.14**	**$0.09**	**$0.49**
BofA *Forecasted* Beat/(Miss) vs Consensus		**0%**	**-4%**	**9%**	**-3%**	**0%**
FY23 Adj EPS Guidance	**1.50-1.57**					
BofA *Forecasted* Beat/(Miss) vs Guidance		**1%**	**4%**	**16%**	**-18%**	**-3%**

Source: Company Filings, Bloomberg, & BofA Global Research Estimates.

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Adjusted EPS Estimates: Now largely in-line with Street

We slightly increase our FY22-FY23 estimates based on our detailed earnings walks above but moderate the long-term 2026-2027 estimates to embed additional conservatism. There is still investor confusion about the intersection of the prior 2021-2024 7-9% and the new 2021-2027 6-8% EPS CAGRs which has been compounded by the messaging of annual 6-8% YoY growth. Management's commentary on the 4Q22 call will be dissected for any change in tone.

Exhibit 4: NiSource (NI) Financial Snapshot
Above average growth forecasted ahead

NiSource (NI) Financial Snapshot	2021A	2022E	2023E	2024E	2025E	2026E	2027E	'21-'27 CAGR
Gas	1.09	1.17	1.18	1.14	1.27	1.39	1.48	5.3%
Electric	0.54	0.56	0.64	0.76	0.80	0.86	0.87	8.3%
Parent/Other	(0.25)	(0.28)	(0.27)	(0.23)	(0.24)	(0.24)	(0.24)	-1.0%
BofA EPS	**1.37**	**1.45**	**1.55**	**1.67**	**1.84**	**2.01**	**2.12**	**7.5%**
2022 Guidance: 6-8% 2021-2027	**$1.37**	**1.44-1.46**	**1.50-1.57**					**7.0%**
Midpoint of CAGR Guidance	**$1.37**	$1.45	$1.54	$1.68	$1.80	$1.92	$2.06	7.0%
Midpoint of Annual/YoY Guidance	**$1.37**	$1.45	$1.54	$1.64	$1.76	$1.88	$2.01	6.6%
2021 Guidance: 7-9% 2021-2024	**$1.37**	**1.42-.148**						**8.0%**
Midpoint of Guidance	**$1.37**	$1.45	$1.54	$1.73	$1.85	$1.98	$2.11	7.5%
BofA vs Guidance	*-0.1%*	*0.0%*	*1.0%*	*-0.4%*	*2.3%*	*4.8%*	*3.0%*	
Consensus	**1.36**	**1.45**	**1.54**	**1.69**	**1.85**	**2.02**		8.1%
BofA vs Consensus	*1.0%*	*0.1%*	*0.5%*	*-1.1%*	*-0.8%*	*-0.2%*	*N/A*	
BofA Change vs Prior	*-0.1%*	*0.7%*	*0.7%*	*0.1%*	*-0.2%*	*-1.3%*	*-1.5%*	
Dividend	*$0.88*	*$0.94*	*$1.00*	*$1.08*	*$1.16*	*$1.26*	*$1.36*	7.5%
Dividend Payout Ratio: 60-70%	*64.3%*	*64.8%*	*64.5%*	*64.6%*	*63.1%*	*62.6%*	*64.2%*	*-0.1%*
FFO/Debt: 14-16%	*12.9%*	*13.4%*	*14.3%*	*15.5%*	*14.8%*	*14.8%*	*14.8%*	*1.8%*

Source: Company Filings, Bloomberg, & BofA Global Research Estimates.

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Valuation: Lift valuation primarily on MtM

The NiSource valuation is based on a 2025 sum of the parts analysis. We apply the latest natural gas (16.1x vs 14.4x previously) and electric (16.0x vs 14.8x previously) base multiples that we gross-up +5% across the coverage universe to reflect sector capital appreciation.

We continue to ascribe a +1x premium for NIPSCO Gas/Electric to reflect the favorable characteristics of the jurisdiction. Indiana has fairly consistently delivered above-average regulatory outcomes. *The +$3/sh increase is driven entirely by the change in group multiple with no material adjustments to our FY25 EPS estimate (-$0.01 vs prior).*

Exhibit 5: NiSource Sum of the Parts Valuation
Attractive potential upside for shares ahead off derisked backdrop - what will be the catalyst however?

NiSource Sum of the Parts Valuation	2025E EPS			Peer	Prem/ Discount	Base	$/Sh
Gas Utilities							
Group Peer Multiple - Gas & EPS CAGR	**16.1x**	x	**5.0%**	= **16.9x**			
Columbia Gas of OH	$0.50			16.9x	**0.0x**	16.9x	$8.49
Columbia Gas of PA	$0.33			16.9x	**0.0x**	16.9x	$5.50
NIPSCO Gas	$0.25			16.9x	**1.0x**	17.9x	$4.53

Columbia Gas of VA	$0.11			16.9x	0.0x	16.9x	$1.84
Columbia Gas of KY	$0.06			16.9x	0.0x	16.9x	$0.95
Columbia Gas of MD	$0.03			16.9x	0.0x	16.9x	$0.47
Total Gas Utilities	**$1.27**			**16.9x**	**0.2x**	17.1x	**$21.77**
Electric Utilities							
Group Peer Multiple - Electric & EPS CAGR	**16.0x**	x	**5.0%**	=	**16.8x**		
NIPSCO Electric	$0.80			16.8x	**1.0x**	17.8x	$14.26
Total Utility	**$2.07**					*17.4x*	**$36.03**
-Parent EPS Drag (ex-Interest Expense)	-$0.10			0.0x		17.0x	-$1.72
-Parent Interest Drag (Calculated Below)	-$0.14						-$2.64
Total EPS *(incl. debt drag)*	**$1.8**						

Holdco Debt @ Parent, *not* allocated to Utilities	**Balance**	**Weight**	**Weighted**	**$/Sh**
(50% Netting out parent debt + assumed converts)	-$1,600	50%	-$800	-$1.47
(50% P/E multiple on Interest Exp)	5.9%	50%	-$642	-$1.18

Grand Total Equity Value	**$31.67**
Shares Outstanding 2025E	546
Total Potential Equity Value	**$32.00**
Current NiSource Stock Price	$27.13
Potential Stock Return	18.0%
FY1 Dividend Yield	3.7%
Total Potential Return	**21.6%**

Source: Company Filings, Bloomberg, & BofA Global Research Estimates.

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Title: Subtitle	Primary Author	Date Published
NiSource Inc: Our Updated Take on Shares Post A-Day; 'Terminal EPS' Intact - Reiterate Buy (https://rsch.baml.com/r?q=d9WEgDfxeTF7JvC-gPbpew)	Julien Dumoulin-Smith	08 November 2022
US Utilities & IPPs: PowerPoints: DUK/AES Indiana renewables (https://rsch.baml.com/r?q=vOejtbBPccp0yWNGlsZmwA)	Julien Dumoulin-Smith	22 December 2022
US Utilities & IPPs: PowerPoints: Indiana Check-In (https://rsch.baml.com/r?q=DBMhU62mmpA-Uu!1WfEYng)	Julien Dumoulin-Smith	20 December 2022
US Utilities & IPPs: Fuel on My Mind: Indiana, West Virginia, & Kentucky Latest States to Watch (https://rsch.baml.com/r?q=9VJhhn9fExFl-ESk6JIXJA)	Julien Dumoulin-Smith	01 December 2022
US Utilities & IPPs: PowerPoints: NI Analyst Day Takes (https://rsch.baml.com/r?q=cc-YRyOOClohNs28uC7twg)	Julien Dumoulin-Smith	07 November 2022
US Utilities & IPPs: Regulatory Updates: NI IN Deal (https://rsch.baml.com/r?q=mOOWHfenRJCAdNuQknVh0w)	Julien Dumoulin-Smith	07 November 2022
NiSource Inc: Mitigation Boosts Flexibility to hit Targets; Strategic Options are the Next Key Focus (https://rsch.baml.com/r?q=sbFDKnF1er1ssxRsrZx!BQ)	Julien Dumoulin-Smith	04 August 2022

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*iQ*profile℠ NiSource Inc

Company Description

NiSource Inc. (NI) is a fully-regulated utility company serving over 3 million natural gas customers and 500,000 electric customers across six states through its local Columbia Gas and NIPSCO franchises. Key states are Indiana, Ohio, Pennsylvania, Kentucky, Virginia, and Maryland. There is a smaller Federally regulated electric transmission business as well. NI generates substantially all of its operating income through these rate-regulated businesses.

Investment Rationale

We rate NiSource (NI) Buy premised on an above-average 6-8% EPS growth profile, improving balance sheet, opportunity for accretive asset sales, and decarbonization investment opportunity. The company's 2022 Investor Day update detailed annual growth within the with a relatively smooth growth profile an advantage vs some peers with non-linear growth. Shares can positively re-rate with successful execution of the Indiana plan.

*iQ*method℠ - Bus Performance*

(US$ Millions)	2020A	2021A	2022E	2023E	2024E
Return on Capital Employed	4.1%	4.0%	4.6%	4.7%	5.0%
Return on Equity	10.2%	10.8%	10.8%	9.9%	10.2%
Operating Margin	22.0%	20.6%	23.9%	25.5%	28.3%
Free Cash Flow	(654)	(620)	(928)	(1,785)	(1,090)

*iQ*method℠ - Quality of Earnings*

(US$ Millions)	2020A	2021A	2022E	2023E	2024E
Cash Realization Ratio	2.2x	2.1x	2.5x	2.5x	2.3x
Asset Replacement Ratio	2.4x	2.5x	3.1x	4.1x	3.4x
Tax Rate	18.3%	16.8%	19.2%	21.0%	21.0%
Net Debt-to-Equity Ratio	167.4%	133.5%	139.9%	112.3%	108.7%
Interest Cover	2.8x	3.0x	3.8x	2.9x	3.3x

Income Statement Data (Dec)

(US$ Millions)	2020A	2021A	2022E	2023E	2024E
Sales	4,697	4,900	5,454	5,830	6,156
% Change	-9.8%	4.3%	11.3%	6.9%	5.6%
Gross Profit	3,587	3,507	3,818	4,168	4,469

% Change	-2.4%	-2.2%	8.9%	9.2%	7.2%
EBITDA	1,757	1,755	2,133	2,361	2,664
% Change	9.3%	-0.1%	21.5%	10.7%	12.9%
Net Interest & Other Income	(339)	(304)	(341)	(506)	(523)
Net Income (Adjusted)	**508**	**571**	**643**	**720**	**908**
% Change	**2.6%**	**12.6%**	**12.6%**	**12.0%**	**26.0%**

Free Cash Flow Data (Dec)

(US$ Millions)	2020A	2021A	2022E	2023E	2024E
Net Income from Cont Operations (GAAP)	511	530	724	720	908
Depreciation & Amortization	726	748	827	874	923
Change in Working Capital	(249)	(260)	0	0	0
Deferred Taxation Charge	(29)	112	148	185	230
Other Adjustments, Net	145	88	(73)	0	0
Capital Expenditure	(1,758)	(1,838)	(2,555)	(3,564)	(3,150)
Free Cash Flow	**-654**	**-620**	**-928**	**-1,785**	**-1,090**
% Change	**-198.5%**	**5.2%**	**-49.6%**	**-92.4%**	**39.0%**

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	692	713	768
Other Current Liabilities	1,753	2,128	2,128	2,128	2,128
Long-Term Debt	9,220	9,183	10,226	10,525	11,339
Other Non-Current Liabilities	4,704	4,954	5,103	5,288	5,518
Total Liabilities	**16,203**	**16,884**	**18,149**	**18,653**	**19,753**
Total Equity	**5,752**	**7,273**	**7,736**	**9,922**	**11,050**
Total Equity & Liabilities	**21,955**	**24,157**	**25,885**	**28,576**	**30,803**

** Click for full definitions of iQmethod™ measures.*

Price Objective Basis & Risk

NiSource Inc (NI)

Our $32 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 16.1x for gas and 16.0x for electric. 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 utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

Positive and negative risks to our Price Objective are changes in 1) regulatory, political, and legislative outcomes, 2) ability to execute on capital expenditure plan, 3) inflation, operating expense, and interest rates as they influence earned rates of return, 4) customer count and load growth, 5) commodities, 6) natural disasters, 7) pension plan returns, 8) equity and asset sale needs.

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
	Allete Inc	ALE	ALE 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
	Array Technologies	ARRY	ARRY 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
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	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
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
SolarEdge Technologies	SEDG	SEDG 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

Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
American Electric Power	AEP	AEP 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
Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
Entergy	ETR	ETR US	Paul Zimbardo
Essential Utilities	WTRG	WTRG 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
NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
Southwest Gas Holdings	SWX	SWX 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

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
Dominion Energy	D	D US	Paul Zimbardo
Edison International	EIX	EIX US	Paul Zimbardo
Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
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
Pinnacle West	PNW	PNW 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
TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

RSTR

South Jersey Industries	SJI	SJI US	Julien Dumoulin-Smith

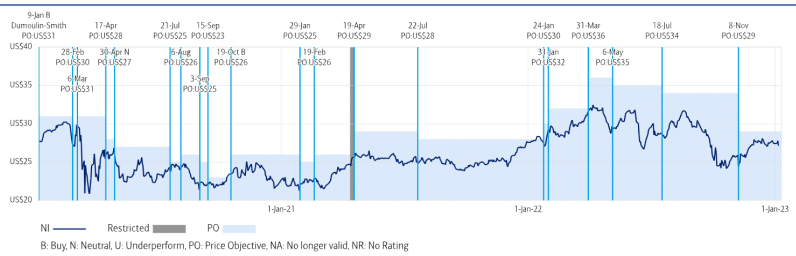
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NiSource Inc (NI) Price Chart



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

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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships[R1]	Count	Percent
Buy	82	59.85%	Buy	65	79.27%
Hold	32	23.36%	Hold	21	65.63%
Sell	23	16.79%	Sell	14	60.87%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships[R1]	Count	Percent
Buy	72	48.98%	Buy	51	70.83%
Hold	38	25.85%	Hold	29	76.32%
Sell	37	25.17%	Sell	25	67.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)

Coverage Universe	Count	Percent	Inv. Banking Relationships[R1]	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

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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%

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Citi Research
FLASH

15 Mar 2023 11:46:47 ET | 9 pages

NiSource Inc (NI.N)

Management Shuffle – What's Next?

CITI'S TAKE

We spoke with the new CFO and new Chief Innovation Offer (outgoing CFO) post the release this morning. The Company messaging was that this doesn't signal any change to the organization or financing plan but more to the augmentation of the management bench / skill sets and helps with future succession planning. The new CFO Shawn is a familiar face to many in the investment and deal community, given the company's history having a deep bench at investor conferences and Shawn being increasingly visible in recent years.

NIPSCO Sale Process Unchanged: Shawn had been leading this process since the start, so the title change doesn't have a large impact to the process. During our meetings with the new CFO over the last few months, he has been most up to date on the deal timeline, data room formation, and engagement with interested parties.

Why Change the Management roles now?: With Pablo's departure, the new CEO had an opportunity to change the structure of the management team. This triggered a more comprehensive review and gave the new CEO an opportunity to expand the skills set of the senior leadership team. From a board perspective, the changes improve the likelihood of internal succession planning, if the CEO were to leave the Company in the future, without having to look externally.

New COO and New Chief Innovation Officer: Donald (outgoing CFO) is stepping into the Chief Innovation Officer role, which is focused on a $1B IT investment, customer service process changes, and other technology initiatives. The new COO, Michael, was hired externally, with a background / focus on electric customer facing solutions.

Neutral	
Price (14 Mar 23 16:00)	US$27.76
Target price	US$30.00
Expected share price return	8.1%
Expected dividend yield	3.6%
Expected total return	11.7%
Market Cap	US$11,451M

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NiSource Inc

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $32. We value regulated assets at a multiple of 1.5x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $32 and $29, respectively.

Risks

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

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Appendix A-1

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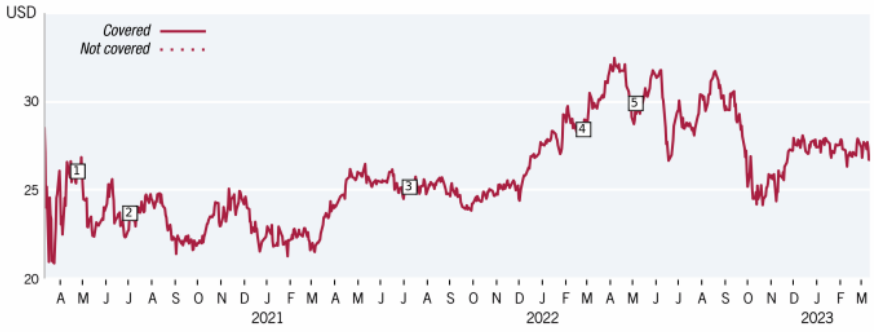
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NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan Levine



	Date	Rating	Target Price	Closing Price
1	23-Apr-20 03:00:00	2	*29.00	25.85
2	01-Jul-20 14:08:34	2	*24.00	23.46
3	08-Jul-21 15:00:03	2	*27.00	24.95
4	23-Feb-22 23:34:02	2	*28.00	28.21
5	04-May-22 17:57:28	2	*30.00	29.67

*Indicates Change

Rating/target price changes above reflect Eastern Time

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	12 Month Rating			Catalyst Watch		
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CREDIT SUISSE

US Utilities: Assessing General Rate Case Risk

85% of Sector in Rate Cases in FY23

Utilities | Theme

We are providing a refreshed rate case matrix for our entire coverage universe so investors can better gauge general rate case (GRC) risk for 2023. Regulatory execution should be a large theme for '23 given the new inflationary paradigm, and we stress rate cases can lead to material catalysts for stocks discussed, adding to our overall cautious view on the utilities sector. Utility bills grew 12% y/y in 2022 nationally and greater scrutiny from local stakeholders is likely in our view. Further, most utilities in our coverage universe have now filed for high single digit to low double-digit rate increases which are being compounded by higher cost of capital and fuel balances. We have consistently received questions from on investors on "Where can I hide" amidst what has been a challenging 3 months of regulatory execution as is evidenced by various state level issues that have cropped up, specifically in MI (CMS/DTE), WI (LNT/WEC), LA (ETR), and VA (D) among others. We stress minimal names across the sector likely carry zero regulatory execution risk in FY23.

- **The Bottom Line: 90% of Sector in GRCs for FY23:** We size up the companies most exposed using rate base (regulatory asset base) which is often used as a proxy for earnings power. We see ~41% of our coverage universe having more than 50% of rate base up for review, while ~65% of the sector has +25% of rate base exposed in the 2023 investment year. Lastly, ~85% of the sector has at least 5% of rate base in cases, meaning there are very few stories that screen clean on GRC risk. We believe investors will need to stomach rate case risk one way or another if they want to be involved in the sector this year. Given higher regulatory asks across the board, we believe settlements overall could also be less likely with parties more willing to take rate cases the full distance. We also see increased pressure from Commissions nationally to defend rate payers amidst a heightened inflation backdrop. As highlighted in our April '22 launch, investors should also be acutely aware of single state exposures (CMS, DTE, POR, PNW, ED) given the outsized impacts to earnings power. This theme is likely to continue through the course of 2023.
- **Who Stands Out:** AEP, CNP, ES, PPL, NEE, PEG, OGE, and EIX all have less rate case risk vs. the average (49% of rate base) based on our matrix. PCG, SRE, POR, NI, XEL, PNW, DTE, and CMS stand out to have more risk than the average.
- **Bar-belling the 'Haves' & 'Have Nots' not necessarily going to be a successful strategy:** We are providing this analysis as a simple tool for investors to scan GRC risk. We're unsure if simply avoiding GRC risk will be a successful strategy in '23, principally as there are multiple execution items that companies need to affirm current year and LT EPS metrics which should be needle movers for the stocks discussed. For instance, ETR has limited rate case risk but the securitization proceedings in E-LA will likely be the driver of the stock. AEP also screens lower than average, but we think mgmt needs to execute on the KY Power deal, various renewable generation proposals at the PUC level which underpin the current $40Bn capex plan, as well as the OH ESP. SO has limited rate case risk, but we believe execution of U4 nuclear will be the larger driver of shares through FY23.

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Additional Considerations

- **Reg Jurisdictions Where We Have Confidence: Michigan:** DTE / CMS essentially have 100% of earnings power up for review in '23 via multiple cases, which we think they address constructively as evidenced by the recent CMS settlement. We stress the CMS settlement is an important data-point showing the constructive nature of the jurisdiction where we expect commission approval by mid-Jan. DTE already saw a negative rate order in its GRC, but we're expecting the company to reaffirm FY23 guidance (6.25 midpoint) on the upcoming 4Q call. **Illinois:** This is a big year for the state given MYRPs expected to be filed (by Jan 20) in IL which matters for EXC/AEE. For EXC we're encouraged by the CMC mechanism which has protected customers from an inflationary standpoint this past year. We believe IL will be resolved constructively.
- **Reg Jurisdictions We're Watching with More Caution: Wisconsin:** Given current rhetoric out of the W-PSC, we see some risk to LNT's rate filing at WPL. **Arizona:** While we have seen new commissioners' step in, they are unproven, and AZ is one of the toughest jurisdictions on our rate affordability analysis.
- **Affordability Angle Matters Too:** We re-hash our affordability screen triangulating customer bills, average median income, and usage to get a better sense of where true bill pressure could surmount. CA, NY, and NJ companies screen positively while Southern companies SO, NEE, PNW, ETR screen negatively. ETR has already seen follow through given securitization concerns in E-LA with commissioners being vocal on wanting ETR to share some portion of IDA costs. The south generally screens negatively on this analysis due to lower-than-average median incomes and higher usage. Utility bills grew 12% y/y nationally, 8% y/y in 1H22 and 15% y/y in 2H22.

Select Company Considerations

- **AEE:** With pending rate cases for MO electric and IL nat gas businesses, we see the major new development for the company being the IL electric multi-year rate review expected to be filed by January 20th. The company established a PBR framework for the IL electric business in Dec. 2022, and we expect this to lead to a more constructive rate case process for this ask.
- **CMS:** Company plans to file its annual electric rate case in 2H23, with CMS having a historical precedent of filing annual rate cases to true-up actual vs. forecasted costs. The company is currently amidst an electric and gas rate case, with the electric rate case seeing a settlement and pending a final order. We see a strong focus on execution of regulatory strategy for CMS in '23.
- **DTE:** Company plans to file a new gas rate case this year but the '22 approved electric rate case is still going through rehearing process without statutory timeline. We do expect the company to file a rate case at the electric side following rehearing process in the current electric rate case. Regarding the current rehearing request, we expect potential clarity (amended order or denial) before the 4Q22 call.
- **POR:** While management has yet to commit to a OR GRC filing, we have high confidence the 4Q call will be met with an announcement to file for the 2023.
- **FE:** '23 is a big year for FE's rate filing strategy with new GRCs filing in three jurisdictions: MD (PE), NJ (JCPL) and WC(MP/PE). We also flag that company is planning to file OH ESP during 1H23 and further consolidate PA utilities during the same time frame. The larger rate cases will be PA / OH where we don't expect filings until very late 2023 or 2024 timeframe.
- **PNW:** With one major rate case outstanding, we expect the market to test the improvement in AZ's regulatory construct with newly elected commissioners. The appealing process for '19 GRC is still ongoing and with a possible court decision by 1Q23. We expect rate

filing strategy to remain the same to address the lower authorized ROE with clarity via staff testimony sometime May / June '23.

- **NI:** Another execution name post '22 AD strategic announcement. We are monitoring NIPSCo, Columbia Gas OH and VA all navigating through rate filing process to become a premium name as envisioned by mgmt. We have confidence in NI's regulatory execution, principally in Indiana given historical precedent and recent data points. The Columbia Gas OH case was already settled which as well was a major item for FY23.
- **SRE/PCG/EIX:** All CA utilities are going through or plan to enter rate filing process. Essentially the entirety of SRE's rate base (CA+TX) is subjected to rate case risk this year. EIX is navigating through Track 4 filing and plan to file GRC this May while PCG is expecting a rate decision by 1H23. While SRE / EIX attrition years are more relevant to 2024+ earnings power considerations, we're including them in our matrix; we see the rate outcomes as a potential driver for share performance.
- **OGE:** The company currently does not have any pending rate cases or plans to file in '23. That said, management is planning on seeking pre-approval in OK for upcoming generation replacement in '23, based on our discussions.
- **PPL:** The company does not currently have any rate cases pending or plans to file in '23 and we expect this paradigm to continue until at least 2025 with the potential to extend further depending on efficiency initiatives.
- **XEL:** On top of all rate filings underway in CO/MN/NM/SD, we expect XEL to file CO gas rate case sometime in '23. We still see the MN rate cases as de-risking factors and hold positive view based on XEL's historical ability to manage the regulatory process and achieve constructive outcomes. Our recent move to Neutral was valuation based but it's notable that the stock now trades at the highest premium in the sector with outsized rate exposure.

Please reference the below pages for the rate case & affordability matrix. Both matrices are available to clients in Excel format upon request.

Large Cap Electrics

Figure 1: Large Cap Electrics Rate Case Matrix

Ticker	Rate Case Pending					Total RAB Filed ($Mn)	Rate Case Expected to be Filed				CSe '23 YE RAB ($Mn)	Total Rate Base ($Mn) - 2023	Total Rate Case Exposure (%)	Notes
	OpCo 1	OpCo 2	OpCo 3	OpCo 4	OpCo 5		OpCo 1	OpCo 2	OpCo 3	OpCo 4				
Large Cap Electric														
AEE	Missouri	Illinois Gas	N/a	N/a	N/a	14,404	Illinois Electric - 1Q23	N/a	N/a	N/a	4,744	24,472	78.2%	IL already determined PBR framework for Electric
AEP	SWEPCo	PSO	APCo	OH ESP	N/a	9,494	N/a	N/a	N/a	N/a	0	63,528	14.9%	Does not include $2.2Bn ESP filing at OH PUCO
CMS	Consumers Electric	Consumers Gas	N/a	N/a	N/a	22,672	Consumers E - 2H23	N/a	N/a	N/a	8,932	24,516	92.5%	Elec Settlement Achieved, Expect Another Rate Filing in '23
CNP	IN Gas	Southern IN G&E	Minnesota Gas	N/a	N/a	3,800	Texas Electric - 2H23/1H24	Indiana E - 2H23	Texas Gas - 2H23	N/a	3,600	23,698	31.2%	Assuming Texas Electric
DTE	N/a	N/a	N/a	N/a	N/a	0	DTE Gas - 1Q23	DTE E - 1H23	N/a	N/a	32,665	32,665	100.0%	DTE - Elec. filed rehearing with no statutory timeline
DUK	Kentucky	Progress - NC	Ohio	Progress - SC	N/a	17,341	Carolinas - NC by 1Q23	N/a	N/a	N/a	26,616	99,772	44.1%	All about Carolinas execution (DEC/DEP)
ED	CECONY	N/a	N/a	N/a	N/a	37,884	N/a	N/a	N/a	N/a	0	40,641	93.2%	Awaiting clarity on Joint stipulation for CECONY
EIX	SCE - Track 4	N/a	N/a	N/a	N/a	0	SCE - 25+ GRC	N/a	N/a	N/a	35,437	44,602	79.5%	GRC Track 4 Ongoing at CPUC sets 2024 attrition year; GRC track 1 already approved '23 capital; more '24+ risk to EIX
ES	N/a	N/a	N/a	N/a	N/a	0	Yankee Gas - Jan '23	N/a	N/a	N/a	2,093	28,503	7.3%	Recently settled MA electric case which we view positively
ETR	Texas	N/a	N/a	N/a	N/a	4,412	N/a	N/a	N/a	N/a	0	35,849	12.3%	Renewable RFPs : TX 2GW, MI 5GW
EVRG	N/a	N/a	N/a	N/a	N/a	0	KS - Apr '23	N/a	N/a	N/a	9,455	18,520	51.1%	KCC Rate Base Estimated as 55% of total
EXC	Delmarva	N/a	N/a	N/a	N/a	1,079	ComEd - Jan '23	N/a	N/a	N/a	20,776	55,913	39.1%	IL already determined PBR framework for Electric
FE	Mon Power	N/a	N/a	N/a	N/a	2,342	PE (MD) - Mar '23	MP/PE (WV) - 1H23	NJ - 1H23	OH ESP	10,108	26,676	46.7%	MD (Mar '23), WV (1H23), NJ (1H23), OH (May '24), PA ('24)
LNT	N/a	N/a	N/a	N/a	N/a	0	WPL - 1H23		N/a	N/a	6,488	13,894	46.7%	Rate review at WPL; RPU filing / outcome to determine IA strategy
PCG	PacGas GRC	N/a	N/a	N/a	N/a	50,775	N/a	N/a	N/a	N/a	0	56,910	89.2%	Outcome will be retroactive to '23
PNW	APS	N/a	N/a	N/a	N/a	10,516	N/a	N/a	N/a	N/a	0	12,899	81.5%	New Commissioners in Place in AZ
PPL	N/a	N/a	N/a	N/a	N/a	0	N/a	N/a	N/a	N/a	0	25,191	0.0%	
SO	VA Natural Gas	Nicor	N/a	N/a	N/a	5,619	N/a	N/a	N/a	N/a	0	72,007	7.8%	Mostly NICOR Filing
WEC	MN Energy Resource	PGL	NSG	N/a	N/a	4,900	N/a	N/a	N/a	N/a	0	27,896	17.6%	IL Gas Filing
XEL	Colorado - E	NSP - E	NSP - G	SPSC	NSP - SD (E+G)	27,526	Colorado - G	N/a	N/a	N/a	4,108	40,744	77.6%	Expect XEL to File CO GRC for Gas sometime in FY23

Source: Company data, Credit Suisse estimates

Diversified, Small Cap & LDC

Figure 2: Diversified, Small Cap & LDC Matrix

Ticker	Rate Case Pending					Total RAB Filed ($Mn)	Rate Case Expected to be Filed				CSe '23 YE RAB ($Mn)	Total Rate Base ($Mn) - 2023	Total Rate Case Exposure (%)	Notes
	OpCo 1	OpCo 2	OpCo 3	OpCo 4	OpCo 5		OpCo 1	OpCo 2	OpCo 3	OpCo 4				
Diversified Utilities														
AES	N/a	N/a	N/a	N/a	N/a	0	N/a	N/a	N/a	N/a	0	5,970	0.0%	Mostly Ohio ESP
NEE	Pivotal Gas	N/a	N/a	N/a	N/a	489	N/a	N/a	N/a	N/a	0	61,547	0.8%	FPL Settlement Addresses Rate Risk Through '24
OGE	N/a	N/a	N/a	N/a	N/a	747	N/a	N/a	N/a	N/a	0	8,610	8.7%	FRP in AR; Filing for pre-approval in OK for upcoming generation in '23
PEG	N/a	N/a	N/a	N/a	N/a	0	N/a	N/a	N/a	N/a	0	28,104	0.0%	Will File GRC in late '23
SRE	SDGE - E	SDGE - G	SCG	Oncor	N/a	41,148	N/a	N/a	N/a	N/a	0	51,210	80.4%	ALJ Rec in Oncor Rate Case; Testimony due in CA GRCs in March '23
Small Cap Utilities														
POR	N/a	N/a	N/a	N/a	N/a	0	PGE - 1Q23	N/a	N/a	N/a	6,172	6,172	100.0%	We expect POR to announce filing on the 4Q call
LDCs														
NI	NIPSCo	NIPSCo - Rider	Columbia Gas OH	Columbia Gas VA	N/a	16,086	N/a	N/a	N/a	N/a	0	18,572	86.6%	NI already settled OH Gas Rate Case
ATO	Mid-Tex Dallas	WTX Cities RRM	MI - SRF/SIR	KY	VA SAVE	7,040	N/a	N/a	N/a	N/a	0	16,185	43.5%	

Source: Company data, Credit Suisse estimates

Rate Affordability Matrix

Figure 3: Rate Affordability Matrix

Rank (Average Residential Rate)	Ticker	Majority Service Jurisdiction	3 Yr Average Residential Rate (cents/kWh)	Total Residential Load Served (MWh)	Total Residential Customer Count	Average Customer Usage (kWh/Customer)	Average Monthly Bill ($)	Rank - Average Monthly Bill	Median Household Income ($/year)	Percentage	Rank - % to Median Household Income
1	HE	HI	31.9	2,525,400	412,484	6,122	163	1	$ 83,102	2.35%	8
2	SRE	CA	25.5	6,606,155	1,311,290	5,038	107	16	$ 80,440	1.60%	30
3	ED	NY	24.9	16,546,670	3,209,681	5,155	107	17	$ 72,108	1.78%	26
4	PCG	CA	22.7	29,814,086	4,910,767	6,071	115	10	$ 80,440	1.72%	27
5	ES	CT/MA/NH	21.2	21,741,028	2,842,277	7,649	135	3	$ 80,870	2.01%	16
6	EIX	CA	16.9	32,465,350	4,516,288	7,189	101	19	$ 80,440	1.51%	32
7	PEG	NJ	16.6	13,964,380	1,976,744	7,064	97	28	$ 85,751	1.36%	34
8	DTE	MI	16.4	16,315,340	2,019,920	8,077	110	13	$ 59,584	2.22%	12
9	CMS	MI	15.8	13,331,252	1,630,424	8,177	107	15	$ 59,584	2.16%	13
10	BKH	CO/WY/SD	15.0	1,477,515	184,075	8,027	100	22	$ 67,221	1.79%	23
11	LNT	IA/WI	14.9	7,294,040	826,828	8,822	109	14	$ 62,930	2.09%	15
12	WEC	WI	14.8	11,523,846	1,454,127	7,925	98	27	$ 64,168	1.83%	21
13	AGR	NY/ME/CT	14.8	12,053,642	2,009,170	5,999	74	36	$ 69,955	1.27%	36
14	NI	IN	14.5	3,483,963	417,343	8,348	101	21	$ 57,603	2.10%	14
15	PNW	AZ	13.7	14,747,876	1,150,194	12,822	146	2	$ 62,055	2.82%	2
16	PNM	NM	13.5	3,438,381	476,522	7,216	81	34	$ 51,945	1.88%	18
17	EXC	IL/MD/PA	13.3	72,123,851	8,161,365	8,837	98	26	$ 73,129	1.61%	29
18	SO	AL/GA/MS	12.5	47,472,079	3,728,391	12,733	133	5	$ 53,169	3.00%	1
19	EVRG	KS/MO	12.5	15,482,586	1,417,749	10,921	114	11	$ 59,748	2.29%	9
20	D	VA/SC	12.3	39,721,032	3,030,386	13,108	134	4	$ 66,342	2.43%	6
21	POR	OR	12.3	7,756,251	791,119	9,804	100	23	$ 67,058	1.79%	24
22	FE	OH/NJ/PA	12.2	54,977,845	5,389,169	10,202	103	18	$ 69,285	1.79%	25
23	XEL	CO/MN/TX	12.1	26,363,547	3,169,788	8,317	84	33	$ 71,918	1.40%	33
24	NWE	MT/SD	11.8	3,218,873	358,036	8,990	88	31	$ 58,343	1.81%	22
25	PPL	KY/PA	11.7	25,014,451	2,104,404	11,887	116	9	$ 57,879	2.40%	7
26	DUK	NC/FL/IN	11.6	85,351,937	6,864,007	12,435	120	7	$ 58,057	2.49%	4
27	AEP	OK/IN/VA	11.5	45,881,115	3,797,025	12,083	116	8	$ 62,836	2.22%	11
28	ALE	MN/WI	11.1	1,134,719	136,384	8,320	77	35	$ 69,381	1.34%	35
29	NEE	FL	11.0	69,243,828	4,960,827	13,958	128	6	$ 59,227	2.58%	3
30	MDU	ND/MT/WY	10.5	1,170,885	118,755	9,860	87	32	$ 62,244	1.67%	28
31	AEE	IL/MO	10.3	24,693,557	2,132,265	11,581	99	24	$ 63,298	1.89%	17
32	IDA	ID	10.2	5,462,557	484,432	11,276	95	29	$ 60,999	1.88%	19
33	AVA	WA/ID	10.1	3,807,041	349,890	10,881	91	30	$ 69,843	1.57%	31
34	OTTR	MN/ND/SD	9.9	1,266,232	103,493	12,235	101	20	$ 66,234	1.83%	20
35	ETR	LA/AR/TX	9.6	35,173,249	2,521,465	13,950	112	12	$ 54,686	2.46%	5
36	OGE	OK/AR	9.2	9,456,061	736,368	12,841	99	25	$ 51,701	2.29%	10

Source: Company data, Credit Suisse estimates, Bureau of Labor Statistics, Standard & Poor's

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 $100. We apply the electric group's 17.7x P/E multiple to all subsidiaries while applying a 15% multiple premium to AEP TransCo, reflecting formulaic/timely recovery in FERC jurisdictions. 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 also apply 5% discount to all VIUs and revised TX multiple to neutral. We currently have zero EPS contribution from Kentucky Power under a base-case assumption. 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 $100 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 Alliant Energy (LNT.N)

Method: We value Neutral-rated LNT using a SOTP to determine our $51 target price, applying relative P/E premiums/discounts to the various operating subsidiaries. In general, we view IA and WI as favorable jurisdictions. We apply a 10% premium to the business, giving a 16.8x 2024E P/E multiple, as both jurisdictions the company operates within have allowed for favorable outcomes in rate cases, historically speaking.

Risk: Risks to achieve our $51 target price and Neutral rating include the company seeing greater-than-expected returns in the unregulated renewable business, being unable to keep pace with peers' 6-8% EPS growth CAGR, or seeing decreased growth in service territories.

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

Method: Our target price is $82: 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 (17.7x vs. 15.4x 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 $82 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 an 18.8x implied multiple for the electric and gas groups versus 16.7x and 16.1x 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 Outperform as we expect the stock's total return to be above that of peers over the next 12 months.

Risk: Risks to achieving our $69 target price and Outperform 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 CenterPoint Energy (CNP.N)

Method: We value CNP using an SOTP methodology on 2025E EPS and have a $31 target price. We apply a 15% premium to the electric utility group multiple to Houston Electric, given the high-growth nature of the subsidiary and constructive regulatory mechanisms that allow management to realize ROEs close to authorized. We apply an 15% premium to SIGECO, given the generation replacement opportunity and transactions for peers in the state, which have garnered north of 20x P/E. We are also applying a 15% premium to the

gas distribution segment, given management has already been actively monetizing its LDC portfolio north of 2.0x rate base. We rate CNP Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to our Outperform rating and $31 target price include: Failure to obtain constructive outcomes in regulatory proceedings, failure to execute on the companies proposed IRP in IN, 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 restrictions on GHG emissions in a more expected manner than contemplated. Commodity volatility is also a risk as it can lead to higher bills for customers, and crowd out growth opportunities.

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

Method: Our target price is $78: We value ED on an SOTP approach. The company historically has had a challenging time earning its allowed ROE in the state, and we see an 8.8% authorized ROE as one of the lowest in the country. We are including a post-transaction NI of $1,666Mn for CEB sale given there is now a clear valuation/proceeds amount. We rate ED 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 $78 target price and Neutral rating include: Common equity funding that is not contemplated in our base-case, Blue Sky, or Grey Sky scenarios. Failure to establish new rates at CECONY, which could lead investors to take a discounted view on ED's largest earnings contributor. Natural disaster risk, which could accelerate liabilities surrounding the NYC distribution system. EDs natural gas system is subject to greater operational risk given gas is a combustible molecule. NY is increasingly focused on electrification, which increases stranded assert risk associated with ED's LDC system. Upside risk includes a better than expected rate case outcome.

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 (15.4x) and gas (14.7x) subsidiary, which yields a $118 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 $118 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 Edison International (EIX.N)

Method: We value Neutral-rated EIX using an SOTP to determine our $64target price, applying relative P/E premiums/discounts to the various operating subsidiaries. In general, we view California as a discount jurisdiction, with wildfire risk persistent throughout the state. We apply a 20% discount to the Electric GRC earnings and a 10% discount to the Transmission earnings, largely because of the risk of wildfires and related capital recovery proceedings. We adjust our SOTP for current and ongoing liabilities, principally (1) a $1Bn wildfire liability, offset by $1Bn of aggregate insurance, ongoing wildfire fund contributions of $95Mn/year discounted at a 9.5% IRR, and (2) remaining legacy wildfire claims of $900Mn assuming EIX foregoes cost of debt recovery on the remaining claims.

Risk: Risks to achieve our $64 target and Neutral rating include the company seeing delays in both the covered conductor installation and capital recovery, seeing increased wildfire activity in the coming years, and seeing a faster-than-expected recovery of costs associated with the '17/'18 natural disasters.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Entergy Corporation (ETR.N)

Method: Our target price Is $117: We value ETR on a P/E approach using the 2024E multiple of 16.3x on our 2024E EPS. 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 $117 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 Eversource Energy (ES.N)

Method: Our target price is $75: We value ES using an SOTP, applying relative P/E premiums/discounts to the various operating subsidiaries. In general, we view CT, MA, and RI as relatively favorable jurisdictions, although there have been recent conflicts in CT related to performance and penalties. We apply a 5% premium to the natural gas business as ES has a strong track record for operations and earned ROEs. For the Transmission segment, we apply a 5% premium, which is lower than our transmission approach for peer utilities, as we attempt to reflect risk of further ROE cuts to NE transmission operators. We rate ES 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 Neutral rating and $75 target price include: The company seeing further rate pressure from inflation, particularly in CL&P's jurisdiction. Other risks include further downgrade of forecasted ROE for offshore projects or an unfavorable monetization outcome, natural disaster/other issue that could delay wind projects under construction. Given the nature of offshore projects, climate-related issues pose a large risk to the company and its growth plans. Upside risk includes a better than expected rate outcomes.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Exelon Corporation (EXC.OQ)

Method: We utilized an SOTP method to determine our target price of $42 per share and a blended P/E multiple of 15.3x for Outperform-rated EXC. We derived the blended P/E multiple by creating a proportion of each segment for the electric group, transmission group, and gas group. We based the proportion on each segment's contribution to rate base. We applied a conservative, in line multiple to the current blended multiple of 15.3x. We believe that an improving regulatory environment in Illinois will be favorable for EXC investors by allowing ComEd to file a rate case that is in line with industry average. Changes in the allowed ROE structure could increase the allowed ROE by 2% in 2024. Another key driver is the execution of the $29Bn capital plan.

Risk: Risks to achieve our $42 target price and Outperform rating include: (1) management not meeting RAB projected growth; (2) not reaching stated growth metrics, including the 6-8% LT EPS CAGR; (3) increasing commodity cost for electric and gas service, natural disaster risk; (4) worse-than-expected regulatory outcomes; and (5) volatility to 30yr US Treasuries, as ComEd ROEs are linked to 30YR USTs.

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 $39 target price. We hold a discounted view on all utilities subsidiaries other than FET (-20% discount to Ohio utilities and 10% 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 $39 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 $89 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 15.3x. 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 9.2%. 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 $89 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 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.

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

Method: We value OGE using an SOTP with a $36 target price, applying relative P/E premiums/discounts to the various operating subsidiaries. In general, we view Oklahoma as an average jurisdiction given the strong focus on affordability for customers. We take apply a 5% premium to the business given limited rate case risk, IRA positioning, ST growth and CapEx growth not current included in our forecasts. We value OGE on the small-cap multiple given the relatively small operational area and that it is a largely single-state jurisdiction. In our view, the stock is fairly prices on an SOTP basis given the strong catalysts, but there are clear risks to the company. We rate OGE 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 $36 target price include: common equity funding that is not contemplated in our base-case, Blue Sky, or Grey Sky scenarios. Failure to execute on IRP as planned, supply chain issues related to solar panels or a significant decline in population and load growth could cause the market to take a discounted view on the name. Potential upside from the current rate case filing.

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

Method: Our target price is $17. We value PCG on an SOTP. We apply a 25% discount to our 2024E electric earnings, a 15% discount to gas earnings, and 5% discount to transmission earnings relative to the 2025E 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 ~12% total return for PCG in our base case, which is the above average for our coverage universe. Our target price implies an 11.8x consolidated P/E, a -22% discount, which is still one of 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 $17 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 PPL Corporation (PPL.N)

Method: Our target price is $29. We value PPL using an SOTP, applying relative P/E premiums/discounts to the various operating subsidiaries. We take a premium view on PA (10% premium, 17.3x multiple), which we flag as conservative given the recent settlement in PA and the favorable storm recovery mechanisms recently utilized. We take a discounted view on LU and KU (5% discount, 14.9x multiple) because of the current stay-out of Kentucky rates and the risk of inflation weighing on customer bills in the years until 2025 when another rate case can be filed. We rate PPL Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to achieving our $29 target price and Outperform rating include: the inability to sustain new dividend and increased growth rate, and the inability to execute fully on the AMI and renewables projects. Increased inflation amid a rate stay-out in Kentucky, as well as headwinds delaying solar development via supply chain issues also pose a threat to the company. Other risks include more natural disasters/storms in Kentucky and Pennsylvania that delay projects and are expensive to repair, as well as climate change and related concerns. Upside risk includes the company cutting O&M expenses more than expected.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Pinnacle West Capital Corporation (PNW.N)

Method: We value PNW using a P/E, applying relative premiums/discounts to the various operating subsidiaries, which yields a $77 target price. We hold a discounted view on APS (-5% discount), given Arizona's general regulatory climate and additional uncertainties surrounded by APS being at the nexus of managing both rate case filing and separate judicial review against Arizona's challenging regulatory backdrop. We rate PNW 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 $77 target price include: The uncertainties around the timely recovery of investment and operating expense associated with pollution control costs and earning sufficient return on equity to compensate the shareholder.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Portland General Electric (POR.N)

Method: We value POR using a P/E relative valuation methodology, applying a relative P/E premium/discount to the business, which yields a $46 target price. In general, we view Oregon as a favorable jurisdiction, with the offsetting factor being that POR has been challenged in the past obtaining favorable agreements. We apply a 5% discount for this, and use a 15.9x base multiple for small caps in the space. Although there are some prospects for growth for the company, there are many potential hurdles and a history of falling short on key initiatives that make us hesitant to place a premium on the stock. We rate POR Neutral going the equity issuance and '23 building year guided by management.

Risk: Risks to our Neutral rating and $46 target price include: A continuation of the trend of severe weather events leading to large deferrals and increased customer bills. Continuation of poor outcomes in terms of execution of RFP projects, etc. that leads to larger discrepancies between earned and allowed ROEs. Unfavorable rate case outcome for filing expected in '23.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Public Service Enterprise Group (PEG.N)

Method: We value PEG (excl. nuclear) using an SOTP on 2024E EPS using 2024E multiples, which yields a $61 target price. We apply peer P/E premiums to New Jersey compared to peer jurisdictions given PEG's historical higher-than-peer ROE, constructive rider mechanisms, and heavy FERC-regulated rate base. We hold a discounted view on the earnings derived from the LIPA contract (-25% discount) given its extension risk. We value PEG's nuclear generation using an EV/EBITDA multiple on 2024E EBITDA and a 10x multiple to derive the nuclear generation enterprise value (excluding the portion from ZEC), then subtract associated debt and add back NPV from ZEC payments to calculate the equity value from contracted nuclear. We rate PEG Neutral as we expect the stock's total return to be in line with peers over the next 12 months.

Risk: Risks to our $61 target price and Neutral rating include the following: PEG has robust capital spending programs with large-scale offshore wind project contemplated and a regulatory solar build-out, which are both subjected to state and federal regulation and scrutiny. The construction of such projects may face supply chain restraints and labor shortages. The contracted generation business remains commercial exposure with market price risk. The pension position could lead to significant EPS drag as well.

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

Method: Our $172 target price is based on an SOTP analysis. At the utilities, we use a P/E approach based on 2024 projected net income. We apply a 10% multiple discount to SDGE, a 10% 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 12.5x 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 18.1x, 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 $172 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 $62 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 its 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 $62 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 WEC Energy Group (WEC.N)

Method: Our target price is $93: We value WEC using a P/E valuation methodology, applying relative P/E premiums/discounts to the company. In general, we view Wisconsin and much of the Midwest as premium jurisdictions given numerous constructive mechanisms for real-time capital recovery, constructive rate case outcomes, and solid load growth. We take a premium view on WEC (15%, 18.9x), as we believe the company has a relatively limited number of levers that can be pulled to sustain capex growth in near future. Rate case risks appear priced in, although we think quality peers offer more attractive risk/reward skews. We rate WEC Underperform as we expect the stock's total return to be less than peers over the next 12 months.

Risk: Risks to our $93 target price and Underperform include: Sustained population growth in service territory driving load demand; the current supply chain issues related to solar panels are resolved in timely manner and Badger Hollow 2 is able to reduce the time of delay; Investor sentiment shifts and companies pursuing renewable projects and other non-core, regulated utility projects are rewarded by investors.

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

Method: Our target price is $68. We ascribe a 15% 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 rate XEL Neutral as we expect the stock's total return to perform in-line with peers over the next 12 months.

Risk: Risks to Neutral rating and $68 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 10-Jan-2023)*
AEP Inc (AEP.OQ, $97.28)
Alliant Energy (LNT.N, $55.01)
Ameren (AEE.N, $89.12)
CMS Energy Corp (CMS.N, $64.89, OUTPERFORM, TP $69.0)
CenterPoint Energy (CNP.N, $30.56)
Consolidated Edison (ED.N, $98.09)
DTE Energy (DTE.N, $120.02)
Edison International (EIX.N, $68.2)
Entergy Corporation (ETR.N, $107.73)
Eversource Energy (ES.N, $85.69)
Exelon Corporation (EXC.OQ, $43.69)
FirstEnergy (FE.N, $42.59)
NextEra Energy Inc. (NEE.N, $84.54)
NiSource (NI.N, $27.56)
OGE Energy (OGE.N, $39.73, NEUTRAL, TP $36.0)
PG&E Corporation (PCG.N, $15.94)
PPL Corporation (PPL.N, $30.17)
Pinnacle West Capital Corporation (PNW.N, $75.65)
Portland General Electric (POR.N, $49.49, NEUTRAL, TP $46.0)
Public Service Enterprise Group (PEG.N, $63.67)
Sempra Energy (SRE.N, $157.51)
Southern Co (SO.N, $71.11)
WEC Energy Group (WEC.N, $96.72)
Xcel Energy (XEL.N, $72.14)

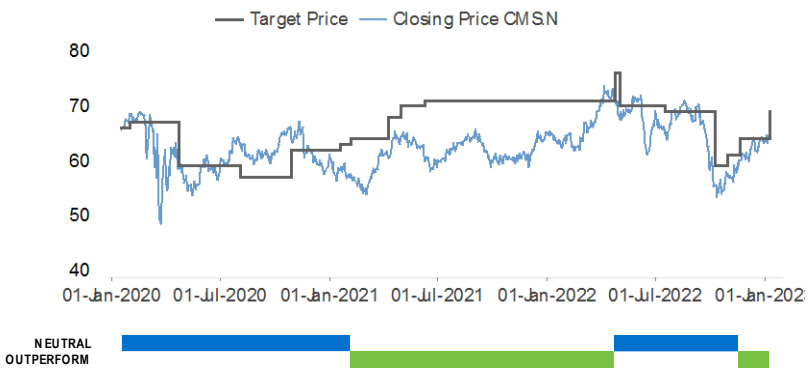
Disclosure Appendix

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3-Year Price and Rating History for CMS Energy Corp (CMS.N)

CMS.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
17-Jan-20	65.65	66.00	N
31-Jan-20	68.51	67.00	
22-Apr-20	59.99	59.00	
04-Aug-20	63.09	57.00	
28-Oct-20	63.97	62.00	
18-Jan-21	58.62	63.00	
05-Feb-21	57.45	64.00	O
09-Apr-21	60.46	68.00	
30-Apr-21	64.39	70.00	
09-Jun-21	59.93	71.00	
13-Jul-21	60.00		*
25-Apr-22	70.59	76.00	N *
03-May-22	67.49	70.00	
18-Jul-22	64.81	69.00	
10-Oct-22	55.44	59.00	
31-Oct-22	57.05	61.00	
21-Nov-22	60.11	64.00	O
09-Jan-23	64.99	69.00	

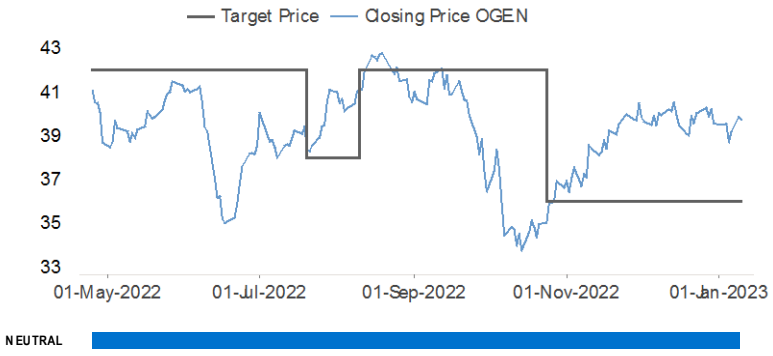


** Asterisk signifies initiation or assumption of coverage.*

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

OGE.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
25-Apr-22	41.07	42.00	N *
20-Jul-22	38.31	38.00	
10-Aug-22	41.08	42.00	
24-Oct-22	35.03	36.00	

** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Portland General Electric (POR.N)

POR.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
25-Apr-22	52.66	55.00	U *
28-Apr-22	49.36	49.00	
20-Jul-22	49.78	50.00	
01-Aug-22	52.15	52.00	
13-Sep-22	51.01	50.00	
19-Oct-22	43.72	43.00	
26-Oct-22	44.59	46.00	N

** 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.
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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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This research report is authored by:
Credit Suisse Securities (USA) LLC..... Nicholas Campanella ; Fei She, CFA ; Nathan Richardson
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13 March 2023
Equity Research
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US Utilities: Week Ahead

ED ASR; PEG Analyst Day; SO Initial Criticality; Watching Sector Equity Issuance; Weekly Analysis & More

Utilities | Weekly Analysis

- **What we're watching week of 3/13: NI Indiana Settlement Achieved:** This coming week we expect NIPSCO electric rate case hearings on 3/13, and a final rate order for ES' outstanding rate case for the Aquarian Water segment on 3/15. This morning, NIPSCO (NI) filed a rate settlement with parties for an annual revenue increase of $291.8Mn vs. the $395Mn ask including a 9.8% ROE and NIPSCOs actual capital structure (51.63%). We see this representing an increasing in both ROE (+5bps) and equity layer (377bps) vs. the prior case authorized in 2019The 8-K notes there may be parties that oppose the settlement with parties having until March 31 to file opposition. Recall parties including NIPSCO industrials, NLMK, Walmart and the Office of Utility Consumer Counselor all previously filed that there was an agreement in principle on 3/6. Overall, we see the ability to reach the settlement as positive as we await additional details through hearings with an order expected by August and the first step increase of new rates by Sept 1, 2023, which is in-line with the original GRC timeline & expectations.
- **Week in Review:** Utilities outperformed the S&P 500 this past week with the UTY seeing a 270bp loss vs. a 450bp loss for the SPX. 10YR/30YR USTs closed the week -25bps/-17bps narrower. Large Caps (-3.0%), Small Caps (-3.3%) Diversified (-4.5%) and LDCs (-4.2%) all closed the week lower. **Top performers:** VST, PNM, ED, NEE, SO, IDA, EIX, AEP, CEG and WEC. **Bottom performers:** ETR, POR, DTE, SRE, D, SR, NRG, PEG, AES and OGS. This was the first week of outperformance for the sector in some time, with the sector reaching -1STD deviation vs. the S&P on relative P/E as of last week.
- **SO: Vogtle Reaches Initial Criticality:** On March 6th, GP announced that Vogtle U3 safely reached initial criticality. Based on 4Q22 key milestone definition, Initial Criticality is the initiation of the nuclear chain reaction and the start of increasing reactivity in the reactor by raising the control rods from the core and reducing the boron concentration of the water in the reactor through dilution. "Criticality" is achieved in the reactor when the chain reaction becomes self-sustaining. The projected initial criticality date was March/April '23 based on 4Q22 update. Vogtle seems progressing in line with expectation in terms of hitting initial criticality and the guided ISD for Unit 3 remains May or June '23, consistent with 4Q22 update. It's positive to see Vogtle 3 moving to initial criticality and we're watching for next steps through the May / June ISD, as well as progress on Unit 4. As it currently stands the Vogtle prudency review will be sometime this summer '23 which we see as a major de-risking factor of $7Bn of nuclear spend expected to enter rate base.

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Weekly Data Points

- **PEG: Analyst Day: In-line Update: Committed to Nuclear; 5-7% LT EPS Affirmed:** PEG held analyst day on March 10th and re-affirmed '23 EPS guidance of $3.40-3.50, 5-7% LT growth rate for '23-'27 timeframe, $15.5-18bn utility capital investment plan for the same timeframe, all consistent with 4Q22 update. PSE&G utility introduced a 10yr capital plan of $34-40bn, providing further clarity into further investment horizon. Rate base growth at the utility is unchanged at 6-7.5%. Mgmt. announced the plan to formally retain nuclear generation given the support from IRA and which we view as unsurprising vs our / Street expectations. Further growth opportunities at CFIO are clarified although not impacting current capital plan, including 45-60MW uprate at Salem, extended refueling cycles and license extension (Salem and Hope Creek), and hydrogen (should have more substantial impact on second half of the decade). Mgmt did give an outlook on PTC threshold EBITDA, noting nuclear EBITDA is expected to average $500mn in FY24, growing to $600Mn by 2027. Regarding pension, PEG appears committed to exploring a pension lift out strategy which could assist un-regulated pension drag with an update expected by calendar year end.

- **AGR/PNM: Jointly filed motion for rehearing and reconsideration for merger:** On March 9th, PNM/AGR (Not Covered) filed a motion jointly with the NM PRC to dismiss the merger appeal and resolve through rehearing and reconsideration. The NMPRC acknowledges that the joint applicants are seeking an expedited resolution by no later than April 12th, while PNM and AGR previously entered into an amendment of their merger agreement extending the end date to April 20th. We note the latest filing appears shows the companies are working together with the NMPRC to expedite a decision at the state regulator which our understanding is the last remaining approval needed for deal close.

- **CMS & DTE: MI regulator on power outage:** The Michigan Public Service Commission said it will hold two town hall-style meetings on March 20th in Jackson and Dearborn to allow the public to provide feedback on their experiences with the storm and to hear the steps MPSC is taking to address reliability in MI. Another meeting will be livestreamed at 6 p.m. on March 21st over webcast. We are excepting some noise around the recent storms in the state though fundamentally see CMS & DTE bull cases as intact. See our latest view here.

- **Equity issuance in the utility sector: SWX, OGS & AWK:** We flag several equity issuances by uncovered peers is a signal that the capital markets remain open for utility secondary issuances. The largest equity issues in our coverage universe with un-priced equity needs are ATO, D, AEE, and ES (largely ATM) when comparing as a percentage of market cap. We note multiple companies have ongoing ATMs through the 5yr plan though most have committed to executing programmatically instead of opportunistically. **SWX** Announces Public Offering of $215mn of equity: SWX: On March 8th, 2023, SWX announced that it has priced an underwritten public offering of 3,576,180 shares of its common stock at $60.12/sh, net of underwriting discount, generating proceeds amounting $207.7mn. The offering was expected to close on March 10, 2023. The company indicated that it intends to use the net proceeds to repay outstanding borrowings under its credit facility and the remaining amounts due under the amended 364-day term loan credit agreement entered in November 2021 in connection with the acquisition of MountainWest Pipelines Holding Company. The remainder of the proceeds will be utilized as working capital and general corporate purposes. **OGS**: On March 8th, 2023, OGS announced that it has priced an underwritten public offering of 2mn shares at $76.9/sh, net of underwriting discounts, commissions, and other expenses. The offering is expected to close on March 13th, 2023. Settlement of the forward sale agreement is expected to occur by December 29, 2023, with respect to 1.4 million shares of OGS common stock, with the balance to be settled by December 31, 2024. The company intends to use the net proceeds received upon the settlement for general corporate purposes, which may include repayment/refinancing of debt, working capital, construction and acquisition expenditures, investments, and repurchases/redemptions of securities. **AWK**: On February 28th, 2023,

AWK announced the pricing of an upsized registered underwritten offering of 11mn shares of its common stock at $135.50/sh and has granted the underwriters a 30-day option to purchase an additional 1.65mn shares at the offered price, less the underwriting discount, subject to market and other conditions. The company intends to use the net proceeds for repaying the short-term commercial paper obligations of American Water Capital Corp., AWK's wholly owned finance subsidiary, and for general corporate purposes.

- **ED: ASR Announcement:** On March 6th ED announced that the company has entered accelerated share repurchase agreements (ASR) with several banks to repurchase $1Bn in aggregate ED shares. The company is funding the ASR with a portion of the proceeds from the sale of CEB, and will make initial payments of $1Bn to the dealers to repurchase 8.7Mn in shares. The final amount of shares to be repurchased will be based on the volume-weighted average share price of common shares during the term of the transaction. The final settlement of the ASR contracts is expected to occur no later than 3Q23. We see this as a positive but expected data point as it is indicative of ED executing on the plan to divest the CEB assets and buyback shares. The stock notably was a top performer this week and we're watching for future updates on short interest which could be indicative of ASR deployment.
- **PPL: Storm Damage Update:** On March 3rd PPL released an 8k indicating that LG&E and KU experienced significant damage to assets from storm activity in KY, which resulted in interrupted service for ~380k electric customers in the state, 3,300 downed power lines and 700 damaged utility poles. As of March 8th there are ~16k customers still seeing effects to electric service. The company's preliminary estimate of cost from the damage is $80-100Mn, but indicated that actual costs will not be known until all repairs are completed. The company estimates that ~60% of costs will be incurred at KU and 40% at LG&E, with 75% of these costs expected to be capitalized and 25% expected to be added to O&M. Additionally, the company expects to submit a formal request to the KPSC to treat the storms O&M expenses as reg assets and defer the costs. Historically speaking this has occurred in KY for similar events, and this could be a possibility for this event as well. We expect further updates in the coming months as the company moves forward with the request and note every $25Mn of O&M is ~$0.03/sh of EPS but consideration deferrals.
- **Weekly power price update:** CSe blended power forward pricing moved upward modestly during the past week, with blended curve for '23/'24/'25/'26/'27 moved by 6.5%/6.1%/6.1%/4.8%/6.5% and term structure to continue becoming less backwarded. The recent increase in power prices is likely driven by increases in spot natural gas prices which are up materially off recent ~$2/MMBtu lows, though remain sub $3/MMBtu. We note any continued strength in commodities & natural gas could create further pressure on ISO forwards which we're monitoring for PEG & CEG.

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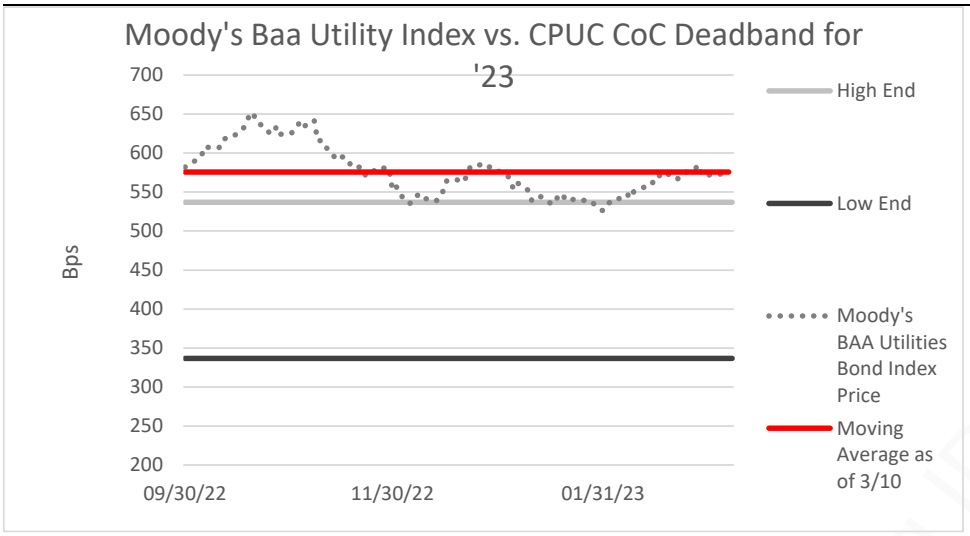
Figure 1: CSe Blended Forward Price by ISO

Source: Credit Suisse estimates, SNL

- **EIX, SRE and PCG: CA CoC Update:** CA utilities have a CoC adjustment mechanism based off the Moody's BAA Utilities Bond Index. The current rolling average for the index is 576bps vs. the high-end of the deadband of 537bps and mdpt of 437bps. The time for measuring the difference between the two ends on Sept. 30th, 2023 and, for example, should the index remain at the current level through the end of the time period it would imply a ~70bp increase to CA utility ROEs. See our breakdown of the CA CoC mechanism here.

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Figure 2: Moody's Baa Utility Index vs. CPUC Deadband for '23



Source: Factset

Regulatory Catalyst Calendar

Figure 3: Catalyst Calendar

Start Date	End Date	Ticker	Impact	Jurisdiction	Company	Docket	Action or Status
2/22/2023	3/14/2023	NI	1	IN	NIPSCO		NIPSCO electric rate case settlement
2/17/2023	3/15/2023	ES	1	CT	Aquarion Water		Rate increase decision due by this date
3/20/2023	3/20/2023	DTE/CMS	1	MI	CMS/DTE		MPSC town hall on winter storm
2/10/2023	3/28/2023	SRE	1	CA / X	Sempra		Expected PA NCI Sale Announcement Ahead of FID
12/18/2022	3/28/2023	XEL	1	TX	XEL Energy		findings of Marshall fire investigation could be released by this da
3/31/2023	3/31/2023	AEP	1	KY	AEP		Comment period on AEP/KY deal at FERC closes
3/31/2023	3/31/2023	XEL	1	NM	SPS		Rate case: internevor testimony
5/16/2022	3/31/2023	POR	1	OR	Portland General Electric Co.		List of final bids/contracts for RFP expected by YE or 1Q
1/1/2023	3/31/2023	XEL, FE, AEP, PF	1	Multiple	Multiple		Treasury guidance on AMT treatment by early 1Q23
11/29/2022	3/31/2023	DUK	1	NC/SC	Duke Energy		Renewables sale announcement expected by end of 1H23
9/1/2022	3/31/2023	CMS	1	MI	CMS Energy		Electric rate case expected by end of Q1 2023
1/1/2023	3/31/2023	DTE	1	MI	DTE Gas		Rate Case filing expected
11/18/2022	4/1/2023	FE	1	OH	First Energy		CEO Announcement
1/1/2023	4/1/2023	AEP	1	KY	AEP		KY Sale to close
3/6/2023	4/3/2023	AEE	1	MO	AEE Missouri		Watching for potential settlment in rate case to be filed
2/24/2023	4/6/2023	EVRG	1	MO	MO West	EA-2022-0238	Persimmon Creek order requested by this date
2/3/2023	4/18/2023	DUK, CNP, NI	1	Multiple	Duke Energy, Centerpoint, NiSource		HB 1007 expected to be voted on in IN senate
4/25/2023	4/25/2023	XEL	1	NM	SPS		Rate case: rebuttal testimony

Source: Company data, Credit Suisse estimates

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Weekly Performance (%)

Figure 4: Weekly Performance

Ticker	3/3/2023	3/10/2023	5 Day Change (%)
Large Cap Regulated			
AEE	83.7	81.1	-3.2%
AEP	89.1	87.5	-1.8%
AGR	39.3	38.1	-3.2%
CMS	59.8	58.1	-2.9%
CNP	28.4	27.6	-3.0%
D	55.9	53.2	-4.9%
DTE	109.4	104.5	-4.5%
DUK	95.4	92.8	-2.7%
ED	90.7	90.6	-0.1%
EIX	67.3	66.2	-1.6%
ES	75.4	72.9	-3.4%
ETR	105.1	100.6	-4.2%
EVRG	59.5	57.6	-3.3%
EXC	41.4	40.2	-2.9%
FE	39.8	38.1	-4.2%
LNT	52.1	50.2	-3.6%
PCG	16.4	15.8	-3.2%
PNW	76.4	74.0	-3.2%
PPL	27.4	26.3	-4.2%
SO	64.8	63.9	-1.3%
WEC	89.6	87.6	-2.3%
XEL	65.1	63.2	-2.9%
Average			**-3.0%**

Diversified	3/3/2023	3/10/2023	
AES	25.1	23.3	-7.3%
BKH	62.3	59.9	-3.8%
MDU	31.6	29.9	-5.7%
NEE	73.8	73.0	-1.1%
OTTR	72.7	69.0	-5.1%
PEG	60.4	56.4	-6.6%
SRE	150.9	144.1	-4.5%
Average			**-4.5%**

Utes Sector Performance	% Chg
Large Cap Regulated	-3.0%
Diversified	-4.5%
Small Cap	-3.3%
LDC	-4.2%
UTY	-2.7%
SPX	-4.5%

LDC	3/3/2023	3/10/2023	
OGS	81.0	74.3	-8.2%
NJR	51.4	49.6	-3.3%
NI	27.7	26.7	-3.6%
ATO	112.7	109.2	-3.2%
SR	70.0	66.5	-5.0%
SWX	60.4	59.3	-1.8%
Average			**-4.2%**

Small Cap	3/3/2023	3/10/2023	
ALE	62.3	60.3	-3.1%
AVA	41.5	40.3	-2.9%
BKH	62.3	59.9	-3.8%
HE	40.0	37.3	-6.7%
IDA	103.2	101.7	-1.5%
NWE	57.7	55.8	-3.2%
OGE	35.8	34.4	-3.9%
OTTR	72.7	69.0	-5.1%
PNM	48.9	49.0	0.2%
POR	47.7	45.6	-4.4%
UTL	54.5	53.6	-1.7%
Average			**-3.3%**

IPPs	3/3/2023	3/10/2023	
CEG	79.0	77.6	-1.8%
NRG	33.6	31.6	-6.0%
VST	21.4	24.5	14.5%
Average			**2.2%**

Rates	BPS
US GOV 10YR	(0.25)
US GOV 30YR	(0.17)

Top / Bottom Performers	
VST	14.5%
PNM	0.2%
ED	-0.1%
NEE	-1.1%
SO	-1.3%
IDA	-1.5%
EIX	-1.6%
AEP	-1.8%
CEG	-1.8%
WEC	-2.3%
ETR	-4.2%
POR	-4.4%
DTE	-4.5%
SRE	-4.5%
D	-4.9%
SR	-5.0%
NRG	-6.0%
PEG	-6.6%
AES	-7.3%
OGS	-8.2%

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Recent Research

- ES & SRE: Mid-Week Convos and Data Points
- EVRG: 4Q22 Earnings Note; Full-Year Review; Maintaining Underperform with Kansas on Deck
- Weekly Note (3/6): KY Coal Leg Moves to House; TX Equity Layers in Focus; Macro Update; Weekly Analysis & More
- Sector Valuation: Chart Pack 3/3
- OGE: FY22 Review; Parent Drag in Focus… RFPs on Tap; Neutral
- Pre-Earnings Call Thoughts on SRE; PJM Capacity Auction Results
- POR: Takeaways from CS Vail Conference Meetings
- Weekly Note (2/27): D VA Legislation Update; Watching MI Storms; Tail End of EPS; Weekly Analysis & More
- PCG: 4Q Results: Well on Track to Compound Sector High EPS Growth Proposition; Outperform
- AEP: 4Q22 Key Takeaways from the Call & Why We Remain Outperform Rated
- EIX: 4Q Results: Still A "Show Me" Story Through '23: Maintain Neutral
- Texas Leg Watch: Earnings First Take; EVRG / LNT
- Earnings Deluge: AEP / DTE / PCG / OGE; SO Converts Update
- CEG: A More Expensive Offering on Nuclear Post FY22 Results: Downgrade to Neutral
- NI: Initial Thoughts on FY22 Results; Positive on FY23 Guide; Continued Line of Sight to Top Quartile Growth
- CNP: 4Q22; Focusing on TX for '23; Outperform
- POR: 4Q Results: Detailing the IRP Uplift: Maintain Neutral in an Execution Year
- Weekly Note (2/21): Half-Way Through EPS Season; XEL CO; ES Aquarion Update; ED CapEx; Weekly Data Points & More
- ED: 4Q22 Earnings; Eventful YE Update: CECONY Joint Proposal Achieved; Buy-Back Affirmed at $1Bn; Neutral
- EXC: 4Q22 Earnings; Hitting the Right Stride & Further Extending the Premium Outlook; Outperform
- Earnings Deluge: AEE / CEG / ETR / POR / SO; Initial Reaction to Pre-Market Prints
- Earnings Quick Take: ES / EXC / FE First Read' AEP Filed New FERC 203 Application
- D: 4Q22 Earnings; Reconciling the Outlook (Lower) Post 4Q Results; Neutral Given Strat Review Vol
- Weekly Note (2/13): 3rd Inning of Earnings Marathon; PCG COO Change & FE Read-Through; DTE GRC; NEE; Weekly Data Points & More
- 4Q Update Call Slides
- ATO: 1Q23: In-Line Execution Quarter with Confidence on Financing Going Into '23; Outperform

Credit Suisse Report Tracking ID 1011678

Valuation Methodology and Risks

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 an 19x implied multiple for the electric and gas groups versus 16.4x 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 Outperform as we expect the stock's total return to be above that of peers over the next 12 months.

Risk: Risks to achieving our $69 target price and Outperform 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 Consolidated Edison (ED.N)

Method: Our target price is $91: We value ED on a P/E approach. We use a 5% premium to the regulated large cap multiple of 15.9x to account for 1) no rate case risk through 2025, 2) buy-backs of $1Bn in the near-term; 3) better-than-average balance sheet partially offset by 4) a single state jurisdictional exposure which has proven to be a historically challenging operating environment.

Risk: Risks to achieving our $91 target price and Neutral rating include: Common equity funding that is not contemplated in our base-case, Blue Sky, or Grey Sky scenarios. Failure to establish new rates at CECONY, which could lead investors to take a discounted view on ED's largest earnings contributor. Natural disaster risk, which could accelerate liabilities surrounding the NYC distribution system. ED's natural gas system is subject to greater operational risk given gas is a combustible molecule. NY is increasingly focused on electrification, which increases stranded assert risk associated with ED's LDC system. Upside risk includes a better-than-expected rate case outcome.

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

Method: We value DTE using an SOTP, applying 12.5% P/E premiums to both the electric (18.2x) and gas (18.0x) subsidiary, which yields a $131 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 $131 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 Edison International (EIX.N)

Method: We value Neutral-rated EIX using an SOTP to determine our $67 target price, applying relative P/E premiums/discounts to the various operating subsidiaries. In general, we view California as a discount jurisdiction, with wildfire risk persistent throughout the state. We apply a 20% discount to the Electric GRC earnings and a 10% discount to the Transmission earnings, largely because of the risk of wildfires and related capital recovery proceedings. We adjust our SOTP for current and ongoing liabilities, principally (1) a $1Bn wildfire liability, offset by $1Bn of aggregate insurance, ongoing wildfire fund contributions of $95Mn/year discounted at a 9.5% IRR, and (2) remaining legacy wildfire claims of $900Mn assuming EIX foregoes cost of debt recovery on the remaining claims.

Risk: Risks to achieve our $67 target and Neutral rating include the company seeing delays in both the covered conductor installation and capital recovery, seeing increased wildfire activity in the coming years, and seeing a faster-than-expected recovery of costs associated with the '17/'18 natural disasters.

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 18.0x 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 Outperform as we expect the stock's total return to be in line with peers over the next 12 months.

Risk: Risks to our Outperform 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 PG&E Corporation (PCG.N)

Method: Our target price is $19. We value PCG on an SOTP. We apply a 20% discount to our 2025E electric earnings, a 15% discount to gas earnings, and 5% discount to transmission earnings relative to the 2025E 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 ~14% total return for PCG in our base case, which is the above average for our coverage universe. Our target price implies an 12.8x consolidated P/E, a -18% discount, which is still one of 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 $19 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 PPL Corporation (PPL.N)

Method: Our target price is $30. We value PPL using an SOTP, applying relative P/E premiums/discounts to the various operating subsidiaries. We take a premium view on PA (10% premium, 17.8x multiple), which we flag as conservative given the recent settlement in PA and the favorable storm recovery mechanisms recently utilized. We take a discounted view on LU and KU (5% discount, 16.2x multiple) because of the current stay-out of Kentucky rates and the risk of inflation weighing on customer bills in the years until 2025 when another rate case can be filed. We rate PPL Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to achieving our $30 target price and Outperform rating include: the inability to sustain new dividend and increased growth rate, and the inability to execute fully on the AMI and renewables projects. Increased inflation amid a rate stay-out in Kentucky, as well as headwinds delaying solar development via supply chain issues also pose a threat to the company. Other risks include more natural disasters/storms in Kentucky and Pennsylvania that delay projects and are expensive to repair, as well as climate change and related concerns. Upside risk includes the company cutting O&M expenses more than expected.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Public Service Enterprise Group (PEG.N)

Method: We value PEG (excl. nuclear) using an SOTP on 2024E EPS using 2024E multiples, which yields a $61 target price. We apply peer P/E premiums to New Jersey compared to peer jurisdictions given PEG's historical higher-than-peer ROE, constructive rider mechanisms, and heavy FERC-regulated rate base. We hold a discounted view on the earnings derived from the LIPA contract (-25% discount) given its extension risk. We value PEG's nuclear generation using an EV/EBITDA multiple on 2024E EBITDA and a 10x multiple to derive the nuclear generation enterprise value (excluding the portion from ZEC), then subtract associated debt and add back NPV from ZEC payments to calculate the equity value from contracted nuclear. We rate PEG Neutral as we expect the stock's total return to be in line with peers over the next 12 months.

Risk: Risks to our $61 target price and Neutral rating include the following: PEG has robust capital spending programs with large-scale offshore wind project contemplated and a regulatory solar build-out, which are both subjected to state and federal regulation and scrutiny. The construction of such projects may face supply chain restraints and labor shortages. The contracted generation business remains commercial exposure with market price risk. The pension position could lead to significant EPS drag as well.

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

Method: Our $172 target price is based on an SOTP analysis. At the utilities, we use a P/E approach based on 2024 projected net income. We apply a 10% multiple discount to SDGE, a 10% 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 12.5x 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 18.1x, 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 $172 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 $70 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, 13.3x), given its 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 $70 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.

Credit Suisse Report Tracking ID 1111

Companies Mentioned *(Price as of 13-Mar-2023)*
American Water Works (AWK.N, $133.65)
Avangrid (AGR.N, $38.05)
CMS Energy Corp (CMS.N, $58.08)
Consolidated Edison (ED.N, $90.62)
DTE Energy (DTE.N, $104.48)
Edison International (EIX.N, $66.23)
NiSource (NI.N, $26.71)
ONE Gas (OGS.N, $74.34)
PG&E Corporation (PCG.N, $15.83)
PNM Resources (PNM.N, $49.0)
PPL Corporation (PPL.N, $26.25)
Public Service Enterprise Group (PEG.N, $56.36)
Sempra Energy (SRE.N, $144.11)
Southern Co (SO.N, $63.94)
Southwest Holdg (SWX.N, $59.29)

Disclosure Appendix

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This research report is authored by:
Credit Suisse Securities (USA) LLC..... Nicholas Campanella ; Fei She, CFA ; Nathan Richardson
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Research Bulletin

US Utilities: Mid-Week Commentary and Data Points

PCG NDR; PNW Upgrade Feedback; NI/CNP/PCG Mgmt Changes; EXC Regulatory Update

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- We provide key takeaways from PCG's recent NDR, investor feedback from PNW's upgrade to Outperform, quick take on NI/CNP mgmt. change and EXC's regulatory update.

- **PCG NDR with Chris Foster, Mgmt Update & C-Suite Dinner:** We held virtual meetings with Chris Foster (CFO) on March 13-14th where discussions focused on several factors which we thought overall were in-line with expectations from the 4th Quarter Conference Call. We also attended a dinner with C-Suite (Patti Poppe CEO, Carolyn Burke Incoming CFO, Chris Foster Outgoing CFO, and Tom Webb Strategic Advisor) on March 15th with additional takeaways surrounding the recent management changes. On March 15th PCG announced that Carolyn Burke will assume the role of CFO and Executive VP effective May 4th with Foster resigning to take the CFO role at CNP. Burke was most recently Executive VP/CFO at Chevron Phillips Chemical Company, with the company expressing during an investor call on the same day that they expect her to help enable the current plan laid out at the recent AD and reaffirmed all metrics set forth from it. First, we acknowledge CFO Foster's transition could pressure sures in the near term as investors will naturally be skeptical on the move away from one the largest discount stories (-28.5% P/E on '25E) in the sector, but overall, we're expecting messaging, strategy, communication and the ability to hit financial targets including the 10% EPS growth through 2024 and 9% growth in 2025 and 2026 to remain unchanged. Outgoing CFO Foster has been with PCG for ~11 years, and spear-headed regulatory policy initiatives while also taking on a large restructuring effort with then CFO Jason Wells who will be re-joining at CNP. As the company is now in a more stable spot relative to 2 years ago, discussions noted Foster remains comfortable in making the move to a multi-state utility where he has a clear skill set which is ready for new challenges. While Carolyn Burke has not acted in a CFO capacity, we note she has already served as an advisor to Chris through her time with the company and has been in the background making key financial decisions. We believe the transaction will be natural from an operational and financial perspective leading to no big changes for the company. Bottom line: We're comfortable with the recent mgmt change seeing it neutral for the stock.

- **PCG: Additional Points Following Mgmt Discussions: Financing considerations:** The company reiterated that they do not expect to issue equity in '23 and '24 and expects to finance growth in the current plan through the debt capital market transactions and the PacGen sale which remains on track. Regarding credit, the company keeps open lines of communication with all of the rating agencies and indicated that the agencies are focused on continued wildfire risk reduction, strong policy signals from the CA Commission, as well as the outcome of the pending GRC (2Q PD expected), PacGen sale and the prior recovery of wildfire expenses. Moody's revised PCG's credit outlook to positive, and we expect continued momentum on credit as the company executes their risk reduction plans. **O&M control:** PCG was able to cut O&M by 3% this past year despite the current inflationary environment, something that could create headroom in customer bills and allow for increased investment in electrification within the service territory. PCG retains one of the highest O&M / Capital ratios in the sector which we believe is an under-appreciated long-term opportunity for shares and we note that discussions at the March 15th dinner pointed to additional cost-cutting opportunities than what the executive team highlighted just a year ago. Regarding Load, PCG sees increased load via increased EV use-- with CA's current goal of 5Mn EV's by 2030 and 2Mn of which could be within PCG's service territory-- this could lead to increased investment in electrification and ultimately the spreading of fixed costs amongst more customers, a potential hedge for customer affordability. **Dividend:** The company indicated that they expect the initial return of the dividend to be small and is currently targeting 3Q for dividend eligibility. The company is currently deliberating on the initial dividend amount (dependent on BoD approval) and growth rate guidance, and more clarity is expected in the coming quarters. We believe while PCGs pay-out ratio will remain low, the company will still be able to target dividend growth that is above peers assuming growth in-line with earnings. **Storms:** While recent storms have caused outages in the service territory, state of emergencies have been declared at various times in the state which should allow for a deferral of these costs in our view (no ongoing PnL impact). The effect on higher snowpack and rain could lead to higher veg mgmt growth but is also helping address dead trees that may have otherwise been still standing come fire season. We maintain our Outperform rating on PCG shares.

- **PNW Upgrade Feedback:** We upgraded shares of PNW to Outperform from Neutral on 3/14 and are providing feedback from investor conversations. We note investors largely agreed with our view

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on PNW's EPS outlook post the SCR appellate court win, especially that EPS could be $5.00+ in 2024. We did receive some push back on our 2025E EPS ($5.23 vs Cons. $4.91) with some believing we're slightly too high due to parent drag and potential equity needs. We note our 2025E assumes a 9.3% allowed ROE while investors debated with us what the true level of earned returns could be where we note CSe assumes 70bps of ongoing retail lag out of the GRC. We also received push back on the timing of the call principally due to the lack of catalysts until the May '23 staff testimony, though we see ample opportunities for mgmt. to potentially communicate positive implications of the SCR appeal in the upcoming 1Q call and investor conferences. Overall while investors have agreed with the trajectory of EPS momentum, we don't believe PNW is a consensus Outperform among the buy-side and note continued bearish/neutral views from our competitors. See our upgrade note here.

- **NI: Management Rotation In-line for Shares:** On March 15th NI announced several leadership changes and additions including appointing Michael Luhrs to the executive leadership team as the VP of Strategy & Risk and Chief Commercial Officer, from Alliant Energy where he was previously the Senior VP of Customer Experience and Strategy. Additionally, Shawn Anderson will become the CFO, from his role prior as Senior VP of Risk and Chief Strategy, with Melody Birmingham to be the Executive VP of NiSource and Group President of NiSource Utilities. Donald Brown (current CFO) is transitioning to EVP and Chief Innovation Officer, succeeding Birmingham. All new appointments will begin effective March 27th. The timing of these leadership change announcements is largely due to the broader management team rotation and is not necessarily a signal of something more following the AD, based on our discussions, and is a part of less visible internal changes the company has done recently. Overall, we believe Shawn Anderson will be well received as the new CFO of the organization and we see the update as largely neutral to shares. We caught up with Anderson briefly yesterday and note the recent Indiana settlement achieved on 3/10 remains in-line with the current LT EPS growth plan and FY23 guidance. The process surrounding the NIPSCO NCI sale as communicated on the 4Q call also remains on track. We maintain our Outperform rating seeing NI as a top idea through FY23.

- **CNP: Chris Foster Incoming CFO is Positive for Shares:** On March 15th CNP announced that Chris Foster will assume the role of CFO and Executive Vice President of the company, effective May 5th. Prior to joining CNP Foster served as CFO for PCG. Foster will be rejoining Jason Wells (COO) who he previously worked closely with at PCG and we view the update as clearly positive for CenterPoint as we believe the addition of Foster adds further credibility to CNPs premium management team.

- **EXC: Watching Regulatory Moves:** We note several takeaways on EXCs regulatory outlook following commissioner changes: **1) Commissioner Turnovers:** During recent regulatory sessions, MD nominated two commissioners but one backed out due to pressure from the environmental side of intervenors, while in IL there were two vacancies on the commission but it was resolved last Friday when the governor announced Conrad Reddick and Stacey Paradis being appointed as new commissioners, pending confirmation by state Senate, but we believe the process should be relatively swift (does not require full confirmation). **2) ICC Chair Stepping Down:** Chairperson Carrie Zalewski is stepping down from her position as announced last week and will leave ICC on June 16. Governor Pritzker nominated former ICC chair Doug Scott to replace Zalewski. For the newly formed 5-person commission, no more than three commissioners from the same party are allowed and each term is five years. We note Doug Scott served as ICC chair from 2011-2015 and view having an experienced chairperson filling in as valuable to the upcoming ComEd rate case process. The Zalewski resignation does raise questions given the Madigan ComEd trial will kick off momentarily leading to some headline risk for shares, but ultimately, we're less concerned on broader fundamental impacts to EXC.

Valuation Methodology and Risks

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Exelon Corporation (EXC.OQ)

Method: We utilized an SOTP method to determine our target price of $46 per share and a blended P/E multiple of 16.8x for Outperform-rated EXC. We derived the blended P/E multiple by creating a proportion of each segment for the electric group, transmission group, and gas group. We based the proportion on each segment's contribution to rate base. We apply a 3% premium multiple to the current blended multiple of 16.3x. We believe that an improving regulatory environment in Illinois will be favorable for EXC investors by allowing ComEd to file a rate case that is in line with industry average. Changes in the allowed ROE structure could increase the allowed ROE by 2% in 2024. Another key driver is the execution of the $29Bn capital plan.

Risk: Risks to achieve our $46 target price and Outperform rating include: (1) management not meeting RAB projected growth; (2) not reaching stated growth metrics, including the 6-8% LT EPS CAGR; (3) increasing commodity cost for electric and gas service, natural disaster risk; (4) worse-than-expected regulatory outcomes; and (5) volatility to 30yr US Treasuries, as ComEd ROEs are linked to 30YR USTs.

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 18.0x 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 Outperform as we expect the stock's total return to be in line with peers over the next 12 months.

Risk: Risks to our Outperform 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 PG&E Corporation (PCG.N)

Method: Our target price is $19. We value PCG on an SOTP. We apply a 20% discount to our 2025E electric earnings, a 15% discount to gas earnings, and 5% discount to transmission earnings relative to the 2025E 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 ~14% total return for PCG in our base case, which is the above average for our coverage universe. Our target price implies an 12.8x consolidated P/E, a -18% discount, which is still one of 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 $19 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 Pinnacle West Capital Corporation (PNW.N)

Method: We value PNW using a P/E approach, applying relative premiums/discounts to the various operating subsidiaries, which yields a $80 target price. We hold an outperform rated view on APS, given our view of an improving AZ regulatory climate and the pending SCR case which further strengthens the companies case around it's legacy SCR investment. We rate PNW 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 $80 target price include: The uncertainties around the timely recovery of investment and operating expense associated with pollution control costs and earning sufficient return on equity to compensate the shareholder.

Companies Mentioned *(Price as of 15-Mar-2023)*

Exelon Corporation (EXC.OQ, $41.84)

NiSource (NI.N, $27.85)

PG&E Corporation (PCG.N, $15.86, OUTPERFORM, TP $19.0)

Pinnacle West Capital Corporation (PNW.N, $78.21, OUTPERFORM, TP $80.0)

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 Exelon Corporation (EXC.OQ)

EXC.OQ	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
07-May-20	24.99	32.09	O
26-Jul-20	26.95	32.80	
27-Aug-20	26.31	31.37	
02-Nov-20	29.21	33.51	
04-Nov-20	30.11	34.94	
23-Feb-21	29.09	33.51	
10-May-21	31.75	34.23	
13-Jul-21	31.94		NC
03-Oct-22	38.48	43.00	O *
18-Oct-22	37.56	39.00	
03-Nov-22	36.96	42.00	
23-Jan-23	41.82	46.00	



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

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

NI.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
05-May-20	24.53	27.00	O
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	
09-Nov-22	24.89	27.00	O
31-Jan-23	27.75	30.00	



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3-Year Price and Rating History for PG&E Corporation (PCG.N)

PCG.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
30-Jun-20	8.87		NR
25-Apr-22	11.82	17.00	O *
14-Jul-22	10.01	15.00	
29-Sep-22	12.38	16.00	
27-Oct-22	15.38	17.00	
31-Jan-23	15.90	18.00	
23-Feb-23	15.28	19.00	



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3-Year Price and Rating History for Pinnacle West Capital Corporation (PNW.N)

PNW.N Date	Closing Price (US$)	Target Price (US$)	Rating
16-Apr-20	79.01	88.00	O
08-May-20	73.87	84.00	
05-Aug-20	79.74	88.00	
23-Sep-20	70.93	81.00	
06-Oct-20	81.12	85.00	
16-Oct-20	81.07	87.00	
19-Nov-20	83.55	92.00	
18-Jan-21	78.55	86.00	
25-Feb-21	73.04	81.00	N
03-May-21	84.53	91.00	
13-Jul-21	83.10		NC
25-Apr-22	76.78	73.00	U *
05-Jul-22	71.66	67.00	
03-Aug-22	75.27	69.00	
10-Oct-22	61.19	57.00	
04-Nov-22	69.52	60.00	
21-Nov-22	75.21	73.00	N
03-Jan-23	74.63	77.00	
14-Mar-23	77.89	80.00	O



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This research report is authored by:

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

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Sent: Tuesday, January 31, 2023 8:44 AM
To: Weisenburger \ Michael \ V
Subject: US Utilities: 4Q22 Previews: 4Q Previews for AEP, AES, ATO, CEG, DTE, DUK, ED, EIX, ES, ETR, EVRG, FE, NI, OGE, PCG, PPL and WEC

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- ***Erratum:*** *In the 3rd bullet of the previous version of this note published on 1/31, we incorrectly wrote that we are modelling D below consensus. We corrected it in this version.*
- **4Q22 Preview To-Date:** We are providing previews for AEP, AES, ATO, CEG, DTE, DUK, ED, EIX, ES, ETR, EVRG, FE, NI, OGE, PCG, PPL and WEC as we round out quarterly considerations for companies in our coverage universe into 4Q earnings.
- **What do we like? DTE, ETR, PCG, NI and FE:** We are bullish discount names which are offering top quartile growth prospects where we have high confidence in the execution trajectory. We expect DTE to affirm FY23 EPS despite headwinds from the MI rate order; Gas price declines will be a key theme for 1H23 which we see accruing positively to ETR and NI both who we expect to affirm full year and long-term growth metrics on the 4Q calls. At PCG, the ~30% P/E discount provides for an attractive long-term entry point with our expectations for the 9-10% EPS CAGR to be affirmed through '26 on the 4Q call. At FE, while we acknowledge some pressure to earnings from pension, we don't think the bears will benefit on a reset in long term EPS prospects which the street already seems to capture. FE investor sentiment is already

poor, and valuation is cheap to us, even on lower EPS w/NCI sale around the corner and a new CEO announced around the 4Q call.

- **Where are we more cautious? AES, D, ES, SO, EIX, EVRG:** We are modeling below consensus EPS for AES, ES, EIX and EVRG in FY23 where we expect guidance for all companies. AES is especially notable given FY23 is being underpinned by 3-4GWs of solar ISD which is at risk for slippage. Tax credit considerations at risk for these renewables equal $0.20/sh of EPS. At ES, we similarly see the FY23 EPS predicated on pending OSW sales which are delayed with debt paydown underpinning FY23 numbers. Street seems to be assuming a full year of contribution vs. a half year which is more likely. At SO, we expect ~flat EPS in FY23 with a Vogtle U3 / U4 update also expected. At EIX / EVRG, while we believe mgmt teams are likely to *push* the formal LT CAGR update until after core rate reviews, the bias for long-term EPS is still below the stated CAGRs of 5-7% for EIX and 6-8% for EVRG. At D, buy-side expectations have recalibrated to a $4.00-4.25 EPS range (CSe $4.26), and we emphasize the recent outperformance of the stock keeps us cautious into the qtr update where investors will be getting limited details on the strategic review outside of sequencing and critical legislative outcomes not until March ’23.

- **Target Price Adjustments Across the Board:** We are adjusting TPs: AEP (from $100 to $97), AES (from $26 to $30), ATO (from $121 to $131), CEG (from $98 to $91), DTE (from $118 to $131), DUK (from $94 to $106), ED (from $78 to $95), EIX (from $64 to $68), ES (from $75 to $84), ETR (from $117 to $115), EVRG (from $57 to $57, unchanged), FE (from $39 to $43), NI (from $27 to $30), OGE (from $36 to $38), PCG (from $17 to $18), PPL (from $32 to $30), and WEC (from $93 to $94). We are maintaining our Neutral ratings on AES, DUK, ED, EIX, ES and OGE, our Outperform rating on AEP, ATO, CEG, DTE, ETR, FE, NI, PCG & PPL, and Underperform rating on EVRG & WEC.

- **4Q Previews by Company:** Please also see our published previews on: AEE, CMS, CNP, D, EXC, LNT, POR, PNW, SO, SRE and XEL for additional 4Q qtr considerations.

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31 January 2023
Equity Research
Americas | United States

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US Utilities: 4Q22 Previews

4Q Previews for AEP, AES, ATO, CEG, DTE, DUK, ED, EIX, ES, ETR, EVRG, FE, NI, OGE, PCG, PPL and WEC

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- **4Q22 Preview To-Date:** We are providing previews for AEP, AES, ATO, CEG, DTE, DUK, ED, EIX, ES, ETR, EVRG, FE, NI, OGE, PCG, PPL and WEC as we round out quarterly considerations for companies in our coverage universe into 4Q earnings.
- **What do we like? DTE, ETR, PCG, NI and FE:** We are bullish discount names which are offering top quartile growth prospects where we have high confidence in the execution trajectory. We expect DTE to affirm FY23 EPS despite headwinds from the MI rate order; Gas price declines will be a key theme for 1H23 which we see accruing positively to ETR and NI both who we expect to affirm full year and long-term growth metrics on the 4Q calls. At PCG, the ~30% P/E discount provides for an attractive long-term entry point with our expectations for the 9-10% EPS CAGR to be affirmed through '26 on the 4Q call. At FE, while we acknowledge some pressure to earnings from pension, we don't think the bears will benefit on a reset in long term EPS prospects which the street already seems to capture. FE investor sentiment is already poor, and valuation is cheap to us, even on lower EPS w/NCI sale around the corner and a new CEO announced around the 4Q call.
- **Where are we more cautious? AES, D, ES, SO, EIX, EVRG:** We are modeling below consensus EPS for AES, ES, EIX and EVRG in FY23 where we expect guidance for all companies. AES is especially notable given FY23 is being underpinned by 3-4GWs of solar ISD which is at risk for slippage. Tax credit considerations at risk for these renewables equal $0.20/sh of EPS. At ES, we similarly see the FY23 EPS predicated on pending OSW sales which are delayed with debt paydown underpinning FY23 numbers. Street seems to be assuming a full year of contribution vs. a half year which is more likely. At SO, we expect ~flat EPS in FY23 with a Vogtle U3 / U4 update also expected. At EIX / EVRG, while we believe mgmt teams are likely to *push* the formal LT CAGR update until after core rate reviews, the bias for long-term EPS is still below the stated CAGRs of 5-7% for EIX and 6-8% for EVRG. At D, buy-side expectations have recalibrated to a $4.00-4.25 EPS range (CSe $4.26), and we emphasize the recent outperformance of the stock keeps us cautious into the qtr update where investors will be getting limited details on the strategic review outside of sequencing and critical legislative outcomes not until March '23.
- **Target Price Adjustments Across the Board:** We are adjusting TPs: AEP (from $100 to $97), AES (from $26 to $30), ATO (from $121 to $131), CEG (from $98 to $91), DTE (from $118 to $131), DUK (from $94 to $106), ED (from $78 to $95), EIX (from $64 to $68), ES (from $75 to $84), ETR (from $117 to $115), EVRG (from $57 to $57, unchanged), FE (from $39 to $43), NI (from $27 to $30), OGE (from $36 to $38), PCG (from $17 to $18), PPL (from $32 to $30), and WEC (from $93 to $94). We are maintaining our Neutral ratings on AES, DUK, ED, EIX, ES and OGE, our Outperform rating on AEP, ATO, CEG, DTE, ETR, FE, NI, PCG & PPL, and Underperform rating on EVRG & WEC.
- **4Q Previews by Company:** Please also see our published previews on: AEE, CMS, CNP, D, EXC, LNT, POR, PNW, SO, SRE and XEL for additional 4Q qtr considerations.

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AEP Inc

FY23 Preview: Waiting on KY; Ests intact in either scenario; Outperform

AEP

Target price (12M, US$) 97.00

Outperform

Electric Utilities

We are providing preview on AEP's 4Q22/FY23 preview for AEP shares and re-affirm our Outperform rating. AEP currently has several strategic initiatives underway, and we expect the CEO and new CFO to re-affirm: 1) '23 EPS range of $5.19-5.39; 2) 6-7% LT EPS CAGR; 3) $40bn capital plan for '23-'27; 4) current financing plan including equity issuance. Since the FERC denial on the KY transaction on December 15, the P/E multiple on '24/'25 CSe EPS has been down by 250bps, reflecting rising concern on the KY deal, although AEP has been conveying to the investment community that they are actively seeking a FERC refiling to close the deal by April 26. Our view that both AEP and AQN remain committed to the deal hasn't changed, but the tighter timeline with FERC and financing concerns if the transaction gets further delayed are worrying.

- **FERC 203 refile and deal closing timeline; contracted renewable sale:** We now expect a quicker process on the contracted renewable sales process, targeting a 2Q23 announcement. We still expect AEP to file a new FERC 203 application in the very near future. We note that AEP and AQN can agree to amend the April 26 best effort date. However, any amendment would put more pressure on the mgmt.'s ability to execute and multiple recovery. Even in this delayed deal execution scenario, we expect mgmt. to utilize bridging debt financing, instead of new equity issuance. Another aid would be expedited contracted renewable sales process, which is purposefully not included in the financing forecast provided during EEI, leaving some more cushion. We see the messaging from AQN's investor day as indicating commitment, with a fully budgeted financing plan to close the deal, including reaffirmed debt issuance and capital recycling program.
- **TP, Valuation & EPS updates:** We are revising our TP from $100 to $97, reflecting the latest MtM group multiple on our SOTP. Our view on '23/'24 EPS estimates and capital plan is largely unchanged as we wait for better clarities on the FERC 203 process. Our base case still assumes AEP to receive KY sales proceeds but as it stands today, we don't see estimates materially changing on a no-deal scenario given the contracted renewable sale is outside of current forecast. Risks: Regulatory outcomes, supply chain risks, asset sale execution.

Previous target price (12M, US$)	100.00
Price (30 Jan 23, US$)	92.87
52-week price range	105.18 - 81.74
Enterprise value (US$ m)	84,745

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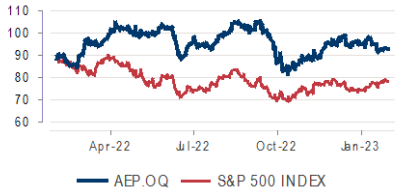
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	4.73	5.02	5.30	5.67
Prev. EPS (US$)	-	-	-	-
P/E (x)	19.6	18.5	17.5	16.4
P/E rel. (%)	101.4	102.5	99.5	102.9
EBITDA (US$ m)	6,237	6,634	6,970	7,547
EV/EBITDA (current)	12.9	12.8	12.4	12.1
Net debt (US$ m)	33,463	36,966	37,755	41,665
FFO/Total Debt (%)	11.5	14.8	15.2	15.0
EV/Rate Base	1.45	1.42	1.36	1.31
Number of shares (m)	514	Dividend (current, US$)		0.0
Consolidated ROE (%)	11.3	Dividend yield (%)		3.42
Rate Base (YE)	60,017			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 30-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan30, 2023, 01/28/22 = US$90.13

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	1.15	1.15	1.58	0.87
2022E	1.22	1.20	1.62	0.98
2023E	1.47	1.10	1.40	1.33

This article is intended to be used in conjunction with the trading ID of 10111678

AEP Inc (AEP)

Analyst: **Nicholas Campanella**

Price (30 Jan 2023): **US$92.87** Target Price: **(from 100.00) 97.00**

Rating: **Outperform**

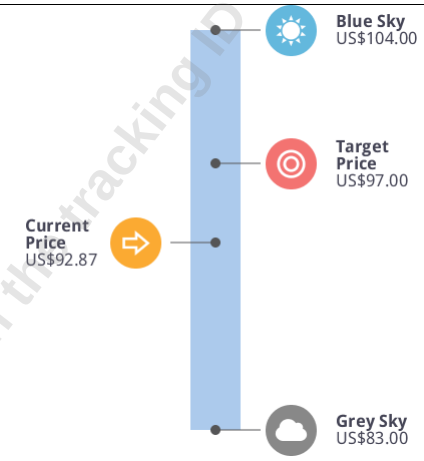
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**16,792.0**	**16,144.1**	**16,158.0**	**16,792.9**
EBITDA (US$ m)	**6,237**	**6,634**	**6,970**	**7,547**
Depr. & amort.	(2,826)	(3,016)	(3,082)	(3,307)
EBIT (US$)	**3,411**	**3,618**	**3,888**	**4,240**
Net interest exp	(1,199)	(1,236)	(1,303)	(1,404)
PBT (US$)	**2,604**	**2,730**	**2,927**	**3,179**
Income taxes	(116)	(153)	(165)	(178)
Minorities	-0	-0	-0	-0
Reported net income (US$)	**2,373**	**2,578**	**2,763**	**3,001**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**2,373**	**2,578**	**2,763**	**3,001**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	3,411	3,618	3,888	4,240
Net interest	(1,199)	(1,236)	(1,303)	(1,404)
Change in working capital	89	0	0	0
CAPEX	(5,660)	(7,370)	(5,600)	(8,900)
Free cashflow to the firm	**(1,820)**	**(1,881)**	**154**	**(2,665)**
Acquisitions	-	-	-	-
Divestments	-	-	-	-
Cash flow from investments	**(6,434)**	**(7,370)**	**(5,600)**	**(8,900)**
Changes in Net Cash/Debt	**(350)**	**(3,503)**	**(789)**	**(3,909)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	451	32	950	41
Total current assets	**7,809**	**7,389**	**8,208**	**7,299**
Total assets	**87,669**	**91,603**	**92,545**	**97,213**
Liabilities				
Total current liabilities	**12,427**	**12,427**	**12,146**	**12,146**
Total liabilities	**64,945**	**68,060**	**68,941**	**72,004**
Total liabilities and equity	**87,669**	**91,603**	**92,545**	**97,213**
Net debt	33,463	36,966	37,755	41,665
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	502	513	522	530
CS adj. EPS	4.73	5.02	5.30	5.67
Prev. EPS (US$)	-	-	-	-
Dividend (US$)	3.03	3.16	3.32	3.48
Free cash flow per share	(3.63)	(3.66)	0.30	(5.03)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	12.6	(3.9)	0.1	3.9
EBIT growth (%)	14.2	6.1	7.5	9.1
Net profit growth (%)	7.9	8.6	7.2	8.6
EPS growth (%)	7.0	6.2	5.5	7.0
EBITDA margin (%)	37.1	41.1	43.1	44.9
EBIT margin (%)	20.3	22.4	24.1	25.2
Pretax margin (%)	15.5	16.9	18.1	18.9
Net margin (%)	14.1	16.0	17.1	17.9
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	4.77	5.25	5.34	5.42
P/E (x)	19.6	18.5	17.5	16.4
Price to book (x)	2.1	2.1	2.1	2.0
Asset turnover	0.2	0.2	0.2	0.2
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	11.0	11.3	11.9	12.4
ROIC (%)	5.8	5.6	6.0	6.0
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	147.3	157.0	160.0	165.3
Interest coverage ratio (X)	2.8	2.9	3.0	3.0
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	1.15	1.15	1.58	0.87
2022E	1.22	1.20	1.62	0.98
2023E	1.47	1.10	1.40	1.33

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

Company Background

American Electric Power, Inc. operates as a regulated utility holding company. The company generates, transmits, distributes and sells electricity to residential commercial and industrial customers.

Blue/Grey Sky Scenario



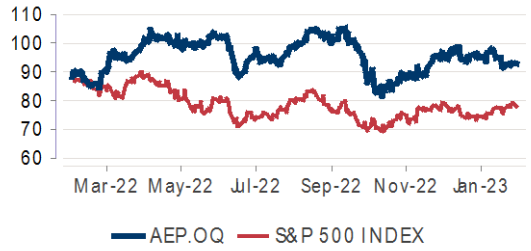
Our Blue Sky Scenario (US$) **(from 107.00) 104.00**

Our Blue Sky scenario contemplates an 18.4x 2024E P/E, which could be achieved if: (1) AEP executes its sales strategy of KY Power and contracted renewable assets timely and at favorable valuation; (2) AEP receives a constructive regulatory outcome to support cost recovery of regulated renewable expansion.

Our Grey Sky Scenario (US$) **(from 85.00) 83.00**

Our Grey Sky scenario assumes AEP trades at a 14.6x P/E. We think the multiple could be justified if we see any unexpected delay in sales strategy execution, or an unconstructive ruling on regulatory renewable buildout and coal retirement.

Share price performance



On 30-Jan-2023 the S&P 500 INDEX closed at 4017.77
Daily Jan31, 2022 - Jan30, 2023, 01/31/22 = US$90.4

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Valuation: TP to $97 from $100

Figure 1: AEP SOTP Valuation

AEP SOTP Valuation				Low Case	Base Case	High Case
Electric Group Multiple				14.6x	17.2x	18.5x
Business Segments	**EPS ('24E)**	**Prem / Disc.**	**Base Case Implied Multiple**			
AEP Texas	$0.79	0%	17.2x	$12	$14	$15
AEP TransCo	$1.37	15%	19.8x	$23	$27	$29
AP Co	$0.95	-5%	16.3x	$13	$16	$17
I&M	$0.61	-5%	16.3x	$8	$10	$11
OP Co	$0.68	-5%	16.3x	$9	$11	$12
PSO	$0.58	-5%	16.3x	$8	$10	$10
SWEP Co	$0.67	-5%	16.3x	$9	$11	$12
KP Co	$0.00	-10%		$0	$0	$0
GenCo	$0.29	-15%	14.6x	$4	$4	$4
AEP Parent	($0.28)	0%	17.2x	($4)	($5)	($5)
Total	**$5.67**			**$83**	**$97**	**$104**
Shares Outstanding				530	530	530
			Implied P/E Multiple->>	14.6x	17.2x	18.4x
Valuation				**$83**	**$97**	**$104**
Stock Price					$93.1	
Upside / Downside				-10.8%	4.2%	11.7%
Yield					3.3%	
Total Return				**-7.6%**	**7.5%**	**15.0%**

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

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Fundamental Dashboard

Figure 2: AEP Fundamental Dashboard

AEP Dashboard	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	**$4.23**	**$4.42**	**$4.73**	**$5.02**	**$5.30**	**$5.67**	**$6.06**	**$6.47**
Prior EPS	**$4.23**	**$4.42**	**$4.73**	**$5.02**	**$5.30**	**$5.67**	**$6.07**	**$6.48**
Consensus EPS (FactSet)	**$4.24**	**$4.44**	**$4.74**	**$5.03**	**$5.29**	**$5.64**	**$5.98**	**$6.38**
Consensus EPS (Bloomberg)								
Delta (%)			-0.2%	-0.1%	0.0%	0.4%	1.3%	1.3%
Shares Outstanding		497	502	513	522	530	537	544
DPS			$3.03	$3.16	$3.32	$3.48	$3.66	$3.84
DPS Growth (%)				4.3%	5.0%	5.0%	5.0%	5.0%
DPS Payout (%)				62.9%	62.6%	61.5%	60.3%	59.4%
Valuation Metrics								
P/E		21.0x	19.7x	18.5x	17.6x	16.4x	15.3x	14.4x
EV/RAB		1.6x	1.5x	1.4x	1.4x	1.3x	1.3x	1.2x
FFO		4,489	3,751	5,489	5,754	6,235	6,753	7,211
Net Debt		33,114	33,463	36,966	37,755	41,665	45,874	47,453
FFO/Debt (%)		13.6%	11.2%	14.8%	15.2%	15.0%	14.7%	15.2%
EBITDA		5,671	6,237	6,634	6,970	7,547	8,193	8,743
Net Debt		33,114	33,463	36,966	37,755	41,665	45,874	47,453
Net Debt / EBITDA		5.8x	5.4x	5.6x	5.4x	5.5x	5.6x	5.4x
Holdco Debt / Total Debt		28.2%	20.6%	21.3%	20.4%	21.3%	23.7%	22.5%
Consolidated Equity Layer (%)		38.3%	40.1%	38.9%	37.9%	37.7%	37.0%	37.4%
EPS Estimates - By Subsidiary								
AEP Texas	$0.36	$0.48	$0.58	$0.70	$0.74	$0.79	$0.86	$0.91
AEP TransCo	$0.89	$0.85	$1.18	$1.22	$1.30	$1.37	$1.46	$1.53
AP Co	$0.62	$0.74	$0.70	$0.80	$0.88	$0.95	$1.04	$1.09
I&M	$0.54	$0.57	$0.56	$0.59	$0.59	$0.61	$0.64	$0.66
OP Co	$0.60	$0.55	$0.51	$0.60	$0.62	$0.68	$0.72	$0.83
PSO	$0.28	$0.25	$0.28	$0.43	$0.49	$0.58	$0.67	$0.73
SWEP Co	$0.32	$0.36	$0.48	$0.57	$0.62	$0.67	$0.72	$0.77
KP Co	$0.11	$0.08	$0.12	$0.08	$0.00	$0.00	$0.00	$0.00
GenCo	$0.23	$0.46	$0.44	$0.27	$0.29	$0.29	$0.29	$0.30
Parent	$0.28	$0.07	($0.10)	($0.24)	($0.24)	($0.28)	($0.35)	($0.35)
Consolidated	**$4.23**	**$4.42**	**$4.73**	**$5.02**	**$5.30**	**$5.67**	**$6.06**	**$6.47**
Guidance				**4.97-5.07**	**5.19-5.39**			
					5.5%	**7.0%**	**7.0%**	**6.7%**
Guidance								
High				**$5.07**	**$5.39**	**$5.77**	**$6.18**	**$6.61**
Mid				**$5.02**	**$5.29**	**$5.63**	**$6.00**	**$6.39**
Low				**$4.97**	**$5.19**	**$5.50**	**$5.83**	**$6.18**

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

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AES Corp

FY23 Preview: Contemplating Headwinds to '23 while 7-9% likely affirmed; Neutral

AES

Target price (12M, US$) 30.00
Neutral

Multi Utilities

We review investment drivers and provide a FY23 preview for AES shares. On the call, we expect mgmt. to re-affirm current 7-9% LT EPS CAGR guidance through '25 off '20, although we recognize that it has been two years since the last Analyst Day (March 2021) and there is an increasing probability to host one where mgmt. can give more clarity on LT EPS CAGR guidance and extend it, if not during the 4Q call. We expect mgmt. to give guidance on '23 renewable PPA execution, including number of MWs.'23 is going to be a year of increasing uncertainties, mostly coming from potential delays of project online date, pushing earnings '24 from '23 – to this end, we have a FY23 miss of $1.68 modeled vs. BBG $1.74. AES outperformed UTY (21.76% vs. 0.57%) in the past 12 months, mostly driven by IRA tailwinds. We re-iterate our Neutral rating as we see the current valuation is full considering a more volatile '23. Overall, we're slightly negative on shares into the quarter given the perceived miss overshadows clear positive steps forward in recent execution of EPS growth.

- **Renewable backlog and pipeline; Regulated utility execution:** Recall AES is on track to execute its 4.5-5.5GW of PPA signing with 3Q balance of 3.2GW and several large projects underway. We note that AES's renewable construction pipeline is very 4Q23 weighted, which suggests any slight delay from supply chain would push projects into '24, creating more uncertainties for '23, although we see it's at most a quarterly delay issue, not necessarily leading to project cancelations. The company is seeing suppliers pushing cargo through customs, but ultimately for '23 execution we need to look at the supply chain during summer and re-assess. We also do not assume LNG upside to continue going into '23, with recent conversations with the company pointing to them not banking on such strength. On the regulated side of the business, we continue to see mgmt. managing ESP 4 process and expect new OH rate to go into effect along with ESP 4 approval in 2H23.
- **Valuation, EPS Ests and TP adjustment:** TP is tweaked from $26 to $30, reflecting higher 5yr average AES P/E multiple. We are cutting '23 EPS estimates by 7c due to potential delayed solar execution and related delayed receipt for PTC benefit. We assume certain bounce back in earnings as delayed '23 projects get executed in '24/'25/'26, raising EPS ests by 1c/1c/3c. We are not revising DevCo valuation for now. FLNC mkt val. is updated with minimal impact on TP. Risks: supply chain, inflation, country & reg. risk.

Previous target price (12M, US$)	26.00
Price (27 Jan 23, US$)	26.97
52-week price range	29.27 - 18.91
Enterprise value (US$ m)	31,490

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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	1.52	1.64	1.68	1.90
Prev. EPS (US$)	-	-	1.75	1.89
P/E (x)	17.7	16.4	16.0	14.2
P/E rel. (%)	91.6	90.9	90.9	89.1
EBITDA (US$ m)	970	1,954	2,005	2,230
EV/EBITDA (current)	32.7	16.1	15.5	13.9
Net debt (US$ m)	13,723	13,475	12,994	13,082
FFO/Total Debt (%)	13.9	16.8	17.8	19.3
EV/Rate Base	-	-	-	-
Number of shares (m)	668	Dividend (current, US$)		0.6
Consolidated ROE (%)	27.7	Dividend yield (%)		2.35
Rate Base (YE)	-			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan27, 2023, 01/28/22 = US$22.15

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	-0.22	0.04	0.48	1.20
2022E	0.21	0.34	0.63	0.46
2023E	0.49	0.60	0.37	0.23

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AES Corp (AES)

Analyst: **Nicholas Campanella**

Price (27 Jan 2023): **US$26.97**

Target Price: **(from 26.00) 30.00**

Rating: **Neutral**

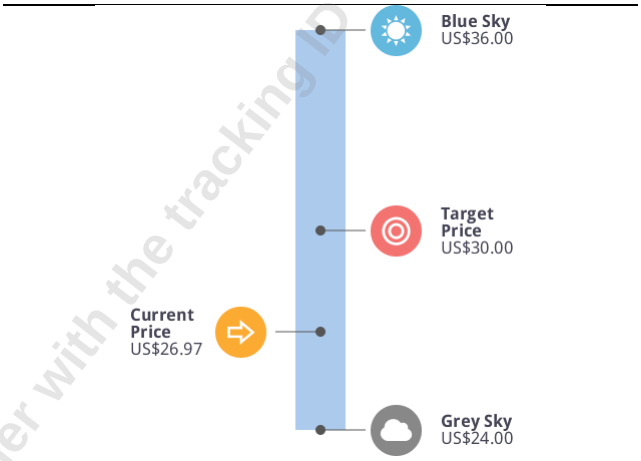
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**11,141.0**	**8,824.6**	**9,056.5**	**10,074.6**
EBITDA (US$ m)	**970**	**1,954**	**2,005**	**2,230**
Depr. & amort.	-0	-0	-0	-0
EBIT (US$)	**970**	**1,954**	**2,005**	**2,230**
Net interest exp	(613)	(692)	(705)	(719)
PBT (US$)	**(1,064)**	**1,602**	**1,640**	**1,851**
Income taxes	133	(432)	(443)	(500)
Minorities	-	-	-	-
Reported net income (US$)	**1,069**	**1,169**	**1,197**	**1,351**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**1,069**	**1,169**	**1,197**	**1,351**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	970	1,954	2,005	2,230
Net interest	(613)	(692)	(705)	(719)
Change in working capital	(1,362)	0	0	0
CAPEX	(2,116)	(1,562)	(1,362)	(2,112)
Free cashflow to the firm	**(214)**	**697**	**953**	**407**
Acquisitions	-	-	-	-
Divestments	-	-	-	-
Cash flow from investments	**(3,051)**	**(1,562)**	**(1,362)**	**(2,112)**
Changes in Net Cash/Debt	**1,326**	**248**	**481**	**(89)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	1,247	1,755	2,496	2,668
Total current assets	**5,356**	**5,864**	**6,605**	**6,777**
Total assets	**32,963**	**33,943**	**34,928**	**36,044**
Liabilities				
Total current liabilities	**4,732**	**4,732**	**4,732**	**4,732**
Total liabilities	**28,396**	**28,656**	**28,916**	**29,176**
Total liabilities and equity	**32,963**	**33,943**	**34,928**	**36,044**
Net debt	13,723	13,475	12,994	13,082
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	703	711	711	711
CS adj. EPS	1.52	1.64	1.68	1.90
Prev. EPS (US$)	-	-	1.75	1.89
Dividend (US$)	0.60	0.63	0.66	0.70
Free cash flow per share	(0.30)	0.98	1.34	0.57
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	15.3	(20.8)	2.6	11.2
EBIT growth (%)	(41.7)	101.4	2.6	11.2
Net profit growth (%)	11.1	9.4	2.4	12.9
EPS growth (%)	5.5	8.2	2.4	12.9
EBITDA margin (%)	8.7	22.1	22.1	22.1
EBIT margin (%)	8.7	22.1	22.1	22.1
Pretax margin (%)	(9.6)	18.2	18.1	18.4
Net margin (%)	9.6	13.3	13.2	13.4
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	2.85	3.57	3.42	3.09
P/E (x)	17.7	16.4	16.0	14.2
Price to book (x)	5.0	4.2	3.6	3.1
Asset turnover	0.3	0.3	0.3	0.3
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	25.7	28.0	24.4	23.7
ROIC (%)	4.6	7.6	7.7	8.2
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	300.5	254.9	216.1	190.5
Interest coverage ratio (X)	1.6	2.8	2.8	3.1
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	-0.22	0.04	0.48	1.20
2022E	0.21	0.34	0.63	0.46
2023E	0.49	0.60	0.37	0.23

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

Company Background

AES is an electric power distribution company. The company owns. and operates renewable energy power plants as well as regulated electric utilities.

Blue/Grey Sky Scenario



Our Blue Sky Scenario (US$) **(from 31.00) 36.00**

Blue Sky Scenario ($36): Our Blue Sky scenario could be realized if AES: (1) manages its developing country exposure and achieves favorable risk-adjusted return in such territories; (2) continues to monetize its energy transition focused development business with favorable valuation; and (3) receives supportive regulatory outcome within its US-regulated operating jurisdictions.

Our Grey Sky Scenario (US$) **(from 21.00) 24.00**

Grey Sky Scenario ($24): Our Grey Sky scenario could be realized if: (1) there are unexpected project delays owing to the solar anti-circumvention probe; (2) AES disproportionally increases its exposure in emerging markets, increasing currency and political risks; and (3) AES receives non-supportive regulatory outcomes in the US.

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$22.18

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FY23 EPS Walk

Figure 3: AES FY23 EPS Walk

AES FY23 EPS Walk		EPS
Starting EPS	High end of range	$1.62
Share count		$0.00
Adj Starting Point		**$1.62**
US & Utilities SBU		
New PTC from Renewables	Assume 60% Delayed	$0.08
South America SBU		
PTC	Assume Flat	$0.00
Hydro	Assume Flat	$0.00
MCAC SBU		$0.00
Outages	Southern, IN, Chile	$0.02
Utility Write Offs		$0.01
LNG Stength Offset		($0.05)
Eurasia SBU		$0.00
Higher Interest Expense		($0.01)
Renewable Growth		$0.00
Tax		$0.00
AES Next	FLNC Profitability	$0.01
Parent		$0.00
Dilution		$0.00
AES FY23 EPS		**$1.68**
Guidance FY23		n/a
CSe FY23 EPS		$1.68
Consensus FY22 EPS		$1.75
2022 SO		711
2023 SO		711

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

Figure 4: Tax Credit Walk

Tax Credit Walk	Notes
4,000	Total projects
70%	70% solar
2,800	Solar MWs for FY23
1,400	US MWs (50%)
0.33	Tax Credit $Mn Per US MW
459	Tax Credits Generated for 2023 Projects
321	70% Booked in FY23, 30% booked in FY24
215	Tax Credit Assumed in PTC for FY22 Earnings
106	Tax Credit Growth 2023 / 2022
80	80Mn recognized in 2023 from 2022
186	Total Tax Credits Recognized
145	Tax Effected
711	S/O
$0.20	**EPS**

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

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Fundamental Dashboard

Figure 5: AES Dashboard

AES Dashboard	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	**$1.36**	**$1.44**	**$1.52**	**$1.64**	**$1.68**	**$1.90**	**$2.01**	**$2.14**
Prior EPS				**$1.64**	**$1.75**	**$1.89**	**$2.00**	**$2.11**
Consensus EPS			**$1.52**	**$1.64**	**$1.75**	**$1.91**	**$2.07**	**$2.23**
Delta (%)			0.0%	0.3%	-3.7%	-0.4%	-2.7%	-4.0%
Shares Outstanding		668	703	711	711	711	711	711
DPS			$0.60	$0.63	$0.66	$0.70	$0.73	$0.77
DPS Growth (%)				5.0%	5.0%	5.0%	5.0%	5.0%
DPS Payout (%)				38.4%	39.4%	36.6%	36.3%	36.0%
Valuation Metrics								
P/E		18.7x	17.7x	16.4x	16.0x	14.2x	13.4x	12.6x
FFO		2,465	3,264	2,259	2,315	2,519	2,626	2,750
Net Debt		15,049	13,723	13,475	12,994	13,082	12,298	11,854
FFO/Debt (%)		16.4%	23.8%	16.8%	17.8%	19.3%	21.4%	23.2%
EBITDA		1,664	970	1,954	2,005	2,230	2,355	2,486
EV/EBITDA		20.6x	33.9x	16.7x	16.0x	14.5x	13.4x	12.5x
Net Debt		15,049	13,723	13,475	12,994	13,082	12,298	11,854
Net Debt / EBITDA		9.0x	14.1x	6.9x	6.5x	5.9x	5.2x	4.8x
Consolidated Equity Layer (%)		22.3%	23.4%	25.8%	28.0%	30.4%	32.7%	35.0%
Financing								
ST Debt Issuance, Net			(63)	0	0	0	0	0
LT Debt Issuance, Net			(1,402)	260	260	260	260	260
Equity Issuance			0	0	0	0	0	0

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

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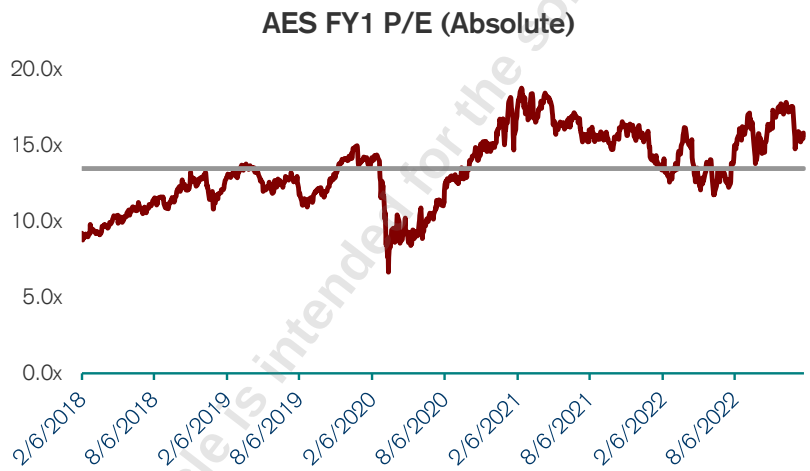
Valuation: TP Tweaked to $30

Figure 6: AES P/E Valuation

AES P/E Valuation						Grey Sky	Base Case	Blue Sky
AES Historical 5yr P/E Multiple (Average)						11.5x	13.5x	15.5x
Business Segments	**EPS ('23E)**		**Prem / Disc.**		**Base Case Implied Multiple**			
AES Consolidated EPS	$1.68		0%		13.5x	$19	$23	$26
Fluence Stake								
Add back AES Next Drag	$0.04					$0.5	$0.6	$0.7
Fluence Stake	**Mkt Cap**		**Ownership**					
Fluence Stake (% of Market Cap)	$3,970		34%			$1,350	$1,350	$1,350
Fluence Stake ($/Sh) - AES Shareholders						$1.9	$1.9	$1.9
AES DevCo	**MWs In Serice**	**NPV**		**Discount Rate**	**Hairuct (%)**			
DevCo Estimates 2024-2030	12,115	6,913		11.0%	50%	$2	$5	$7
Shares Outstanding						711	711	711
Valuation						**$24**	**$30**	**$36**
Stock Price							$27	
Upside / Downside						-11.0%	11.2%	33.5%
Yield							2.5%	
Total Return						**-8.6%**	**13.7%**	**35.9%**

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

Figure 7: AES Forward 1Yr P/E Multiple



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

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Atmos Energy

1Q23 Preview: Quite Execution Quarter with Pending Securitization; Outperform

ATO

Target price (12M, US$) 131.00

Outperform

Gas Utilities

We are reviewing investment drivers for ATO shares going into 1Q23 and are re-affirming the Outperform rating. We expect mgmt. to affirm all guidance during the 1Q call, including: 1) '23 EPS guidance of $5.90-$6.10; 2) re-affirm 6-8% EPS CAGR through '27 with '27 EPS of $7.65-8.05 and 3-3.5% annual O&M increase to the forecast. Our 1Q23 EPS is in line, with CSe $1.92 vs. Consensus $1.89, mostly driven by regulatory execution and new rates from Distribution, Pipeline & Storage, offset by dilution and incremental interest expense. We are maintaining our Outperform rating as there is no change in ATO's business fundamentals, including timely cost recovery through high proportion of riders/trackers, favorable growth prospects within the TX service territory, plus reasonable valuation. We remain cognizant that securitization and gas cost inflation are the two topical issues for shares and we're looking for additional details from mgmt. on gas price moderation, as well as the securitization delay on the call.

- **Securitization; Fuel cost and gas price;** We see ATO still working through the securitization process for the $2bn winter recovery cost in Texas. Recall, S&P recently affirmed ATO's rating, citing the current delay by the Texas Bond Review Board to approve the securitization bonds will not weaken the credit quality. We see the company still committed to bring the process across the finish line, even though it has been almost two years since the start of the filing. In terms of gas cost and customer bill, historically fuel cost would take up ~40% of total customer bill but could be higher this quarter. As we start to see gas price coming down, the company would expect the percentage to go back to an historical level. We also note that as gas strip moves down, the company is proactively taking advantage of a lower pricing environment mostly through physically hedging based on market supply.
- **TP, Valuation & EPS Estimates:** We are not changing EPS estimates based on change of views, and the slight EPS move is due to share count (+1c/3c/4c in '25/'26/'27). We are maintaining our above consensus EPS outlook in 2024 and beyond. Our TP shifts to $131 (from $121) due to higher gas utility multiple of 16.0x. Risks: Regulatory outcomes, securitization execution, commodity and operational risks associated with transportation of natural gas.

Previous target price (12M, US$)	121.00
Price (27 Jan 23, US$)	115.95
52-week price range	122.69 - 98.11
Enterprise value (US$ m)	24,108

Research Analysts

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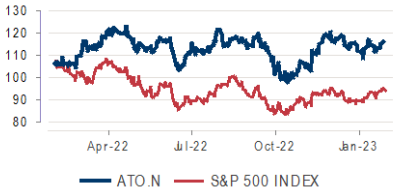
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	5.13	5.60	6.02	6.60
Prev. EPS (US$)	-	-	-	-
P/E (x)	22.6	20.7	19.2	17.6
P/E rel. (%)	116.7	114.8	109.3	110.3
EBITDA (US$ m)	1,383	1,457	1,981	2,250
EV/EBITDA (current)	16.1	16.6	12.9	12.0
Net debt (US$ m)	7,214	8,096	8,732	9,455
FFO/Total Debt (%)	-15.0	12.1	18.6	19.3
EV/Rate Base	1.84	1.71	1.58	1.48
Number of shares (m)	141	Dividend (current, US$)		0.0
Consolidated ROE (%)	8.9	Dividend yield (%)		2.37
Rate Base (YE)	14,272			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan27, 2023, 01/28/22 = US$106.11

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	1.71	2.30	0.78	0.38
2022E	1.86	2.37	0.92	0.51
2023E	1.92	2.42	1.05	0.65

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Atmos Energy (ATO)

Price (27 Jan 2023): **US$115.95** Target Price: **(from 121.00) 131.00**

Analyst: **Nicholas Campanella**

Rating: **Outperform**

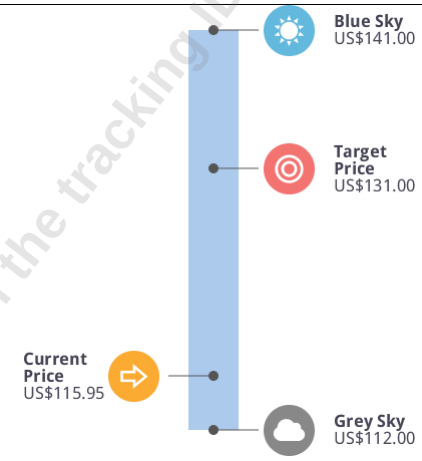
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**3,407.5**	**4,201.7**	**4,059.8**	**4,359.9**
EBITDA (US$ m)	**1,383**	**1,457**	**1,981**	**2,250**
Depr. & amort.	(478)	(536)	(615)	(687)
EBIT (US$)	**905**	**921**	**1,367**	**1,564**
Net interest exp	(84)	(103)	(289)	(334)
PBT (US$)	**819**	**852**	**1,076**	**1,227**
Income taxes	(154)	(78)	(201)	(229)
Minorities	-0	-0	-0	-0
Reported net income (US$)	**666**	**773**	**874**	**998**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**666**	**773**	**874**	**998**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	905	921	1,367	1,564
Net interest	(84)	(103)	(289)	(334)
Change in working capital	(2,379)	0	0	0
CAPEX	(1,970)	(2,444)	(2,700)	(2,727)
Free cashflow to the firm	**(3,054)**	**(1,467)**	**(1,074)**	**(905)**
Acquisitions	0	0	0	0
Divestments	0	0	0	0
Cash flow from investments	**(1,964)**	**(2,430)**	**(2,700)**	**(2,727)**
Changes in Net Cash/Debt	**(2,703)**	**(882)**	**(636)**	**(723)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	117	52	1,849	1,125
Total current assets	**2,839**	**3,048**	**4,571**	**3,847**
Total assets	**19,609**	**22,193**	**25,392**	**26,742**
Liabilities				
Total current liabilities	**3,510**	**3,603**	**3,560**	**3,560**
Total liabilities	**11,702**	**12,774**	**15,291**	**15,460**
Total liabilities and equity	**19,609**	**22,193**	**25,392**	**26,742**
Net debt	7,214	8,096	8,732	9,455
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	130	138	145	151
CS adj. EPS	5.13	5.60	6.02	6.60
Prev. EPS (US$)	-	-	-	-
Dividend (US$)	2.49	2.72	3.05	3.34
Free cash flow per share	(23.52)	(10.62)	(7.40)	(5.99)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	20.8	23.3	(3.4)	7.4
EBIT growth (%)	9.8	1.8	48.4	14.4
Net profit growth (%)	14.7	16.2	13.1	14.2
EPS growth (%)	8.5	9.2	7.6	9.6
EBITDA margin (%)	40.6	34.7	48.8	51.6
EBIT margin (%)	26.6	21.9	33.7	35.9
Pretax margin (%)	24.0	20.3	26.5	28.2
Net margin (%)	19.5	18.4	21.5	22.9
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	6.54	5.74	6.30	6.19
P/E (x)	22.6	20.7	19.2	17.6
Price to book (x)	1.9	1.7	1.7	1.6
Asset turnover	0.2	0.2	0.2	0.2
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	9.1	8.9	9.0	9.3
ROIC (%)	4.9	4.8	5.9	6.1
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	91.2	85.9	86.4	83.8
Interest coverage ratio (X)	10.8	9.0	4.7	4.7
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	1.71	2.30	0.78	0.38
2022E	1.86	2.37	0.92	0.51
2023E	1.92	2.42	1.05	0.65

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

Company Background

Atmos Energy is a utility holding company headquartered in Dallas, TX. Atmos it the countries largest natural-gas-only distributor base on number of customers, with operations across Texas, Louisiana, Kentucky, Mississippi, Colorado and Kansas

Blue/Grey Sky Scenario



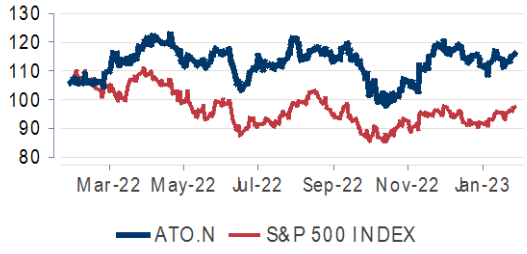
Our Blue Sky Scenario (US$) **(from 130.00) 141.00**

Our Blue Sky scenario contemplates a 19.7x 2024E P/E, which could be achieved if: (1) the LDC sector continues to re-rate, (2) ATO is able to accelerate growth prospects north of 12% rate base growth, or (3) if ATO re-bases its guidance rate higher to capture the lower cost of capital implied in the stock price today.

Our Grey Sky Scenario (US$) **(from 103.00) 112.00**

Our Grey Sky scenario assumes ATO trades at a 15.7x P/E, which could happen if LDC multiples de-rate, if anti-methane bills are introduced in ATO's service territory, or if management is unable to obtain favorable regulatory treatment in its jurisdictions. If ATO experiences another Winter Storm Uri-type event, we believe the stock could also be pressured toward our Grey Sky scenario.

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$107.22

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Valuation: TP to $131 from $121

Figure 8: ATO SOTP Valuation

ATO SOTP Valuation				Grey Sky	Base Case	Blue Sky
Gas Group Multiple				13.8x	16.2x	17.4x
Business Segments	**EPS ('25E)**	**Prem / Disc.**	**Base Case Implied Multiple**			
Distribution	$4.60	15%	18.6x	$73	$86	$92
Pipeline	$2.56	10%	17.8x	$39	$46	$49
Parent	($0.00)		16.2x	($0)	($0)	($0)
Consolidated EPS	**$7.15**					
			Implied P/E Multiple->>	15.7x	18.3x	19.7x
Valuation				**$112**	**$131**	**$141**
Stock Price					**$116**	
Upside / Downside				-3.4%	13.0%	21.6%
Yield					2.2%	
Total Return				**-1.3%**	**15.1%**	**23.8%**

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

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Fundamental Dashboard

We keep our '23 to '24 EPS constant and increase our '25 est by 1c, '26 est by 3c and '27 est by 4c.

Figure 9: ATO Fundamental Dashboard

ATO Dashboard	2019A	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E
Consolidated EPS	**$4.35**	**$4.72**	**$5.13**	**$5.60**	**$6.02**	**$6.60**	**$7.15**	**$7.68**	**$8.23**
Prior EPS			**$5.13**	**$5.60**	**$6.02**	**$6.60**	**$7.14**	**$7.65**	**$8.19**
Consensus EPS			**$5.12**	**$5.60**	**$6.00**	**$6.42**	**$6.86**	**$7.28**	**$7.72**
Delta (%)			0.1%	0.0%	0.5%	2.8%	4.2%	5.5%	6.6%
Shares Outstanding		123	130	138	145	151	157	163	169
DPS			$2.49	$2.72	$3.05	$3.34	$3.66	$4.00	$4.38
DPS Growth (%)				9.1%	12.0%	9.5%	9.5%	9.5%	9.5%
DPS Payout (%)				48.6%	50.6%	50.6%	51.1%	52.1%	53.3%
Valuation Metrics									
P/E		24.5x	22.6x	20.7x	19.2x	17.6x	16.2x	15.1x	14.1x
EV/RAB		1.8x	1.8x	1.7x	1.6x	1.5x	1.4x	1.3x	1.3x
FFO		1,172	1,295	978	1,626	1,822	2,023	2,232	1,691
Net Debt		4,511	7,214	8,096	8,732	9,455	10,210	11,023	12,649
FFO/Debt (%)		26.0%	18.0%	12.1%	18.6%	19.3%	19.8%	20.3%	13.4%
EBITDA		1,254	1,383	1,457	1,981	2,250	2,539	2,814	3,103
Net Debt		4,511	7,214	8,096	8,732	9,455	10,210	11,023	12,649
Net Debt / EBITDA		3.6x	5.2x	5.6x	4.4x	4.2x	4.0x	3.9x	4.1x
Consolidated Equity Layer (%)		60.0%	60.6%	61.3%	54.7%	57.4%	59.9%	60.8%	58.3%
EPS Estimates By Sub									
Distribution	$2.80	$3.22	$3.43	$3.84	$3.97	$4.29	$4.60	$5.03	$5.35
Pipeline	$1.55	$1.67	$1.69	$1.76	$2.05	$2.31	$2.56	$2.65	$2.88
Parent	$0.00	($0.17)	$0.00	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)	($0.00)
Consolidated	**$4.35**	**$4.72**	**$5.13**	**$5.60**	**$6.02**	**$6.60**	**$7.15**	**$7.68**	**$8.23**
Guidance			**$5.12**	**5.50-5.60**	**5.90-6.10**				**7.65-8.05**
Midpoint									

Rate Base Metrics (YE)	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Distribution	7,189	7,987	9,094	10,304	11,708	13,081	14,515	16,022	17,598
Pipeline	2,441	2,713	3,006	3,796	4,477	5,144	5,839	6,568	7,328
Total Rate Base	**9,630**	**10,700**	**12,100**	**14,100**	**16,185**	**18,226**	**20,354**	**22,590**	**24,926**
Guidance								**$21-23Bn**	**$24-26Bn**
CSe RAB CAGR off 2022A					**14.8%**	**13.7%**	**13.0%**	**12.5%**	**12.1%**
Earned ROE (%)									
Distribution	8.1%	9.2%	9.2%	9.7%	9.3%	9.3%	9.3%	9.5%	9.5%
Pipeline	14.9%	15.1%	14.5%	13.5%	13.5%	13.5%	13.5%	12.8%	12.8%
Equity Layer Assumptions (%)									
Distribution	0.0%	56.5%	56.5%	56.4%	56.4%	56.4%	56.4%	56.4%	56.4%
Pipeline	0.0%	53.0%	53.0%	53.0%	53.4%	53.8%	54.2%	54.6%	55.0%
Cash Flow									
CFO		1,038	(1,084)	978	1,626	1,822	2,023	2,232	1,691

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

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Constellation Energy

FY23 Preview: Managing a Different Power Pricing Environment; Outperform

CEG.N

Target price (12M, US$) 91.00

Outperform

Power

We are providing a 4Q/FY23 preview for CEG where we expect company to announce close to high-end of range '22 EBITDA with Cse projects $2,630mm vs. 3Q22 narrowed guidance range of $2,450-2,650mm and Cons. $2,576mm; In terms of the '23 EBITDA, we see it at $3,309mm vs. Cons $3,159, based on Cse power pricing assumptions. This is the first year that CEG reports as a separate entity post the January 2022 spin from EXC so we see less transparency into quarterly numbers but believe the narrowed '22 EBITDA guidance during 3Q should hold, considering close to 90% of the generation for '22 has been hedged at disclosed pricing assumptions as of 3Q22. Our view that IRA is a catalyst for nuclear generation, particularly as CEG is one of the largest nuclear owners in the US, providing investors with scarcity value, remains unchanged. Market valuation has dropped by ~20% since the November peak, as power forward curve dropped by 10% during the same timeframe. We see the current potential upside based on valuation and forward curve still warranting an Outperform rating.

- **What to expect on the call, Capacity Revenue, O&M, Capital Allocation:** We expect CEG to roll forward financial disclosures, provide '24 gross margin guidance, which could include certain PTC impacts. '23 EBITDA guidance should also be provided with updated capex plan, O&M disclosures (recall company has seen pressure managing it) and a 2YR FCF outlook. Well-expected capital allocation decision should drop, potentially on hydrogen and other growth opportunities, but we are not expecting quantitative disclosure on this. We also note that capital allocation announcement should lean towards projects that are more long term in nature. On the M&A front, there is possibility to get further update, but we note the Talen chapter 11 process indicates less viable path for any Susquehanna M&A opportunities. In terms of the priorities of concerns when making capital allocation decision, our understanding to the general rule is balance sheet quality comes first, then dividend growth. Share buyback/special dividend would be the last resort if any surplus. We see a dividend raise to a 2.5% yield as likely needed to compete with peers as most likely.
- **Valuation, TP and Thoughts on Shares:** Our target price is tweaked from $98 to $91, driven by slightly lower '23 adj. EBITDA. We revised '23/'24/'25/'26 adj. EBITDA by -$92mm/-$310mm/-$249mm/-$178mm, respectively, reflecting updated forward curve. Our SOTP valuation methodology with implied 10.5x EV/EBITDA multiple on '23 EBITDA remains unchanged. Risks: power market price, hedging, Treasury interpretation on IRA.

Previous target price (12M, US$)	98.00
Price (27 Jan 23, US$)	86.58
52-week price range	97.02 - 43.11
Enterprise value (US$ m)	33,373

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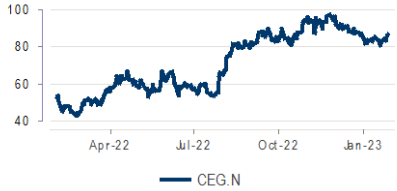
Nathan Richardson
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	(0.63)	(0.96)	0.63	0.10
Prev. EPS (US$)	-	(0.67)	1.02	1.43
P/E (x)	-138.0	-90.1	138.0	839.8
P/E rel. (%)				
EBITDA (US$ m)	2,448	2,630	3,277	3,067
EV/EBITDA (current)	14.7	12.7	10.0	10.1
Net debt (US$ m)	7,620	5,089	4,586	2,600
FFO/Interest	9.4	9.1	10.8	10.2
FFO/Total Debt	0.34	0.33	0.39	0.37
Number of shares (m)	327	BV/Share (Next Qtr., US$)		
Net debt (Next Qtr., US$ m)	0	Dividend (current, US$)		0.0
Net debt/tot eq (Next Qtr., %)		Dividend yield (%)		0.81

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



OnDaily Jan27, 2022 - Jan27, 2023, 01/27/22 = US$45.2

Quarterly EPS	Q1	Q2	Q3	Q4
2021A				
2022E	0.32	-0.34	-0.59	-0.35
2023E	-5.85	-6.38	-4.83	-7.15

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Constellation Energy (CEG)

Analyst: **Nicholas Campanella**

Price (27 Jan 2023): **US$86.575**

Target Price: **(from 98.00) 91.00**

Rating: **Outperform**

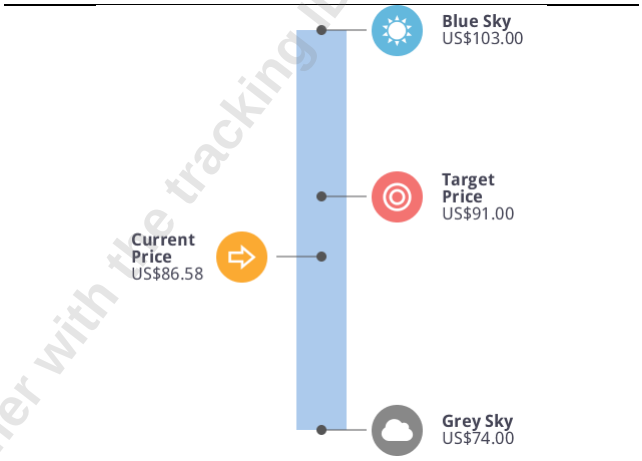
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**19,649.0**	**18,983.0**	**21,987.1**	**20,842.2**
EBITDA (US$ m)	**2,448**	**2,630**	**3,277**	**3,067**
Depr. & amort.	(3,003)	(3,003)	(3,003)	(3,003)
EBIT (US$)	**(346)**	**(732)**	**(85)**	**(295)**
Net interest exp	(297)	(297)	(297)	(297)
PBT (US$)	**142**	**(244)**	**403**	**193**
Income taxes	(225)	51	(85)	(41)
Minorities	(122)	(122)	(122)	(122)
Net profit (US$)	**(205)**	**(315)**	**197**	**31**
Reported net income (US$)	**(205)**	**(315)**	**197**	**31**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**(205)**	**(315)**	**197**	**31**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	(346)	(732)	(85)	(295)
Net interest	(297)	(297)	(297)	(297)
Change in working capital	(4,335)	0	0	0
Cash flow from operations	**(1,338)**	**4,605**	**4,896**	**5,161**
CAPEX	(1,329)	(1,750)	(1,550)	(1,300)
Free cashflow to the firm	**(2,667)**	**2,855**	**3,346**	**3,861**
Acquisitions	0	0	0	0
Divestments	878	0	0	0
Cash flow from investments	**3,282**	**(1,891)**	**(1,691)**	**(1,441)**
Net share issue(/repurchase)	64	0	(2,000)	(1,000)
Dividends paid	(1,832)	(184)	(702)	(733)
Changes in Net Cash/Debt	**(1,008)**	**2,531**	**503**	**1,987**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	576	3,107	3,610	5,596
Account receivables	2,421	2,421	2,421	2,421
Other current assets	3,696	3,696	3,696	3,696
Total current assets	**7,981**	**10,512**	**11,015**	**13,001**
Total fixed assets	19,612	16,581	13,681	10,063
Investment securities	-	-	-	-
Total assets	**48,086**	**47,586**	**45,188**	**43,558**
Liabilities				
Total current liabilities	**7,996**	**7,996**	**7,996**	**7,996**
Total liabilities	**36,472**	**36,349**	**36,335**	**36,285**
Total liabilities and equity	**48,086**	**47,586**	**45,188**	**43,558**
Net debt	7,620	5,089	4,586	2,600
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	327	328	314	298
CS adj. EPS	(0.63)	(0.96)	0.63	0.10
Prev. EPS (US$)	-	(0.67)	1.02	1.43
Dividend (US$)	5.61	0.56	2.24	2.46
Free cash flow per share	(8.16)	8.71	10.67	12.97
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	11.6	(3.4)	15.8	(5.2)
EBIT growth (%)	(235.2)	(111.7)	88.5	(248.7)
Net profit growth (%)	(134.8)	(53.7)	162.4	(84.4)
EPS growth (%)	(134.7)	(53.1)	165.3	(83.6)
EBITDA margin (%)	12.5	13.9	14.9	14.7
EBIT margin (%)	(1.8)	(3.9)	(0.4)	(1.4)
Pretax margin (%)	0.7	(1.3)	1.8	0.9
Net margin (%)	(1.0)	(1.7)	0.9	0.1
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	1.83	1.76	1.49	1.48
P/E (x)	(138.0)	(90.1)	138.0	839.8
Price to book (x)	2.5	2.6	3.2	3.7
Asset turnover	0.4	0.4	0.5	0.5
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	(1.7)	(2.8)	2.0	0.4
ROIC (%)	1.1	(3.5)	(0.5)	(2.4)
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	65.6	45.3	51.8	35.7
Interest coverage ratio (X)	(1.2)	(2.5)	(0.3)	(1.0)
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A				
2022E	0.32	-0.34	-0.59	-0.35
2023E	-5.85	-6.38	-4.83	-7.15

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

Company Background

Constellation Energy is an energy company that conducts its business through various subsidiaries and joint ventures organized in three business segments: a generation business, a customer supply business, and Baltimore Gas and Electric Company.

Blue/Grey Sky Scenario



Our Blue Sky Scenario (US$) **(from 111.00) 103.00**

The EV/EBITDA multiple for our Blue Sky scenario is 11.8x under the following conditions: (1) forward curve across different ISOs continues to at least remain at current pricing levels; (2) management identifies capex project with mid-teens IRR with manageable execution risk; (3) management executes capital allocation strategy to drive EBITDA growth or conduct share buyback; and (4) favorable IRS interpretation and implementation on IRA.

Our Grey Sky Scenario (US$) **(from 80.00) 74.00**

Our Grey Sky scenario assumes CEG trades at an 8.6x multiple and (1) unfavorable power market movement reduces profitability upside potential and (2) the current backwardation power market structure persists, which pressures margin.

Share price performance



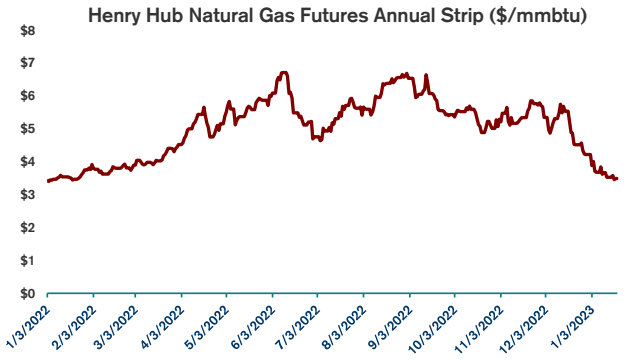
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Daily Jan27, 2022 - Jan27, 2023, 01/27/22 = US$45.2

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Commodities Pricing Dynamics

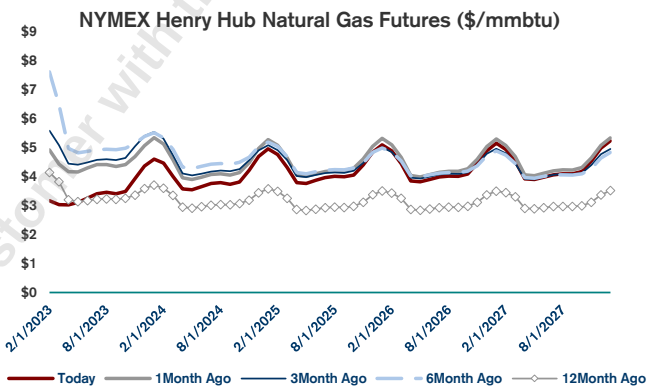
- **Where forward curve is now vs. PTC floor & when we launched:** We note that the current Cse forward power price in '23 (excluding capacity revenue and other ancillary revenues) is slightly lower than the ~$42/MWh PTC floor price, although the investment community is still waiting for IRS/treasury guidance on how the PTC flooring price is implemented. We note that our current valuation is based on forward price assumption lower than $42/MWh, which suggests a $70mm EBITDA upside potential if using PTC flooring price ($3/sh TP upside, or ~4% upside). We also note that compared to when we launched in October 2022, when we used a pricing assumption of ~$65/MWh for '23, the current $45/MWh is significantly lower. But thanks to close to ~90% hedged position, valuation based on '23 EBITDA didn't drop in proportion. We also note that the current forward curve environment could aid pressure in margin due to less degree of backwardation (mentioned by 18atha. in previous calls), but lower pricing environment could directly hurt revenue upside potential.

Figure 10: Henry Hub Natural Gas Futures Annual Strip



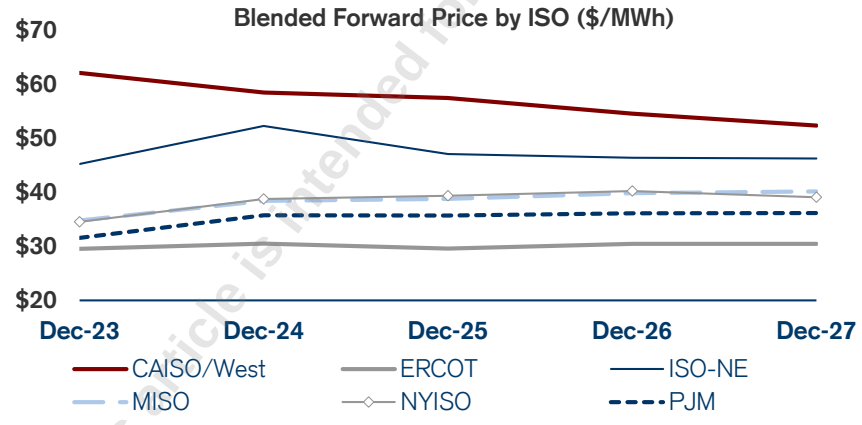
Source: SNL

Figure 11: NYMEX Henry Hub Natural Gas Futures



Source: SNL

Figure 12: Blended Forward Price by ISO



Source: Credit Suisse estimates, SNL

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Fundamental Dashboard

We revised '23/'24/'25/'26 adj. EBITDA by -$92mm/-$310mm/-$249mm/-$178mm, reflecting updated forward curve.

Figure 13: CEG Fundamental Dashboard

CEG Dashboard	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	*$3.45*	*$1.81*	*-$0.63*	*-$0.96*	*$0.63*	*$0.10*	*$0.15*	*$0.27*
Prior EPS			*-$0.63*	*-$0.67*	*$1.02*	*$1.43*	*$1.55*	*$1.65*
Consensus EPS			*$2.22*	*$3.04*	*$4.53*	*$5.73*	*$6.98*	*$7.99*
Consolidated adj. EBITDA			**$2,448**	**$2,630**	**$3,277**	**$3,067**	**$3,084**	**$3,121**
Consolidated EBITDA			**$2,931**	**$2,545**	**$3,192**	**$2,982**	**$2,999**	**$3,036**
Prior adj. EBITDA			***$2,448***	***$2,630***	***$3,369***	***$3,377***	***$3,333***	***$3,300***
Consensus EBTIDA			**$2,456**	**$2,597**	**$3,159**	**$3,480**	**$3,766**	**$3,835**
Delta (%)			-0.3%	1.2%	3.7%	-11.9%	-18.1%	-18.6%
Consolidated EBITDA (PTC Floor Scenario w/ CMC/ZEC)			**$2,448**	**$2,630**	**$3,262**	**$3,161**	**$3,320**	**$3,313**
Consolidated EBITDA (PTC Floor Scenario w/o CMC/ZEC)			**$2,448**	**$2,630**	**$2,530**	**$2,482**	**$2,641**	**$2,641**
Shares Outstanding		326	327	328	314	298	286	275
DPS			$5.61	$0.56	$2.24	$2.46	$2.71	$2.98
DPS Growth (%)				-90.0%	300.0%	10.0%	10.0%	10.0%
DPS Payout (%)				-58.3%	357.0%	2390.1%	1759.4%	1113.5%
				-	(92)	(310)	(249)	(178)
Valuation Metrics								
P/E		47.9x	-138.0x	-90.1x	138.0x	839.8x	562.0x	323.3x
FFO		3,946	2,997	4,605	4,896	5,161	5,178	5,213
Net Debt		6,612	7,620	5,089	4,586	2,600	638	(1,315)
FFO/Debt (%)		59.7%	39.3%	90.5%	106.8%	198.5%	811.0%	-396.4%
EBITDA		2,391	2,448	2,630	3,277	3,067	3,084	3,121
Net Debt		6,612	7,620	5,089	4,586	2,600	638	(1,315)
Net Debt / EBITDA		2.8x	3.1x	1.9x	1.4x	0.8x	0.2x	-0.4x
Holdco Debt / Total Debt		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF		2,331	(9)	2,855	3,346	3,861	3,878	3,913
FCF Yield (%, based on current EV)		7.0%	0.0%	8.5%	10.0%	11.5%	11.6%	11.7%
Consolidated Equity Layer (%)		70.5%	66.4%	65.7%	60.1%	55.3%	49.1%	40.7%

Gross Margin - by Business Segment	2022E	2023E	2024E	2025E	2026E
Open Gross Margin (Net of MtM Hedge)	**$4,573**	**$4,531**	**$5,032**	**$5,065**	**$5,109**
Guidance	**$4,400**	**$4,700**	**N/a**	**N/a**	**N/a**
Contracted Revenues	**$2,343**	**$2,453**	**$2,408**	**$2,393**	**$2,386**
Guidance	**$2,450**	**$2,800**	**N/a**	**N/a**	**N/a**
Power New Business / To Go	**$100**	**$350**	**$200**	**$200**	**$200**
Guidance	**$50**	**$300**	**N/a**	**N/a**	**N/a**
Non-Power Margins Executed	**$350**	**$150**	**$200**	**$200**	**$200**
Guidance	**$400**	**$250**	**N/a**	**N/a**	**N/a**
Non-Power New Business / To Go	**$100**	**$300**	**$200**	**$200**	**$200**
Guidance	**$50**	**$200**	**N/a**	**N/a**	**N/a**
Total Gross Margin	**$7,466**	**$7,784**	**$8,041**	**$8,057**	**$8,095**
Guidance	**$7,350**	**$8,250**	**N/a**	**N/a**	**N/a**

Adj. EBITDA				2022E	2023E	2024E	2025E	2026E
Consolidated	**$3,803**	**$2,985**	**$3,179**	**$2,630**	**$3,277**	**$3,067**	**$3,084**	**$3,121**
Guidance				**2,450-2,650**				
Guidance - High				**$2,650**				
Guidance - Midpoint				**$2,550**				
Guidance - Low				**$2,450**				

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

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Valuation: TP to $91 from $98

Figure 14: CEG EV/EBITDA Valuation

CEG EV/EBITDA Valuation					Grey Sky	Base Case	Blue Sky
Peer Generation Multiple					8.6x	10.5x	11.8x
EV/EBITDA Valuation	**EBITDA ('23E)**		**Prem / Disc.**	**Base Case Implied Multiple**			
Contracted EBITDA, excl. ZEC/CMC	$1,754		25%	13.1x	$18,900	$22,909	$25,772
Merchant EBITDA	$706		0%	10.5x	$6,089	$7,381	$8,304
ZEC/CMC Revenue	$732	**Disc. Rate**	5%	**NPV**	$2,867	$2,867	$2,867
			Total Net Debt		$4,586	$4,586	$4,586
2023 EBITDA	$3,192		**Total Equity Value**	10.4x	**$23,270**	**$28,571**	**$32,357**
				S/O ('23)	314	314	314
Valuation					**$74**	**$91**	**$103**
Stock Price						**$87**	
Upside / Downside					-14.5%	5.1%	19.0%
Yield						2.6%	
Total Return					**-11.9%**	**7.7%**	**21.6%**

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

This article is intended for the sole use of customer with the tracking ID of 10041678

DTE Energy

FY23 Preview: Solid Value for a High-Quality Compounder; Outperform

DTE

Target price (12M, US$) 131.00

Outperform

Multi Utilities

We are providing our 4Q22/FY23 preview with updated thoughts since EEI and electric rate decision by MPSC (both November 2022), where we believe despite the less constructive rate case decision, 21atha. is able to pull cost-reduction levers, improve ultimate regulatory outcome, and execute on the '23 EPS guidance provided during EEI ($6.25 midpt). We see unlikely for company to de-rail new 6-8% EPS CAGR. On the 4Q call, we expect re-affirming '23 EPS guidance, LT CAGR driven by the upsized capital plan, with higher probability to announce project development updates at Vantage. Relative valuation has been reflecting a more cautious sentiment on the stock with '23/'24/'25 P/E multiple dropped by ~500 bps relative to peers since November Maintaining Outperform seeing risk now priced in with MI's regulatory construct intact/21atha.'s ability to execute should backstop further performance deterioration.

- **Electric rate case decision tree; Gas rate case:** Since we published our thoughts on the electric rate order late November, DTE has been communicating with the market, conveying mitigation strategies, including cost saving initiatives and re-filing electric rate case on or around February 10. Concurrent DTE still plans to file gas rate case by 1H23. At the same time, we are still looking for a decision by the commission regarding the pending request for a re-hearing on the '22 electric GRC during the February open meeting, although we're not certain about this, it would help shore up confidence in shares more expeditiously.
- **What else to offset rate outcome uncertainties:** Recall IRA has been beneficial to RNG project IRR/valuation and 21atha. has been indicating the optionality from the RNG portfolio/development pipeline. In our view, although there is higher probability for 21atha. to consider rotation now than before given the headwind, it's more likely to expect typical updates on project pipeline addition.
- **Valuation, TP shift & Risks:** We are tweaking our TP to $131 from $118 to reflect the updated MtM multiple. We continue to apply 12.5% P/E premiums to regulated utilities segments based on and a 30% discount to earnings from trading business. No change to our ests. Risks: Reg outcomes, commodity risk, inflation.

Previous target price (12M, US$)	118.00
Price (27 Jan 23, US$)	113.59
52-week price range	139.12 - 103.01
Enterprise value (US$ m)	39,319

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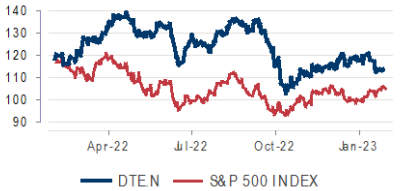
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	5.98	6.02	6.25	6.73
Prev. EPS (US$)	-	-	-	-
P/E (x)	19.0	18.9	18.2	16.9
P/E rel. (%)	98.0	104.6	103.2	106.0
EBITDA (US$ m)	2,872	3,272	3,558	3,852
EV/EBITDA (current)	13.0	12.0	11.9	11.5
Net debt (US$ m)	15,254	16,938	19,155	21,200
FFO/Total Debt (%)	20.1	16.0	16.3	15.8
EV/Rate Base	1.33	1.31	1.30	1.26
Number of shares (m)	194	Dividend (current, US$)		0.0
Consolidated ROE (%)	13.1	Dividend yield (%)		3.14
Rate Base (YE)	30,173			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan27, 2023, 01/28/22 = US$120.24

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	2.08	1.21	1.72	0.98
2022E	2.31	0.88	1.60	1.28
2023E	2.05	0.29	2.01	1.90

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DTE Energy (DTE)

Price (27 Jan 2023): **US$113.59** Target Price: **(from 118.00) 131.00**

Analyst: **Nicholas Campanella**

Rating: **Outperform**

Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**14,964.0**	**15,354.4**	**15,787.0**	**16,235.1**
EBITDA (US$ m)	**2,872**	**3,272**	**3,558**	**3,852**
Depr. & amort.	(1,377)	(1,469)	(1,587)	(1,703)
EBIT (US$)	**1,495**	**1,803**	**1,972**	**2,149**
Net interest exp	(630)	(629)	(708)	(779)
PBT (US$)	**656**	**1,218**	**1,307**	**1,414**
Income taxes	130	(46)	(44)	(49)
Minorities	10	10	10	10
Reported net income (US$)	**796**	**1,182**	**1,273**	**1,375**
Other NPAT adjustments	(365)	0	0	0
Adjusted net income	**1,161**	**1,182**	**1,273**	**1,375**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	1,495	1,803	1,972	2,149
Net interest	(630)	(629)	(708)	(779)
Change in working capital	281	0	0	0
CAPEX	(3,772)	(3,705)	(4,615)	(4,615)
Free cashflow to the firm	**(705)**	**(989)**	**(1,491)**	**(1,257)**
Acquisitions	0	0	0	0
Divestments	-	-	-	-
Cash flow from investments	**(3,863)**	**(3,705)**	**(4,615)**	**(4,615)**
Changes in Net Cash/Debt	**3,738**	**(1,684)**	**(2,218)**	**(2,044)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	35	276	259	164
Total current assets	**3,317**	**3,558**	**3,541**	**3,446**
Total assets	**39,719**	**42,251**	**45,324**	**48,211**
Liabilities				
Total current liabilities	**6,346**	**6,396**	**6,396**	**6,396**
Total liabilities	**31,006**	**32,890**	**35,242**	**37,356**
Total liabilities and equity	**39,719**	**42,251**	**45,324**	**48,211**
Net debt	15,254	16,938	19,155	21,200
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	194	196	204	204
CS adj. EPS	5.98	6.02	6.25	6.73
Prev. EPS (US$)	-	-	-	-
Dividend (US$)	4.08	3.54	3.81	4.10
Free cash flow per share	(3.63)	(5.03)	(7.32)	(6.15)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	22.9	2.6	2.8	2.8
EBIT growth (%)	(24.7)	20.6	9.4	9.0
Net profit growth (%)	(16.5)	1.8	7.7	7.9
EPS growth (%)	(16.9)	0.6	3.8	7.7
EBITDA margin (%)	19.2	21.3	22.5	23.7
EBIT margin (%)	10.0	11.7	12.5	13.2
Pretax margin (%)	4.4	7.9	8.3	8.7
Net margin (%)	7.8	7.7	8.1	8.5
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	2.50	2.56	2.68	2.74
P/E (x)	19.0	18.9	18.2	16.9
Price to book (x)	2.5	2.4	2.3	2.1
Asset turnover	0.4	0.4	0.3	0.3
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	7.5	13.1	13.1	13.1
ROIC (%)	7.5	6.6	6.5	6.5
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	175.1	180.9	190.0	195.3
Interest coverage ratio (X)	2.4	2.9	2.8	2.8
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	2.08	1.21	1.72	0.98
2022E	2.31	0.88	1.60	1.28
2023E	2.05	0.29	2.01	1.90

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

Company Background

DTE is a utility holding company headquartered in Michigan. The company principally operates through its DTE Electric and DTE Gas Business. The company generates, transmits and distributes electricity across Michigan, and offers gas distribution services.

Blue/Grey Sky Scenario



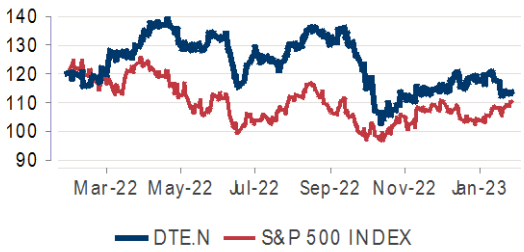
Our Blue Sky Scenario (US$) **(from 132.00) 150.00**

Our Blue Sky scenario contemplates a 20.8x 2025E P/E, which could be achieved if: (1) DTE achieves constructive regulatory outcome in electric rate case filing; and (2) DTE realizes upside from coal replace power and gains supportive regulatory outcome.

Our Grey Sky Scenario (US$) **(from 103.00) 111.00**

Our Grey Sky scenario assumes DTE trades at a 15.4x P/E, or inline P/E. We think the multiple could be justified if we see an unexpected non-constructive regulatory outcome for DTE's electric rate case filing.

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$120.43

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Fundamental Dashboard

Figure 15: DTE Fundamental Dashboard

DTE Dashboard	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Consolidated EPS	**$6.30**	**$7.20**	**$5.98**	**$6.02**	**$6.25**	**$6.73**	**$7.22**	**$7.71**	**$8.29**
Prior EPS			**$5.98**	**$6.02**	**$6.25**	**$6.73**	**$7.22**	**$7.71**	
Consensus EPS			**$5.99**	**$6.00**	**$6.24**	**$6.71**	**$7.23**	**$7.78**	
Delta (%)			-0.1%	0.3%	0.1%	0.4%	-0.1%	-0.8%	
Shares Outstanding		193	194	196	204	204	205	205	206
DPS			$4.08	$3.54	$3.81	$4.10	$4.41	$4.75	$5.11
DPS Growth (%)				-13.18%	7.6%	7.6%	7.6%	7.6%	7.6%
DPS Payout (%)				58.8%	61.0%	60.9%	61.1%	61.6%	61.7%
Valuation Metrics									
P/E		15.8x	19.0x	18.9x	18.2x	16.9x	15.7x	14.7x	13.7x
EV/RAB		1.6x	1.3x	1.3x	1.3x	1.3x	1.2x	1.2x	1.2x
FFO		3,290	2,786	2,716	3,124	3,358	3,593	3,829	4,079
Net Debt		18,992	15,254	16,938	19,155	21,200	23,075	24,785	26,052
FFO/Debt (%)		17.3%	18.3%	16.0%	16.3%	15.8%	15.6%	15.4%	15.7%
EBITDA		3,429	2,872	3,272	3,558	3,852	4,147	4,443	4,747
Net Debt		18,992	15,254	16,938	19,155	21,200	23,075	24,785	26,052
Net Debt / EBITDA		5.5x	5.3x	5.2x	5.4x	5.5x	5.6x	5.6x	5.5x
Holdco Debt / Total Debt		46.5%	25.4%	27.4%	29.4%	30.3%	30.9%	31.5%	30.7%
Consolidated Equity Layer (%)		39.2%	36.3%	35.2%	34.2%	33.7%	33.4%	33.2%	33.5%
FFO/Debt (%): Targeting 16%									
EPS Estimates By Sub									
Electric	$3.87	$4.21	$4.46	$4.70	$4.96	$5.35	$5.74	$6.12	$6.50
Gas	$0.98	$1.02	$1.09	$1.22	$1.27	$1.36	$1.44	$1.52	$1.59
Midstream	$1.15	$1.57	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
P&I	$0.72	$0.78	$0.91	$0.52	$0.56	$0.63	$0.71	$0.82	$0.94
Trading	$0.16	$0.20	$0.27	$0.17	$0.14	$0.13	$0.13	$0.12	$0.12
Parent	($0.58)	($0.58)	($0.75)	($0.60)	($0.68)	($0.74)	($0.80)	($0.86)	($0.86)
Consolidated	**$6.30**	**$7.20**	**$5.98**	**$6.02**	**$6.25**	**$6.73**	**$7.22**	**$7.71**	**$8.29**
Guidance			**5.70-5.98**	**5.90-6.10**	**6.09-6.40**				
High					**$6.40**	**$6.74**	**$7.28**	**$7.87**	**$8.50**
Midpoint				**$6.00**	**$6.25**	**$6.68**	**$7.15**	**$7.65**	**$8.19**
Low					**$6.09**	**$6.62**	**$7.02**	**$7.44**	**$7.88**

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

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Valuation: TP to $131 from $118

Figure 16: DTE SOTP Valuation

DTE SOTP Valuation				Low Case	Base Case	High Case
Electric Group Multiple				13.8x	16.2x	18.6x
Gas Group Multiple				13.6x	16.0x	18.4x
Business Segments	**EPS ('25E)**	**Prem / Disc.**	**Base Case Implied Multiple**			
Electric	$5.74	13%	18.2x	$89	$105	$120
Gas	$1.44	13%	18.0x	$22	$26	$30
Vantage (Legacy P&I)	$0.71	0%	16.1x	$10	$11	$13
Trading	$0.13	-30%	11.3x	$1	$1	$2
Parent	($0.80)		16.1x	($11)	($13)	($15)
Consolidated EPS	**$7.22**					
			Implied P/E Multiple->>	15.4x	18.1x	20.8x
Valuation				**$111**	**$131**	**$150**
Stock Price					$114	
Upside / Downside				-2.3%	15.3%	32.1%
Yield					3.6%	
Total Return				**1.3%**	**18.9%**	**35.6%**

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

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Attachment E
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CREDIT SUISSE

Duke Energy

4Q22/FY23 Preview: All About the Carolinas; Neutral

DUK

Target price (12M, US$) 106.00
Neutral

Electric Utilities

We provide our 4Q22/FY23 earnings preview for DUK where our expectation for '22 EPS remains at low end of range (Cse $5.40 vs. $5.30-5.60 guidance range). During the call, we expect management to re-affirm the FY23 EPS guidance of $5.55-5.75, 5-7% LT EPS CAGR off '23 midpoint of $5.65. We continue to focus on the commercial renewables sale where we see as a big driver and management appears keen to provide greater clarity in terms of timing for deal closing, also optionality on debt paydown, proceeds and the effect on FY23 EPS. DUK currently is trading at a -2.4%/-2.2% discount compared to peers based on Cse '24/'25 EPS which we see as appropriate given 1) pending asset sales needed to execute FY23, 2) rate reviews for ~60% of EPS this year, and 3) balance sheet. Maintain Neutral.

- **Heavy regulatory calendar, Gas price movement, Commercial renewable, FY23 Walk:** We note that DUK currently has DEP-NC, DEP-SC, DEK Electric, and DEO Gas going though rate filing and DEC (NC) just filed MYRP on January 19, requesting 10.4% ROE with 53% equity content. Regarding fuel recovery, we also note that given the recent move on gas price, FL utility is planning to file for fuel cost adjustment which is helpful for cumulative deferred fuel balance. Look for more updates on the call regarding how the recent move in gas is translating to customer rates (we expect a benefit). On commercial renewable sale, the messaging has been similar where the company sees robust interest with IRA being a tailwind. Timing-wise, we now expect 1Q23 for announcement and target mid-year closing. Our $5.65 FY23 EPS (close to midpoint of guidance) is driven by base rate change through various rate case execution (+29c), interest expense saving (+15c), O&M saving (15c), offset by D&A (-10c) and reverse of favorable weather (-10c).
- **Valuation, EPS Ests & thoughts on shares:** Our ests are unchanged as we await further details on the comm renewables sale. We increase our TP to $106 from $94 on account of slightly higher electric and gas peer group multiples. We roll our valuation forward, applying a P/E multiple to '25 EPS by segment. Risks: Better / Worse than expected regulatory outcomes and asset sales, inflation, storms.

Previous target price (12M, US$)	94.00
Price (27 Jan 23, US$)	101.58
52-week price range	115.43 - 85.97
Enterprise value (US$ m)	147,213

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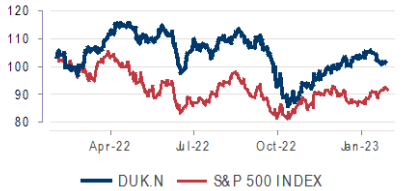
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	5.24	5.40	5.65	6.07
Prev. EPS (US$)	-	-	-	-
P/E (x)	19.4	18.8	18.0	16.7
P/E rel. (%)	100.1	104.3	102.0	105.1
EBITDA (US$ m)	10,363	11,393	12,255	13,064
EV/EBITDA (current)	13.7	12.9	12.4	12.0
Net debt (US$ m)	63,232	68,990	73,538	78,654
FFO/Total Debt (%)	13.1	13.8	13.6	13.5
EV/Rate Base	1.62	1.58	1.52	1.49
Number of shares (m)	770	Dividend (current, US$)		0.0
Consolidated ROE (%)	8.7	Dividend yield (%)		3.94
Rate Base (YE)	93,902			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan27, 2023, 01/28/22 = US$104.73

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	0.01	1.15	0.41	8.33
2022E	1.30	1.14	1.80	1.16
2023E	0.53	0.97	3.17	0.19

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Duke Energy (DUK)

Price (27 Jan 2023): **US$101.58** Target Price: **(from 94.00) 106.00**

Analyst: **Nicholas Campanella**

Rating: **Neutral**

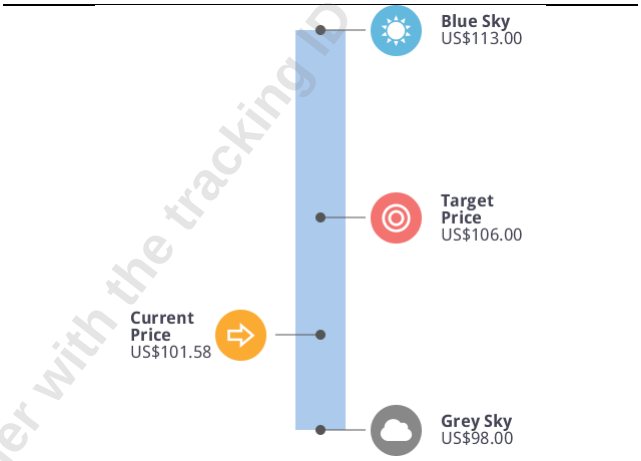
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**25,097.0**	**26,261.2**	**27,280.7**	**28,240.8**
EBITDA (US$ m)	**10,363**	**11,393**	**12,255**	**13,064**
Depr. & amort.	(4,990)	(5,245)	(5,519)	(5,770)
EBIT (US$)	**5,373**	**6,148**	**6,736**	**7,293**
Net interest exp	(2,280)	(2,519)	(2,860)	(3,051)
PBT (US$)	**3,764**	**4,291**	**4,539**	**4,905**
Income taxes	(192)	(308)	(312)	(353)
Minorities	329	279	233	227
Reported net income (US$)	**4,027**	**4,156**	**4,354**	**4,673**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**4,027**	**4,156**	**4,354**	**4,673**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	5,373	6,148	6,736	7,293
Net interest	(2,280)	(2,519)	(2,860)	(3,051)
Change in working capital	(690)	0	0	0
CAPEX	(9,715)	(12,225)	(12,450)	(12,500)
Free cashflow to the firm	**(1,425)**	**(2,687)**	**(2,424)**	**(1,888)**
Acquisitions	0	0	0	0
Divestments	0	0	1,025	0
Cash flow from investments	**(10,935)**	**(12,225)**	**(11,425)**	**(12,500)**
Changes in Net Cash/Debt	**(3,628)**	**(5,758)**	**(4,548)**	**(5,116)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	520	863	641	226
Total current assets	**9,940**	**10,283**	**10,061**	**9,646**
Total assets	**169,587**	**176,959**	**182,667**	**189,009**
Liabilities				
Total current liabilities	**15,931**	**16,481**	**15,931**	**15,931**
Total liabilities	**118,451**	**124,889**	**129,567**	**134,635**
Total liabilities and equity	**169,587**	**176,959**	**182,667**	**189,009**
Net debt	63,232	68,990	73,538	78,654
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	769	770	770	770
CS adj. EPS	5.24	5.40	5.65	6.07
Prev. EPS (US$)	-	-	-	-
Dividend (US$)	4.05	3.99	4.09	4.19
Free cash flow per share	(1.85)	(3.49)	(3.15)	(2.45)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	5.1	4.6	3.9	3.5
EBIT growth (%)	18.0	14.4	9.6	8.3
Net profit growth (%)	6.8	3.2	4.8	7.3
EPS growth (%)	2.5	3.1	4.8	7.3
EBITDA margin (%)	41.3	43.4	44.9	46.3
EBIT margin (%)	21.4	23.4	24.7	25.8
Pretax margin (%)	15.0	16.3	16.6	17.4
Net margin (%)	16.0	15.8	16.0	16.5
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	5.64	5.61	5.56	5.55
P/E (x)	19.4	18.8	18.0	16.7
Price to book (x)	1.7	1.6	1.6	1.5
Asset turnover	0.1	0.1	0.1	0.1
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	8.6	8.7	8.9	9.4
ROIC (%)	4.5	4.7	5.0	5.1
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	123.7	132.5	138.5	144.7
Interest coverage ratio (X)	2.4	2.4	2.4	2.4
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	0.01	1.15	0.41	8.33
2022E	1.30	1.14	1.80	1.16
2023E	0.53	0.97	3.17	0.19

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

Company Background

Duke Energy is a large-cap regulated utility headquartered in Charlotte, North Carolina. The company operates primarily across three segments: Regulated Utilities, International Energy, and Commercial Portfolio.

Blue/Grey Sky Scenario



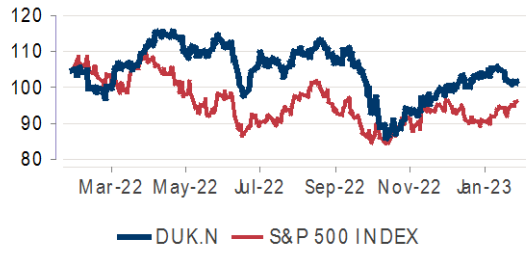
Our Blue Sky Scenario (US$) **(from 101.00) 113.00**

Our Blue Sky scenario contemplates an 17.6x 2024E P/E, which could be achieved if: (1) DUK is able to further monetize non-core assets ahead of current market multiples; (2) if management is able to garner better-than-expected regulatory outcomes or (3) if management is able to accelerate earned ROE improvement in the Carolinas faster than we have contemplated.

Our Grey Sky Scenario (US$) **(from 87.00) 98.00**

Our Grey Sky scenario assumes DUK trades at a 15.2x P/E. We think the market would likely return to a discounted view on the stock if management fails to properly execute on its decarbonization plan, if management decides to grow in-organically rather than through 1.0x rate base investments, or if management is unable to execute at the mid-point of the 5-7% EPS CAGR.

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$105.06

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FY23 EPS Walk

- **Drivers:** We see $5.65/sh FY23 vs. $5.65/sh Consensus (FS) and $5.25/sh FY22 guidance midpoint, and company guidance for FY23 of $5.55 to $5.75/sh. We see a $0.10/sh drag from negative weather and $0.10 drag from D&A expense, as well as a $0.15/sh pick-up from interest expense and $0.04/sh pick-up from base rates.

Figure 17: DUK FY23 EPS Walk

DUK FY23 Walk	EPS
Starting EPS	$5.25
Weather	$0.00
Weather	$0.00
Adj Starting Point	**$5.25**
Volumes	$0.00
weather	($0.10)
Electric	
Base rate change	$0.25
Riders	$0.00
Weather	$0.00
O&M	$0.15
Sales volume	$0.00
AFUDC equity	$0.00
Int Expense	$0.00
Reg lag	$0.00
D&A	($0.10)
DEI	$0.00
Storm	$0.00
Gas	
Rider	$0.00
Base rate	$0.04
Reg Lag	$0.00
Commercial Renewables	
Uri	$0.00
New Projects	$0.00
Other	
Pension	$0.00
Parent financing	$0.00
Interest Expense	$0.15
Dilution	$0.00
DUK FY23 EPS	**$5.65**
FY23 Guidance	5.55-5.75
CSe FY23 EPS	$5.65
FY23 Consensus	$5.65
2022 SO	770
2023 SO	770

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

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Fundamental Dashboard

We leave our EPS ests unchanged as we await further details on the comm renewables sale.

Figure 18: DUK Fundamental Dashboard (1/2)

DUK Dashboard	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	**$5.08**	**$5.11**	**$5.24**	**$5.40**	**$5.65**	**$6.07**	**$6.44**	**$6.79**
Prior EPS			**$5.24**	**$5.40**	**$5.65**	**$6.07**	**$6.44**	**$6.79**
Consensus EPS (FactSet)			**$5.24**	**$5.27**	**$5.65**	**$6.00**	**$6.34**	**$6.71**
Delta (%)				2.4%	0.1%	1.2%	1.6%	1.1%
Shares Outstanding		738	769	770	770	770	770	773
DPS			$4.05	$3.99	$4.09	$4.19	$4.30	$4.40
DPS Growth (%)				-1.5%	2.5%	2.5%	2.5%	2.5%
DPS Payout (%)				73.9%	72.3%	69.1%	66.7%	64.9%
Valuation Metrics								
P/E		19.9x	19.4x	18.8x	18.0x	16.7x	15.8x	15.0x
EV/RAB		1.7x	1.6x	1.6x	1.5x	1.5x	1.4x	1.4x
FFO		9,665	8,980	9,538	10,026	10,612	11,176	11,760
Net Debt		59,604	63,232	68,990	73,538	78,654	83,210	87,129
FFO/Debt (%) - 14% Target		16.2%	14.2%	13.8%	13.6%	13.5%	13.4%	13.5%
EBITDA		9,258	10,363	11,393	12,255	13,064	13,817	14,574
Net Debt		59,604	63,232	68,990	73,538	78,654	83,210	87,129
Net Debt / EBITDA		6.4x	6.1x	6.1x	6.0x	6.0x	6.0x	6.0x
Holdco Debt / Total Debt		33.1%	31.8%	33.0%	32.4%	32.4%	32.6%	32.5%
Consolidated Equity Layer (%)		45.1%	44.5%	42.7%	41.7%	40.8%	40.2%	39.9%
EPS Estimates By Sub	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
DEC	$1.92	$1.30	$1.74	$1.99	$2.24	$2.35	$2.52	$2.67
DEP	$1.10	$0.56	$1.38	$1.33	$1.38	$1.56	$1.64	$1.76
DEF	$0.95	$1.04	$0.96	$1.26	$1.35	$1.44	$1.52	$1.58
DEI	$0.60	$0.55	$0.63	$0.53	$0.50	$0.53	$0.57	$0.60
DEO	$0.33	$0.34	$0.27	$0.43	$0.47	$0.50	$0.52	$0.53
Piedmont	$0.28	$0.37	$0.42	$0.47	$0.50	$0.54	$0.57	$0.59
Commercial Renewables	$0.27	$0.39	$0.26	$0.16	$0.19	$0.19	$0.19	$0.18
Parent	($0.62)	($0.68)	($0.66)	($0.77)	($0.97)	($1.03)	($1.09)	($1.13)
Consolidated	**$4.83**	**$3.88**	**$4.99**	**$5.40**	**$5.65**	**$6.07**	**$6.44**	**$6.79**
Guidance			**5.00-5.30**	**5.30-5.60**	**5.55-5.75**			
High								
Midpoint					**3.38%**	**3.08%**		
Low								
EPS Check		**-$1.2344**	**-$0.2419**	**$0.0000**	**$0.0000**	**$0.0000**	**$0.0000**	**$0.0000**
Net Income								
Electric Utilities & Infra		2,550	3,832	4,164	4,462	4,781	5,085	5,401
Guidance			3,900	4,170				
Gas Utilities & Infra		273	424	466	495	541	565	578
Guidance			415	470				
Commercial Renewables		286	201	122	147	144	144	139
Guidance			220	150	150			
Other		(501)	(504)	(597)	(750)	(793)	(835)	(871)
Guidance			(575)	(595)				
Duke Energy Consolidated		**2,608**	**3,953**	**4,156**	**4,354**	**4,673**	**4,959**	**5,247**

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

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Fundamental Dashboard

Figure 19: DUK Fundamental Dashboard (2/2)

Rate Base Metrics (YE)	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
DEC	25,300	26,400	29,652	31,754	34,141	35,851	37,633	39,701
DEP	17,900	18,200	18,200	19,687	20,992	22,609	24,428	26,345
DEF	14,100	15,500	16,500	17,617	18,807	20,066	21,076	21,870
DEI	8,500	9,100	9,500	9,782	10,114	10,494	10,919	11,632
DEO	5,800	6,500	6,900	7,280	7,782	8,135	8,441	8,702
Piedmont	5,200	5,800	6,500	7,256	7,937	8,423	8,841	9,168
Total Rate Base	**76,800**	**81,500**	**87,252**	**93,376**	**99,772**	**105,577**	**111,337**	**117,417**
Guidance				92,000	98,800	105,000	112,100	118,500
CSe RAB CAGR off 2020A				**7.0%**	**7.0%**	**6.7%**	**6.4%**	**6.3%**
ROE Data - Avg RAB								
DEC	10.6%	7.1%	9.1%	9.6%	10.0%	9.9%	10.1%	10.2%
DEP	8.6%	4.4%	11.2%	10.4%	10.1%	10.6%	10.3%	10.3%
DEF	9.3%	9.8%	8.7%	10.8%	10.8%	10.8%	10.8%	10.8%
DEI	9.7%	8.7%	9.8%	8.9%	9.1%	9.3%	9.7%	9.7%
DEO	8.1%	8.0%	6.0%	9.2%	9.4%	9.4%	9.4%	9.4%
Piedmont	7.7%	9.8%	10.5%	10.5%	10.0%	10.0%	10.0%	10.0%
Capital Structure - Regulatory								
DEC	0.0%	52.4%	52.2%	52.2%	52.2%	52.2%	52.2%	52.2%
DEP	0.0%	52.1%	52.1%	52.1%	52.1%	52.1%	52.1%	52.1%
DEF	0.0%	53.0%	53.0%	53.0%	53.0%	53.0%	53.0%	53.0%
DEI	0.0%	53.0%	53.0%	53.0%	53.0%	53.0%	53.0%	53.0%
DEO	51.2%	51.1%	51.1%	51.2%	51.2%	51.2%	51.2%	51.1%
Piedmont	0.0%	50.5%	50.5%	50.5%	50.5%	50.5%	50.5%	50.5%
Capital Structure - GAAP/LT Debt vs. Equity								
DEC	52.8%	52.9%	51.8%	51.9%	52.2%	52.4%	53.0%	53.7%
DEP	53.5%	51.7%	49.6%	49.2%	48.8%	48.6%	48.4%	48.3%
DEF	47.8%	51.6%	49.7%	50.3%	51.0%	51.7%	52.5%	53.2%
DEI	56.3%	54.3%	54.2%	54.3%	54.3%	54.2%	54.0%	53.8%
DEO	51.0%	49.8%	52.0%	51.9%	51.9%	52.8%	53.6%	54.5%
Piedmont	50.1%	50.4%	52.6%	51.5%	51.4%	51.9%	53.2%	54.4%
Cash Flow								
CFO		8,856	8,290	9,538	10,026	10,612	11,176	11,760

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

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GAS-ROR-010
Attachment E
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Valuation: TP to $106 from $94

We increase our TP to $106 from $94 on account of slightly higher electric and gas peer group multiples. We roll our valuation forward, applying a P/E multiple to '25 EPS by segment.

Figure 20: DUK SOTP Valuation

DUK SOTP Valuation				Grey Sky	Base Case	Blue Sky
Electric Group Multiple				15.0x	16.2x	17.4x
Gas Group Multiple				15.0x	16.2x	17.4x
Business Segments	**EPS ('24E)**	**Prem / Disc.**	**Base Case Implied Multiple**			
DEC	$2.52	0%	16.2x	$38	$41	$44
DEP	$1.64	0%	16.2x	$25	$27	$29
DEF	$1.52	10%	17.8x	$25	$27	$29
DEI	$0.57	5%	17.0x	$9	$10	$10
DEO	$0.52	-10%	14.6x	$7	$8	$8
Piedmont	$0.57	0%	16.2x	$8	$9	$10
Commerical Renewables	$0.19	-30%	11.3x	$2	$2	$2
Parent	($1.09)	0%	16.2x	($16)	($18)	($19)
Total	**$6.44**			**$98**	**$106**	**$113**
Shares Outstanding				770	770	770
			Implied P/E Multiple->>	15.2x	16.4x	17.6x
Valuation				**$98**	**$106**	**$113**
Stock Price					$102	
Upside / Downside				-3.5%	4.4%	11.2%
Yield					4.0%	
Total Return				**0.5%**	**8.3%**	**15.2%**

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

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Consolidated Edison

4Q Preview: All Eyes CECONY; Model Update Pro Forma Asset Sales; Neutral

ED

Target price (12M, US$) 95.00
Neutral

Multi Utilities

We are providing our 4Q preview for ED and reiterating our Neutral rating on the stock. We see ED shares as expensive despite our current above-consensus estimates which are now pro-forma the CEB sale with buy-backs for UoP and our base case for the CECONY rate review, with the name currently trading at an 18.2x P/E multiple on 2025E EPS vs. 16.2x average for the large-cap electric peer group. We see variability and uncertainty with the CECONY rate cases which is a key driver for the name, where we see a settlement expected by 1H23. For the 4Q update, we expect clarity on the current rate case, as well as guidance on the share buyback plan which our current model assumes full completion by YE23 with $1.3Bn of deployment. This is a debate among the investment community, but we see the stock expensive in most scenarios out of the CECONY rate review.

- **Share Buyback Plan & New CSe Model:** In October, ED signed a purchase and sale agreement for sale of CEB assets for $6.8Bn which we see at 10-11x EV/EBITDA. Use of proceeds will go towards $1Bn of debt repayment, CECONY/O&R investments and a share purchase program with ED forgoing equity issuances in 2022/23. Our cash walk points to $1.3Bn of buybacks but we're unsure if ED formally guides to this in the 4Q report. The company expects the transaction to close in the first half of 2023, and the share buyback program could begin shortly after that. The recent strategic actions were a major driver of share performance for FY22 with shares now looking more fairly valued to slightly expensive to us. We emphasize our model incorporates a $1.3Bn repurchase in 2H23 which is the main driver of our above consensus estimates but lack visibility from mgmt on the timeline. Outside of the buybacks, key assumptions underpinning our pro-forma model include 95% of the capex ask at CECONY, and a 9.2% authorized ROE (vs. 9.0% earned). The joint proposal has been delayed from current market expectations, but we still see it on track for 1H23 resolution.
- **Valuation, TP and risks:** We increase our TP to $95 from $78 on account of rolling forward our valuation, now applying a P/E multiple to 2025E EPS (from 2024 prior). We continue to apply a 5% premium to the name on account of the company's strong B/S and limited rate case risk after CECONY resolution. We tweak FY22 EPS +6c, increase '23 est by 3c, '24 est by 29c, '25 est by 39c and '26 est by 44c. Risks: climate change, better/worse than expected regulatory outcomes, history of under earning.

Previous target price (12M, US$)	78.00
Price (27 Jan 23, US$)	94.91
52-week price range	101.92 - 79.47
Enterprise value (US$ m)	58,159

Research Analysts

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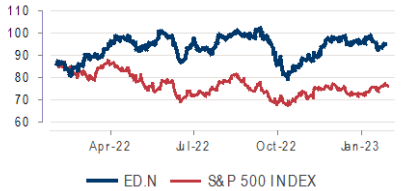
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	4.37	4.55	4.92	5.34
Prev. EPS (US$)	-	4.49	4.89	5.05
P/E (x)	21.7	20.9	19.3	17.8
P/E rel. (%)	112.0	115.7	109.5	111.6
EBITDA (US$ m)	4,858	5,139	5,107	5,487
EV/EBITDA (current)	11.4	11.3	10.6	10.1
Net debt (US$ m)	22,052	24,438	21,072	22,880
FFO/Total Debt (%)	12.4	16.0	18.4	18.4
EV/Rate Base	1.52	1.50	1.32	1.27
Number of shares (m)	355	Dividend (current, US$)		0.0
Consolidated ROE (%)	8.1	Dividend yield (%)		3.34
Rate Base (YE)	38,898			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan27, 2023, 01/28/22 = US$84.63

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	1.22	0.48	1.52	1.15
2022E	1.47	0.65	1.63	0.79
2023E	1.76	0.72	1.85	0.57

This article is intended for the sole use of the customer with the following ID of 10111678

Consolidated Edison (ED)

Price (27 Jan 2023): **US$94.91** Target Price: **(from 78.00) 95.00**

Analyst: **Nicholas Campanella**
Rating: **Neutral**

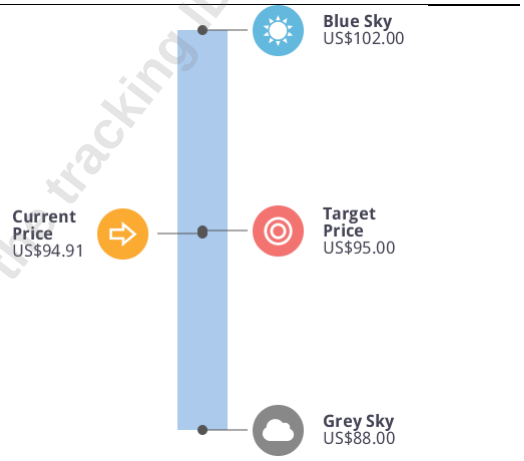
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**13,676.0**	**13,829.9**	**13,354.0**	**13,765.3**
EBITDA (US$ m)	**4,858**	**5,139**	**5,107**	**5,487**
Depr. & amort.	(2,032)	(2,170)	(2,029)	(2,225)
EBIT (US$)	**2,288**	**2,843**	**2,963**	**3,146**
Net interest exp	(905)	(998)	(910)	(961)
PBT (US$)	**1,383**	**1,844**	**2,054**	**2,185**
Income taxes	(190)	(308)	(332)	(354)
Minorities	153	80	1	1
Reported net income (US$)	**1,346**	**1,616**	**1,722**	**1,832**
Other NPAT adjustments	(182)	0	0	0
Adjusted net income	**1,528**	**1,616**	**1,722**	**1,832**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	2,288	2,843	2,963	3,146
Net interest	(905)	(998)	(910)	(961)
Change in working capital	(1,073)	0	0	0
CAPEX	(3,953)	(5,262)	(4,819)	(4,965)
Free cashflow to the firm	**(1,220)**	**(1,364)**	**(934)**	**(762)**
Acquisitions	0	0	0	0
Divestments	812	0	3,700	0
Cash flow from investments	**(3,484)**	**(5,262)**	**(1,119)**	**(4,965)**
Changes in Net Cash/Debt	**895**	**(2,386)**	**3,366**	**(1,808)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	992	1,746	2,280	1,802
Total current assets	**5,551**	**6,305**	**6,297**	**5,819**
Total assets	**63,116**	**66,962**	**59,967**	**62,229**
Liabilities				
Total current liabilities	**5,427**	**6,967**	**5,981**	**6,011**
Total liabilities	**42,780**	**46,054**	**42,744**	**44,240**
Total liabilities and equity	**63,116**	**66,962**	**59,967**	**62,229**
Net debt	22,052	24,438	21,072	22,880
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	349	355	350	343
CS adj. EPS	4.37	4.55	4.92	5.34
Prev. EPS (US$)	-	4.49	4.89	5.05
Dividend (US$)	2.95	3.16	3.24	3.34
Free cash flow per share	(3.49)	(3.84)	(2.67)	(2.22)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	11.7	1.1	(3.4)	3.1
EBIT growth (%)	1.6	24.2	4.2	6.2
Net profit growth (%)	9.0	5.8	6.6	6.4
EPS growth (%)	4.7	4.0	8.2	8.5
EBITDA margin (%)	35.5	37.2	38.2	39.9
EBIT margin (%)	16.7	20.6	22.2	22.9
Pretax margin (%)	10.1	13.3	15.4	15.9
Net margin (%)	11.2	11.7	12.9	13.3
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	4.04	4.21	4.07	4.03
P/E (x)	21.7	20.9	19.3	17.8
Price to book (x)	1.7	1.6	2.0	1.8
Asset turnover	0.2	0.2	0.2	0.2
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	6.9	8.0	9.2	10.6
ROIC (%)	4.7	5.2	6.5	6.5
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	108.4	116.9	122.4	127.2
Interest coverage ratio (X)	2.5	2.8	3.3	3.3
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	1.22	0.48	1.52	1.15
2022E	1.47	0.65	1.63	0.79
2023E	1.76	0.72	1.85	0.57

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

Company Background

Consolidated Edison, Inc. is a utility holding company based in New York City. The company provides electric and gas distribution services to customers in New York and New Jersey. ConEd also owns and operates a commercial renewables business.

Blue/Grey Sky Scenario



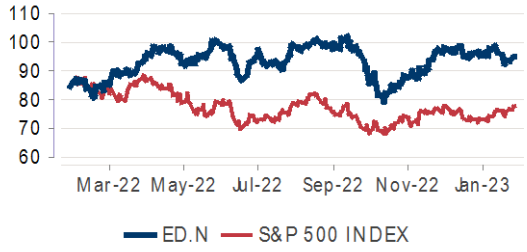
Our Blue Sky Scenario (US$) **(from 83.00) 102.00**

Blue Sky Scenario ($102): Our Blue Sky scenario contemplates a 18.2x 2025E P/E, which could be achieved if: (1) ED gets more constructive testimony than expected in the NY PSC rate case; (2) if ED can reinvest proceeds of CEB assets in a constructive manner; or (3) if management is able to execute above the 5-7% EPS CAGR in its new CECONY rate plan.

Our Grey Sky Scenario (US$) **(from 73.00) 88.00**

Grey Sky Scenario ($88): Our Grey Sky scenario assumes ED trades at a 15.8x multiple, below the peer group average of 16.2x. Our Grey Sky could be realized on a worse-than-thought GRC outcome at the NY PSC, specifically an allowed ROE below 8.8%, or material disallowances in rate base. Our Grey Sky could also be realized if ED does not reinvest proceeds in regulated business and instead reinvests in another unregulated asset.

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$86.45

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Investment Considerations

- **CECONY electric and gas rate case:** ED is currently amidst a rate case for CECONY for the electric and gas businesses. The electric and gas rate cases were filed in January 2022. The electric rate case saw an initial ask of $1,198Mn, with the company revising its request in April to $1,037.8Mn with a 10% ROE and 50% equity layer, and staff's recommendation in May of $278.2Mn, 8.8% ROE and 48% equity layer. The gas rate case saw an initial request of $502.7Mn, with the company revising its request in April to $402.2Mn with a 10% ROE and 50% equity layer, and staff's recommendation in May of $164.4Mn, 8.8% ROE and 48% equity layer. We see this as a pivotal rate case for the company as it represents a potentially significant change to rates and improvement in ROE and equity layer, something that has historically been a headwind for the company. We currently assume a 9.2% ROE and 48% equity layer (CSe) for both segments. We see the outcome as uncertain given the NY regulatory environment has not historically been overly constructive for utilities. The company is currently amidst settlement discussions, which we view as a positive, but still see uncertainty in being able to achieve a constructive outcome for ED. We expect a resolution of this rate case sometime during 1H23. We see this rate case as having a potentially significant impact to EPS growth trajectory given the electric and gas segments of CECONY made up ~87% of total ED rate base in '22. We note that our estimates reflect 95% of the capex ask in the CECONY rate review.
- **CECONY steam rate case:** The steam rate case was filed in November 2022 and included an initial ask of $136.7Mn, 10% ROE and 50% equity layer, with staff recommendation pending. We see this as a cautious data point given the outcome of the last steam rate case which was initially filed in January 2013 and included a $5Mn rate decrease with the company revising the ask in June 2013 to a $10.54Mn rate increase. The prior rate case saw an adoption of a joint proposal in February 2014 that included a $22.4Mn rate decrease, 9.3% ROE and 48% equity layer. Given the length of time for a resolution in the past rate case, we could expect a resolution in late '23 or early '24, with our current forecasts of 9.4% ROE and 48% equity layer (CSe) for the segment in '24. The steam segment makes up ~4% of total ED rate base in '22, so we view the decision as having relatively limited risk to EPS growth for the name.

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Valuation: TP to $95 from $78

We increase our TP to $95 from $78 on account of rolling forward our valuation, now applying a P/E multiple to 2025E EPS (from 2024 prior). We continue to apply a 5% premium to the name on account of the company's strong B/S and limited rate risk after CECONY resolution.

Figure 21: ED SOTP Valuation

ED SOTP Valuation	Grey Sky	Base Case	Blue Sky
Average Multiple		16.2x	
Prem / Disc	-3%	5%	13%
Adjusted P/E Multiple	15.8x	17.0x	18.2x
Consolidated EPS '25E	$5.59	$5.59	$5.59
UP&O Equity Valuation ($/Sh)	**$88**	**$95**	**$102**

Valuation	**$88**	**$95**	**$102**
Stock Price		$95	
Upside / Downside	-7.3%	0.1%	7.5%
Yield		3.4%	
Total Return	**-3.9%**	**3.5%**	**10.9%**

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

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Fundamental Dashboard

We increase our FY22 ests by 6c, '23 est by 3c, '24 est by '29c, '25 est by 39c and '26 est by 44c.

Figure 22: ED Fundamental Dashboard (1/2)

ED Dashboard Nicholas Campanella +1 212 325 7505	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	**$4.38**	**$4.18**	**$4.37**	**$4.55**	**$4.92**	**$5.34**	**$5.59**	**$5.82**
Prior EPS			**$4.37**	**$4.49**	**$4.89**	**$5.05**	**$5.20**	**$5.38**
Consensus EPS				**$4.54**	**$4.84**	**$5.11**	**$5.36**	**$5.51**
Delta (%)				0.2%	1.6%	4.5%	4.4%	5.6%
Shares Outstanding		336	349	355	350	343	346	350
DPS			$2.95	$3.16	$3.24	$3.34	$3.44	$3.54
DPS Growth (%)				7.2%	2.5%	3.0%	3.0%	3.0%
DPS Payout (%) - targeting 60-70%				69.5%	65.9%	62.5%	61.4%	60.8%
Valuation Metrics								
P/E		22.7x	21.7x	20.9x	19.3x	17.8x	17.0x	16.3x
EV/RAB		1.6x	1.5x	1.5x	1.3x	1.3x	1.2x	1.2x
FFO		3,595	3,806	3,899	3,885	4,203	4,415	4,623
Net Debt		22,947	22,052	24,438	21,072	22,880	24,220	25,402
FFO/Debt (%)		15.7%	17.3%	16.0%	18.4%	18.4%	18.2%	18.2%
EBITDA		4,574	4,858	5,139	5,107	5,487	5,758	6,026
Net Debt		22,947	22,052	24,438	21,072	22,880	24,220	25,402
Net Debt / EBITDA		5.0x	4.5x	4.8x	4.1x	4.2x	4.2x	4.2x
Consoldiated Equity Layer (%)		44.0%	46.9%	44.4%	42.4%	42.2%	42.4%	42.7%
EPS Estimates By Sub								
CECONY	$3.79	$3.53	$3.85	$4.01	$4.69	$5.09	$5.35	$5.57
O&R	$0.21	$0.21	$0.21	$0.22	$0.24	$0.27	$0.28	$0.29
CET	$0.16	$0.17	$0.03	$0.01	$0.01	$0.00	$0.00	$0.00
CEB	$0.23	$0.30	$0.35	$0.39	$0.00	$0.00	$0.00	$0.00
Parent	($0.01)	($0.03)	($0.06)	($0.08)	($0.02)	($0.03)	($0.04)	($0.04)
Consolidated	**$4.38**	**$4.18**	**$4.37**	**$4.55**	**$4.92**	**$5.34**	**$5.59**	**$5.82**
EPS Check	**$0.0000**	**$0.0000**	**$0.0009**	**$0.0000**	**$0.0000**	**$0.0000**	**$0.0000**	**$0.0000**
Guidance (5-7% CAGR)			4.15-4.35	4.40-4.60				
Low				$4.60	$4.82	$5.15	$5.51	$5.90
Mid				$4.50	$4.77	$5.06	$5.36	$5.68
High				$4.40	$4.73	$4.96	$5.21	$5.47

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

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Fundamental Dashboard

Figure 23: ED Fundamental Dashboard (2/2)

Rate Base Metrics (YE)	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
CECONY	30,000	32,000	34,500	36,738	39,194	41,641	43,986	46,232
O&R	1,600	1,700	1,824	1,948	2,077	2,186	2,289	2,387
Total Rate Base	**31,600**	**33,700**	**36,324**	**38,686**	**41,271**	**43,827**	**46,276**	**48,619**
CSe Avg RAB			**35,012**	**37,505**	**39,978**	**42,549**	**45,051**	**47,447**
Guidance 7% RAB Growth		32,359	35,038	37,000	39,877	43,684	46,742	50,014
Earned ROE Assumptions								
CECONY	8.7%	8.0%	8.4%	8.3%	9.0%	9.0%	9.0%	9.0%
O&R	9.4%	8.9%	8.9%	8.8%	8.8%	9.1%	9.1%	9.1%
Earned ROE - GAAP Consolidated (AVG)			7.5%	7.8%	7.8%	9.0%	10.4%	10.4%
Equity Ratio (%)								
CECONY	49.2%	47.9%	47.0%	46.4%	46.2%	46.6%	47.0%	47.3%
O&R	48.2%	47.5%	47.8%	48.5%	47.9%	47.7%	48.7%	49.7%

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

This article is intended for the sole use of customer with the tracking ID of 1011678

Edison International

4Q Preview; Wildfire De-Risking and CoC Key Focus Areas; Neutral

EIX

Target price (12M, US$) 68.00

Neutral

Electric Utilities

This article is intended for the sole use of customer with the trading ID of 10111678

We are providing our FY23 preview for EIX where we reaffirm our Neutral rating and provide key considerations going into the 4Q call. During the 4Q call we expect FY23 EPS guidance, with current FY22 guidance of $4.48-$4.68/sh, which was narrowed during the 3Q call from $4.40-$4.70/sh. The company currently guides to 5-7% LT EPS growth CAGR from '21 to '25, however actual EPS growth is expected to be non-linear particularly in '23, based on our discussions. That said, we expect management to reaffirm current LT EPS growth guidance. We currently forecast $4.71/sh '23 EPS (CSe) vs. Consensus of $4.78/sh (FS), implying a ~3.5% growth rate from the midpoint of original FY22 guidance. Despite the below-guidance growth rate, we see this possibility as well telegraphed to the Street with EIX unlikely to change the 5-7% CAGR in the medium term.

- **Capital plan, funding and EPS CAGR update:** We expect management to reaffirm the current capital plan & rate base growth of 7-9%. These investments are currently set to be mostly in safety and reliability, something we view as a positive given a history of destructive wildfires in the service territory. We do not expect the company however to update the street on the LT EPS CAGR (current 5-7%) which we see as slightly cautious given most utiltiies will have already rolled forward the growth rate and our estimates at or below the low end of the CAGR through the forecast period. On the funding plan, recall EIX forwent issuance in FY22 ($2-300Mn) where we expect an update on equity content for 2023/2024 on the 4Q call. Recall mgmt is also at the bottom of stated FFO/debt minimums (15%) after the last legacy wildfire cost update where we're also expecting an update from mgmt. Lastly, we flag some upward pressure to ROEs from the recent Moody's dead band update but are not incorporating any higher ROE in our estimates at this time with 8 months to go in the year.
- **Valuation, TP and risks:** We increase our TP to $68 from $64 on account of a slightly higher large-cap electric group P/E multiple and continue to apply a 20% discount to the electric GRC earnings and 10% discount to transmission business on account of wildfire risk in the service territory. We increase our '23 to '24 EPS est by 1c, increase '25 est by 2c and '26 est by 3c on funding considerations. Risks: wildfire damage, better/worse than expected regulatory outcomes, inflation.

Previous target price (12M, US$)	64.00
Price (27 Jan 23, US$)	68.74
52-week price range	72.75 - 54.94
Enterprise value (US$ m)	56,080

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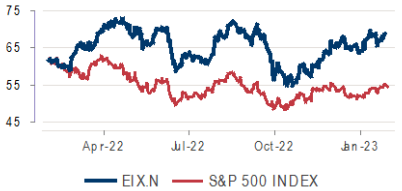
Nathan Richardson
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	4.58	4.57	4.71	5.00
Prev. EPS (US$)	-	-	4.70	4.99
P/E (x)	15.0	15.1	14.6	13.7
P/E rel. (%)	77.4	83.4	82.9	86.3
EBITDA (US$ m)	3,695	5,106	5,346	5,695
EV/EBITDA (current)	14.4	11.0	11.0	10.8
Net debt (US$ m)	27,211	29,831	32,033	34,544
FFO/Total Debt (%)	0.0	13.7	13.4	13.2
EV/Rate Base	1.41	1.35	1.31	1.28
Number of shares (m)	382	Dividend (current, US$)		0.0
Consolidated ROE (%)	12.2	Dividend yield (%)		4.09
Rate Base (YE)	41,856			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan27, 2023, 01/28/22 = US$62.02

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	-4.31	-3.93	-3.31	16.12
2022E	1.07	0.94	1.47	2.31
2023E	0.26	2.39	-0.29	2.34

Edison International (EIX)

Analyst: **Nicholas Campanella**

Price (27 Jan 2023): **US$68.74** Target Price: **(from 64.00) 68.00**

Rating: **Neutral**

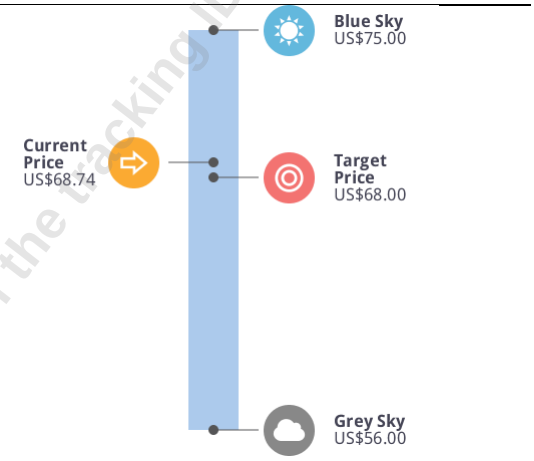
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**14,905.0**	**14,896.1**	**15,178.6**	**15,571.3**
EBITDA (US$ m)	**3,695**	**5,106**	**5,346**	**5,695**
Depr. & amort.	(2,218)	(2,351)	(2,464)	(2,589)
EBIT (US$)	**1,714**	**2,992**	**3,119**	**3,343**
Net interest exp	(925)	(1,047)	(1,103)	(1,201)
PBT (US$)	**789**	**1,946**	**2,015**	**2,142**
Income taxes	(136)	(24)	(25)	(31)
Minorities	-	-	-	-
Reported net income (US$)	**1,741**	**1,744**	**1,815**	**1,947**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**1,741**	**1,744**	**1,815**	**1,947**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	1,714	2,992	3,119	3,343
Net interest	(925)	(1,047)	(1,103)	(1,201)
Change in working capital	(1,560)	0	0	0
CAPEX	(5,505)	(6,200)	(5,600)	(6,100)
Free cashflow to the firm	**(5,494)**	**(2,101)**	**(1,312)**	**(1,544)**
Acquisitions	-	-	-	-
Divestments	-	-	-	-
Cash flow from investments	**(5,151)**	**(6,200)**	**(5,600)**	**(6,100)**
Changes in Net Cash/Debt	**(4,239)**	**(2,620)**	**(2,202)**	**(2,511)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	390	1,295	543	552
Total current assets	**5,491**	**6,396**	**5,644**	**5,653**
Total assets	**74,745**	**79,499**	**81,883**	**85,403**
Liabilities				
Total current liabilities	**8,609**	**8,884**	**9,084**	**9,404**
Total liabilities	**56,956**	**60,603**	**62,181**	**64,838**
Total liabilities and equity	**74,745**	**79,499**	**81,883**	**85,403**
Net debt	27,211	29,831	32,033	34,544
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	380	382	386	389
CS adj. EPS	4.58	4.57	4.71	5.00
Prev. EPS (US$)	-	-	4.70	4.99
Dividend (US$)	2.60	2.80	2.96	3.13
Free cash flow per share	(14.46)	(5.50)	(3.40)	(3.97)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	9.8	(0.1)	1.9	2.6
EBIT growth (%)	16.8	74.6	4.2	7.2
Net profit growth (%)	9.2	0.2	4.1	7.3
EPS growth (%)	7.4	(0.3)	3.1	6.3
EBITDA margin (%)	24.8	34.3	35.2	36.6
EBIT margin (%)	11.5	20.1	20.5	21.5
Pretax margin (%)	5.3	13.1	13.3	13.8
Net margin (%)	11.7	11.7	12.0	12.5
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	3.58	3.76	3.86	3.94
P/E (x)	15.0	15.1	14.6	13.7
Price to book (x)	1.9	1.8	1.7	1.6
Asset turnover	0.2	0.2	0.2	0.2
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	12.5	12.2	12.1	12.3
ROIC (%)	3.2	6.1	6.0	6.0
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	153.0	157.9	162.6	168.0
Interest coverage ratio (X)	1.9	2.9	2.8	2.8
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	-4.31	-3.93	-3.31	16.12
2022E	1.07	0.94	1.47	2.31
2023E	0.26	2.39	-0.29	2.34

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

Company Background

Edison International is a utility holding company base in California. The company operates Southern California Edison (SCE), an electric utility which distributes electricity to 15 million people across central, coastal and southern California.

Blue/Grey Sky Scenario



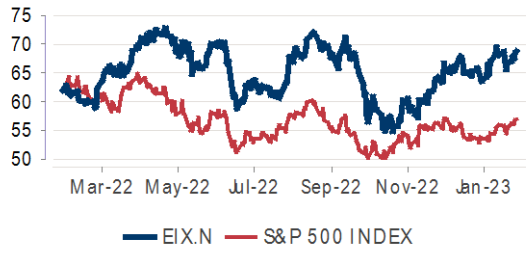
Our Blue Sky Scenario (US$) **(from 71.00) 75.00**

Our Blue Sky scenario is $75, which contemplates a 15.0x 2024E P/E, which could be achieved if (1) EIX's wildfire mitigation efforts lead to less damage from wildfires and less costs associated w/ recovery; (2) reduced wildfire activity in the state in general; and (3) a timely and complete recovery of the legacy costs ($5Bn) sooner than expected.

Our Grey Sky Scenario (US$) **(from 53.00) 56.00**

Our Grey Sky scenario is $56 and assumes EIX trades at a 11.2x P/E, or a ~19% discount. We think the market could return to a discounted view of EIX if the recovery filing is delayed, and if management fails to provide incremental growth in the current plan that leads to a decline in EPS expectations. Increased wildfire risk and a delay in covered conductor installation could also weigh on shares in the future.

Share price performance



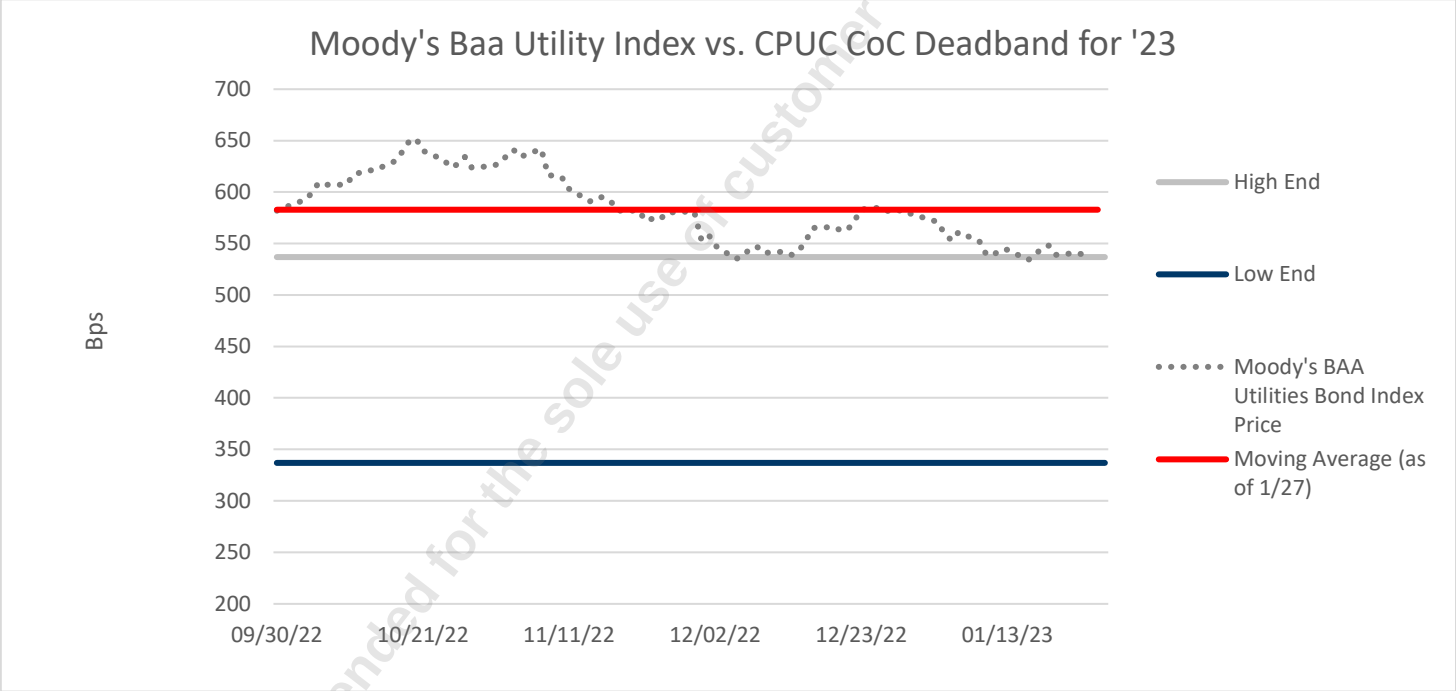
On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$62.79

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Investment Considerations

- **Cost of capital:** CA utilities are subject to an annual Coc adjustment mechanism where any year where the difference between 1) the benchmark, which is the average of each month of daily averages for the past twelve months (from October 1, 2021, to September 30, 2022) of the Moody's Baa Utility Bond Index; and 2) the index, which is the rolling average of daily yield for the current twelve months of the Moody's Baa Utility Bond Index (from October 1, 2022 to September 30, 2023) exceeds 100bps from the midpoint of the benchmark, the utility's ROE would increase/decrease by 50% of the difference. The benchmark is currently 4.37% and, as of January 19, the index is 5.83%, as of January 27. For example purposes, if the end of the period saw these same figures the dead band would trigger and EIX's ROE would increase by ~75bps to 10.81%. When the dead band is triggered, the company's cost of debt and preferred is refreshed to equal the most recently recorded levels for forecasted debt issuance and forecasted interest rates for the next 12 months. Additionally, should the dead band be triggered, both the benchmark and dead band reset. We view this as a positive for the stock as it allows for cost of capital and ROE to keep pace with current market conditions with relatively minimal lag, and should current trends continue EIX could see an increased ROE and refreshed cost of preferred and debt in 2023.

Figure 24: Moody's Baa Utility Bond Index vs. CPUC CoC Dead Band for '23



Source: FactSet

- **Covered conductor:** During the 4Q call, we expect an update on covered conductor progress and strategy for 2023. We see covered conductors as a key hedge against wildfire damage and reliability. The company current has ~17k miles of distribution lines in high fire-risk areas, with ~10k of those currently above-ground (with the balance underground). The company has currently covered ~4.3k miles of lines as of the end of '22 and is targeting ~8.6k additional miles of covered conductor by the end of 2028. We expect an update on progress for this initiative during the 4Q call, as well as any update on cadence/timing for hardening power lines in these high-risk areas.
- **Legacy wildfire claims update:** During the 4Q call, we expect an update on the legacy wildfire claims, a key item for EIX's story. In October 2022, management revised its estimate of expected loss for '17/'18 wildfire/mudslide event by $880Mn to $8.8Bn,

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indicating the company plans to seek CPUC recovery of prudently incurred costs (now $6Bn). Messaging up to this point going into the 4Q call is unchanged, and we expect further clarity on timing of getting these costs behind the company during the call. Remaining losses are currently $1.2Bn in total. We expect a neutral reaction by investors on this topic should the company indicate that it is on track for filing for CPUC recovery in late 2023.

Valuation: TP to $68 from $65

We tweak our TP slightly on account of higher large-cap electric group P/E multiple. We continue to apply a 20% discount to electric GRC earnings and 10% discount to transmission earnings on account of wildfire risk and cost recovery risk in the state.

Figure 25: EIX SOTP Valuation

EIX SOTP Valuation						Grey Sky	Base Case	Blue Sky
Electric Group Multiple						14.7x	17.3x	19.0x
					Base Case			
Business Segments		**Net Income ('24E)**	**Prem / Disc**		**Implied Multiple**			
Electric GRC Earnings		1,793	-20%		13.8x	21,091	24,813	27,294
Tranmission		464	-10%		15.6x	6,136	7,219	7,941
Total OpCo Net Income		**2,256**						
Parent Drag		(309)			14.7x	(4,237)	(4,547)	(4,856)
Total Equity Value - Ongoing Operations		**1,947**			14.1x	**22,990**	**27,485**	**30,379**
Wildfire Liability Adjustment			**Fire Liability**	**Insuance**	**Tax Rate (%)**			
Addtl Wildfire Liability		**CoC**	1,000	1,000	28%	0	0	0
Wildfire Fund Contribution	**NPV**	10%	(365)			(365)	(365)	(365)
Legacy Fires / Contributions: Debt Funded at Utility		6%	1,200			(777)	(777)	(777)
Total Equity Value $Mn						**21,848**	**26,343**	**29,237**
Shares Outstanding ('24E)						389	389	389
Implied P/E						11.2x	13.5x	15.0x
Valuation						**$56**	**$68**	**$75**
Stock Price							$69	
Upside / Downside (%)						-18.5%	-1.1%	9.1%
Yield							3.8%	
Total Return						**-14.8%**	**2.7%**	**12.9%**

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

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Fundamental Dashboard

We tweak our '23 and '24 ests by +1c, our '25 est by +2c and '26 est by +3c on funding considerations.

Figure 26: EIX Fundamental Dashboard

EIX Dashboard Nicholas Campanella +1 212 325 7505	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	**$4.94**	**$4.26**	**$4.58**	**$4.57**	**$4.71**	**$5.00**	**$5.39**	**$5.81**
Prior EPS			**$4.58**	**$4.57**	**$4.70**	**$4.99**	**$5.37**	**$5.78**
Consensus EPS	$0.00	$0.00	$4.59	$4.57	$4.75	$5.08	$5.47	$5.81
Delta (%)			-0.2%	-0.1%	-1.0%	-1.5%	-1.4%	
Shares Outstanding		374	380	382	386	389	393	397
DPS			$2.60	$2.80	$2.96	$3.13	$3.30	$3.49
DPS Growth (%)				7.7%	5.7%	5.7%	5.7%	5.7%
DPS Payout (%)				61.3%	62.9%	62.5%	61.2%	60.1%
DPS Payout vs. SCE Earnings: Targeting 45-55%				52.8%	54.3%	53.9%	53.1%	52.3%
Valuation Metrics								
P/E		16.1x	15.0x	15.1x	14.6x	13.7x	12.7x	11.8x
EV/RAB		1.4x	1.4x	1.3x	1.3x	1.3x	1.2x	1.2x
FFO		3,935	1,571	4,099	4,288	4,556	4,883	5,219
Net Debt		22,972	27,211	29,831	32,033	34,544	37,510	40,225
FFO/Debt (%)		17.1%	5.8%	13.7%	13.4%	13.2%	13.0%	13.0%
EBITDA		3,184	3,695	5,106	5,346	5,695	6,113	6,533
Net Debt		22,972	27,211	29,831	32,033	34,544	37,510	40,225
Net Debt / EBITDA		7.2x	7.4x	5.8x	6.0x	6.1x	6.1x	6.2x
Consoldiated Equity Layer (%)		40.9%	39.2%	37.8%	37.7%	36.9%	36.1%	35.5%
EPS Estimates By Sub								
Southern California Edison	$4.99	$4.88	$5.11	$5.30	$5.45	$5.80	$6.22	$6.67
Parent	#VALUE!	($0.61)	($0.53)	($0.73)	($0.74)	($0.79)	($0.83)	($0.87)
Consolidated	**#VALUE!**	**$4.26**	**$4.58**	**$4.57**	**$4.71**	**$5.00**	**$5.39**	**$5.81**
Guidance				**4.40-4.68**			**5.50-5.90**	

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

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Eversource Energy

4Q Preview: Near the End of the Offshore Tunnel; Light FY23 and 5-7% Going Forward

ES

Target price (12M, US$) 84.00
Neutral

Electric Utilities

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We expect an eventful 4Q update for ES given mgmt is set to refresh the LT EPS CAGR (likely 5-7%), extend its capital / financial plan out to FY27 including Capex of ~$3Bn for newly identified opportunities, and introduce FY23 EPS guidance where we see the potential to slightly underwhelm street given debt paydown considerations are tied to the pending OSW sale, which is likely coming after the 4Q call. ES has seen success in addressing key regulatory items in FY22 including the positive outcome in the MA NSTAR rate review accompanied by newly identified T&D opportunities to replace lost offshore wind earnings. ES trades at a 2% premium to large cap electrics and we continue to see the valuation skew as fair given higher than average execution risk with the pending OSW deal, FY23 guidance considerations and our expectation for the LT EPS CAGR to remain unchanged at 5-7%. Maintain Neutral.

- **CS Model Now Pro-Forma OSW Sale:** We are updating our model to reflect post-tax cash considerations of $2.6Bn for the OSW asset with UoP going entirely to debt paydown. We also include higher capex in the near years of the plan as ES executes on Grid Mod & AMI strategies in MA. We project ES FY23 EPS at the lower end of the 5-7% CAGR in FY23 but still see ES in the upper half of FY24/FY25. The OSW strategic review, capex increases, and funding considerations remain a core debate among investors into the 4Q call, but all in our expectation is that ES will likely target a 5-7% CAGR with messaging that it expects to be in the upper half of the range.
- **Orsted OSW Impairment Cautious Ahead of Sale Announcement:** We think the $365Mn USD impairment taken by Orsted on sunrise wind (ES 50% owned project), is a cautious datapoint to the asset valuation and return profile and could affect the multiples of the project. Most Northeast utilities including ES are now divesting projects and recent datapoints imply more limited premia given the backdrop for higher CoC.
- **Valuation, EPS Ests., Risks:** We tweak of FY22 EPS to $4.10 (from $4.12) based on 4Q qtrly considerations; FY24 EPS is raised to $4.68 due to asset sale accretion. TP shifted to $84 from $75 due to the latest MtM of group multiple and higher estimates. Risks: Reg outcomes, asset sale outcomes, inflation.

Previous target price (12M, US$)	75.00
Price (27 Jan 23, US$)	80.94
52-week price range	93.96 - 71.68
Enterprise value (US$ m)	50,635

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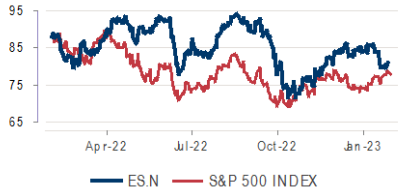
Nathan Richardson
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	3.86	4.10	4.31	4.68
Prev. EPS (US$)	-	4.12	-	4.56
P/E (x)	21.0	19.7	18.8	17.3
P/E rel. (%)	108.2	109.4	106.6	108.5
EBITDA (US$ m)	3,328	3,797	4,063	4,369
EV/EBITDA (current)	13.9	13.3	12.0	11.4
Net debt (US$ m)	18,462	21,265	19,994	20,326
FFO/Total Debt (%)	10.6	15.5	17.5	18.5
EV/Rate Base	1.88	1.90	1.70	1.63
Number of shares (m)	348	Dividend (current, US$)		0.0
Consolidated ROE (%)	19.2	Dividend yield (%)		3.16
Rate Base (YE)	26,884			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan27, 2023, 01/28/22 = US$87.21

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	1.06	0.79	0.82	1.19
2022E	1.28	0.86	1.01	0.96
2023E	1.33	0.90	1.06	1.02

Eversource Energy (ES)

Analyst: **Nicholas Campanella**

Price (27 Jan 2023): **US$80.94** Target Price: **(from 75.00) 84.00**

Rating: **Neutral**

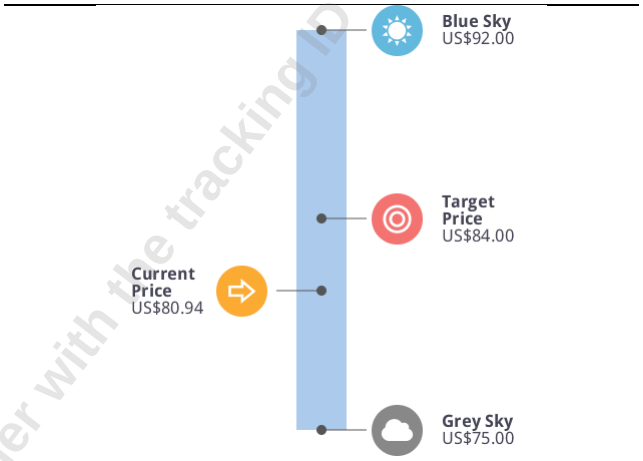
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**9,863.1**	**10,819.6**	**11,116.5**	**11,453.2**
EBITDA (US$ m)	**3,328**	**3,797**	**4,063**	**4,369**
Depr. & amort.	(1,335)	(1,469)	(1,561)	(1,649)
EBIT (US$)	**1,993**	**2,328**	**2,502**	**2,720**
Net interest exp	(582)	(651)	(716)	(703)
PBT (US$)	**1,572**	**1,836**	**1,956**	**2,176**
Income taxes	(344)	(404)	(428)	(479)
Minorities	(8)	(8)	(8)	(8)
Reported net income (US$)	**1,221**	**1,424**	**1,520**	**1,689**
Other NPAT adjustments	(110)	0	0	0
Adjusted net income	**1,330**	**1,424**	**1,520**	**1,689**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	1,993	2,328	2,502	2,720
Net interest	(582)	(651)	(716)	(703)
Change in working capital	(272)	0	0	0
CAPEX	(3,175)	(4,897)	(4,401)	(3,779)
Free cashflow to the firm	**(1,212)**	**(1,610)**	**(896)**	**(9)**
Acquisitions	-	-	-	-
Divestments	-	-	-	-
Cash flow from investments	**(3,447)**	**(4,897)**	**(1,804)**	**(3,779)**
Changes in Net Cash/Debt	**(1,097)**	**(2,803)**	**1,271**	**(332)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	67	1,274	220	312
Total current assets	**3,270**	**4,749**	**3,695**	**3,788**
Total assets	**48,492**	**55,017**	**54,206**	**56,429**
Liabilities				
Total current liabilities	**5,847**	**8,172**	**6,922**	**6,922**
Total liabilities	**33,892**	**38,819**	**36,902**	**37,759**
Total liabilities and equity	**48,492**	**55,017**	**54,206**	**56,429**
Net debt	18,462	21,265	19,994	20,326
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	345	347	353	361
CS adj. EPS	3.86	4.10	4.31	4.68
Prev. EPS (US$)	-	4.12	-	4.56
Dividend (US$)	2.34	2.55	2.69	2.84
Free cash flow per share	(3.52)	(4.64)	(2.54)	(0.02)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	10.8	9.7	2.7	3.0
EBIT growth (%)	0.2	16.8	7.5	8.7
Net profit growth (%)	7.6	7.0	6.7	11.1
EPS growth (%)	6.2	6.3	5.0	8.7
EBITDA margin (%)	33.7	35.1	36.5	38.1
EBIT margin (%)	20.2	21.5	22.5	23.8
Pretax margin (%)	15.9	17.0	17.6	19.0
Net margin (%)	13.5	13.2	13.7	14.7
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	4.71	4.68	4.39	4.35
P/E (x)	21.0	19.7	18.8	17.3
Price to book (x)	4.1	3.5	3.0	2.6
Asset turnover	0.2	0.2	0.2	0.2
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	18.5	19.3	17.6	16.4
ROIC (%)	4.7	4.8	5.2	5.4
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	126.5	131.3	115.5	108.9
Interest coverage ratio (X)	3.4	3.6	3.5	3.9
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	1.06	0.79	0.82	1.19
2022E	1.28	0.86	1.01	0.96
2023E	1.33	0.90	1.06	1.02

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

Company Background

Eversource Energy is a Boston, Massachusetts based regulated electric and gas utility focused on serving customers in the Connecticut, Massachusetts, and New Hampshire regions through its subsidiaries.

Blue/Grey Sky Scenario



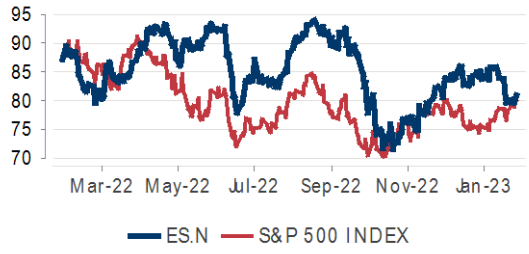
Our Blue Sky Scenario (US$) **(from 86.00) 92.00**

Blue Sky Scenario ($92): Our Blue Sky scenario contemplates a 19.6x 2024E P/E, which could be achieved if: (1) ES is able to execute fully on AMI, EV infrastructure and grid modernization projects; (2) Investors place higher multiples on transmission and distribution businesses for safety/ security; and (3) ES is able to raise CapEx more than our current model predicts

Our Grey Sky Scenario (US$) **(from 66.00) 75.00**

Grey Sky Scenario ($75): Our Grey Sky scenario assumes ES trades at a 16.0x P/E, or an -5% discount. We think the market would likely return to a discounted view on the stock if mgmt fails to properly have a favorable execution in regards to the offshore monetization, inflation creates pressure on customer bills in jurisdictions, if there is an unfavorable rate outcome in PSNH or Aquarian reviews, or significant debt pay down with OSW proceeds.

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$89.49

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FY23 EPS Walk

We project FY23 EPS of $4.31 vs. Consensus $4.37. ES currently target a 5-7% LT EPS CAGR based off 2021A of $2.86, which implies an EPS range of $4.26-4.42 in FY23. We are slightly below the midpoint of the implied FY23 range as we see higher rates (NSTAR Elect Disty +14c), lapping of storms (+3c), Electric Transmission earnings (+14c) and the grid mod (+3c) & AMI CapEx (+2c) being partially offset by debt drag (-8c), pension (-7c) and D&A (-14c). We also flag that FY22 benefited from 3c of MtM on clean energy investments (RIN investments) which is a headwind to the FY23 number that we're assuming is fully offset. All in, we see the FY23 number underpinned by timing and proceeds of OSW sale proceeds where debt paydown should benefit the quarter. We see most of the street assuming a full year of debt paydown where our walk below assumes mid-year.

Figure 27: ES FY23 EPS Walk

ES FY23 EPS Walk		EPS
Starting EPS	FY22 Full Year Continuing Ops Guidance $4.00-4.17	$4.09
Weather		$0.00
Weather		$0.00
Adj Starting Point		**$4.09**
Electric Distribution		
NSTAR Electric	64Mn rate increase took effect Jan '23	$0.14
CT Storms	Lapping storms	$0.03
Electric Transmission	Typically 3-4c per quarter	$0.14
Natural Gas Distribution	Result of NSTAR Gas / ES Gas MA - $32Mn increase	$0.05
Water Distirbution	Aquarian CT rate case: Decision Mid-March	$0.02
Grid Mod Capex	750Mn over 4 years starting now	$0.03
AMI in MA	$550Mn over 5 yrs starting now	$0.02
Trackers	Genearlly 1 penny per quarter	$0.05
Depreciation / Property Tax		($0.14)
Parent Taxes	3-4c in 3rd quarter reversing	$0.04
Pension	Was a tailwind for '22; Could be headwind	($0.07)
Clean Energy Investment M	Neutral in '21, 3c postiive in '22 -> 3c implied drag in FY23 assume offset	$0.00
Core Parent	Trying to keep this flat every year	$0.00
CL&P	5.25% Debt $500Mn; net of 2.5% redemption; Half to Transmission	($0.02)
Debt Drag	4c drag at parent in 3Q Results	($0.08)
Debt Paydown	Assume $800Mn of Debt Paydown in 2H23 @ 4%	$0.04
Dilution		($0.02)
ES FY23 Adjusted EPS		**$4.31**
FY22 Guidance		$4.00-4.17
Implied Guide on 5-7%		4.26-4.42
FY23 EPS (Model)		$4.31
FY23 Consensus		$4.31
2022 SO		347
2023 SO		353

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

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OSW Sale Considerations

ES has a total equity investment of $1.82Bn as of the 3Q22 conference call and has launched a strategic review of the investment portfolio which is likely to include two buyers--one of the operating assets (1.7GWs) and one of the lease areas. We include our latest valuation below for the portfolio which underpins our model. We assume $1.25/MW acquisition multiples for the contracted assets and 0.27/MW for the pipeline, with limited cash taxes leading to $2.6Bn of post-tax cash proceeds back to ES. ES in incurring ~$100Mn/month in costs for the OSW investment so we see a net $2Bn CWIP consideration as appropriate for ES' 50% stake. As communicated through the quarter it's likely the acquisition announcement is *after* the 4Q22 conference call.

Figure 28: ES OSW Portfolio Valuation

Offshore Wind Sale	Multiple ($/mw)	GW	$Mn	Notes
Contracted	1.25	1,700	2,125	All secured contracts
Pipeline	0.27	4,200	1,134	708sq km, 6MW per sq km
CWIP		2,000	2,000	ES current portion $1.8Bn for as of 3Q22
Total Consideration			5,259	Total Consideration
			50%	Ownership
Total Pre-tax cash consideration			**2,630**	
Tax Basis			2,000	
Profit			630	
Tax Rate			21%	
Taxes (Assume Mitigated 75%)			33	
Post Tax Proceeds			**2,596**	

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

Other Updates We're Watching for in 4Q

- **Equity Needs:** Recall ES has a $1.2Bn ATM program which it launched in 2022. We see $257Mn executes YTD with more likely in 4Q22. We also look for a communication on the CapEx roll forward for future equity needs which we're expecting to be minimal given ES is raising cash with the OSW asset sale.
- **Progress on Replacement CapEx:** ES has $1Bn of AMI across CT / MA with the MA portion de-risked, OSW transmission opportunities ($500Mn) and solar DER CapEx which is driving $637Mn of distribution investment in MA and $265Mn of transmission investment. We see it as logical for the opportunities to start to get rolled into the current $18.1Bn capital plan on the 4Q call, though believe it adds ~$100-200Mn/yr of incremental capex in the near years as ES begins to execute on the program.

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Valuation: $84 TP; Maintain Neutral

We are including our latest valuation below, continuing to ascribe similar premiums to ES businesses with the core change to our valuation being the latest MtM of group multiples (Electric 16.9x, Gas 17.0x, Water 28.7x) and the removal of OSW valuation as the sale is now fully reflected in our EPS estimates for 2024.

Figure 29: TP Shifted to $84 on SOTP

ES Sum of the Parts Valuation				Grey Sky	Base Case	Blue Sky
Electric Group Multiple				15.2x	**16.9x**	18.6x
Gas LDC Group Multiple				15.3x	**17.0x**	18.7x
Water Multiple				25.8x	**28.7x**	31.6x
			Base Case			
Electric Utilities	**Net Income ('24)**	**Prem / Disc.**	**Implied Muiltple**			
CL&P Transmission Earnings	213	5%	17.7x	3,407	3,786	4,165
CL&P Distribution Earnings	309	-5%	16.1x	4,458	4,954	5,449
NSTAR Electric	600	5%	17.7x	9,581	10,645	11,710
PSNH	201	5%	17.7x	3,213	3,570	3,927
Gas Utilities	**Net Income ('24)**	**Prem / Disc.**				
NSTAR Gas	117	5%	17.9x	1,880	2,089	2,297
Yankee Gas	111	5%	17.9x	1,780	1,978	2,175
Eversource Gas of MA	77	5%	17.9x	1,236	1,374	1,511
Water Utilities	**Net Income ('24)**	**Prem / Disc.**				
Aquarian	60	0%	28.7x	1,560	1,734	1,907
Parent	**Net Income ('24)**	**Prem / Disc.**				
Parent Drag	1	0%	21.9x	17	24	21
Total Net Income	1,689					
Total Equity Value ($Mn)			17.8x	**27,133**	**30,153**	**33,162**
S/O		*Implied Prem / Disc*	*5.6%*	361	361	361
Consolidated EPS '24E				$4.68	$4.68	$4.68
Implied P/E Multiple				16.0x	17.9x	19.6x
Valuation				**$75**	**$84**	**$92**
Stock Price					**$81**	
Upside / Downside				-7.3%	3.8%	13.7%
Yield					3.3%	
Total Return				**-4.0%**	**7.1%**	**17.0%**

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

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Fundamental Dashboard

We include our latest ES estimates below incorporating the removal of OSW in 2023 with $2.6Bn of post-tax proceeds. The OSW sale is accretive to the near year of the plan, but this is before considering headwinds from pension & CL&P ROEs. Our EPS is unchanged in FY23, raised in 2024 / 2025 to $4.68 / $4.92, respectively. We see credit improvement from 2022-2025 as ES pays down debt with proceeds which should cure agency concerns at the current Baa1 negative outlook.

Figure 30: ES Fundamental Dashboard (1/2)

ES Dashboard	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	**$3.45**	**$3.64**	**$3.86**	**$4.10**	**$4.31**	**$4.68**	**$4.92**	**$5.14**
Prior EPS			**$3.86**	**$4.12**	**$4.31**	**$4.56**	**$4.84**	**$5.25**
Consensus EPS				**$4.09**	**$4.38**	**$4.69**	**$5.07**	**$5.44**
Delta (%)			#DIV/0!	0.2%	-1.6%	-0.2%	-2.9%	-5.7%
Shares Outstanding		340	345	347	353	361	365	366
DPS			$2.34	$2.55	$2.69	$2.84	$2.99	$3.16
DPS Growth (%)				9.11%	5.50%	5.50%	5.50%	5.50%
DPS Payout (%)				62.2%	62.4%	60.6%	60.9%	61.5%
Valuation Metrics								
P/E		22.3x	21.0x	19.7x	18.8x	17.3x	16.5x	15.8x
EV/RAB		2.0x	1.9x	1.9x	1.7x	1.6x	1.6x	1.5x
FFO		1,893	2,234	3,287	3,504	3,770	3,974	4,152
LT + ST Debt		17,472	18,529	22,539	20,214	20,639	21,064	21,539
FFO/Debt (%)		10.8%	12.1%	14.6%	17.3%	18.3%	18.9%	19.3%
EBITDA		3,148	3,328	3,797	4,063	4,369	4,613	4,822
Net Debt		17,365	18,462	21,265	19,994	20,326	21,035	21,524
Net Debt / EBITDA		5.5x	5.5x	5.6x	4.9x	4.7x	4.6x	4.5x
Holdco Debt / Total Debt		37.7%	36.4%	40.5%	29.1%	26.1%	23.2%	21.3%
Consolidated Equity Layer (%)		44.9%	44.1%	41.8%	46.1%	47.5%	48.1%	48.6%
Net Income Estimates By Sub								
CL&P	411	458	488	484	486	522	529	534
NSTAR Electric	432	445	477	506	555	600	629	654
PSNH	134	147	150	175	188	201	210	214
NSTAR Gas	38	51	71	84	101	117	133	149
Yankee Gas	58	69	77	87	99	111	122	131
Eversource Gas of MA	0	(119)	58	54	65	77	95	111
Aquarian	35	41	37	43	50	60	66	70
Parent + Offshore	8	24	7	(8)	(24)	1	10	17
Consolidated	**1,116**	**1,117**	**1,365**	**1,424**	**1,520**	**1,689**	**1,795**	**1,881**
			-34.57	0.00	0.00	0.00	0.00	0.00
EPS Estimates By Sub								
CL&P	$1.27	$1.35	$1.42	$1.39	$1.38	$1.45	$1.45	$1.46
NSTAR Electric	$1.34	$1.31	$1.38	$1.46	$1.57	$1.66	$1.72	$1.79
PSNH	$0.42	$0.43	$0.44	$0.50	$0.53	$0.56	$0.58	$0.59
NSTAR Gas	$0.12	$0.15	$0.21	$0.24	$0.29	$0.32	$0.37	$0.41
Yankee Gas	$0.18	$0.20	$0.22	$0.25	$0.28	$0.31	$0.33	$0.36
Eversource Gas of MA			$0.17	$0.15	$0.19	$0.21	$0.26	$0.30
Aquarian	$0.11	$0.12	$0.11	$0.12	$0.14	$0.17	$0.18	$0.19
Offshore Earnings	$0.00	$0.00	$0.00	$0.00	$0.02	$0.00	$0.00	$0.00
Parent	$0.02	$0.07	$0.02	($0.02)	($0.09)	$0.00	$0.03	$0.05
Consolidated	**$3.45**	**$3.64**	**$3.96**	**$4.10**	**$4.31**	**$4.68**	**$4.92**	**$5.14**
Consoldiated (ex-Offshore)		**$3.64**	**$3.96**	**$4.10**	**$4.29**	**$4.68**	**$4.92**	**$5.14**
EPS CAGR (%) off 2021a				**6.3%**	**5.6%**	**6.7%**	**6.3%**	**5.9%**
Guidance			**$3.81-3.93**	**$4.00-4.17**				

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

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Fundamental Dashboard

Figure 31: ES Fundamental Dashboard (2/2)

Rate Base Metrics (YE)	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
CL&P	7,500	8,100	9,016	9,386	9,595	9,752	9,877	9,923
NSTAR Electric	6,560	6,925	7,781	8,415	9,246	9,884	10,545	11,085
PSNH	2,400	2,600	2,922	3,158	3,381	3,576	3,670	3,732
NSTAR Gas	900	1,100	1,200	1,491	1,732	2,005	2,251	2,510
Yankee Gas	1,300	1,500	1,700	1,917	2,093	2,294	2,472	2,659
Eversource Gas of MA		1,000	1,000	1,216	1,423	1,620	1,807	1,984
Aquarian	887	942	1,037	1,138	1,243	1,355	1,477	1,609
Total Rate Base	**19,547**	**22,167**	**24,656**	**26,720**	**28,712**	**30,487**	**32,099**	**33,502**
Guidance	**19,800**	**22,400**	**24,192**	**26,127**	**28,218**	**30,475**	**32,913**	**33,800**
CSe RAB CAGR off 2021				**9.8%**	**9.0%**	**8.3%**	**7.7%**	**7.1%**

Rate Base Breakout - CSe vs. Guidance		2020A	2021A	2022E	2023E	2024E	2025E	2026E
Transmission	7,300	7,700	8,719	9,404	9,947	10,302	10,663	10,937
Guidance	7,326	8,064	8,719	9,404	9,947	10,302	10,663	11,154
Electric Distribution	9,160	9,925	11,000	11,554	12,275	12,910	13,430	13,787
Guidance	9,306	9,856					13,494	13,858
Natural Gas Distribution	2,200	3,600	4,060	4,624	5,248	5,919	6,530	7,153
Guidance	2,376	3,584					7,241	7,436
Water	887	942	1,037	1,138	1,243	1,355	1,477	1,609
Guidance	792	896					1,317	1,352

ROE Data - Avg RAB								
CL&P	10.7%	11.1%	10.8%	9.9%	9.7%	10.2%	10.2%	10.2%
NSTAR Electric	12.6%	12.2%	12.0%	11.6%	11.7%	11.6%	11.4%	11.2%
PSNH	11.2%	10.9%	10.0%	10.6%	10.6%	10.7%	10.7%	10.7%
NSTAR Gas	8.6%	9.3%	11.2%	11.3%	11.4%	11.4%	11.4%	11.4%
Yankee Gas	9.0%	9.0%	8.8%	8.8%	9.0%	9.2%	9.3%	9.3%
Eversource Gas of MA			10.9%	9.1%	9.3%	9.5%	10.5%	11.0%
Aquarian	8.2%	9.0%	7.4%	7.9%	8.4%	9.3%	9.3%	9.1%

Cash Flow								
CFO		1,683	1,963	3,287	3,504	3,770	3,974	4,152

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

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GAS-ROR-010
Attachment E
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CREDIT SUISSE

Entergy Corporation

4Q Preview; Focus is on LA After Ida Securitization Resolution; Outperform

ETR

Target price (12M, US$) 115.00

Outperform

Electric Utilities

We are providing our 4Q EPS preview for ETR, reiterating our Outperform rating on the stock. Recall during the 3Q call ETR narrowed FY22 EPS guidance to $6.25 to $6.45/sh, from $6.15 to $6.45/sh prior. We see the recent favorable outcome regarding the Hurricane Ida securitization in LA as a key de-risking event for ETR and for future storm cost recovery cases. During the 4Q call we expect management to reaffirm the current 6-8% LT EPS growth guidance from 2021 to 2025, as well as provide an update on the current $15.5Bn capital spending plan for '23 to '25. We also see it likely ETR re-affirms FY23 EPS guidance of $6.55-6.85 (CSe $6.71). We see ETR as having a robust catalyst path in terms of electrification of the Gulf Coast given the company's strong industrial customer base in the area, with Ida securitization offering an attractive entry point for shares.

- **Ida securitization outcome a key de-risking event:** On January 18, the LA PSC ordered to reduce ETR's Hurricane Ida securitization amount by $180Mn to $1,420Mn via acceleration of the ADIT for tax purposes. This comes amidst a strong focus by the Commission in LA and other states to reduce the cost burden on customers, something that this order will help to achieve. We view this as a positive for the company as it is a relatively small amount of reduction in costs. We view this as a key de-risking event for the company given many investors were uncertain of a positive outcome given signs of deteriorating relationship between ETR and LA PSC, in our view. SERI continues to be focus with FERC ordering a refund in Mid-Jan of $103Mn which ETR is appealing, but all in we still see the company on track to reaffirm all financial metrics. E-LA customers will also benefit from gas price declines with every $1/MMBtu leading to a 3-4% reduction in customer bills.
- **Valuation, TP and risks:** We decrease our TP to $115 from $117 on account of a slightly lower peer large-cap electric group multiple. We continue to apply a 5% discount to the name on account of the hurricane risk in the service territory and subsequent cost recovery needs. We keep our '22 and '23 ests unchanged and increase our '24 to '26 ests by 1c. Risks: better/worse than expected regulatory outcomes, climate change, natural disaster.

Previous target price (12M, US$)	117.00
Price (27 Jan 23, US$)	108.71
52-week price range	125.84 - 96.58
Enterprise value (US$ m)	49,077

Research Analysts

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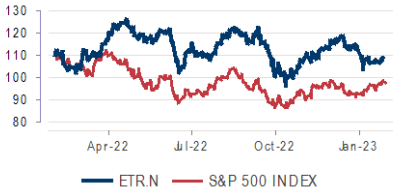
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	6.02	6.29	6.71	7.19
Prev. EPS (US$)	-	6.30	6.70	-
P/E (x)	18.1	17.3	16.2	15.1
P/E rel. (%)	93.2	95.8	92.0	94.9
EBITDA (US$ m)	3,530	3,859	4,133	4,417
EV/EBITDA (current)	13.8	12.7	12.1	11.9
Net debt (US$ m)	26,640	26,956	28,057	30,305
FFO/Total Debt (%)	8.6	13.2	13.5	13.4
EV/Rate Base	1.51	1.44	1.40	1.35
Number of shares (m)	203	Dividend (current, US$)		0.0
Consolidated ROE (%)	10.6	Dividend yield (%)		3.74
Rate Base (YE)	34,190			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan27, 2023, 01/28/22 = US$111.16

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	1.66	1.34	2.63	0.33
2022E	1.32	1.78	2.74	0.49
2023E	1.45	-2.34	2.85	4.73

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Entergy Corporation (ETR)

Price (27 Jan 2023): **US$108.71** Target Price: **(from 117.00) 115.00**

Analyst: **Nicholas Campanella**

Rating: **Outperform**

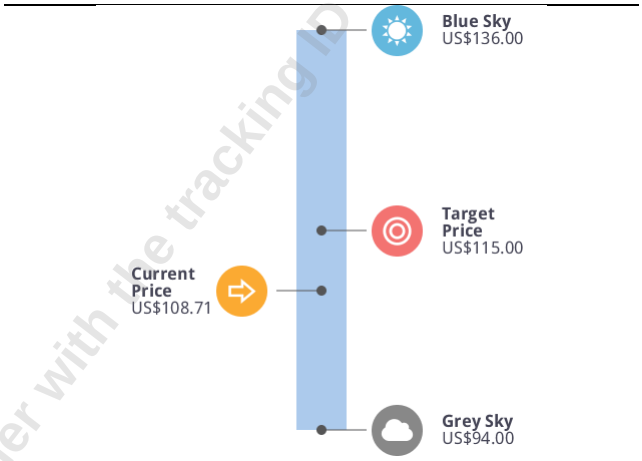
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**11,742.9**	**10,864.3**	**11,230.7**	**11,624.0**
EBITDA (US$ m)	**3,530**	**3,859**	**4,133**	**4,417**
Depr. & amort.	(1,684)	(1,761)	(1,842)	(1,959)
EBIT (US$)	**2,145**	**2,398**	**2,590**	**2,757**
Net interest exp	(835)	(898)	(933)	(973)
PBT (US$)	**1,310**	**1,500**	**1,657**	**1,785**
Income taxes	191	201	229	248
Minorities	-	-	-	-
Reported net income (US$)	**1,215**	**1,298**	**1,428**	**1,537**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**1,215**	**1,298**	**1,428**	**1,537**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	2,145	2,398	2,590	2,757
Net interest	(835)	(898)	(933)	(973)
Change in working capital	(1,846)	0	0	0
CAPEX	(6,087)	(3,865)	(4,090)	(5,400)
Free cashflow to the firm	**(3,787)**	**(314)**	**(289)**	**(1,343)**
Acquisitions	-	-	-	-
Divestments	-	-	-	-
Cash flow from investments	**(6,179)**	**(3,865)**	**(4,090)**	**(5,400)**
Changes in Net Cash/Debt	**(4,401)**	**(316)**	**(1,101)**	**(2,247)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	443	1,456	1,410	317
Total current assets	**3,624**	**4,637**	**4,591**	**3,498**
Total assets	**59,454**	**62,480**	**64,590**	**66,846**
Liabilities				
Total current liabilities	**6,191**	**6,241**	**6,291**	**6,341**
Total liabilities	**47,749**	**49,479**	**50,974**	**52,598**
Total liabilities and equity	**59,454**	**62,480**	**64,590**	**66,778**
Net debt	26,640	26,956	28,057	30,305
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	202	206	213	214
CS adj. EPS	6.02	6.29	6.71	7.19
Prev. EPS (US$)	-	6.30	6.70	-
Dividend (US$)	3.84	4.04	4.30	4.57
Free cash flow per share	(18.76)	(1.52)	(1.36)	(6.29)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	16.1	(7.5)	3.4	3.5
EBIT growth (%)	3.6	11.8	8.0	6.5
Net profit growth (%)	6.8	6.8	10.0	7.7
EPS growth (%)	6.4	4.5	6.6	7.3
EBITDA margin (%)	30.1	35.5	36.8	38.0
EBIT margin (%)	18.3	22.1	23.1	23.7
Pretax margin (%)	11.2	13.8	14.8	15.4
Net margin (%)	10.4	11.9	12.7	13.2
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	4.15	4.52	4.47	4.51
P/E (x)	18.1	17.3	16.2	15.1
Price to book (x)	1.9	1.7	1.7	1.6
Asset turnover	0.2	0.2	0.2	0.2
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	10.8	10.6	10.8	11.1
ROIC (%)	6.4	6.8	7.1	7.1
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	227.6	207.3	206.1	213.7
Interest coverage ratio (X)	2.6	2.7	2.8	2.8
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	1.66	1.34	2.63	0.33
2022E	1.32	1.78	2.74	0.49
2023E	1.45	-2.34	2.85	4.73

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

Company Background

Entergy is a regulated utility holding company with operations across the US Gulf Coast. The company produces and delivers electricity to customers in Arkansas, Louisiana, Mississippi and Texas.

Blue/Grey Sky Scenario



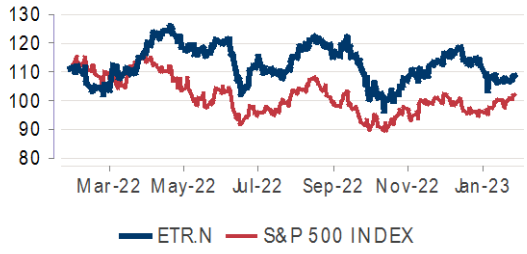
Our Blue Sky Scenario (US$) **(from 126.00) 136.00**

Blue Sky Scenario ($136): Our Blue Sky scenario contemplates a 17.6x P/E. Our Blue Sky scenario could be achieved if ETR delivers more capex in the five-year window than we/Street expect; if management is able to earn ROEs materially north of the current allowed ROE; or if ETR can fund its capital plan with less equity than we currently contemplate. This could also be achieved if ETR sees strong reg outcomes.

Our Grey Sky Scenario (US$) **(from 100.00) 94.00**

Grey Sky Scenario ($94): Our Grey Sky scenario contemplates a 12.2x consolidated P/E, which could be realized if earned ROEs deteriorate for the electric businesses, or if management has to pare back capital owing to the current inflationary environment. Our Grey Sky could also materialize if ETR is unable to successful navigate currently regulatory proceedings, or if hurricanes cause more stress on the balance sheet than we anticipate.

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$111.77

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Investment Considerations

- **LA FRP update:** 2023 is the final year for the E-LA FRP, with the next filing date of May 31 in LA. This is the third year of the FRP, with selections for the renewable assets the company will purchase/build expected to come sometime around 2H23. The company plans to ask for an extension of the FRP or will file a rate case after the last filing date in May, and expects a rate change by September 1, based on our discussions. This is a key development for ETR as LA is a significant aspect to the overall story for the company and something that we are monitoring.
- **Equity needs:** We expect ETR to settle most of its outstanding ATM in the 4Q with only $130Mn of equity needs to be sourced as of 9/30/2022. There are some equity needs in the 2025-2026 timeframe ($1.4Bn) which management noted strategic financing options remain under consideration. This could potentially mean a non-controlling interest sale where we expect additional information potentially by the 4Q call.
- **Gas price sensitivity:** We see higher expectations being baked into bills by ETR, with an update expected on gas prices and bill inflation outlook from the company during the 4Q call. Every $1/mmbtu increase in the price of natural gas is roughly equal to 3-4% increase in customer bills (and vice versa), with ETR currently assuming $5.51/mmbtu for '23 gas prices vs. $3.30/mmbtu today. We view this as a potential positive as it could bring actual gas prices more into alignment with commission expectations, and ultimately customer bills, as many Commissions across the company are weary of bill inflation for customers. Additionally, should natural gas prices decline this year, it could create more headroom in bills from forecasted levels that the company could utilize for increased investment.
- **SERI: Refund update:** On January 11, ETR announced that SERI has begun the process of sending refunds to customers in AR, LA and New Orleans in response to the recent order from FERC for uncertain tax positions at the subsidiary. FERC ordered a refund of $103Mn, broken down to $41.6Mn for AR, $27.8Mn for LA and $34Mn for New Orleans. SERI plans on appealing the FERC order but will provide the refunds in the meantime under terms that will be decided by state and local regulators. SERI's stance is the subsidiary has already paid refunds due under the remedy outlined in the FERC order, however FERC believes refunds are still due. We expect an update on the timeline for appeal for SERI regarding FERC's order during the 4Q call, with ETR indicating in the press release that the company remains committed to a global settlement being the best way to come to a resolution with FERC. Recall the global settlement is what is currently reflected in guidance.

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4Q EPS Walk

- **Drivers:** We see a $0.49/sh for 4Q22 vs. $0.51/sh Consensus (FS) and $0.76/sh for 4Q21. The below consensus number is partially due to a stale figure. For 4Q22 we see a $0.08/sh pick-up from Ida, as well as a $0.19/sh drag from O&M headwinds, $0.12/sh drag from depreciation expense and $0.05/sh drag from positive tax timing reversal.

Figure 32: ETR 4Q22 EPS Walk

ETR 4Q22 EPS Walk		EPS
Starting EPS		$0.76
Weather	10c of negative weather	$0.10
Weather	Assuming Neutral	$0.00
Adj Starting Point		**$0.86**
Sales Growth	2% sales guide; every 1% is	$0.04
IDA	8c negative from FY22	$0.08
Revenue Increases	E-TX DCRF / TCRF	$0.03
Reserve Adjustment	7c reg reserve for ETR MI 2021 lookback	($0.07)
O&M	0.85 goal vs. 0.66 YTD	($0.19)
Other Taxes	5c positive tax item reversing	($0.05)
Deprecation		($0.12)
Interest Expense		($0.05)
ETR		$0.00
Parent	P&A 4c tax item	($0.04)
Dilution		$0.00
ETR 4Q22 EPS		**$0.49**
ETR YTD '22 EPS		**$5.94**
ETR FY22 EPS (CSe)		**$6.43**
Consensus		$0.47
FY22 Guidance		6.25-6.45
FY22 EPS (CSe Model)		$6.29
FY22 Consensus		$6.39
2021 SO		202
2022 SO		206

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

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Valuation: TP to $115 from $117

We decrease our TP to $115 from $117 on account of a slightly lower peer large-cap electric group multiple. We continue to apply a 5% discount to the name on account of the hurricane risk in the service territory and subsequent cost recovery needs.

Figure 33: ETR P/E Valuation

ETR P/E Valuation		Grey Sky	Base Case	Blue Sky
Average Multiple			16.2x	
Prem / Disc		-20%	-5%	10%
Adjusted P/E Multiple		13.0x	15.4x	17.8x
Consolidated EPS '25E		$7.73	$7.73	$7.73
E-LA IDA Securitization	**Equity Issuance**			
$Mn	**Base Case**	(1,300)	(800)	(300)
$/Sh	(800)	($6)	($4)	($1)
Valuation		**$94**	**$115**	**$136**
Implied Consolidated P/E Multiple		12.2x	14.9x	17.6x
Stock Price			**$109**	
Upside / Downside		-13.5%	5.8%	25.1%
Yield			3.5%	
Total Return		**-10.0%**	**9.3%**	**28.6%**

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

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Fundamental Dashboard

We leave our '22 and '23 EPS ests unchanged and increase our '24-'26 ests by 1c.

Figure 34: ETR Fundamental Dashboard (1/2)

ETR Dashboard Nicholas Campanella +1 212 325 7505	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	**$5.40**	**$5.66**	**$6.02**	**$6.29**	**$6.71**	**$7.20**	**$7.73**	**$8.08**
Prior EPS			**$6.02**	**$6.29**	**$6.71**	**$7.19**	**$7.72**	**$8.07**
Consensus EPS			**$6.02**	**$6.39**	**$6.72**	**$7.20**	**$7.73**	**$8.28**
Delta (%)			0.0%	-1.5%	-0.2%	0.0%	0.0%	
Shares Outstanding		201	202	206	213	214	218	224
DPS			$3.84	$4.04	$4.30	$4.57	$4.85	$5.16
DPS Growth (%)				5.22%	6.32%	6.32%	6.32%	6.32%
DPS Payout (%)				64.2%	64.0%	63.4%	62.8%	63.9%
Valuation Metrics								
P/E		19.2x	18.1x	17.3x	16.2x	15.1x	14.1x	13.5x
EV/RAB		1.6x	1.5x	1.5x	1.4x	1.4x	1.3x	1.3x
FFO		2,706	4,147	3,551	3,801	4,057	4,354	4,615
Net Debt		22,238	26,640	26,956	28,057	30,304	31,660	32,426
FFO/Debt (%) - Moody's Min = 14%		12.2%	15.6%	13.2%	13.5%	13.4%	13.8%	14.2%
EBITDA		3,382	3,530	3,859	4,133	4,417	4,740	5,027
Net Debt		22,238	26,640	26,956	28,057	30,304	31,660	32,426
Net Debt / EBITDA		6.6x	7.5x	7.0x	6.8x	6.9x	6.7x	6.5x
Consoldiated Equity Layer (%)		31.4%	30.2%	31.4%	31.6%	31.8%	32.9%	34.0%
EPS Estimates By Sub					$0.57			
E-AR	$1.33	$1.19	$1.57	$1.53	$1.59	$1.76	$1.96	$2.13
E-LA	$3.51	$3.48	$3.24	$3.49	$3.84	$3.99	$4.12	$4.21
E-MS	$0.61	$0.68	$0.83	$0.89	$0.92	$0.95	$0.95	$0.94
E-TX	$0.81	$1.05	$1.12	$0.94	$1.04	$1.23	$1.38	$1.46
E-NO	$0.27	$0.25	$0.16	$0.23	$0.25	$0.27	$0.30	$0.31
SERI	$0.50	$0.57	$0.53	$0.56	$0.41	$0.36	$0.37	$0.37
Parent	($1.63)	($1.56)	($1.42)	($1.35)	($1.34)	($1.36)	($1.36)	($1.35)
Consolidated	**$5.40**	**$5.66**	**$6.02**	**$6.29**	**$6.71**	**$7.20**	**$7.73**	**$8.08**
Guidance			**5.90-6.10**	**6.25-6.45**	**6.55-6.85**	**7.05-7.35**	**7.50-7.90**	**8.05-8.45**
Midpt			**$5.95**	**$6.35**	**$6.70**	**$7.20**	**$7.70**	**$8.25**

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

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Fundamental Dashboard

Figure 35: ETR Fundamental Dashboard (2/2)

Rate Base Metrics (YE)	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
E-AR	7,547	6,100	6,600	7,000	7,509	8,646	9,734	10,774
E-LA	10,290	13,180	15,490	16,223	16,649	17,430	18,163	18,849
E-MS	2,600	3,000	3,600	3,928	4,102	4,191	4,272	4,344
E-TX	2,600	3,400	3,800	4,087	4,697	5,461	6,192	6,474
E-NO	900	1,090	1,100	1,164	1,219	1,337	1,447	1,551
SERI	1,400	1,600	1,600	1,640	1,675	1,757	1,836	1,911
Total Rate Base	**25,337**	**28,370**	**32,190**	**34,041**	**35,850**	**38,823**	**41,644**	**43,903**
Guidance			31,000	33,300	35,000	38,000	41,000	45,000
CSe RAB CAGR off 2021				**9.8%**	**7.5%**	**7.8%**	**7.7%**	**7.2%**
ROE Data - Avg RAB								
E-AR		9.6%	10.6%	9.9%	9.9%	9.9%	9.9%	9.9%
E-LA		11.9%	9.1%	9.1%	10.0%	10.0%	10.1%	10.2%
E-MS		9.9%	10.4%	10.1%	10.1%	10.1%	10.1%	10.1%
E-TX		13.8%	12.4%	9.6%	9.9%	10.2%	10.2%	10.2%
E-NO		9.9%	5.7%	8.4%	8.6%	8.9%	9.1%	9.2%
SERI		11.8%	10.3%	10.9%	9.3%	9.3%	9.3%	9.3%
Capital Structure - Regulatory								
E-AR		36.5%	47.0%	47.0%	47.0%	47.0%	47.0%	47.0%
E-LA		50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
E-MS		49.1%	48.6%	48.6%	48.6%	48.6%	48.6%	48.6%
E-TX		50.9%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%
E-NO		51.0%	51.0%	51.0%	51.0%	51.0%	51.0%	51.0%
SERI		65.0%	65.0%	65.0%	56.6%	48.2%	48.2%	48.2%
Capital Structure - GAAP/LT Debt vs. Equity								
E-AR		48.5%	47.5%	47.3%	47.1%	47.4%	47.8%	48.3%
E-LA		45.9%	43.3%	44.2%	45.2%	46.2%	47.2%	48.2%
E-MS		48.4%	45.8%	45.5%	47.1%	48.6%	49.8%	50.8%
E-TX		48.5%	51.3%	51.7%	52.5%	52.4%	52.2%	52.0%
E-NO		49.1%	45.1%	46.5%	47.1%	47.8%	48.6%	49.5%
SERI		60.5%	61.2%	61.0%	60.3%	59.6%	58.9%	58.5%
Cash Flow								
CFO		2,699	2,301	3,551	3,801	4,057	4,354	4,615

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

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Evergy

4Q Preview; Focus on Sibley Impact Offsets, Kansas & IRP; Underperform

EVRG

Target price (12M, US$) 57.00

Underperform

Electric Utilities

This article is intended for the sole use of Credit Suisse clients with the tracking ID of 20111678

We provide our 4Q EPS preview for EVRG, reiterating our Underperform rating on the stock. We see several cautious data points for the company, with key catalyst being the Kansas rate case. During the 4Q call we expect an update on the execution of the refreshed $6.782Bn capital plan in KS from 2022 to 2026, coming off the KS capital workshop update in December. Additionally, we expect management to reaffirm the current 6-8% LT EPS growth CAGR guidance from 2021 to 2025, with the company's goal being to hit the implied midpoint of $3.78/sh for FY23, based on our discussions, though our expectations are below this level. Recall EVRG raised FY22 EPS guidance midpoint during the 3Q call to $3.53 to $3.63. We note that FY22 EPS is currently ahead of schedule, with the company seeing $3.43/sh YTD, and our current 4Q22 estimate of $0.35/sh (CSe) leading to our FY22 estimate of $3.78/sh (CSe), which is above current FY22 guidance. During the 4Q call we expect the company to provide FY23 EPS guidance, with the current implied EPS range of $3.71 to $3.85 ($3.78 midpoint) vs. our forecast for FY23 of $3.61 vs. Consensus of $3.65/sh (FS). We note our below-consensus forecasts in the coming years with our '24 and '25 ests of $3.81 and $3.92 (CSe) vs. Consensus (FS) of $3.96 and $4.23, respectively remain one of the more glaring deltas to consensus, keeping us Underperform rated.

- **Moving Past Sibely in MO and Onto KS:** In November 2022, the MO PSC issued a rate order for the MO rate review, with the final order including language on impacts to Sibley, which the company sees $0.05/sh drag from Sibley return disallowance and $0.01/sh drag for AMI, summing to a total $0.06/sh ongoing impact to EPS. Mgmt is now moving towards to KS rate review which is a major execution item for FY23. We also note KCC legislation moving the commission to an elected vs. appointed commission is a cautious data-point to watch. We're not expecting material increases in CapEx given KS rate review, with more to come in the IRP filing later this year.

  Valuation, TP and risks: We leave our TP unchanged, and continue to apply a 10% discount to the name on account of the slightly unfavorable regulatory jurisdictions the company operates in, specifically KS. We leave our EPS ests unchanged as well. Risks: inflation, better/worse than expected regulatory outcomes, climate change.

Price (30 Jan 23, US$)	61.69
52-week price range	72.62 - 55.11
Enterprise value (US$ m)	25,003

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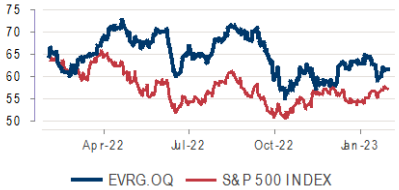
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	3.54	3.78	3.61	3.81
Prev. EPS (US$)	-	3.56	3.59	-
P/E (x)	17.4	16.3	17.1	16.2
P/E rel. (%)	89.9	90.4	97.1	101.8
EBITDA (US$ m)	2,251	2,354	2,389	2,523
EV/EBITDA (current)	10.8	10.6	10.9	10.6
Net debt (US$ m)	10,230	10,843	11,865	12,465
FFO/Total Debt (%)	13.2	17.5	16.1	16.0
EV/Rate Base	1.49	1.44	1.41	1.39
Number of shares (m)	230	Dividend (current, US$)		0.0
Consolidated ROE (%)	9.2	Dividend yield (%)		3.80
Rate Base (YE)	17,460			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 30-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan30, 2023, 01/28/22 = US$64.77

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	0.84	0.81	1.95	-0.06
2022E	0.58	0.85	2.00	0.35
2023E	0.49	0.80	1.81	0.50

Evergy (EVRG)

Price (30 Jan 2023): **US$61.69** Target Price: **57.00**

Analyst: **Nicholas Campanella**
Rating: **Underperform**

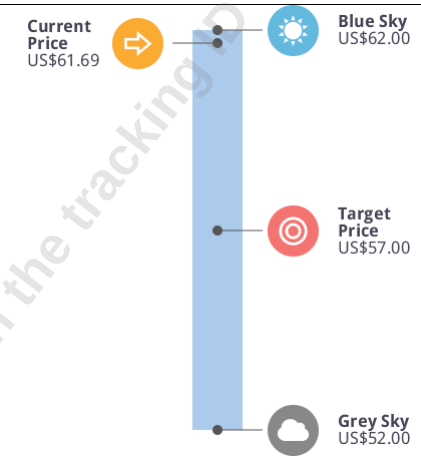
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**5,586.7**	**5,472.6**	**5,478.0**	**5,582.9**
EBITDA (US$ m)	**2,251**	**2,354**	**2,389**	**2,523**
Depr. & amort.	(896)	(935)	(983)	(1,021)
EBIT (US$)	**1,374**	**1,410**	**1,397**	**1,493**
Net interest exp	(373)	(426)	(457)	(504)
PBT (US$)	**1,001**	**985**	**940**	**989**
Income taxes	(117)	(110)	(104)	(107)
Minorities	(12)	(12)	(12)	(12)
Reported net income (US$)	**880**	**871**	**832**	**877**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**880**	**871**	**832**	**877**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	1,374	1,410	1,397	1,493
Net interest	(373)	(426)	(457)	(504)
Change in working capital	(567)	0	0	0
CAPEX	(1,973)	(1,976)	(2,362)	(2,007)
Free cashflow to the firm	**(621)**	**(76)**	**(453)**	**(13)**
Acquisitions	0	0	0	0
Divestments	-	-	-	-
Cash flow from investments	**(1,914)**	**(1,976)**	**(2,362)**	**(2,007)**
Changes in Net Cash/Debt	**(414)**	**(613)**	**(1,022)**	**(601)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	26	316	111	417
Total current assets	**1,710**	**2,000**	**1,795**	**2,101**
Total assets	**28,521**	**29,775**	**30,872**	**32,088**
Liabilities				
Total current liabilities	**3,103**	**3,103**	**3,103**	**3,103**
Total liabilities	**19,279**	**20,214**	**21,063**	**22,004**
Total liabilities and equity	**28,521**	**29,775**	**30,872**	**32,088**
Net debt	10,230	10,843	11,865	12,465
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	230	230	231	231
CS adj. EPS	3.54	3.78	3.61	3.81
Prev. EPS (US$)	-	3.56	3.59	-
Dividend (US$)	2.17	2.33	2.47	2.55
Free cash flow per share	(2.70)	(0.33)	(1.96)	(0.06)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	13.7	(2.0)	0.1	1.9
EBIT growth (%)	24.0	2.7	(1.0)	6.9
Net profit growth (%)	42.3	(1.0)	(4.5)	5.5
EPS growth (%)	14.2	6.8	(4.6)	5.5
EBITDA margin (%)	40.3	43.0	43.6	45.2
EBIT margin (%)	24.6	25.8	25.5	26.7
Pretax margin (%)	17.9	18.0	17.2	17.7
Net margin (%)	15.7	15.9	15.2	15.7
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	4.37	4.57	4.75	4.77
P/E (x)	17.4	16.3	17.1	16.2
Price to book (x)	1.5	1.5	1.4	1.4
Asset turnover	0.2	0.2	0.2	0.2
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	9.7	9.2	8.5	8.8
ROIC (%)	6.2	6.1	5.7	5.9
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	110.7	113.4	121.0	123.6
Interest coverage ratio (X)	3.7	3.3	3.1	3.0
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	0.84	0.81	1.95	-0.06
2022E	0.58	0.85	2.00	0.35
2023E	0.49	0.80	1.81	0.50

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

Company Background

Evergy, Inc. provides electricity generation, transmission and distribution services principally through it's Missouri and Kansas utility operating companies.

Blue/Grey Sky Scenario



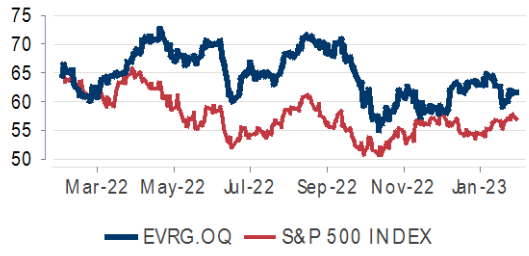
Our Blue Sky Scenario (US$) **62.00**

Blue Sky Scenario ($62): Our Blue Sky scenario contemplates a 15.8x P/E, which is a ~3% P/E discount. Our Blue Sky scenario could be achieved if EVRG delivers more capex in the five-year window than we/Street expect; if management is able to earn ROEs materially north of the current allowed ROE; or if new legislation is introduced that materially changes the Missouri/Kansas regulatory framework in a positive way.

Our Grey Sky Scenario (US$) **(from 53.00) 52.00**

Grey Sky Scenario ($52): Our Grey Sky scenario contemplates a 13.4x consolidated P/E, which could be realized if earned ROEs deteriorate for the electric businesses, or if management has to pare back capital owing to the current inflationary environment. Our Grey Sky could also materialize if EVRG is unable to see constructive outcomes for the MO and KS rate cases.

Share price performance



On 30-Jan-2023 the S&P 500 INDEX closed at 4017.77
Daily Jan31, 2022 - Jan30, 2023, 01/31/22 = US$64.96

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Investment Considerations

- **Capital plan:** During the 4Q call we expect an update on the company's capital plan. In December the company refreshed the capital plan in KS, which is now ~$6.7Bn from 2022 to 2025 in the state, and the company guiding to ~$10.7Bn of infrastructure investment planned over the same period. We expect the company to roll-forward the capex plan, and to provide capex guidance for 2027 during the call. This could provide incremental growth opportunities but we're not coming into this with high expectations principally due to the pending rate review, and more to come in the April IRP.
- **IRP filing:** We expect management to provide an update on the annual IRP filing, which is currently expected to be filed to the regulator in April 2023. The IRP is expected to incorporate impacts from the IRA, SPP capacity margin requirement recommendations and resource and renewables generation plans. We see this as a positive as it could include significant renewables investment, something that the market has historically favored. Management could provide an update on this filing, reaffirm the timeline and potentially give clarity on the scale/scope of projects expected to be included.
- **KS legislation to move KCC to elected jurisdiction:** During the 4Q call we expect an update on recent legislation in Kansas, HB 2154, which provides for the statewide election of Commissions to the state corporate commission as well as establishes the utilities regulation division in the office of the Attorney General. This bill is in the early innings of the legislative process (introduced January 24, referred to Committee on Energy, Utes, & Telcos Jan 24th). We see this as something worth mentioning as it could have outsized impacts to future rate reviews in the state. In general, elected vs. appointed commissioners are seen as more consumer focused given their platforms to be elected, and we view this as cautious to EVRG shares, especially given past rhetoric in Kansas from industrials surrounding rates.
- **Large Delta to EPS estimates still exists:** We're materially below street estimates 3-8% in the outyears as we continue to see 4-5% rate base growth against the 6-8% long term EPS CAGR. This is a significant delta where we expect incremental capital to partially help the issue, though we see the long term CAGR somewhat challenged by interest rate headwinds among other items.

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4Q EPS Walk

- **Drivers:** We see a $0.35/sh 4Q22 vs. $0.18/sh Consensus (FS) and $0.16/sh 4Q21. The above consensus figure is largely due to a stale figure. For 4Q22 we see $0.10/sh pick-up from weather and $0.04/sh from tax timing, both positives for the quarter. Additionally, we see $0.03/sh pick-up from retail demand (of ~1.5%). For 4Q we see $0.03/sh drag from depreciation expense, $0.03/sh drag from interest expense and $0.01/sh drag from Sibley via the return on going away.

Figure 36: EVRG 4Q22 EPS Walk

EVRG 4Q2022 EPS Walk		EPS
Starting EPS	Started 1.98 last year	$0.16
Weather	13c of weather, 4c of tax credit tinming	$0.10
Tax Timing		$0.04
Weather	Slightly below normal	($0.02)
Adj Starting Point		**$0.29**
Retail	Retail Demand (1.5%)	$0.03
Evergy Kansas		$0.00
O&M	3C of O&M pull forward in '21; plus 5c benefit in Q4	$0.08
Sibley	Return on going away	($0.01)
Evergy Metro (MO)	No New Rates Until Dec	$0.00
Depreciation	-10c delta negative this year	($0.03)
Interest Expense	$288Mn refi at Holdco, $500Mn new TL	($0.03)
Bill Credits	4c of favorabiltiy on FY22	$0.01
FERC Transmission	9c y/y	$0.02
COLI	Assume flat; tough to handicap	$0.00
Non Reg Above Plan	Still ripe for outperformance	$0.00
Parent		$0.00
Dilution		($0.00)
EVRG 4Q2022 EPS Walk		**$0.35**
YTD EPS		**$3.43**
FY22 EPS		**$3.78**
4Q22 Consensus		$0.21
FY22 Guidance		3.53-3.63
FY22 EPS (Model)		$3.78
FY23 Consensus		$3.62
SO 2021		230
SO2022		230

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

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Valuation: Leaving $57 TP Unchanged

We leave our $57 TP unchanged and continue to apply a 10% discount to the name on account of the slightly unfavorable regulatory jurisdictions the company operates in, specifically KS.

Figure 37: EVRG P/E Valuation

EVRG P/E Valuation	Low Case	Base Case	High Case
Average Multiple		16.2x	
Prem / Disc	-18%	-10%	-3%
Adjusted P/E Multiple	13.4x	14.6x	15.8x
Consolidated EPS '25E	$3.92	$3.92	$3.92
Valuation	**$52**	**$57**	**$62**
Stock Price		$62	
Upside / Downside	-15.8%	-7.7%	0.4%
Yield		4.0%	
Total Return	**-11.8%**	**-3.7%**	**4.4%**

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

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Fundamental Dashboard

We leave our EPS ests unchanged.

Figure 38: EVRG Fundamental Dashboard (1/2)

EVRG Dashboard Nicholas Campanella +1 212 325 7505	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	**$2.89**	**$3.10**	**$3.54**	**$3.78**	**$3.61**	**$3.81**	**$3.92**	**$4.05**
Prior EPS			**$3.54**	**$3.78**	**$3.61**	**$3.81**	**$3.92**	**$4.05**
Consensus EPS			**$3.54**	**$3.62**	**$3.65**	**$3.96**	**$4.23**	**$4.40**
Delta (%)			0.0%	4.5%	-1.0%	-3.9%	-7.5%	-7.9%
Shares Outstanding		228	230	230	231	231	231	231
DPS			$2.17	$2.33	$2.47	$2.55	$2.66	$2.79
DPS Growth (%)				7.4%	5.9%	3.3%	4.3%	5.0%
DPS Payout (%)				61.6%	68.4%	67.0%	67.8%	68.9%
Guidance: 6-8% off 2021 midpt								
High				$3.56	$3.85	$4.16	$4.49	
Mid			$3.30	$3.53	$3.78	$4.04	$4.33	
Low				$3.50	$3.71	$3.93	$4.17	
Valuation Metrics								
P/E		19.9x	17.4x	16.3x	17.1x	16.2x	15.8x	15.3x
EV/RAB		1.6x	1.5x	1.4x	1.4x	1.4x	1.4x	1.4x
FFO		1,706	1,919	1,900	1,909	1,994	2,061	2,133
Net Debt		9,816	10,230	10,843	11,865	12,465	13,136	13,846
FFO/Debt (%)		17.4%	18.8%	17.5%	16.1%	16.0%	15.7%	15.4%
EBITDA		2,024	2,251	2,354	2,389	2,523	2,638	2,746
Net Debt		9,816	10,230	10,843	11,865	12,465	13,136	13,846
Net Debt / EBITDA		4.8x	4.5x	4.6x	5.0x	4.9x	5.0x	5.0x
Consoldiated Equity Layer (%)		46.7%	47.4%	46.1%	45.0%	43.9%	43.0%	42.1%
Credit Notes: Updated plan as of investor day through 2025 -> everything in it set up to target these ratios; Targeting >15%								
EPS Estimates By Sub								
KS Central	$1.43	$0.99	$2.13	$1.93	$1.84	$1.92	$2.03	$2.08
EVRG Metro	$1.06	$1.31	$1.36	$1.42	$1.34	$1.47	$1.52	$1.58
Missouri West	$0.36	$0.65	$0.38	$0.57	$0.58	$0.62	$0.65	$0.70
Parent	$0.04	$0.15	($0.33)	($0.13)	($0.14)	($0.20)	($0.28)	($0.31)
Consolidated	**$2.89**	**$3.10**	**$3.54**	**$3.78**	**$3.61**	**$3.81**	**$3.92**	**$4.05**
Midpomt of guidance			$3.30	$3.53	$3.78	$4.04	$4.33	

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

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Fundamental Dashboard

Figure 39: EVRG Fundamental Dashboard (2/2)

Rate Base Metrics (YE)	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
KS Central	5,376	5,610	5,889	6,158	6,536	6,675	6,832	6,997
EVRG Metro - MPSC	2,534	2,777	3,062	3,340	3,689	3,974	4,291	4,634
EVRG Metro - KCC	2,688	2,805	2,977	3,139	3,355	3,312	3,257	3,182
Missouri West	2,074	2,272	2,531	2,713	2,961	3,105	3,251	3,393
FERC	1,728	1,836	1,927	2,014	1,978	2,056	2,142	2,234
Total Rate Base	**14,400**	**15,300**	**16,386**	**17,365**	**18,519**	**19,121**	**19,773**	**20,441**
Guidance		**15,300**					**20,000**	
Guidance 5-6% RAB Growth		**15,300**	**16,142**	**17,029**	**17,966**	**18,954**	**19,996**	**21,096**
Consoldiated Rate Base Model (Ex-Deferred Taxes)								
Starting Rate Base			15,300	16,376	17,417	18,796	19,782	20,840
CapEx			1,973	1,976	2,362	2,007	2,119	2,200
Depreciation			(896)	(935)	(983)	(1,021)	(1,061)	(1,102)
Ending Rate Base			16,376	17,417	18,796	19,782	20,840	21,937
Earned ROE Assumptions								
KS Central - RAB	9.4%	5.9%	12.0%	10.0%	9.2%	9.3%	9.6%	9.6%
EVRG Metro - RAB	0.0%	10.8%	10.4%	10.0%	8.7%	9.3%	9.3%	9.3%
Missouri West - RAB	0.0%	13.5%	7.2%	9.8%	9.2%	9.3%	9.3%	9.5%
FERC - RAB	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
Earned ROE - GAAP Consolidated (AVG)			8.2%	9.1%	9.3%	8.6%	8.8%	8.8%
Equity Ratio (%)								
KS Central	54.9%	52.1%	53.6%	53.2%	52.8%	52.9%	52.9%	52.9%
EVRG Metro	50.5%	48.6%	50.8%	49.4%	49.6%	49.8%	50.5%	51.1%
Missouri West	50.3%	52.0%	65.8%	65.1%	58.6%	53.6%	49.5%	46.2%

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

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FirstEnergy

FY23 Preview: Year of Regulatory and Strategic Execution; Outperform

FE

Target price (12M, US$) 43.00

Outperform

Electric Utilities

We are reviewing and updating investment drivers for FE going into '23. We expect the company to provide '23 guidance and refreshed capital plan during 4Q call after a favorable '22 execution year, recalling mgmt. re-affirmed '22 guidance ($2.30-$2.50) at 3Q with top half of the range expectation. We see weaker-than-Consensus '23 EPS driven by our conservative view on pension, assuming net 15c drag and the risk of FE carrying lower pension asset base going forward which affects future growth rate. FE slightly outperformed UTY in '22 (+1.7% vs. -1.3%) as the stock has been benefiting from the execution of the FE forward plan (cost cut and refinancing) while at the same time going through executive transition and strategic sales process, adding uncertainties for shares going into '23 with large regulatory items to execute. Upside narrowed since our last update. We maintain our OP rating on shares.

- **'23 Walk; Reflecting YE pension and offsets; Expect announcement on strategic initiatives:** We cut 2023 EPS to $2.42, now reflecting our '23 number with full impact from the 15c net pension drag, despite the market rebound since 3Q, though we acknowledge additional offsets (Signal peak) could translate to a more favorable number. Balance sheet improvement should be fueled by contemplated T&D asset sales (we still see higher likelihood to re-apply the FET playbook) proceeds ($3.5bn) in the new year albeit slight headwind in M&A due to higher cost of capital. New CEO should provide a new start for leadership team, but this is likely to come around the 4Q call or after with the NCI sale more an immediate focus. Sentiment has shifted negative for shares on the potential for a recast in LT EPS growth, but we note our /consensus estimates are already at the low end of what 6-8% EPS growth would imply on a year-to-year basis.
- **Valuation, TP & EPS Estimates:** Our TP is raised to $43 from $39, driven by MtM of group multiple. Our EPS estimates is revised down by 15c/10/c/8c/4c for '23/'24/'25/'26, reflecting pension headwind for '23 and likelihood for company to incorporate such into the following years' budgeting and forecast. We continue to assign a 20% discount to Ohio utilities and 10% discount to other T&D utilities and parent, as we continue to see noise related to the Ohio legacy claims and uncertainties, but much of this is priced in in our view. FET is valued with a 15% premium reflecting formulaic recovery. Risks: Regulatory execution, inflation, pension.

Previous target price (12M, US$)	39.00
Price (27 Jan 23, US$)	41.23
52-week price range	48.46 - 35.91
Enterprise value (US$ m)	45,046

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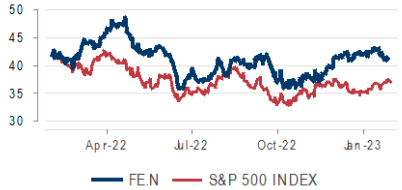
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	2.60	2.42	2.42	2.64
Prev. EPS (US$)	-	-	2.57	2.74
P/E (x)	15.9	17.0	17.1	15.6
P/E rel. (%)	81.9	94.4	96.9	98.0
EBITDA (US$ m)	3,028	3,109	3,243	3,549
EV/EBITDA (current)	14.8	14.5	14.3	13.4
Net debt (US$ m)	22,392	21,465	22,693	23,836
FFO/Total Debt (%)	12.6	13.4	13.1	13.4
EV/Rate Base	1.88	1.76	1.74	1.69
Number of shares (m)	572	Dividend (current, US$)		0.0
Consolidated ROE (%)	15.4	Dividend yield (%)		3.78
Rate Base (YE)	25,674			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan27, 2023, 01/28/22 = US$41.75

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	0.62	0.11	0.85	0.99
2022E	0.60	0.53	0.79	0.51
2023E	0.31	0.25	0.29	-0.19

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FirstEnergy (FE)

Price (27 Jan 2023): **US$41.23** Target Price: **(from 39.00) 43.00**

Analyst: **Nicholas Campanella**
Rating: **Outperform**

Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**11,132.0**	**10,591.1**	**10,749.1**	**11,085.5**
EBITDA (US$ m)	**3,028**	**3,109**	**3,243**	**3,549**
Depr. & amort.	(1,302)	(1,383)	(1,465)	(1,550)
EBIT (US$)	**1,726**	**1,725**	**1,778**	**1,999**
Net interest exp	(1,141)	(1,033)	(1,014)	(1,056)
PBT (US$)	**1,559**	**1,727**	**1,799**	**1,977**
Income taxes	(320)	(365)	(384)	(423)
Minorities	-	-	-	-
Reported net income (US$)	**1,420**	**1,384**	**1,387**	**1,520**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**1,420**	**1,384**	**1,387**	**1,520**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	1,726	1,725	1,778	1,999
Net interest	(1,141)	(1,033)	(1,014)	(1,056)
Change in working capital	338	0	0	0
CAPEX	(2,445)	(3,345)	(3,380)	(3,530)
Free cashflow to the firm	**366**	**(465)**	**(415)**	**(327)**
Acquisitions	-	-	-	-
Divestments	-	-	-	-
Cash flow from investments	**(2,559)**	**(1,145)**	**(3,380)**	**(3,530)**
Changes in Net Cash/Debt	**351**	**927**	**(1,228)**	**(1,143)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	1,462	1,714	1,036	818
Total current assets	**3,237**	**3,489**	**2,811**	**2,593**
Total assets	**45,432**	**45,464**	**46,719**	**48,499**
Liabilities				
Total current liabilities	**4,416**	**4,416**	**4,416**	**4,416**
Total liabilities	**36,757**	**36,198**	**36,864**	**37,925**
Total liabilities and equity	**45,432**	**45,464**	**46,719**	**48,499**
Net debt	22,392	21,465	22,693	23,836
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	546	572	574	575
CS adj. EPS	2.60	2.42	2.42	2.64
Prev. EPS (US$)	-	-	2.57	2.74
Dividend (US$)	1.55	1.56	1.56	1.56
Free cash flow per share	0.67	(0.81)	(0.72)	(0.57)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	3.2	(4.9)	1.5	3.1
EBIT growth (%)	(20.2)	(0.0)	3.0	12.4
Net profit growth (%)	9.5	(2.5)	0.2	9.6
EPS growth (%)	8.9	(6.9)	(0.2)	9.4
EBITDA margin (%)	27.2	29.4	30.2	32.0
EBIT margin (%)	15.5	16.3	16.5	18.0
Pretax margin (%)	14.0	16.3	16.7	17.8
Net margin (%)	12.8	13.1	12.9	13.7
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	4.03	4.25	4.31	4.29
P/E (x)	15.9	17.0	17.1	15.6
Price to book (x)	2.6	2.5	2.4	2.2
Asset turnover	0.2	0.2	0.2	0.2
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	17.8	15.4	14.5	14.9
ROIC (%)	4.4	4.4	4.3	4.6
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	258.1	231.7	230.3	225.4
Interest coverage ratio (X)	1.5	1.7	1.8	1.9
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	0.62	0.11	0.85	0.99
2022E	0.60	0.53	0.79	0.51
2023E	0.31	0.25	0.29	-0.19

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

Company Background

FirstEnergy Corp is a public utility holding company with electric T&D assets across the Untied States.

Blue/Grey Sky Scenario



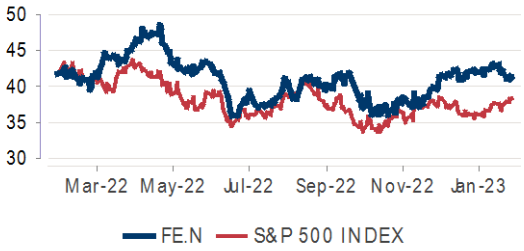
Our Blue Sky Scenario (US$) **(from 42.00) 46.00**

Our Blue Sky scenario contemplates an 17.4x 2024E P/E, which could be achieved if: (1) FE achieves a better-than-expected base rate filing outcome and successfully manages Ohio-related audits and investigations, managing ROE close to authorized level without significant under earnings; (2) successful execution of its capital investment plan, FET minority sales, and staying disciplined on equity issuance.

Our Grey Sky Scenario (US$) **(from 30.00) 36.00**

Our Grey Sky scenario assumes FE trades at a 13.8x P/E. We think the multiple could be justified if we see any unexpected regulatory outcome associated with any Ohio-related audits, or any unexpected breach to the DPA.

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$41.96

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4Q22 EPS Walk

Figure 40: FE 4Q22 EPS Walk

FE 4Q22 EPS Walk	EPS
Starting EPS	$0.51
Weather	$0.00
Weather	$0.00
Adj Starting Point	**$0.51**
Retail Load	$0.00
OH rate credits	($0.04)
Account Policy changes	($0.02)
Equity financing/FET	($0.06)
Customer Demand	$0.03
Regulated Distribution	$0.02
Regulated Transmission	$0.00
Coal	$0.05
O&M pull forward	$0.00
Interest Expense	$0.00
Depreciation	$0.00
FE Corp Note	$0.04
Effective Tax Rate	($0.02)
Dilution	$0.00
FE 4Q22 EPS	**$0.51**
Guidance	39-59c
Consensus	$0.52
FY22 Guidance	2.30-2.50
CSe FY22 EPS	$2.42
FY22 Consensus	$2.44
2021 SO	546
2022 SO	572

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

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FY23 EPS Walk

Figure 41: FE FY23 EPS Walk

FE FY23 EPS Walk		EPS
Starting EPS		$2.40
Weather		$0.00
Weather		$0.00
Adj Starting Point		**$2.40**
Retail Load	Assuming Flat Load through '25 per factbook	$0.00
OH rate credits	$80mn in FY22 drops to $60mn in '23	$0.03
Account Policy changes	Done: No Y/Y Impacts	$0.00
FET Sale	Closed end of May '22	($0.05)
Regulated Distribution	Penny per Q	$0.04
Regulated Transmission	$700Mn RAB Growht Forcasted	$0.08
Pension Headwind, Net of offsets		($0.15)
Asset Sale Transaction	YE 23 close; not as impactful	$0.00
Interest Expense	Next expecting to be a large driver	$0.00
Depreciation	Included in T&D above	$0.00
FE Corp Note	Parent interest savings	$0.07
Dilution		$0.00
FE FY23 EPS		**$2.42**
FY23 Guidance		N/a
CSe FY23 EPS		$2.42
FY23 Consensus		$2.48
2022 SO		572
2023 SO		574

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

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Valuation: TP Tweaked to $43

Figure 42: FE SOTP Valuation

FE SOTP Valuation				Grey Sky	Base Case	Blue Sky
Electric Group Multiple				14.6x	17.2x	18.5x
Business Segments	**EPS ('24E)**	**Prem / Disc.**	**Base Case Implied Multiple**			
OE	$0.35	-20%	13.8x	$4	$5	$5
CEI	$0.11	-20%	13.8x	$1	$2	$2
TE	$0.06	-20%	13.8x	$1	$1	$1
JCP&L	$0.33	-10%	15.5x	$4	$5	$6
ME	$0.26	-10%	15.5x	$3	$4	$4
PN	$0.34	-10%	15.5x	$4	$5	$6
WPP	$0.33	-10%	15.5x	$4	$5	$5
MP	$0.26	-10%	15.5x	$3	$4	$4
PE	$0.17	-10%	15.5x	$2	$3	$3
FET	$0.66	15%	19.8x	$11	$13	$14
Parent	($0.22)	-10%	15.5x	($3)	($3)	($4)
Total	**$2.64**			**$36**	**$43**	**$46**
Shares Outstanding				575	575	575
			Implied P/E Multiple->>	13.8x	16.2x	17.4x
Valuation				**$36**	**$43**	**$46**
Stock Price					$41.2	
Upside / Downside				-12.7%	4.3%	11.6%
Yield					3.8%	
Total Return				**-8.9%**	**8.1%**	**15.3%**

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

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Fundamental Dashboard

Figure 43: FE Fundamental Dashboard

FE Dashboard	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	**$2.57**	**$2.39**	**$2.60**	**$2.42**	**$2.42**	**$2.64**	**$2.84**	**$3.07**
Prior EPS				**$2.42**	**$2.57**	**$2.74**	**$2.92**	**$3.11**
Consensus EPS	**$2.58**	**$2.39**	**$2.60**	**$2.44**	**$2.48**	**$2.67**	**$2.84**	**$3.07**
Delta (%)	-0.5%	-0.2%	0.0%	-0.8%	-2.6%	-1.2%	0.1%	0.1%
Shares Outstanding		543	546	572	574	575	575	575
DPS			$1.55	$1.56	$1.56	$1.56	$1.56	$1.56
DPS Growth (%)				0.3%	0.0%	0.0%	0.0%	0.0%
DPS Payout (%) - Guidance 55-65%				64.5%	64.6%	59.0%	54.9%	50.8%
Valuation Metrics								
P/E		17.3x	15.9x	17.0x	17.1x	15.6x	14.5x	13.4x
EV/RAB		5.9x	1.8x	1.7x	1.7x	1.7x	1.6x	1.6x
FFO		1,443	2,473	2,880	2,965	3,203	3,525	3,818
Net Debt		22,743	22,392	21,465	22,693	23,836	24,759	25,391
FFO/Debt (%)		6.3%	11.0%	13.4%	13.1%	13.4%	14.2%	15.0%
EBITDA		3,436	3,028	3,109	3,243	3,549	3,843	4,151
Net Debt		22,743	22,392	21,465	22,693	23,836	24,759	25,391
Net Debt / EBITDA		6.6x	7.4x	6.9x	7.0x	6.7x	6.4x	6.1x
Holdco Debt / Total Debt		30.1%	31.0%	25.4%	24.8%	23.9%	23.1%	22.5%
Consolidated Equity Layer (%)		22.8%	26.7%	28.6%	29.3%	30.0%	30.9%	32.1%
EPS Estimates By Subsidiary								
OE	$0.51	$0.45	$0.45	$0.30	$0.31	$0.35	$0.38	$0.44
CEI	$0.25	$0.17	$0.15	$0.13	$0.10	$0.11	$0.12	$0.13
TE	$0.14	$0.11	$0.09	$0.05	$0.05	$0.06	$0.06	$0.06
JCP&L	$0.25	$0.25	$0.49	$0.27	$0.26	$0.33	$0.36	$0.45
ME	$0.25	$0.30	$0.38	$0.33	$0.25	$0.26	$0.31	$0.31
PN	$0.27	$0.35	$0.41	$0.33	$0.33	$0.34	$0.34	$0.35
WPP	$0.29	$0.19	$0.26	$0.25	$0.30	$0.33	$0.35	$0.38
MP	$0.22	$0.16	$0.29	$0.28	$0.24	$0.26	$0.27	$0.29
PE	$0.11	$0.08	$0.14	$0.14	$0.15	$0.17	$0.18	$0.19
FET	$0.53	$0.57	$0.47	$0.62	$0.63	$0.66	$0.70	$0.74
Parent	($0.29)	($0.24)	($0.52)	($0.29)	($0.22)	($0.22)	($0.24)	($0.26)
Consolidated	**$2.55**	**$2.39**	**$2.60**	**$2.42**	**$2.42**	**$2.64**	**$2.84**	**$3.07**
Guidance				**2.30-2.50**	**2.55-2.60**			
				***Expecting top range**				
High				**$2.50**	**$2.59**	**$2.80**	**$3.02**	**$3.27**
Midpoint				**$2.40**	**$2.57**	**$2.75**	**$2.94**	**$3.15**
Low				**$2.30**	**$2.54**	**$2.70**	**$2.86**	**$3.03**

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

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NiSource

FY23 Preview: On Track for Execution Path Laid Out at Analyst Day; Outperform

NI

Target price (12M, US$) 30.00

Outperform

Gas Utilities

This article is intended for exclusive use of customer with the tracking ID of 10111678

We are reviewing investment drivers for NI going into 4Q22/FY23 and we re-iterate the Outperform rating. On the 4Q call, we expect mgmt. to re-affirm essentially all updated guidance at November 2022 AD, including: 1) $1.50-1.57 EPS guidance for '23; 2) 6-8% EPS annual growth rate (not CAGR) off '23 guidance; 3) 8-10% RAB growth rate along with $15bn capital plan during the '23- '27 timeframe; 4) 14-16% FFO/debt with projected BBB+ credit rating. We expect mgmt. to provide an update on NIPSCO sale where we continue to see the deal could close by '23 YE with no change in perceived timeline. '23 is the first year post current mgmt.'s strategic review and should be a touchstone for the ability to execute and ultimately getting NI back to a premium utility. NI we think is also benefiting from the recent gas price move with keeps us optimistic on executing at the high end of the stated range.

- **Pending NIPSCO sale; Recent gas price movement; Solar execution noise; Regulatory execution:** We expect to get more colors on the transaction as the process officially commences during 1Q23 and we see possible public announcement by mid-year and deal close by YE. Transaction multiple would be the focus given the interest rate environment, but we remain relatively optimistic regarding valuation that could be achieved. LDCs have been riding a more volatile gas strip lately and note that NI is 70% hedged for its gas customer and gas cost has been up 40% YoY, while the commodity component of customer bill has been around 38% in '21. Clearly in '22 we should expect a higher percentage given higher gas cost and we look for mgmt. comment on bill inflation and related mitigants. In terms of solar execution, we believe NI is on track. We are still being watchful for the pending OH and IN electric rate case where we should see OH rate outcome by end of first quarter and final order for NIPSCO by July. For NIPSCO, we see the intervenor 's recommendation ($246mm vs. $292mm ask) in January as a good starting point, albeit 9.2% ROE and 49.26% equity layer is lower than 10.4%/51.63% ask. Any potential delay in OH rate order could hurt earnings, but the impact relatively flat to any specific month given the rate structure in OH.
- **Valuation, EPS Ests & Risks:** We are tweaking TP from $27 to $30 due to MtM. We maintain the 5% multiple premium, reflecting conservative view on cost recovery. We raised '22 EPS by 2c, as we believe NI should execute close to guided midpoint. Other moves due to share price change. Risks: strategy execution, inflation, regulatory risk.

Previous target price (12M, US$)	27.00
Price (27 Jan 23, US$)	27.52
52-week price range	32.46 - 24.15
Enterprise value (US$ m)	22,730

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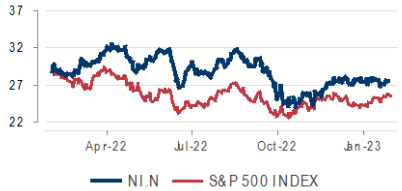
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	1.37	1.45	1.53	1.66
Prev. EPS (US$)	-	1.43	-	1.65
P/E (x)	20.1	19.0	18.0	16.6
P/E rel. (%)	103.8	105.4	102.0	103.9
EBITDA (US$ m)	1,755	2,179	2,393	2,764
EV/EBITDA (current)	12.1	10.4	10.0	8.6
Net debt (US$ m)	9,707	10,528	11,137	10,463
FFO/Total Debt (%)	12.5	14.9	15.4	18.1
EV/Rate Base	1.39	1.35	1.29	1.23
Number of shares (m)	406	Dividend (current, US$)		0.0
Consolidated ROE (%)	11.1	Dividend yield (%)		3.44
Rate Base (YE)	17,024			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan27, 2023, 01/28/22 = US$29.27

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	0.72	0.11	0.11	0.47
2022E	0.75	0.12	0.10	0.46
2023E	0.77	0.16	0.13	0.47

NiSource (NI)

Analyst: **Nicholas Campanella**

Price (27 Jan 2023): **US$27.52**

Target Price: **(from 27.00) 30.00**

Rating: **Outperform**

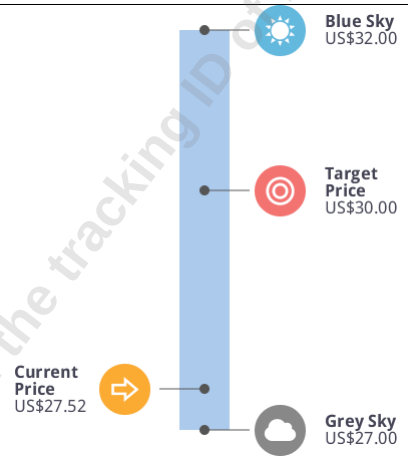
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**4,899.6**	**5,316.8**	**5,528.3**	**5,900.8**
EBITDA (US$ m)	**1,755**	**2,179**	**2,393**	**2,764**
Depr. & amort.	(748)	(811)	(889)	(966)
EBIT (US$)	**1,007**	**1,368**	**1,504**	**1,798**
Net interest exp	(341)	(428)	(470)	(496)
PBT (US$)	**707**	**980**	**1,074**	**1,343**
Income taxes	(118)	(280)	(306)	(382)
Minorities	(4)	(4)	(4)	(95)
Reported net income (US$)	**571**	**642**	**709**	**811**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**571**	**642**	**709**	**811**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	1,007	1,368	1,504	1,798
Net interest	(341)	(428)	(470)	(496)
Change in working capital	(260)	0	0	0
CAPEX	(1,838)	(2,460)	(3,020)	(3,020)
Free cashflow to the firm	**(620)**	**(895)**	**(1,310)**	**(1,131)**
Acquisitions	-	-	-	-
Divestments	-	-	-	-
Cash flow from investments	**(2,205)**	**(2,460)**	**(3,020)**	**(920)**
Changes in Net Cash/Debt	**(86)**	**(822)**	**(608)**	**674**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	95	273	715	2,039
Total current assets	**1,921**	**2,099**	**2,541**	**3,865**
Total assets	**24,157**	**25,984**	**28,557**	**29,835**
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**	**25,984**	**28,557**	**29,835**
Net debt	9,707	10,528	11,137	10,463
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	417	443	463	488
CS adj. EPS	1.37	1.45	1.53	1.66
Prev. EPS (US$)	-	1.43	-	1.65
Dividend (US$)	0.83	0.94	1.01	1.08
Free cash flow per share	(1.49)	(2.02)	(2.83)	(2.32)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	4.7	8.5	4.0	6.7
EBIT growth (%)	82.8	35.8	10.0	19.6
Net profit growth (%)	12.6	12.4	10.5	14.4
EPS growth (%)	3.7	5.8	5.8	8.6
EBITDA margin (%)	35.8	41.0	43.3	46.8
EBIT margin (%)	20.6	25.7	27.2	30.5
Pretax margin (%)	14.4	18.4	19.4	22.8
Net margin (%)	11.7	12.1	12.8	13.7
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	4.32	4.28	4.32	4.05
P/E (x)	20.1	19.0	18.0	16.6
Price to book (x)	2.0	1.9	1.6	1.6
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	11.1	10.4	10.4
ROIC (%)	4.9	5.3	5.2	6.3
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	133.5	131.8	118.5	105.5
Interest coverage ratio (X)	3.0	3.2	3.2	3.6
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	0.72	0.11	0.11	0.47
2022E	0.75	0.12	0.10	0.46
2023E	0.77	0.16	0.13	0.47

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



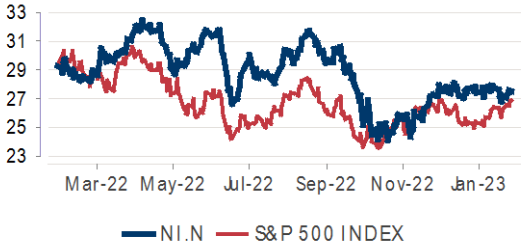
Our Blue Sky Scenario (US$) **(from 29.00) 32.00**

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$) **(from 24.00) 27.00**

Our Grey Sky scenario contemplates a 16.2x 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



On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$29.18

This article is intended for the sole use of customer with the tracking ID 20210118

4Q22 EPS Walk

Figure 44: NI 4Q22 EPS Walk

NI 4Q22 EPS Walk	EPS
Starting EPS	$0.39
Weather	$0.00
Weather	$0.00
Adj Starting Point	**$0.39**
Rider Revnue	
Rate Relief	$0.08
O&M	($0.02)
Depreciation	$0.03
Interest Expense	($0.01)
Other	$0.01
NCI	$0.00
Dilution	($0.02)
NI 4Q22 EPS	**$0.46**
4Q22 Consensus (FactSet)	$0.48
'22 YTD EPS	$0.97
FY22 Guidance	$1.47
CSe FY22 EPS	$1.45
FY22 Consensus (FactSet)	$1.45
2021 SO	417
2022 SO	443

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

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Fundamental Dashboard

Figure 45: NI Fundamental 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**	**$1.45**	**$1.53**	**$1.66**	**$1.85**	**$2.01**
Prior EPS			**$1.37**	**$1.43**	**$1.53**	**$1.65**	**$1.84**	**$2.00**
Change (%)			0.0%	1.2%	0.3%	1.0%	0.4%	0.4%
Consensus EPS (FactSet)				**$1.45**	**$1.54**	**$1.66**	**$1.80**	**$1.93**
Delta (%)								
Shares Outstanding		384	417	443	463	488	489	491
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 (%)				64.9%	65.7%	64.7%	62.2%	61.4%
Valuation Metrics								
P/E		20.8x	20.1x	19.0x	18.0x	16.6x	14.9x	13.7x
EV/RAB		1.5x	1.4x	1.3x	1.3x	1.2x	1.2x	1.1x
FFO		1,353	1,478	1,565	1,710	1,889	2,060	2,215
Net Debt		9,621	9,707	10,528	11,137	10,463	11,756	12,936
FFO/Debt (%)		14.1%	15.2%	14.9%	15.4%	18.1%	17.5%	17.1%
EBITDA		1,277	1,755	2,179	2,393	2,764	3,016	3,240
Net Debt		9,621	9,707	10,528	11,137	10,463	11,756	12,936
Net Debt / EBITDA		7.5x	5.5x	4.8x	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%
Consoldiated 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	$1.22	$1.28	$1.43	$1.59	$1.68
Electric Operations	$0.58	$0.47	$0.50	$0.50	$0.54	$0.51	$0.57	$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**	**$1.45**	**$1.53**	**$1.66**	**$1.85**	**$2.01**
Guidance					**1.50-1.57**	**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**

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

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Valuation: TP Tweaked to $30

Figure 46: NI P/E Valuation

NI P/E	Grey Sky	Base Case	Blue Sky
Average Electric Multiple		17.2x	
Average Gas LDC Multiple		17.0x	
Blended Multiple (Based on Rate Base)		17.1x	
Prem / Disc	-5%	5%	13%
Adjusted P/E Multiple	16.2x	17.9x	19.2x
Consolidated EPS '24E	$1.66	$1.66	$1.66
	16.2x	18.0x	19.2x
Valuation	**$27**	**$30**	**$32**
Stock Price		$28	
Upside / Downside	-1.9%	9.0%	16.3%
Yield		3.0%	
Total Return	**1.1%**	**12.0%**	**19.3%**

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

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OGE Energy

FY23 Preview; FY23 guide in-line, Watching GRC filings; Neutral

OGE

Target price (12M, US$) 38.00

Neutral

Electric Utilities

This article is intended for the sole use of customer with the trading ID of 10111678

We are providing our 4Q EPS preview for OGE and reaffirming our Neutral rating on the name. During the 4Q call we expect the company to reaffirm its 5-7% LT EPS CAGR, and provide FY '23 EPS guidance where we expect $2.03 (CSe) vs. Consensus of $2.04 (FS). Growth guidance for the utility is based off the original 2021 EPS guidance midpoint of $1.81/sh. implying a FY23 range of $2.00 to $2.07/sh. The new guidance is presumably moving towards a UP&O outlook as OGE has officially divested midstream earnings. Our new 2023 estimate is comprised of $2.06 of Utility EPS and -$0.03 of parent drag. Recall that OGE updated FY22 EPS guidance range of $2.08 to $2.12/sh during the 3Q call. During the 4Q call we expect load growth guidance for the service territory given load is a large part of the company's story, with the company currently guiding to 2023 load growth to exceed 1%, as well as an updated capital plan, where we still think it may be too soon to reflect forward capacity considerations in the forecast. Maintain Neutral on valuation.

OK rate case settlement: OGE saw a settlement for the electric rate case in OK in September 2022, which included a $30Mn rate increase, 9.5% ROE and 53.37% equity layer vs the company's ask of $163.5Mn rate increase, 10.2% ROE and 53.37% equity layer. In addition to the rate increase, the company also was able to get approval to extend the grid enhancement mechanism in the state which allows the company to add $6Mn of investment in '23, and another $6Mn/yr in '24 and '25. We look for incremental updates on rate case strategy for OK on the 4Q call where mgmt has yet to detail rate filing strategy, but we see a pre-approval path for generation additions as more likely.

- Valuation, TP and risks: We increase our TP to $38 from $36 and roll forward our SOTP valuation to apply the small cap electric peer group multiple to 2025E EPS. We continue to apply a 5% premium to the name on account of limited rate case risk in the service territory. We move our EPS estimates lower in 2023+ to account for higher parent drag and our FY23 walk considerations. Risks: climate change, inflation, better/worse than expected regulatory outcomes.

Previous target price (12M, US$)	36.00
Price (27 Jan 23, US$)	39.23
52-week price range	42.78 - 33.76
Enterprise value (US$ m)	11,897

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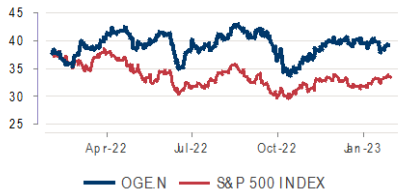
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	2.36	2.09	2.03	2.15
Prev. EPS (US$)	-	-	2.07	2.19
P/E (x)	16.6	18.8	19.3	18.2
P/E rel. (%)	85.8	104.1	109.7	114.5
EBITDA (US$ m)	960	1,039	1,105	1,164
EV/EBITDA (current)	13.4	11.4	11.1	10.8
Net debt (US$ m)	4,983	4,043	4,418	4,752
FFO/Interest	5.6	5.1	4.7	4.7
FFO/Total Debt	0.18	0.18	0.16	0.16
Number of shares (m)	200	BV/Share (Next Qtr., US$)		0
Net debt (Next Qtr., US$ m)	0	Dividend (current, US$)		0.0
Net debt/tot eq (Next Qtr., %)		Dividend yield (%)		4.19

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan27, 2023, 01/28/22 = US$37.84

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	0.26	0.56	1.26	0.27
2022E	1.39	0.36	1.31	-0.98
2023E	1.38	0.35	1.30	-1.00

OGE Energy (OGE)

Analyst: **Nicholas Campanella**

Price (27 Jan 2023): **US$39.23** Target Price: **(from 36.00) 38.00**

Rating: **Neutral**

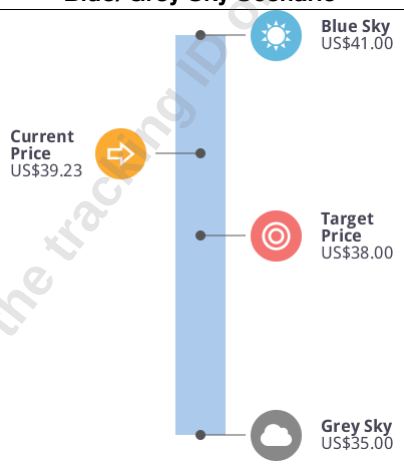
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**3,653.7**	**3,810.7**	**3,895.1**	**3,973.3**
EBITDA (US$ m)	**960**	**1,039**	**1,105**	**1,164**
Depr. & amort.	(416)	(435)	(453)	(471)
EBIT (US$)	**1,037**	**662**	**659**	**700**
Net interest exp	(158)	(167)	(181)	(194)
PBT (US$)	**879**	**495**	**478**	**506**
Income taxes	(141)	(77)	(71)	(75)
Minorities	-	-	-	-
Reported net income (US$)	**473**	**418**	**407**	**431**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**473**	**418**	**407**	**431**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	1,037	662	659	700
Net interest	(158)	(167)	(181)	(194)
Change in working capital	(191)	0	0	0
CAPEX	(779)	(950)	(950)	(950)
Free cashflow to the firm	**(1,092)**	**(5)**	**(42)**	**4**
Acquisitions	0	0	0	0
Divestments	-	-	-	-
Cash flow from investments	**(749)**	**324**	**(950)**	**(950)**
Changes in Net Cash/Debt	**(1,395)**	**940**	**(375)**	**(334)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	0	825	825	891
Total current assets	**614**	**1,439**	**1,439**	**1,505**
Total assets	**12,606**	**12,672**	**13,169**	**13,714**
Liabilities				
Total current liabilities	**1,090**	**640**	**640**	**640**
Total liabilities	**8,550**	**8,534**	**8,963**	**9,421**
Total liabilities and equity	**12,606**	**12,672**	**13,169**	**13,714**
Net debt	4,983	4,043	4,418	4,752
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	200	200	200	200
CS adj. EPS	2.36	2.09	2.03	2.15
Prev. EPS (US$)	-	-	2.07	2.19
Dividend (US$)	1.62	1.64	1.66	1.69
Free cash flow per share	(5.45)	(0.02)	(0.21)	0.02
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	72.2	4.3	2.2	2.0
EBIT growth (%)	827.1	(36.1)	(0.5)	6.2
Net profit growth (%)	13.6	(11.6)	(2.8)	6.0
EPS growth (%)	13.5	(11.6)	(2.8)	6.0
EBITDA margin (%)	26.3	27.3	28.4	29.3
EBIT margin (%)	28.4	17.4	16.9	17.6
Pretax margin (%)	24.0	13.0	12.3	12.7
Net margin (%)	12.9	11.0	10.4	10.8
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	3.51	3.12	3.15	3.17
P/E (x)	16.6	18.8	19.3	18.2
Price to book (x)	1.9	1.9	1.9	1.8
Asset turnover	0.3	0.3	0.3	0.3
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	12.3	10.2	9.7	10.1
ROIC (%)	9.6	6.8	6.5	6.6
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	122.9	97.7	105.1	110.7
Interest coverage ratio (X)	6.5	4.0	3.6	3.6
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	0.26	0.56	1.26	0.27
2022E	1.39	0.36	1.31	-0.98
2023E	1.38	0.35	1.30	-1.00

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

Company Background

OGE Energy Corp generates transmits and distributes electricity to wholesale and retail customers in Oklahoma and Western Arkansas.

Blue/Grey Sky Scenario



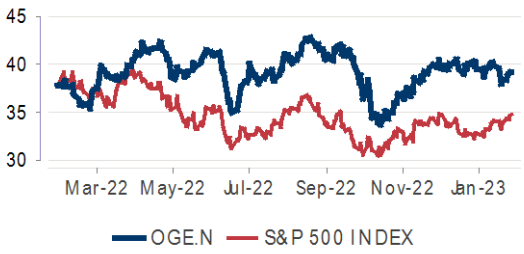
Our Blue Sky Scenario (US$) **(from 38.00) 41.00**

Our Blue Sky scenario contemplates an 17.2x 2025E P/E, which could be achieved if: (1) growth in the jurisdiction continues at the current pace with no further decreases in guidance; (2) the sale of the ET assets occurs without hiccups and the company is able to use the proceeds to de-lever its operating company; and (3) the IRP is approved and solar panel supply chains are not a major factor for the renewable build out.

Our Grey Sky Scenario (US$) **(from 33.00) 35.00**

Our Grey Sky scenario assumes OGE trades at a 14.8x P/E, or a 10.8% discount. We think the market would likely return to a discounted view on the stock if management fails to properly execute on renewable energy plan and T&D upgrades that allow the company to meet rapidly growing demand, if the IRP plan is significantly reduced/revised downward, and if regulatory environment in Oklahoma becomes unfavorable.

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$37.92

This article is intended for the sole use of customer with the tracking ID of 10111670

Investment Considerations

- **AR annual formula rate filing:** During the 4Q call we expect an update on the currently outstanding AR formula rate filing, where the company initially asked for a rate increase of $13.2 Mn, later revising the requested increase to $8.5Mn. Staff currently recommends a $9.6Mn increase, something we view as a positive as it is indicative of the potential for a favorable regulatory outcome for the company. Rates are expected to be in effect April 1. Additionally, on January 20 the AR Commission ordered in favor of the company, granting OGE the ability to file for rate increases via the formula rate filing two additional times, something that saw pushback from stakeholders in the past. We view this as another positive for the name in AR and see it as potentially leading to future rate increases in the future.
- **OK pre-approval:** The company does not currently have any pending legislation in OK, however is currently guiding to potentially seeking pre-approval for upcoming generation investments in the state. Although currently not a concrete plan, pre-approval could lead to a smoother transition as the company invests in renewable assets in the service territory. The company is expecting to file for pre-approval of the generation assets in 4Q23. OGE is currently guiding to no rate case activity in 2023, but we could see guidance from management on what plan are for filing in 2024.

FY23 EPS Walk

- **Drivers:** We see a $2.03/sh FY23 vs. $2.04/sh Consensus (FS) and $2.10/sh FY22 (implied midpoint of FY '22 guidance). We see $0.03/sh pick-ups from new rates in AR effective April first 2022 and grid enhancements in OK. Additionally, we see a $0.09/sh drag from depreciation, $0.04/sh drag from interest expense and a $0.08/sh drag from parent holdco debt paydown. We expect further clarity on FY23 EPS during the 4Q call.

Figure 47: OGE FY23 EPS Walk

OGE FY23 EPS Walk		EPS
Starting EPS		$2.10
Weather		$0.00
Weather		$0.00
Adj Starting Point		**$2.10**
Rider Revnue		
New Rates	New rate AR FRP, in effect April 1st - $9Mn Staff Rec	$0.03
Grid Enhancement	OK grid enhancement mechanism extended-- $6Mn in '23	$0.03
New customer growth	Growing Margin 1%	$0.08
O&M		$0.00
Depreciation		($0.09)
Interest Expense	~4c per year drag	($0.04)
Distirbution from midstream		$0.00
ET MtM		$0.00
NCI		$0.00
Parent	Paying down $1Bn of holdco debt; net of $450Mn issued	($0.08)
Holdco		$0.00
Dilution		$0.00
OGE FY23 EPS		**$2.03**
FY23 Guidance		2.21-2.25
FY23 EPS		$2.07
FY23 Consensus		$2.04
2022 SO		200
2023 SO		200

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

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Valuation: $38 TP

We increase our TP to $38 from $36 and roll forward our SOTP valuation to apply the small cap electric peer group multiple to 2025E EPS. We continue to apply a 5% premium to the name on account of limited rate case risk.

Figure 48: OGE SOTP Valuation

OGE SOTP Valuation				Grey Sky	Base Case	Blue Sky
Oklahoma Gas and Electric				14.8x	16.0x	17.2x
Business Segments	**EPS ('25E)**	**Prem / Disc.**	**Base Case Implied Multiple**			
Oklahoma Gas and Electric	$2.32	5%	16.8x	$36	$39	$42
Parent Drag	($0.04)	5%	16.8x	($1)	($1)	($1)
Valuation				**$35.00**	**$38.00**	**$41.00**
Stock Price					$39.2	
Upside / Downside				-10.8%	-3.1%	4.5%
Yield					4.1%	
Total Return				**-6.6%**	**1.0%**	**8.6%**

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

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Fundamental Dashboard

We move our EPS estimates lower in 2023+ to account for higher parent drag and our FY23 walk considerations.

Figure 49: OGE Fundamental Dashboard

OGE Dashboard Nicholas Campanella +1 212 325 7505	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	$2.16	$2.08	$2.36	$2.09	$2.03	$2.15	$2.28	$2.42
Prior EPS				$2.09	$2.07	$2.19	$2.32	$2.46
Consensus EPS				$2.33	$2.04	$2.17	$2.28	$2.37
Delta (%)				-10.5%	-0.5%	-0.7%	0.0%	2.2%
Shares Outstanding		200	200	200	200	200	200	200
DPS		$1.57	$1.62	$1.64	$1.66	$1.69	$1.71	$1.73
DPS Growth (%)			3.1%	1.4%	1.1%	1.4%	1.4%	1.4%
DPS Payout (%) - Targeting 65-70%			68.7%	78.7%	81.9%	78.3%	74.9%	71.6%
Valuation Metrics								
P/E		18.9x	16.6x	18.8x	19.3x	18.2x	17.2x	16.2x
EV/RAB		1.6x	1.7x	1.5x	1.4x	1.4x	1.3x	1.3x
FFO		636	(123)	945	908	954	1,004	1,056
Net Debt		3,588	4,983	4,043	4,418	4,752	5,141	5,482
FFO/Debt (%)		17.7%	-2.5%	23.4%	20.5%	20.1%	19.5%	19.3%
EBITDA		914	960	1,039	1,105	1,164	1,227	1,291
Net Debt		3,588	4,983	4,043	4,418	4,752	5,141	5,482
Net Debt / EBITDA		3.9x	5.2x	3.9x	4.0x	4.1x	4.2x	4.2x
Consoldiated Equity Layer (%)		50.3%	44.9%	45.9%	44.5%	43.2%	42.5%	42.1%
Guidance: 18-20%ish FFO/Debt; believe we have some room on downgrade threshold								
EPS Estimates By Sub								
OGE	$1.74	$1.70	$1.80	$1.91	$2.06	$2.19	$2.32	$2.46
Midstream		$0.00	$0.00	$0.20	$0.00	$0.00	$0.00	$0.00
Parent	$0.00	$0.38	$0.56	($0.02)	($0.03)	($0.04)	($0.04)	($0.04)
Consolidated	**$1.74**	**$2.08**	**$2.36**	**$2.09**	**$2.03**	**$2.15**	**$2.28**	**$2.42**
Rate Base Metrics (YE)								
OGE	6,766	7,039	7,554	8,093	8,611	9,106	9,678	10,225
Total Rate Base	**6,766**	**7,039**	**7,554**	**8,093**	**8,611**	**9,106**	**9,678**	**10,225**
Guidance		**7,039**	**7,554**	**8,155**	**8,744**	**9,306**	**9,848**	**10,369**
Guidance 6% RAB Growth		**7,039**	**7,461**	**7,909**	**8,384**	**8,887**	**9,420**	**9,985**

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

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PG&E Corporation

4Q Preview; Looking to Rate Case and Clarity on Diablo Canyon; Outperform

PCG

Target price (12M, US$) 18.00

Outperform

Electric Utilities

We provide our 4Q preview for PCG and reiterate our Outperform rating on the stock. PCG remains a strong opportunity in the space given the deep discount on the name with the current 2025E EPS P/E premium of 10.8x vs. 16.2x average for the large-cap electric peer group. We see PCG as an opportunity given the name has historically seen headwinds related to wildfire risk and we see that as the risk subsides via wildfire mitigation tactics, as well as mgmt execution on sector high EPS growth of 9-10% EPS, multiples are likely to expand. Recall that during the 3Q call management provided FY '22 EPS guidance of $1.09 - $1.11/sh, as well as FY '23 EPS guidance of $1.19 - $1.23/sh. We expect management to reaffirm current LT EPS growth guidance of 10% from '22 to '26 as well as near term financial targets.

- **Wildfire mitigation, '23 GRC & More:** During the 4Q call we expect an update on the company's plan and timeline for wildfire mitigation tactics to reduce risk to the service territory. The company is engaged in certain tactics right now such as inspection of assets and vegetation management, as well as plans for undergrounding certain power lines in high-risk areas via SB 884 which was signed into law in September 2022. The bill includes a 10yr LT undergrounding plan with an 18-month expedited review, with some cost recovery to be approved in a 4yr GRC cycle. We're also expecting an update on the '23 GRC as PCG filed briefs during the quarter adjusting the revenue requirement. Lastly, we look for an update on the dividend reinstatement timeline (mid-year target), Diablo Canyon NRC approval, storm impacts from the start of January as well as an updated scorecard for FY22 execution. All in, we expect PCG to remain on track with its core plan outlined this time last year.
- **Valuation, TP and risks:** We increase our TP to $18 from $17 on account of slightly higher electric and gas peer group multiples. We continue to apply a 25% discount to electric GRC earnings, 15% discount to GT&S earnings and 5% discount to transmission on account of wildfire risk in the area. We increase our '22 EPS est by 2c, leave our '23 and '24 ests unchanged, and increase our '25 and '26 ests by 1c. Risks: wildfire, climate change, inflation.

Previous target price (12M, US$)	17.00
Price (27 Jan 23, US$)	16.06
52-week price range	16.45 - 9.78
Enterprise value (US$ m)	71,967

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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	1.08	1.13	1.22	1.33
Prev. EPS (US$)	-	1.11	-	-
P/E (x)	14.9	14.2	13.1	12.1
P/E rel. (%)	77.0	78.6	74.6	75.7
EBITDA (US$ m)	5,286	7,921	8,305	8,906
EV/EBITDA (current)	14.4	9.1	8.9	8.6
Net debt (US$ m)	44,583	38,281	39,818	42,375
FFO/Total Debt (%)	5.1	17.8	18.2	15.9
EV/Rate Base	1.57	1.38	1.29	1.24
Number of shares (m)	2,465	Dividend (current, US$)		0.0
Consolidated ROE (%)	10.9	Dividend yield (%)		0.01
Rate Base (YE)	52,686			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4028.41Daily Jan28, 2022 - Jan27, 2023, 01/28/22 = US$12.69

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	0.06	0.18	-0.55	1.37
2022E	0.30	0.25	0.29	0.29
2023E	0.25	0.19	0.24	0.55

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PG&E Corporation (PCG)

Price (27 Jan 2023): **US$16.06** Target Price: **(from 17.00) 18.00**

Analyst: **Nicholas Campanella**
Rating: **Outperform**

Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**20,642.0**	**21,658.5**	**21,915.9**	**22,392.7**
EBITDA (US$ m)	**5,286**	**7,921**	**8,305**	**8,906**
Depr. & amort.	(3,403)	(3,581)	(3,782)	(3,993)
EBIT (US$)	**2,349**	**4,806**	**4,989**	**5,379**
Net interest exp	(1,601)	(1,415)	(1,326)	(1,357)
PBT (US$)	**748**	**3,391**	**3,663**	**4,021**
Income taxes	(836)	(967)	(1,038)	(1,138)
Minorities	-	-	-	-
Reported net income (US$)	**2,138**	**2,410**	**2,611**	**2,869**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**2,138**	**2,410**	**2,611**	**2,869**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	2,349	4,806	4,989	5,379
Net interest	(1,601)	(1,415)	(1,326)	(1,357)
Change in working capital	(2,777)	0	0	0
CAPEX	(7,689)	(8,600)	(9,550)	(10,050)
Free cashflow to the firm	**(5,427)**	**(1,783)**	**(2,318)**	**(3,311)**
Acquisitions	-	-	-	-
Divestments	-	-	-	-
Cash flow from investments	**(6,905)**	**(8,600)**	**(9,550)**	**(10,050)**
Changes in Net Cash/Debt	**(4,347)**	**6,302**	**(1,537)**	**(2,557)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	307	5,159	1,822	265
Total current assets	**11,077**	**15,929**	**12,592**	**11,035**
Total assets	**103,327**	**112,681**	**114,596**	**118,578**
Liabilities				
Total current liabilities	**17,427**	**17,427**	**17,927**	**18,927**
Total liabilities	**82,104**	**89,192**	**88,455**	**89,568**
Total liabilities and equity	**103,327**	**112,681**	**114,596**	**118,578**
Net debt	44,583	38,281	39,818	42,375
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	1,985	2,128	2,138	2,154
CS adj. EPS	1.08	1.13	1.22	1.33
Prev. EPS (US$)	-	1.11	-	-
Dividend (US$)	0.00	0.00	0.03	0.04
Free cash flow per share	(2.73)	(0.84)	(1.08)	(1.54)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	11.8	4.9	1.2	2.2
EBIT growth (%)	638.7	104.6	3.8	7.8
Net profit growth (%)	5.8	12.7	8.3	9.9
EPS growth (%)	(33.0)	5.2	7.8	9.1
EBITDA margin (%)	25.6	36.6	37.9	39.8
EBIT margin (%)	11.4	22.2	22.8	24.0
Pretax margin (%)	3.6	15.7	16.7	18.0
Net margin (%)	10.4	11.1	11.9	12.8
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	3.68	3.32	3.36	3.41
P/E (x)	14.9	14.2	13.1	12.1
Price to book (x)	1.5	1.5	1.3	1.2
Asset turnover	0.2	0.2	0.2	0.2
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	10.2	10.9	10.6	10.5
ROIC (%)	(0.4)	5.6	5.4	5.4
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	210.1	163.0	152.3	146.1
Interest coverage ratio (X)	1.5	3.4	3.8	4.0
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	0.06	0.18	-0.55	1.37
2022E	0.30	0.25	0.29	0.29
2023E	0.25	0.19	0.24	0.55

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

Company Background

PG&E Corporation is a utility holding company. The company holds interests in a public utility operating in northern and central California that provides electric and gas distribution, generation, procurement and transmission services.

Blue/Grey Sky Scenario



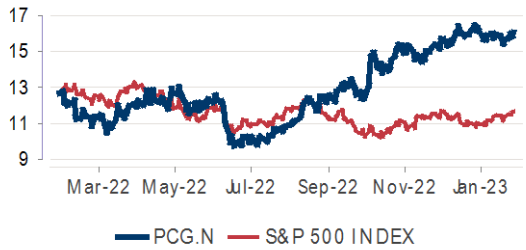
Our Blue Sky Scenario (US$) **(from 22.00) 23.00**

Our Blue Sky scenario contemplates a 16.0x 2024E P/E, which could be achieved if PCG is able to execute on the high end of its proposed capital spending ($10Bn/yr), if management is able to obtain better-than-expected outcomes on current CPUC proposals, or if investor attitudes on wildfire risk significantly improve. We see most investors already approaching CA with a 20%+ discount and think that can only improve with time.

Our Grey Sky Scenario (US$) **(from 11.00) 12.00**

Our Grey Sky scenario assumes PCG trades at a 8.3x P/E, which could happen if the wildfire recovery framework deteriorates in CA, if mgmt. sees new liabilities crop up in subrogation claims for prior fires or new fires, or if management fails to properly receive constructive outcomes in the 2023 GRC, cost-of-capital proceeding, or rate-neutral securitization. We also include a $10Bn wildfire liability (pre-tax) in our downside case

Share price performance



On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$12.79

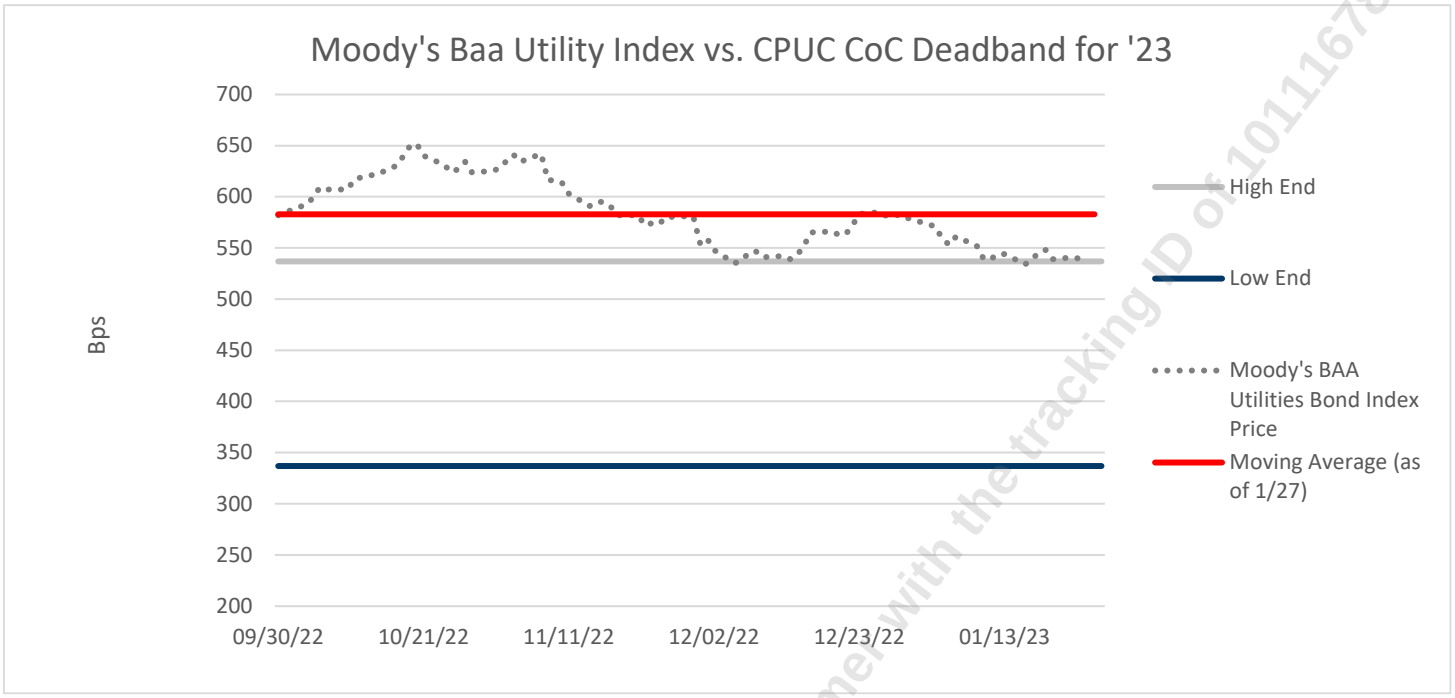
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Investment Considerations

- **Victims fire trust:** The FVT continues to scale down its position, and as of January 2023 owns ~187Mn shares of PCG stock, which makes it PCG's fourth-largest shareholder (~9.5% ownership). On January 11 the FVT announced a pro-rata payment increase to 60% from 45% effective January 31 which could potentially increase the cadence of the sale of assets.
- **Electric rate case:** PCG is currently amidst a rate case for the electric business which was filed in September 2021 with the company asking for a total rate increase of $3.239Bn from 2022 to 2026, with staff recommending in November a total rate increase of $689Mn over the same time. PCG responded with a revised request that included a $4.263Bn total multi-year rate increase which includes an increase of $3.17Bn for electric generation and distribution revenues in the 2023 test year, followed by a $518Mn rate increase in 2024, $391Mn increase in 2025 and $184Mn increase in 2026. We expect an update on the 4Q call regarding confidence level to achieve a constructive outcome for this rate case, as well as a potential timeline for next steps post briefs. We think a settlement is unlikely at this point.
- **Gas distribution rate case:** In June 2021 PCG filed for a multi-year rate plan for the natural gas business, which included an original total increase in rates of $2.223Bn from 2023 to 2026 for gas distribution and gas transmission and storage investments. In November, staff recommended a $469Mn rate increase over the same period, with PCG responding with a revised request of $2.291Bn. We see this as a slightly cautious data point for the company given the large delta between asks and that CA is historically a challenging regulatory environment.
- **Diablo Canyon**: We expect an update on Diablo Canyon during the 4Q call after recent news that the NRC declined PCG's request to resume the review of the license renewal application to delay the closure of the nuclear plant. In a letter from the NRC regarding the issue the organization cites that resuming the review of the withdrawn application would be inconsistent with regulation and that a review cannot be conducted until PCG submits additional information on the plant in its current state, among other things. In October, PCG requested to extend the closure date of the power plant which is currently scheduled to be retired in 2024 and 2025. We see this as a slightly cautious data point as it brings uncertainty to the timeline. Per the NRC letter, PCG has stated that they will provide an updated application with updated information by the end of 2023.
- **Cost of capital:** During the 4Q call we expect a potential update from management on CoC. CA utilities are subject to an annual CoC adjustment mechanism where any year where the difference between 1) the benchmark, which is the average of each month of daily averages for the past 12 months (from October 1, 2021, to September 30, 2022) of the Moody's Baa Utility Bond Index; and 2) the index, which is the rolling average of daily yield for the current 12 months of the Moody's Baa Utility Bond Index (from October 1, 2022, to September 30, 2023) exceeds 100bps from the midpoint of the benchmark, the utility's ROE would increase/decrease by 50% of the difference. The benchmark is currently 4.37% and as of January 19 the index is 5.83%, as of January 27. For example purposes, if the end of the period saw these same figures the dead band would trigger and PCG's ROE would increase by ~75bps to ~10.8%. When the dead band is triggered, the company's cost of debt and preferred is refreshed to equal the most recently recorded levels for forecasted debt issuance and forecasted interest rates for the next 12 months. Additionally, should the dead band be triggered, both the benchmark and dead band reset. We view this as a positive for the stock as it allows for cost of capital and ROE to keep pace with current market conditions with relatively minimal lag, and should current trends continue PCG could see an increase, though we see this more as creating future 'flex' for 2024-2025 considerations.

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Figure 50: Moody's Baa Utility Bond Index vs. CPUC CoC Dead Band for '23



Source: FactSet

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4Q EPS Walk

- **Drivers:** We see a $0.29/sh 4Q22 vs. $0.28/sh Consensus (FS) and $0.29/sh 4Q21. The above consensus estimate is partially due to a stale figure. For 4Q22 we see a $0.03/sh pick-up from rate base growth and $0.02/sh pick-up from tax timing. Additionally, we see a $0.02/sh drag from dilution, and $0.01/sh drag from cost reductions.

Figure 51: PCG 4Q22 EPS Walk

PCG 4Q22 EPS Walk		EPS
Starting EPS		$0.28
Weather		$0.00
Weather		$0.00
Adj Starting Point		**$0.28**
Rate Base Growth		$0.03
Refueling Outage 2021	Clean	$0.00
EE Awards	None	$0.00
Timing of taxes	Unknown but positive	$0.02
Cost Reductions	2% Annual non-fuel O&M reduction	($0.01)
Other		($0.01)
Interest Expense	Unrecoverable int expense	($0.00)
Dilution		($0.02)
PCG 4Q22 EPS		**$0.29**
4Q22 Consensus (BBG)		$0.28
FY22 Guidance		$1.10
FY22 EPS		$1.13
FY 2022 Consensus		$1.10
2021 SO		1,985
2022 SO		2,128

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

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Valuation: TP to $18 from $17

We increase our TP to $18 from $17 on account of slightly higher electric and gas peer group multiples. We continue to apply a 25% discount to electric GRC earnings, 15% discount to GT&S earnings and 5% discount to transmission on account of wildfire risk in the area.

Figure 52: PCG SOTP Valuation

PCG SOTP Valuation				Grey Sky	Base Case	Blue Sky
Electric Group Multiple				12.2x	16.2x	20.3x
Gas Group Multiple				12.0x	16.0x	20.0x
Business Segments	**Net Income ('25E)**	**Prem / Disc**	**Base Case Implied Multiple**			
Electric GRC Earnings	2,266	-25%	12.2x	20,652	27,536	34,420
GT&S Earnings	354	-15%	13.6x	3,612	4,816	6,020
Transmission Owner	673	-5%	15.4x	7,766	10,355	12,943
Total OpCo Net Income	**3,293**					
Parent Drag	(158)		13.7x	(2,172)	(2,172)	(2,172)
Total Equity Value - Ongoing Operations	**3,135**		12.9x	**29,858**	**40,534**	**51,211**
Wildfire Liabilities	**Fire Liability**	**Insurance**	**Tax Rate (%)**			
Dixie Fire	1,200	(1,200)	28%	0	0	0
Kincaid: $800Mn is low end of third party claims	1,200	(430)	28%	(554)	(554)	(554)
Zogg	375	(375)	28%	0	0	0
Additional Wildfire Liabilities	1,000	(500)	28%	(3,240)	(360)	(360)
Net Wildfire Liabilities				**(3,794)**	**(914)**	**(914)**
Total Equity Value $Mn				**26,063**	**39,620**	**50,297**
Shares Outstanding ('25E)				2,169	2,169	2,169
Implied P/E				8.3x	12.6x	16.0x
Valuation				**$12.00**	**$18.00**	**$23.00**
Stock Price					$16	
Upside / Downside (%)				-25.3%	12.1%	43.2%
Yield					0.0%	
Total Return				**-25.3%**	**12.1%**	**43.2%**

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

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Fundamental Dashboard

We increase our '22 EPS est by 2c, leave our '23 and '24 ests unchanged, and increase our '25 and '26 ests by 1c.

Figure 53: PCG Fundamental Dashboard

PCG Dashboard Nicholas Campanella +1 212 325 7505	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	$3.93	$1.61	$1.08	$1.13	$1.22	$1.33	$1.45	$1.57
Prior EPS			**$1.08**	**$1.11**	**$1.22**	**$1.33**	**$1.44**	**$1.56**
Consensus EPS			$1.08	$1.10	$1.22	$1.36	$1.47	$1.61
Delta (%)			-0.3%	2.9%	-0.3%	-1.7%	-1.5%	
Shares Outstanding		1,257	1,985	2,128	2,138	2,153	2,169	2,184
DPS			$0.00	$0.00	$0.03	$0.04	$0.06	$0.08
DPS Growth (%)						50.0%	50.0%	50.0%
DPS Payout (%)					2.0%	2.8%	3.9%	5.4%
Valuation Metrics								
P/E		10.0x	14.9x	14.2x	13.1x	12.1x	11.1x	10.3x
EV/RAB		1.3x	1.6x	1.4x	1.3x	1.2x	1.2x	1.1x
FFO		67	4,567	6,817	7,232	6,739	8,258	8,807
Net Debt		40,236	44,583	38,281	39,818	42,375	43,753	45,580
FFO/Debt (%)		0.2%	10.2%	17.8%	18.2%	15.9%	18.9%	19.3%
EBITDA		5,223	5,286	7,921	8,305	8,906	9,544	10,256
Net Debt		40,236	44,583	38,281	39,818	42,375	43,753	45,580
Net Debt / EBITDA		7.7x	8.4x	4.8x	4.8x	4.8x	4.6x	4.4x
Consoldiated Equity Layer (%)		34.2%	32.1%	35.1%	38.6%	40.5%	42.0%	42.7%
EPS Estimates By Sub								
Pacific Gas & Electric	($14.46)	$1.18	$1.25	$1.24	$1.30	$1.41	$1.52	$1.64
Parent	$18.39	$0.43	($0.18)	($0.11)	($0.07)	($0.07)	($0.07)	($0.07)
Consolidated	**$3.93**	**$1.61**	**$1.08**	**$1.13**	**$1.22**	**$1.33**	**$1.45**	**$1.57**
Guidance Midpt				**$1.10**	**$1.21**	**$1.33**	**$1.45**	**$1.58**
Rate Base Metrics (YE)								
PCG	44,000	46,000	48,440	52,309	56,901	61,731	66,593	72,164
Total Rate Base	**44,000**	**46,000**	**48,440**	**52,309**	**56,901**	**61,731**	**66,593**	**72,164**
Earned ROE Assumptions								
GRC	10.3%	10.3%	10.3%	10.3%	10.0%	10.0%	10.0%	10.0%
GT&S	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
TO	11.1%	11.1%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Earned ROE - GAAP Consolidated (AVG)			15.2%	10.1%	10.8%	10.5%	10.4%	10.3%
Equiity Ratio (%) - GAAP								
PCG	100.0%	43.8%	43.2%	46.5%	49.3%	51.5%	52.3%	52.2%

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

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GAS-ROR-010
Attachment E
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CREDIT SUISSE

PPL Corporation

Expecting a Quiet 4Q Post Investor Update; Reiterate Outperform

PPL

Target price (12M, US$) 30.00

Outperform

Electric Utilities

We are providing our 4Q preview for PPL and reiterating our Outperform rating on the stock. PPL remains a strong name in the space with a robust catalyst path coming off the May 2022 Narragansett Electric acquisition. With the recent investor update on January 11 we do not see much in terms of incremental updates during the 4Q call, but are focused on the execution of the plan and expect management to reaffirm all metrics in-line with current guidance.

- **Investor update:** PPL provided a comprehensive update for investors on January 11 with the key takeaways being extension of 6-8% LT EPS growth guidance through 2026 (from 2025), incremental capex increases of $2.5Bn for generation replacement and transmission investments and incremental O&M savings forecast of $25Mn through 2026. We see this update as a positive for the company as it reiterates PPL's robust catalyst path.
- **Valuation, TP and risks:** We decrease our TP to $30 from $32 on account of a lower large-cap electric peer group multiple and continue to apply a 10% premium to the PA segment on account of the favorable regulatory environment in the state, and a 5% discount to the LU & KU. We decrease our '22 EPS est by 2c, keep '23 est unchanged, decrease '24 est by 2c, '25 est by 3c and '26 est by 2c. Risks: Better/worse than expected regulatory outcomes, inflation, climate change.

Previous target price (12M, US$)	32.00
Price (30 Jan 23, US$)	29.45
52-week price range	30.91 - 23.98
Enterprise value (US$ m)	35,890

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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	1.05	1.40	1.58	1.70
Prev. EPS (US$)	-	1.42	-	1.72
P/E (x)	27.9	21.1	18.6	17.4
P/E rel. (%)	144.2	116.8	105.7	109.0
EBITDA (US$ m)	2,506	3,119	3,336	3,521
EV/EBITDA (current)	12.0	11.5	10.9	10.6
Net debt (US$ m)	7,638	13,981	14,640	15,548
FFO/Interest	2.1	4.1	4.2	4.2
FFO/Total Debt	0.17	0.16	0.17	0.17
Number of shares (m)	736	BV/Share (Next Qtr., US$)		
Net debt (Next Qtr., US$ m)	0	Dividend (current, US$)		0.0
Net debt/tot eq (Next Qtr., %)		Dividend yield (%)		3.59

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 30-Jan-2023 the S&P 500 INDEX closed at 4017.77Daily Jan31, 2022 - Jan30, 2023, 01/31/22 = US$29.68

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	-2.39	0.02	0.10	0.18
2022E	0.41	0.30	0.41	0.28
2023E	0.41	0.20	0.28	0.69

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PPL Corporation (PPL)

Price (30 Jan 2023): **US$29.45** Target Price: **(from 32.00) 30.00**

Analyst: **Nicholas Campanella**

Rating: **Outperform**

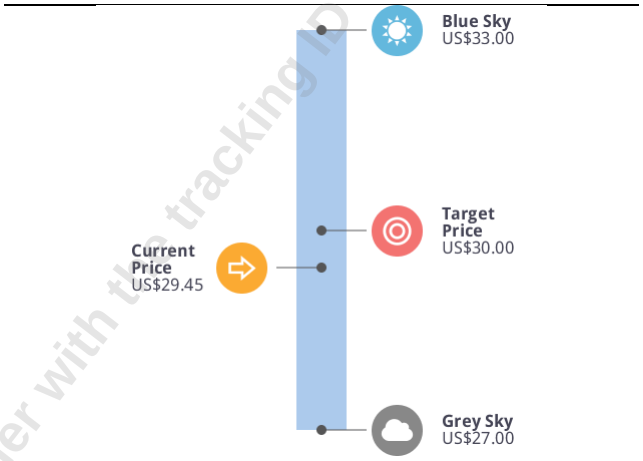
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**5,783.0**	**7,382.1**	**7,746.5**	**8,087.9**
EBITDA (US$ m)	**2,506**	**3,119**	**3,336**	**3,521**
Depr. & amort.	(1,082)	(1,263)	(1,307)	(1,358)
EBIT (US$)	**1,439**	**1,875**	**2,049**	**2,182**
Net interest exp	(918)	(556)	(584)	(615)
PBT (US$)	**521**	**1,319**	**1,465**	**1,567**
Income taxes	(503)	(279)	(299)	(316)
Minorities	-0	-0	-0	-0
Reported net income (US$)	**(1,480)**	**1,040**	**1,166**	**1,251**
Other NPAT adjustments	(2,286)	0	0	0
Adjusted net income	**806**	**1,040**	**1,166**	**1,251**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	1,439	1,875	2,049	2,182
Net interest	(918)	(556)	(584)	(615)
Change in working capital	22	0	0	0
CAPEX	(1,973)	(2,400)	(2,400)	(2,700)
Free cashflow to the firm	**297**	**(98)**	**72**	**(92)**
Acquisitions	0	(3,700)	0	0
Divestments	10,560	0	0	0
Cash flow from investments	**7,957**	**(6,100)**	**(2,400)**	**(2,700)**
Changes in Net Cash/Debt	**7,777**	**(6,343)**	**(660)**	**(908)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	3,571	25	116	28
Total current assets	**5,007**	**1,858**	**1,949**	**1,861**
Total assets	**33,223**	**42,671**	**43,855**	**45,109**
Liabilities				
Total current liabilities	**2,323**	**2,935**	**2,935**	**2,935**
Total liabilities	**19,500**	**24,728**	**25,477**	**26,296**
Total liabilities and equity	**33,223**	**42,671**	**43,855**	**45,109**
Net debt	7,638	13,981	14,640	15,548
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	765	744	737	737
CS adj. EPS	1.05	1.40	1.58	1.70
Prev. EPS (US$)	-	1.42	-	1.72
Dividend (US$)	1.67	1.06	0.96	1.03
Free cash flow per share	0.39	(0.13)	0.10	(0.13)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	5.6	27.7	4.9	4.4
EBIT growth (%)	(9.4)	30.3	9.3	6.5
Net profit growth (%)	4.1	29.0	12.2	7.3
EPS growth (%)	4.8	32.6	13.2	7.3
EBITDA margin (%)	43.3	42.2	43.1	43.5
EBIT margin (%)	24.9	25.4	26.4	27.0
Pretax margin (%)	9.0	17.9	18.9	19.4
Net margin (%)	13.9	14.1	15.1	15.5
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	5.22	4.86	4.69	4.61
P/E (x)	27.9	21.1	18.6	17.4
Price to book (x)	1.6	1.2	1.2	1.1
Asset turnover	0.2	0.2	0.2	0.2
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	(9.4)	6.5	6.4	6.7
ROIC (%)	0.2	4.6	4.9	5.1
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	55.7	77.9	79.7	82.6
Interest coverage ratio (X)	1.6	3.4	3.5	3.5
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	-2.39	0.02	0.10	0.18
2022E	0.41	0.30	0.41	0.28
2023E	0.41	0.20	0.28	0.69

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

Company Background

PPL Corporation is an energy and utility holding company. The company operates vertically integrated utilities in Kentucky, and transmission utilities in PA.

Blue/Grey Sky Scenario



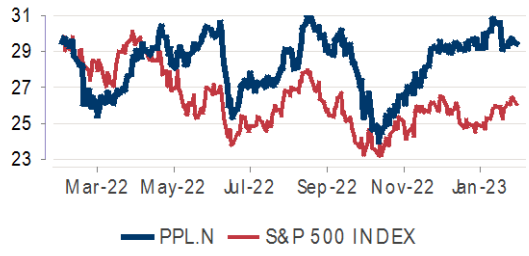
Our Blue Sky Scenario (US$) **(from 35.00) 33.00**

Blue Sky Scenario ($33): Our Blue Sky scenario contemplates a 18.5x 2025E P/E multiple, which could be achieved if: (1) cash flows associated with recent Narragansett acquisition allow for sustained increase in dividends; (2) Kentucky coal retirement and renewable build-out continues at the current pace with the current recovery mechanisms; 3) The recent business plan is realized to the fullest extent such as new O&M and capex guidance.

Our Grey Sky Scenario (US$) **(from 29.00) 27.00**

Grey Sky Scenario ($27): Our Grey Sky scenario assumes PPL trades at a 15.2x P/E multiple, or a 8.3% discount to the group regulated multiple. We think the market may return to a discounted view of the company if management fails to execute on its incremental growth strategies of AMI and renewable projects or is unable to reach its O&M reduction targets.

Share price performance



On 30-Jan-2023 the S&P 500 INDEX closed at 4017.77
Daily Jan31, 2022 - Jan30, 2023, 01/31/22 = US$29.68

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Valuation: TP to $30 from $32

We decrease our TP to $30 from $32 on account of a lower large-cap electric peer group multiple and continue to apply a 10% premium to the PA segment on account of the favorable regulatory environment in the state, and a 5% discount to the LU & KU segments because of slightly less favorable regulatory environments. See our report on the investor update here.

Figure 54: PPL SOTP Valuation

PPL SOTP Valuation				Grey Sky	Base Case	Blue Sky
Electric Group Multiple				14.6x	16.2x	17.8x
Business Segments	**Net Income ('25E)**	**Prem / Disc**	**Base Case Implied Multiple**			
PA	580	10.0%	17.8x	9,297	10,330	11,363
LU + KU	624	-5.0%	15.4x	8,642	9,602	10,562
RH	231	0.0%	16.2x	3,375	3,750	4,125
Total OpCo Net Income	**1,435**					
Parent	(110)	1.9%	16.5x	(1,640)	(1,823)	(2,005)
Total Equity Value $Mn				**19,673**	**21,859**	**24,045**
Shares Outstanding ('25E)				737	737	737
Implied P/E				14.9x	16.5x	18.2x
Valuation				**$27.00**	**$30.00**	**$33.00**
Stock Price					$29.63	
Upside / Downside (%)				-8.9%	1.2%	11.4%
Yield					3.6%	
Total Return				**-5.3%**	**4.8%**	**15.0%**

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

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Fundamental Dashboard

We decrease our '22 EPS est by 2c, keep '23 est unchanged, decrease '24 est by 2c, '25 est by 3c and '26 est by 2c.

Figure 55: PPL Fundamental Dashboard (1/2)

PPL Dashboard Nicholas Campanella +1 212 325 7505	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Consolidated EPS	**$2.37**	**$1.01**	**$1.05**	**$1.40**	**$1.58**	**$1.70**	**$1.80**	**$1.88**
Prior EPS			**$1.05**	**$1.42**	**$1.58**	**$1.72**	**$1.83**	**$1.90**
Consensus EPS			**$1.05**	**$1.41**	**$1.59**	**$1.71**	**$1.83**	**$1.95**
Delta (%)			0.4%	-0.7%	-0.5%	-0.7%	-1.7%	
Shares Outstanding		769	765	744	737	737	737	737
DPS			$1.67	$1.07	$0.96	$1.03	$1.10	$1.18
DPS Growth (%)				-36.3%	-9.6%	7.0%	7.0%	7.0%
DPS Payout (%)				76.2%	60.9%	60.7%	61.4%	62.9%
Valuation Metrics								
P/E		29.5x	28.1x	21.2x	18.7x	17.5x	16.5x	15.8x
EV/RAB		1.8x	1.3x	1.5x	1.4x	1.4x	1.4x	1.3x
FFO		2,631	2,248	2,302	2,472	2,608	2,752	2,879
Net Debt		15,415	7,638	13,981	14,640	15,548	17,094	18,593
FFO/Debt (%)		17.1%	29.4%	16.5%	16.9%	16.8%	16.1%	15.5%
EBITDA		2,608	2,506	3,119	3,336	3,521	3,738	3,933
Net Debt		15,415	7,638	13,981	14,640	15,548	17,094	18,593
Net Debt / EBITDA		5.9x	3.0x	4.5x	4.4x	4.4x	4.6x	4.7x
Consoldiated Equity Layer (%)		45.8%	55.0%	56.2%	55.5%	54.7%	52.9%	51.3%
HoldCo Debt as % of Total		41.2%	12.6%	14.6%	13.9%	13.5%	17.6%	22.7%
EPS Estimates By Sub								
PA	$0.61	$0.65	$0.61	$0.72	$0.71	$0.75	$0.79	$0.82
LU + KU	$0.71	$0.68	$0.71	$0.69	$0.77	$0.80	$0.85	$0.90
RI				$0.09	$0.21	$0.26	$0.31	$0.35
Parent	$1.05	($0.32)	($0.27)	($0.11)	($0.11)	($0.11)	($0.15)	($0.20)
Consolidated	**$2.37**	**$1.01**	**$1.05**	**$1.40**	**$1.58**	**$1.70**	**$1.80**	**$1.88**
Net Income by Sub								
PA	451	498	465	535	526	552	580	606
LU	232	244	249	231	223	234	256	269
KU	293	280	296	285	346	353	368	393
RI				69	152	195	231	260
Parent	771	(248)	(204)	(81)	(81)	(83)	(110)	(146)
Total	1,747	774	806	1,040	1,166	1,251	1,325	1,383
EPS		**1.01**	**1.05**	**1.40**	**1.58**	**1.70**	**1.80**	**1.88**
								7.65%
Payout Ratio (60-65% Earnings)				76.2%	60.9%	60.7%	61.4%	62.9%
Dividend $mns				792	710	759	813	870
Dividend $/sh				$1.07	$0.96	$1.03	$1.10	$1.18

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

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Fundamental Dashboard

Figure 56: PPL Fundamental Dashboard

Rate Base Metrics (YE)	2020A	2021A	2022E	2023E	2024E	2025E	2026E
PA	8,300	8,900	9,456	9,895	10,415	10,915	11,398
LU	4,306	4,581	4,678	4,770	4,856	5,185	5,584
KU	5,486	6,719	6,864	7,002	7,133	7,592	8,147
RI	2,800	2,950	3,302	3,740	4,358	5,054	5,534
Total Rate Base	**20,892**	**23,150**	**24,300**	**25,406**	**26,762**	**28,747**	**30,663**
New Guide (Jan '23)			24,200	25,200	26,200	28,000	30,100
Old Guidance (AD '22)	21,900	23,200	24,000	25,000	25,900	26,800	27,700
CSe Total RAB (AVG)		**22,021**	**23,725**	**24,853**	**26,084**	**27,754**	**29,705**
Earned ROE Assumptions							
PA	10.7%	9.7%	10.4%	9.7%	9.7%	9.7%	9.7%
LU	10.7%	10.6%	9.4%	8.9%	9.2%	9.6%	9.4%
KU	9.6%	9.2%	7.9%	9.4%	9.4%	9.4%	9.4%
RI			7.5%	8.5%	9.5%	9.7%	9.7%
Earned ROE - GAAP Consolidated (AVG)		5.9%	5.9%	6.6%	6.4%	6.7%	7.0%
Equity Ratio (%) - GAAP							
PPL	57.2%	58.9%	58.8%	57.5%	56.2%	54.7%	54.4%

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

This article is intended for the sole use of customer with the tracking ID of 10041678

WEC Energy Group

4Q Preview: Battling Declining Rhetoric in WI; Underperform

WEC

Target price (12M, US$) 94.00

Underperform

Multi Utilities

We are providing our 4Q EPS preview for WEC and reiterating our Underperform rating on the stock. WEC remains a strong name in the space, however given the current P/E premium the company trades at (17.8x 2025E vs. 16.7x electric peer group average) we see limited upside potential in the current environment. Management gave 4Q22 EPS guidance of $0.73-$0.75/sh, and we expect management to reaffirm current LT EPS growth CAGR guidance of 6.5%-7% during the 4Q call. Management provided FY22 EPS guidance of $4.38-$4.40. Current FY23 guidance is $4.58-$4.62/sh, a 6.7% growth rate from the original FY22 guidance midpoint. During the call we expect an update on the $5.4Bn regulated renewable investment plan, as well as views on the WI jurisdiction following the successful settlement approval in the WI rate cases, given general investor focus here. WEC's fundamentals are sound, but we remain concerned on asset mix and WI commission perceptions among other items which can pressure the premium multiple.

- **Focus is on WI Commission:** Given WI has had a historically strong regulatory construct we see strong financial outcomes for WI utilities, but also see continually declining rhetoric. We recently caught up with Commissioners, with several key takeaways. Discussions noted a focus on rates over returns with some willingness to moderate ROEs over time. Overall, we see our conversations with the Commissioners as mixed for the jurisdiction with more data-points to play out through 2023 in the Wisconsin rate reviews for peers LNT & XEL.
- **Valuation, TP shift and risks:** We shift our TP to $94 from $93 for slightly higher ROE assumptions at ATC. We apply 10% premium to WEC given the historically strong reg outcomes in WI. We increase our '22 est by 1c, decrease our '23 est by 1c, decrease '24 est by 2c and decrease our '25 and '26 est by 1c. Risks: Better/worse than expected reg outcomes, inflation, supply chain.

Previous target price (12M, US$)	93.00
Price (30 Jan 23, US$)	92.62
52-week price range	108.28 - 82.23
Enterprise value (US$ m)	44,843

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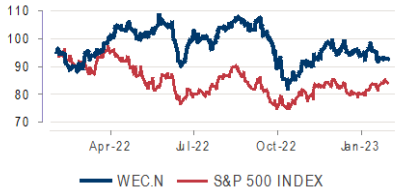
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	4.09	4.39	4.63	4.92
Prev. EPS (US$)	-	4.38	4.64	4.94
P/E (x)	22.6	21.1	20.0	18.8
P/E rel. (%)	116.8	117.0	113.5	118.1
EBITDA (US$ m)	2,789	2,627	2,834	3,027
EV/EBITDA (current)	15.4	17.1	16.4	15.8
Net debt (US$ m)	13,677	15,547	17,066	18,406
FFO/Total Debt (%)	14.9	19.9	19.6	19.5
EV/Rate Base	1.78	1.73	1.66	1.60
Number of shares (m)	315	Dividend (current, US$)		0.0
Consolidated ROE (%)	12.2	Dividend yield (%)		3.16
Rate Base (YE)	26,086			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 30-Jan-2023 the S&P 500 INDEX closed at 4017.77Daily Jan31, 2022 - Jan30, 2023, 01/31/22 = US$97.04

Quarterly EPS	Q1	Q2	Q3	Q4
2021A	1.61	0.87	0.92	0.69
2022E	1.79	0.91	0.96	0.74
2023E	1.86	0.97	1.02	0.80

WEC Energy Group (WEC)

Price (30 Jan 2023): **US$92.62** Target Price: **(from 93.00) 94.00**

Analyst: **Nicholas Campanella**
Rating: **Underperform**

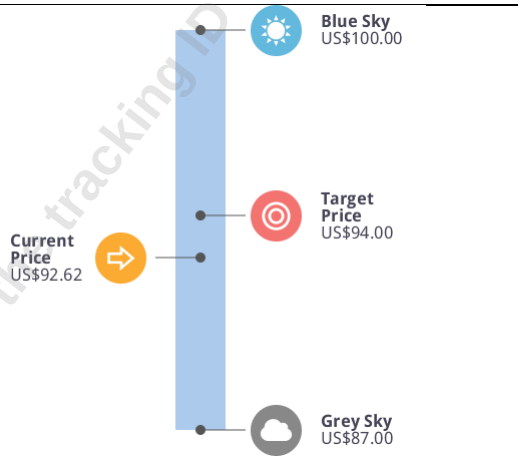
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**8,316.0**	**8,224.5**	**8,504.1**	**8,771.3**
EBITDA (US$ m)	**2,789**	**2,627**	**2,834**	**3,027**
Depr. & amort.	(1,074)	(1,145)	(1,221)	(1,295)
EBIT (US$)	**1,715**	**1,482**	**1,613**	**1,732**
Net interest exp	(471)	(148)	(165)	(195)
PBT (US$)	**1,499**	**1,605**	**1,699**	**1,803**
Income taxes	(200)	(213)	(230)	(241)
Minorities	-	-	-	-
Reported net income (US$)	**1,294**	**1,388**	**1,465**	**1,557**
Other NPAT adjustments	0	0	0	0
Adjusted net income	**1,294**	**1,388**	**1,465**	**1,557**
Cash Flow	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EBIT	1,715	1,482	1,613	1,732
Net interest	(471)	(148)	(165)	(195)
Change in working capital	(400)	0	0	0
CAPEX	(2,253)	(4,050)	(3,882)	(3,857)
Free cashflow to the firm	**(220)**	**(950)**	**(529)**	**(276)**
Acquisitions	(79)	0	0	0
Divestments	-	-	-	-
Cash flow from investments	**(2,312)**	**(4,050)**	**(3,882)**	**(3,857)**
Changes in Net Cash/Debt	**589**	**(1,870)**	**(1,519)**	**(1,340)**
Balance Sheet (US$)	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Assets				
Cash & cash equivalents	16	289	257	124
Total current assets	**2,657**	**2,930**	**2,897**	**2,764**
Total assets	**38,989**	**42,167**	**44,795**	**47,224**
Liabilities				
Total current liabilities	**3,753**	**3,803**	**3,803**	**3,803**
Total liabilities	**27,875**	**30,183**	**31,841**	**33,226**
Total liabilities and equity	**38,989**	**42,167**	**44,795**	**47,224**
Net debt	13,677	15,547	17,066	18,406
Per share	**12/21A**	**12/22E**	**12/23E**	**12/24E**
No. of shares (wtd avg)	316	316	316	316
CS adj. EPS	4.09	4.39	4.63	4.92
Prev. EPS (US$)	-	4.38	4.64	4.94
Dividend (US$)	2.70	2.91	3.13	3.36
Free cash flow per share	(0.70)	(3.00)	(1.67)	(0.87)
Earnings	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Sales growth (%)	14.8	(1.1)	3.4	3.1
EBIT growth (%)	0.5	(13.6)	8.8	7.3
Net profit growth (%)	7.9	7.3	5.5	6.3
EPS growth (%)	7.9	7.3	5.5	6.3
EBITDA margin (%)	33.5	31.9	33.3	34.5
EBIT margin (%)	20.6	18.0	19.0	19.7
Pretax margin (%)	18.0	19.5	20.0	20.6
Net margin (%)	15.6	16.9	17.2	17.8
Valuation	**12/21A**	**12/22E**	**12/23E**	**12/24E**
EV/Sales (x)	5.17	5.45	5.45	5.44
P/E (x)	22.6	21.1	20.0	18.8
Price to book (x)	2.7	2.5	2.3	2.1
Asset turnover	0.2	0.2	0.2	0.2
Returns	**12/21A**	**12/22E**	**12/23E**	**12/24E**
ROE stated-return on (%)	12.1	12.2	11.9	11.7
ROIC (%)	6.0	4.7	4.6	4.6
Gearing	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Net debt/equity (%)	123.1	129.7	131.7	131.5
Interest coverage ratio (X)	3.6	10.0	9.8	8.9
Quarterly EPS	**Q1**	**Q2**	**Q3**	**Q4**
2021A	1.61	0.87	0.92	0.69
2022E	1.79	0.91	0.96	0.74
2023E	1.86	0.97	1.02	0.80

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

Company Background

WEC Energy Group, Inc. operates as an electric and natural gas holding company. The company manages and operates regulated utilities across Wisconsin, Illinois, Michigan, and Minnesota.

Blue/Grey Sky Scenario



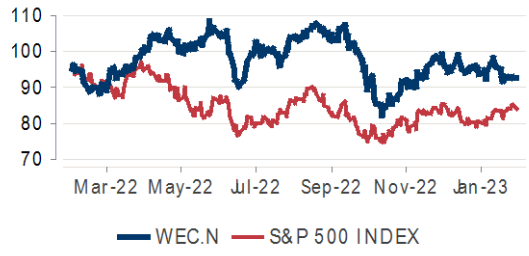
Our Blue Sky Scenario (US$) **(from 99.00) 100.00**

Blue Sky Scenario ($100): Our Blue Sky scenario contemplates a 19.0x 2025E P/E, which could be achieved if: (1) the Wisconsin rate case achieves a favorable outcome; (2) the ROE adder is replaced by a comparable incentive for renewables; (3) the renewable projects do not face any further delays; and (4) population growth in the Midwest, namely Wisconsin, continues to grow at a strong rate.

Our Grey Sky Scenario (US$) **87.00**

Grey Sky Scenario ($87): Our Grey Sky scenario assumes WEC trades at a 16.6x P/E, or a ~6% discount. We think the market would likely return to a discounted view on the stock if management is unable to control O&M expenses and customer bills, the rate case outcome is less than ideal and the allowed ROE is left at a low level for the two-year period, and if there are significant delays on the renewables project.

Share price performance



On 30-Jan-2023 the S&P 500 INDEX closed at 4017.77
Daily Jan31, 2022 - Jan30, 2023, 01/31/22 = US$97.04

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Investment Considerations

- **ATC adder update:** FERC is currently amidst the process of disallowing the 50bp adder associated with certain transmission lines. On April 15 a Notice of Proposed Rule Making was filed at FERC, where WEC indicated the expectation of the adder being absolved. The current ATC subsidiary has an ROE of 10.38% (inclusive of the adder), which is likely to see a 50bp decline to 9.88%. WEC previously did not include this adder in the forecast but now is including it once more.
- **2023-2027 $5.4Bn regulated renewable plan:** During the call we expect an update on the company's current regulated renewable plan, which currently includes building and owning ~3,300MW of solar, battery and wind assets. We view this as a key potential update as the company moves away from fossil-fuel generation and into renewable energy, something the market has historically favored. With WEC currently guiding to only using coal-fired assets as reliability hedges by 2030. We see the spending cadence and specifics of this renewable plan as a key data point to the story for the stock, in our view, and expect an update on the cadence during the 4Q call.
- **IL natural gas rate case:** During the 4Q call we also expect an update on the IL natural gas rate cases, which were both filed in January. The North Shore rate case includes a $18.7Mn rate increase, 9.9% ROE and 54% equity ratio, and the People's Gas rate case includes a $194.7Mn rate increase, 9.9% ROE and 54% equity ratio. Given these cases were filed recently, we could expect commentary on the timeline for resolution of these cases during the call, as well as an indication of confidence level from the company on a constructive outcome.

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4Q22 EPS Walk

- **Drivers:** We see a $0.74/sh 4Q22 vs. $0.75/sh Consensus (FS) and $0.71/sh 4Q21. We see a $0.04/sh pick-up from the infrastructure segment and $0.02/sh pick-up from WI Account adjustments. Additionally, we see a $0.05/sh drag from the Clean Energy Fund.

Figure 57: WEC 4Q22 EPS Walk

WEC 4Q22 EPS Walk		EPS
Starting EPS		$0.71
Weather		$0.03
Weather		$0.00
Adj Starting Point		**$0.74**
Sales		$0.00
WI Acct Adj		$0.02
Fuel Band	Immaterial impacts	$0.00
O&M	Guided flat to 1% lower	($0.01)
Depreciation		$0.00
ATC		$0.00
Infrastructure		$0.04
Interest Exp		$0.00
Other / RABBI Trust		$0.00
Clean Energy Fund		($0.05)
Tax Rate		$0.00
Dilution		$0.00
WEC 4Q22 EPS Walk		**$0.74**
4Q22 Consensus		$0.74
4Q22 Guidance		$0.73--$0.75
FY 22 Consensus		$4.40
Cse FY22		$4.39
SO '22		316
SO '21		316

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

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Valuation: TP tweaked to $94

We increase our TP to $94 from $93 on account of a slightly higher electric group multiple. We maintain a 10% premium on the name on account of the historically strong regulatory construct in WI.

Figure 58: WEC P/E Valuation

WEC P/E Valuation	Low Case	Base Case	High Case
Average Multiple		16.2x	
Prem / Disc	3%	10.0%	18%
Adjusted P/E Multiple	16.6x	17.8x	19.0x
Consolidated EPS '25E	$5.25	$5.25	$5.25
Valuation	**$87**	**$94**	**$100**
Stock Price		**$93**	
Upside / Downside	-6.2%	1.3%	7.8%
Yield		3.4%	
Total Return	**-2.8%**	**4.7%**	**11.2%**

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

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Fundamental Dashboard

Figure 59: WEC Fundamental Dashboard (1/2)

WEC Dashboard	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
Consolidated EPS	**$3.58**	**$3.79**	**$4.09**	**$4.39**	**$4.63**	**$4.92**	**$5.25**	**$5.55**	**$5.84**
Prior EPS			**$4.09**	**$4.38**	**$4.64**	**$4.94**	**$5.26**	**$5.56**	
Consensus EPS			**$4.11**	**$4.40**	**$4.61**	**$4.92**	**$5.25**	**$5.60**	**$5.95**
Delta (%)			-0.4%	-0.2%	0.5%	0.1%	-0.1%	-0.9%	-1.9%
Shares Outstanding		317	316	316	316	316	316	316	316
DPS			$2.70	$2.91	$3.13	$3.36	$3.62	$3.89	$4.18
DPS Growth (%)				7.68%	7.50%	7.50%	7.50%	7.50%	7.50%
DPS Payout (%) - 60-70%				66.3%	67.6%	68.3%	68.9%	70.0%	71.6%
Valuation Metrics									
P/E		24.5x	22.7x	21.1x	20.0x	18.8x	17.7x	16.7x	15.9x
EV/RAB		1.9x	1.8x	1.7x	1.7x	1.6x	1.6x	1.5x	1.5x
FFO		2,248	2,433	3,100	3,352	3,581	3,793	3,997	4,194
Net Debt		14,266	13,677	15,547	17,066	18,406	19,613	20,702	21,687
FFO/Debt (%)		15.8%	17.8%	19.9%	19.6%	19.5%	19.3%	19.3%	19.3%
EBITDA		2,682	2,789	2,627	2,834	3,027	3,225	3,422	3,611
Net Debt		14,266	13,677	15,547	17,066	18,406	19,613	20,702	21,687
Net Debt / EBITDA		5.3x	4.9x	5.9x	6.0x	6.1x	6.1x	6.0x	6.0x
Holdco Debt / Total Debt		42.5%	37.2%	38.1%	37.9%	36.5%	35.8%	34.6%	33.7%
Consolidated Equity Layer (%)		42.7%	44.8%	43.1%	42.8%	43.0%	43.2%	43.8%	44.4%
EPS Estimates By Sub									
WE	$1.14	$1.16	$1.21	$1.23	$1.37	$1.53	$1.67	$1.80	$1.93
WG	$0.26	$0.26	$0.24	$0.31	$0.34	$0.36	$0.39	$0.41	$0.43
WPS	$0.58	$0.70	$0.73	$0.75	$0.79	$0.84	$0.89	$0.93	$0.97
PGL	$0.49	$0.59	$0.65	$0.65	$0.70	$0.69	$0.71	$0.75	$0.78
NSG	$0.05	$0.05	$0.06	$0.07	$0.08	$0.08	$0.08	$0.09	$0.09
MERC	$0.08	$0.08	$0.07	$0.07	$0.07	$0.07	$0.07	$0.07	$0.08
MGU	$0.06	$0.04	$0.05	$0.05	$0.06	$0.06	$0.06	$0.06	$0.07
ATC	$0.37	$0.51	$0.51	$0.56	$0.52	$0.57	$0.62	$0.66	$0.71
WE Power	$0.65	$0.66	$0.66	$0.65	$0.64	$0.63	$0.62	$0.60	$0.59
Infrastructure Assets	$0.07	$0.12	$0.22	$0.41	$0.55	$0.64	$0.72	$0.80	$0.87
BlueWater	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03	$0.03
Parent	($0.21)	($0.41)	($0.32)	($0.41)	($0.52)	($0.57)	($0.60)	($0.66)	($0.71)
Consolidated	**$3.58**	**$3.79**	**$4.09**	**$4.39**	**$4.63**	**$4.92**	**$5.25**	**$5.55**	**$5.84**
Guidance			**4.05-4.07**	**4.38-4.40**					
Midpoint					**$4.60**	**$4.91**	**$5.24**	**$5.60**	**$5.98**

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

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Fundamental Dashboard

Figure 60: WEC Fundamental Dashboard (2/2)

Rate Base Metrics (YE)	2019A	2020A	2021A	2022E	2023E	2024E	2025E	2026E	2027E
WE	6,500	6,600	6,900	7,644	8,706	9,552	10,368	11,153	11,907
WG	1,600	1,675	1,789	1,971	2,097	2,245	2,384	2,515	2,637
WPS	3,500	3,950	4,150	4,485	4,713	5,004	5,274	5,523	5,753
PGL	3,100	3,700	3,955	4,218	4,483	4,776	5,053	5,314	5,558
NSG	300	300	500	519	533	550	566	580	592
MERC	300	500	537	546	554	561	566	569	571
MGU	300	350	365	401	420	439	457	473	488
ATC	2,300	2,500	2,700	2,952	3,254	3,546	3,830	4,105	4,372
WE Power	3,000	3,090	3,000	2,985	2,943	2,876	2,812	2,749	2,688
BlueWater	200	200	200	197	194	189	184	180	174
Infra Business	400	500	1,200	1,957	2,283	2,600	2,907	3,205	3,493
Total Asset Base	**21,500**	**23,365**	**25,295**	**27,875**	**30,180**	**32,338**	**34,399**	**36,364**	**38,233**
Total Asset Base (AVG)		**22,433**	**24,330**	**26,585**	**29,027**	**31,259**	**33,369**	**35,382**	**37,299**
Asset Base Guidance (AVG)		**22,800**	**25,000**					**35,000**	**35,000**
CSe Asset Base CAGR off 2021				**6.3%**	**7.8%**	**7.7%**	**7.5%**	**7.8%**	**8.9%**
Total Rate Base (YE)	**21,100**	**22,865**	**24,095**	**25,918**	**27,896**	**29,738**	**31,493**	**33,160**	**34,740**
CSe Rate Base CAGR off 2021				**7.6%**	**7.6%**	**7.3%**	**6.9%**	**6.6%**	**7.6%**
ROE Data - Avg RAB									
WE	10.9%	10.6%	10.8%	10.2%	10.0%	10.0%	10.0%	10.0%	10.0%
WG	10.4%	9.6%	8.2%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
WPS	10.3%	11.3%	10.9%	10.5%	10.3%	10.3%	10.3%	10.3%	10.3%
PGL	10.3%	10.9%	10.7%	10.1%	10.1%	9.3%	9.1%	9.1%	9.1%
NSG	9.6%	11.3%	8.5%	8.6%	8.8%	9.1%	9.3%	9.3%	9.3%
MERC	16.3%	12.4%	8.1%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
MGU	11.7%	8.2%	8.3%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
ATC	13.3%	13.8%	12.2%	12.3%	10.4%	10.4%	10.4%	10.4%	10.4%
PTF	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%
Capital Structure - Regulatory									
WE	52.5%	52.5%	52.5%	52.5%	53.0%	53.0%	53.0%	53.0%	53.0%
WG	0.0%	52.5%	52.5%	52.5%	53.0%	53.0%	53.0%	53.0%	53.0%
WPS	0.0%	52.5%	52.5%	52.5%	53.0%	53.0%	53.0%	53.0%	53.0%
PGL	0.0%	50.3%	50.3%	50.3%	50.3%	50.3%	50.3%	50.3%	50.3%
NSG	0.0%	50.5%	51.6%	51.6%	51.6%	51.6%	51.6%	51.6%	51.6%
MERC	0.0%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%	50.9%
MGU	0.0%	51.5%	51.5%	51.5%	51.5%	51.5%	51.5%	51.5%	51.5%
ATC	52.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
PTF	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%
Capital Structure - GAAP/LT Debt vs. Equity									
WE	56.6%	60.0%	57.9%	54.8%	53.4%	51.0%	49.2%	47.9%	47.0%
WG	59.2%	61.2%	57.3%	55.3%	55.1%	54.6%	54.4%	54.4%	54.6%
WPS	54.1%	63.0%	62.3%	58.3%	58.6%	58.8%	59.0%	59.3%	59.5%
PGL	52.3%	54.1%	52.5%	52.1%	52.0%	51.4%	51.1%	51.0%	51.2%
NSG	53.2%	57.2%	55.3%	56.2%	57.0%	57.7%	58.4%	59.1%	59.6%
MERC	55.0%	49.1%	49.6%	51.2%	52.6%	53.7%	54.7%	55.6%	56.4%
MGU	60.8%	47.3%	50.3%	54.7%	54.6%	55.7%	55.6%	56.6%	57.6%
ATC	52.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
PTF	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%	54.0%

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

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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 $97. We apply the electric group's 17.2x P/E multiple to all subsidiaries while applying a 15% multiple premium to AEP TransCo, reflecting formulaic/timely recovery in FERC jurisdictions. 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 also apply 5% discount to all VIUs and revised TX multiple to neutral. We currently have zero EPS contribution from Kentucky Power under a base-case assumption. 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 $97 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 AES Corp (AES.N)

Method: Our target price is $30 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 (13.5x) 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 11% 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 $30 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 Atmos Energy (ATO.N)

Method: We value ATO on a sum of the parts with a $131 target price. We apply relative P/E premiums/discounts to the regulated gas group multiple of 16.2x. 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 a 17.0x 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 $131 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 Consolidated Edison (ED.N)

Method: Our target price is $95: We value ED on an SOTP approach. The company historically has had a challenging time earning its allowed ROE in the state, and we see an 9.2% authorized ROE as one of the lowest in the country. We are including a post-transaction NI of $1,666Mn for CEB sale given there is now a clear valuation/proceeds amount. We rate ED 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 $95 target price and Neutral rating include: Common equity funding that is not contemplated in our base-case, Blue Sky, or Grey Sky scenarios. Failure to establish new rates at CECONY, which could lead investors to take a discounted view on ED's largest earnings contributor. Natural disaster risk, which could accelerate liabilities surrounding the NYC distribution system. EDs natural gas system is subject to greater operational risk given gas is a combustible molecule. NY is increasingly focused on electrification, which increases stranded assert risk associated with ED's LDC system. Upside risk includes a better than expected rate case outcome.

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

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Method: Our target price of $91 is based on an SOTP approach for Outperform-rated CEG. We use an EV/EBITDA approach based on forecasted 2023 EBITDA and current trading multiple of 10.5x. We apply a 25% multiple premium to contracted EBITDA, as it reflects more stable cash flow through timely hedging over market for customers. We do not assign any multiple adjustment to the merchant portion of EBITDA as it is a commodity business. Our valuation also reflects our favorable view on CEG's generation fleet, which consists of 65% nuclear generation that benefits from the passage of IRA. We subtract net debt from enterprise value to derive equity value. We use an NPV approach to value ZEC/CMC revenue with 5% discount, reflecting reduced risk given its quasi-regulated nature.

Risk: Our $91 target price and Outperform rating could be affected by (1) unexpected/unfavorable power market price movement and increased volatility; (2) increased competition among competitive energy suppliers, which puts CEG's competitive position at risk; (3) IRA implementation not as favorable as expected, including tax provisions; and (4) undisciplined execution on ratable hedging program which amplifies discretionary risk.

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

Method: We value DTE using an SOTP, applying 12.5% P/E premiums to both the electric (18.2x) and gas (18.0x) subsidiary, which yields a $131 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 $131 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 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 $106 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), 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 Neutral as we see total return in-line with peers over the next 12 months.

Risk: Risks to our Neutral rating and $106 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 Edison International (EIX.N)

Method: We value Neutral-rated EIX using an SOTP to determine our $68 target price, applying relative P/E premiums/discounts to the various operating subsidiaries. In general, we view California as a discount jurisdiction, with wildfire risk persistent throughout the state. We apply a 20% discount to the Electric GRC earnings and a 10% discount to the Transmission earnings, largely because of the risk of wildfires and related capital recovery proceedings. We adjust our SOTP for current and ongoing liabilities, principally (1) a $1Bn wildfire liability, offset by $1Bn of aggregate insurance, ongoing wildfire fund contributions of $95Mn/year discounted at a 9.5% IRR, and (2) remaining legacy wildfire claims of $900Mn assuming EIX foregoes cost of debt recovery on the remaining claims.

Risk: Risks to achieve our $68 target and Neutral rating include the company seeing delays in both the covered conductor installation and capital recovery, seeing increased wildfire activity in the coming years, and seeing a faster-than-expected recovery of costs associated with the '17/'18 natural disasters.

Target Price and Rating
Valuation Methodology and Risks: (12 months) for Entergy Corporation (ETR.N)

Method: Our target price Is $115: We value ETR on a P/E approach using the 2024E multiple of 14.9x on our 2024E EPS, a 5% discount to the 16.2x electric peer group multiple. We ascribe a P/E discount given the increasingly cautious reg environment in LA, particularly going into the LA securitization hearing. Overall, given the capex opportunity in electrifying the Gulf Coast we 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 $115 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

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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 Evergy (EVRG.OQ)

Method: Our target price is $57: We value EVRG on a P/E approach using the 2025E group multiple of 16.2x, applying a 10% discount to the business on account of the average to below-average jurisdictions EVRG operates in, specifically Kansas. We see EVRG as a company with a strong management team, however, could see hurdles within the current regulatory environment. We rate EVRG Underperform as we expect the stock's total return to underperform peers over the next 12 months.

Risk: Risks to achieving our $57 target price and Underperform rating include: Better than expected regulatory outcomes, strong execution of the company's proposed IRP in MO/KS, natural disasters, labor/inflationary pressures above/below 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. Commodity volatility can lead to higher bills for customers, and crowd-out growth opportunities, which would inhibit shares from reaching our target price.

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

Method: Our target price is $84: We value ES using an SOTP, applying relative P/E premiums/discounts to the various operating subsidiaries. In general, we view CT, MA, and RI as relatively favorable jurisdictions, although there have been recent conflicts in CT related to performance and penalties. We apply a 5% premium to the natural gas business as ES has a strong track record for operations and earned ROEs. For the Transmission segment, we apply a 5% premium, which is lower than our transmission approach for peer utilities, as we attempt to reflect risk of further ROE cuts to NE transmission operators. We rate ES 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 Neutral rating and $84 target price include: The company seeing further rate pressure from inflation, particularly in CL&P's jurisdiction. Other risks include further downgrade of forecasted ROE for offshore projects or an unfavorable monetization outcome, natural disaster/other issue that could delay wind projects under construction. Given the nature of offshore projects, climate-related issues pose a large risk to the company and its growth plans. Upside risk includes a better than expected rate outcomes.

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 $43 target price. We hold a discounted view on all utilities subsidiaries other than FET (-20% discount to Ohio utilities and 10% 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 $43 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 NiSource (NI.N)

Method: We value NI on a P/E approach that yields a $30 target price. Our base-case multiple of 18.0x 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 Outperform as we expect the stock's total return to be in line with peers over the next 12 months.

Risk: Risks to our Outperform 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.

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

Method: We value OGE using an SOTP with a $38 target price, applying relative P/E premiums/discounts to the various operating subsidiaries. In general, we view Oklahoma as an average jurisdiction given the strong focus on affordability for customers. We apply a 5% premium to the business given limited rate case risk, IRA positioning, ST growth and CapEx growth not current included in our forecasts. We value OGE on the small-cap multiple given the relatively small operational area and that it is a largely single-state jurisdiction. In our view, the stock is fairly prices on an SOTP basis given the strong catalysts, but there are clear risks to the company. We rate OGE 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 $38 target price include: common equity funding that is not contemplated in our base-case, Blue Sky, or Grey Sky scenarios. Failure to execute on IRP as planned, supply chain issues related to solar panels or a significant decline in population and load growth could cause the market to take a discounted view on the name. Potential upside from the current rate case filing.

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

Method: Our target price is $18. We value PCG on an SOTP. We apply a 25% discount to our 2024E electric earnings, a 15% discount to gas earnings, and 5% discount to transmission earnings relative to the 2025E 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 ~14% total return for PCG in our base case, which is the above average for our coverage universe. Our target price implies an 12.6x consolidated P/E, a -29% discount, which is still one of 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 $18 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 PPL Corporation (PPL.N)

Method: Our target price is $30. We value PPL using an SOTP, applying relative P/E premiums/discounts to the various operating subsidiaries. We take a premium view on PA (10% premium, 17.8x multiple), which we flag as conservative given the recent settlement in PA and the favorable storm recovery mechanisms recently utilized. We take a discounted view on LU and KU (5% discount, 15.4x multiple) because of the current stay-out of Kentucky rates and the risk of inflation weighing on customer bills in the years until 2025 when another rate case can be filed. We rate PPL Outperform as we expect the stock's total return to outperform peers over the next 12 months.

Risk: Risks to achieving our $30 target price and Outperform rating include: the inability to sustain new dividend and increased growth rate, and the inability to execute fully on the AMI and renewables projects. Increased inflation amid a rate stay-out in Kentucky, as well as headwinds delaying solar development via supply chain issues also pose a threat to the company. Other risks include more natural disasters/storms in Kentucky and Pennsylvania that delay projects and are expensive to repair, as well as climate change and related concerns. Upside risk includes the company cutting O&M expenses more than expected.

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

Method: Our target price is $94: We value WEC using a P/E valuation methodology, applying relative P/E premiums/discounts to the company. In general, we view Wisconsin and much of the Midwest as premium jurisdictions given numerous constructive mechanisms for real-time capital recovery, constructive rate case outcomes, and solid load growth. We take a premium view on WEC (10%), as we believe the company has a relatively limited number of levers that can be pulled to sustain capex growth in near future. Rate case risks appear priced in, although we think quality peers offer more attractive risk/reward skews. We rate WEC Underperform as we expect the stock's total return to be less than peers over the next 12 months.

Risk: Risks to our $94 target price and Underperform include: Declining population growth rate in service territory hurting load demand; the current supply chain issues related to solar panels are resolved in timely manner and Badger Hollow 2 is able to reduce the time of delay; Investor sentiment shifts and companies pursuing renewable projects and other non-core, regulated utility projects are rewarded by investors.

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Companies Mentioned *(Price as of 30-Jan-2023)*
AEP Inc (AEP.OQ, $92.87, OUTPERFORM, TP $97.0)
AES Corp (AES.N, $26.45, NEUTRAL, TP $30.0)
Atmos Energy (ATO.N, $115.53, OUTPERFORM, TP $131.0)
Consolidated Edison (ED.N, $95.05, NEUTRAL, TP $95.0)
Constellation Energy (CEG.N, $86.58, OUTPERFORM, TP $91.0)
DTE Energy (DTE.N, $114.33, OUTPERFORM, TP $131.0)
Duke Energy (DUK.N, $101.64, NEUTRAL, TP $106.0)
Edison International (EIX.N, $68.14, NEUTRAL, TP $68.0)
Entergy Corporation (ETR.N, $107.69, OUTPERFORM, TP $115.0)
Evergy (EVRG.OQ, $61.69, UNDERPERFORM, TP $57.0)
Eversource Energy (ES.N, $81.37, NEUTRAL, TP $84.0)
FirstEnergy (FE.N, $41.3, OUTPERFORM, TP $43.0)
NiSource (NI.N, $27.55, OUTPERFORM, TP $30.0)
OGE Energy (OGE.N, $39.03, NEUTRAL, TP $38.0)
Orsted (ORSTED.CO, Dkr605.0)
PG&E Corporation (PCG.N, $15.85, OUTPERFORM, TP $18.0)
PPL Corporation (PPL.N, $29.45, OUTPERFORM, TP $30.0)
WEC Energy Group (WEC.N, $92.62, UNDERPERFORM, TP $94.0)

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 AEP Inc (AEP.OQ)

AEP.OQ	Closing Price	Target Price	
Date	(US$)	(US$)	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	
16-Dec-22	94.57	100.00	

** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for AES Corp (AES.N)

AES.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
25-Apr-22	22.08	25.00	N *
20-Jul-22	19.98	23.00	
19-Oct-22	24.13	26.00	

** Asterisk signifies initiation or assumption of coverage.*

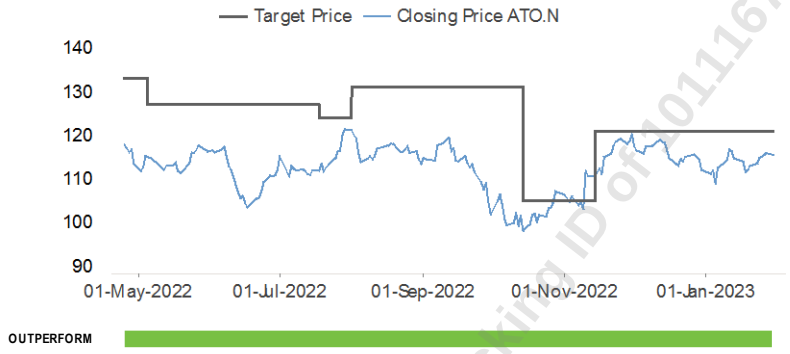


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3-Year Price and Rating History for Atmos Energy (ATO.N)

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	
01-Aug-22	121.17	131.00	
14-Oct-22	98.11	105.00	
14-Nov-22	110.53	121.00	

** Asterisk signifies initiation or assumption of coverage.*

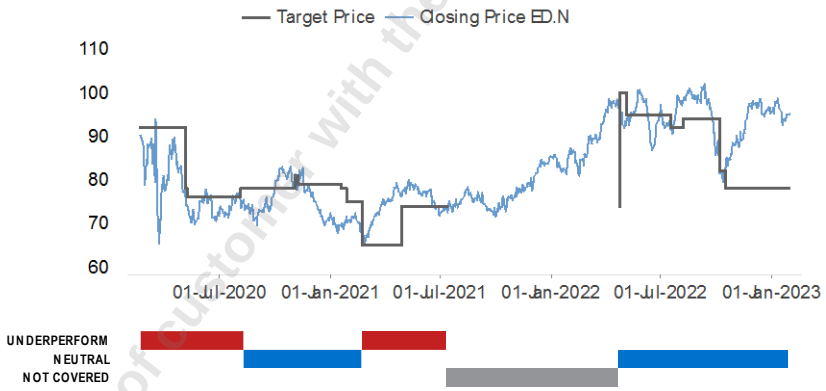


3-Year Price and Rating History for Consolidated Edison (ED.N)

ED.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
21-Feb-20	90.18	92.00	U
06-May-20	74.38	78.00	
08-May-20	74.18	76.00	
05-Aug-20	73.66	78.00	
10-Aug-20	75.38	78.00	N
03-Nov-20	81.32	81.00	
08-Nov-20	77.80	79.00	
18-Jan-21	69.60	78.00	
27-Jan-21	71.54	75.00	
22-Feb-21	67.97	65.00	U
29-Apr-21	76.71	74.00	
13-Jul-21	72.63		NC
25-Apr-22	96.05	100.00	N *
05-May-22	92.66	95.00	
18-Jul-22	91.63	92.00	
08-Aug-22	98.50	94.00	
07-Oct-22	81.58	82.00	
17-Oct-22	83.02	78.00	

** Asterisk signifies initiation or assumption of coverage.*

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



3-Year Price and Rating History for Constellation Energy (CEG.N)

CEG.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
03-Oct-22	86.61	98.00	O *

** Asterisk signifies initiation or assumption of coverage.*



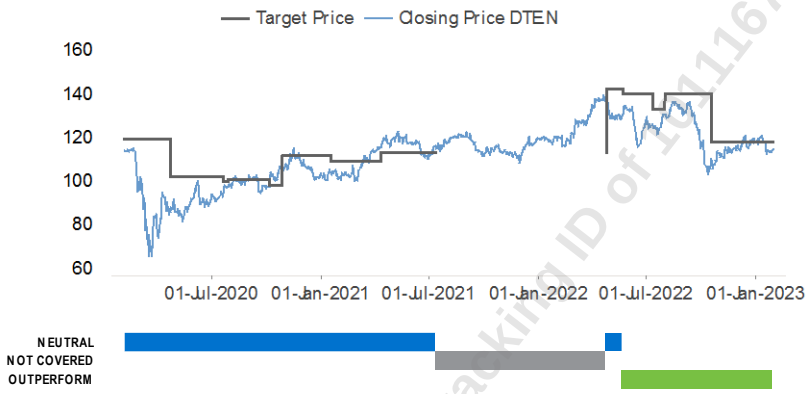
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3-Year Price and Rating History for DTE Energy (DTE.N)

DTE.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
06-Feb-20	114.19	119.12	N
23-Apr-20	85.94	102.10	
21-Jul-20	94.54	99.55	
29-Jul-20	98.03	100.40	
06-Oct-20	98.19	97.85	
28-Oct-20	103.93	111.46	
18-Jan-21	105.10	108.91	
12-Apr-21	115.40	113.16	
13-Jul-21	114.90		NC
25-Apr-22	135.70	142.00	N *
23-May-22	130.79	140.00	O
12-Jul-22	125.21	133.00	
01-Aug-22	130.42	140.00	
18-Oct-22	109.89	118.00	

** Asterisk signifies initiation or assumption of coverage.*

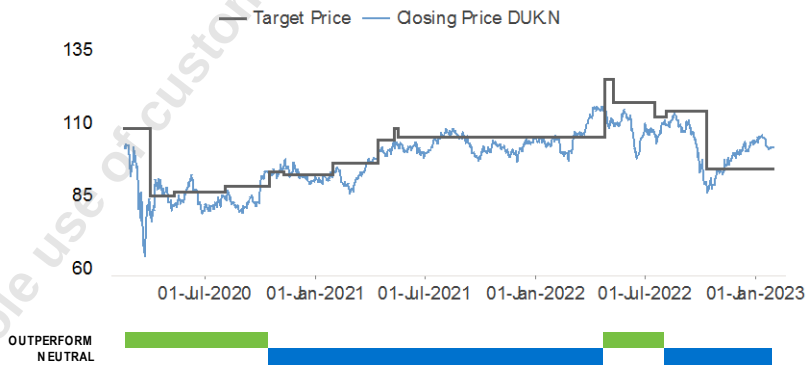
Effective July 3, 2016, NC denotes termination of coverage.



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

DUK.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
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	
05-Aug-22	109.16	114.00	N
12-Oct-22	85.97	94.00	

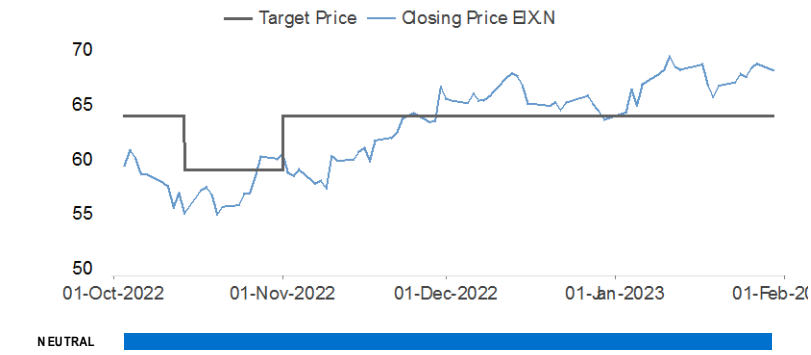
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Edison International (EIX.N)

EIX.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
03-Oct-22	59.40	64.00	N *
14-Oct-22	55.03	59.00	
01-Nov-22	60.51	64.00	

** Asterisk signifies initiation or assumption of coverage.*



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3-Year Price and Rating History for Entergy Corporation (ETR.N)

ETR.N	Closing Price	Target Price	
Date	(US$)	(US$)	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	
03-Nov-22	109.35	117.00	

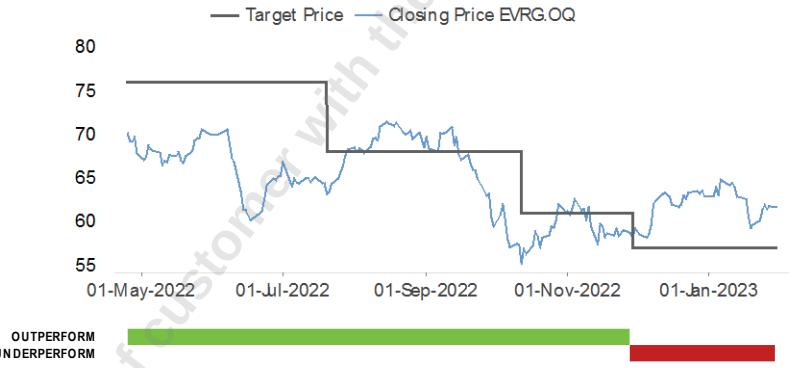
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Evergy (EVRG.OQ)

EVRG.OQ	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
25-Apr-22	70.10	76.00	O *
20-Jul-22	63.15	68.00	
12-Oct-22	55.11	61.00	
29-Nov-22	58.07	57.00	U

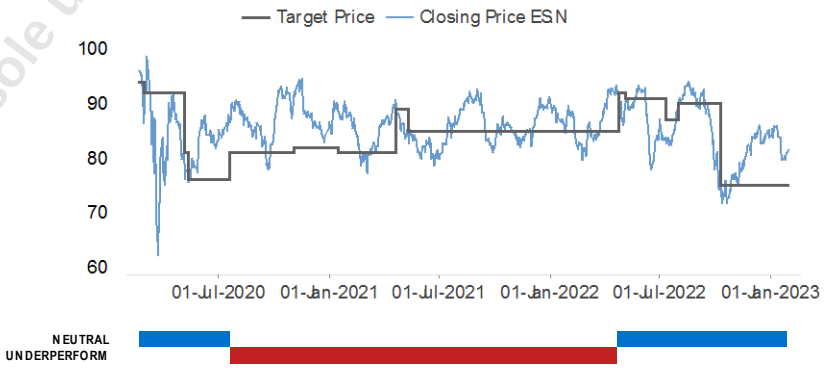
** Asterisk signifies initiation or assumption of coverage.*



3-Year Price and Rating History for Eversource Energy (ES.N)

ES.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
21-Feb-20	95.96	94.00	N
28-Feb-20	86.46	92.00	
06-May-20	76.26	81.00	
12-May-20	75.67	76.00	
20-Jul-20	86.61	81.00	U
03-Nov-20	91.98	82.00	
15-Jan-21	88.57	81.00	
20-Apr-21	90.58	89.00	
11-May-21	84.02	85.00	
13-Jul-21	82.93		*
25-Apr-22	90.69	92.00	N *
06-May-22	90.40	91.00	
12-Jul-22	83.38	87.00	
01-Aug-22	89.21	90.00	
10-Oct-22	74.97	75.00	

** Asterisk signifies initiation or assumption of coverage.*



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3-Year Price and Rating History for FirstEnergy (FE.N)

FE.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
25-Apr-22	45.44	51.00	O *
18-Jul-22	37.39	41.00	
01-Aug-22	40.52	46.00	
10-Oct-22	36.80	39.00	

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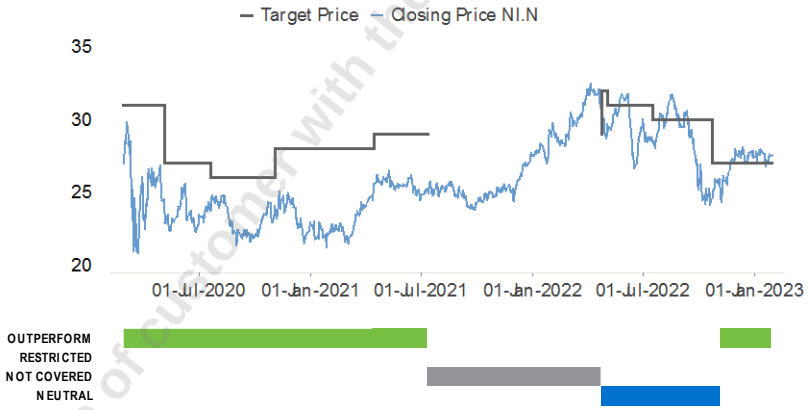


3-Year Price and Rating History for NiSource (NI.N)

NI.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
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	
09-Nov-22	24.89	27.00	O

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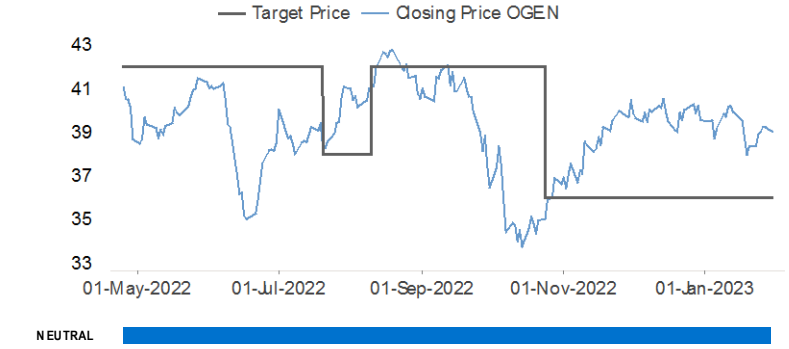
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3-Year Price and Rating History for OGE Energy (OGE.N)

OGE.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
25-Apr-22	41.07	42.00	N *
20-Jul-22	38.31	38.00	
10-Aug-22	41.08	42.00	
24-Oct-22	35.03	36.00	

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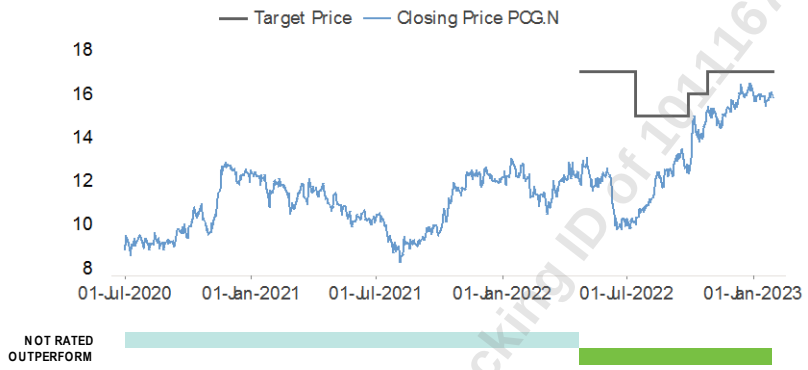


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3-Year Price and Rating History for PG&E Corporation (PCG.N)

PCG.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
30-Jun-20	8.87		NR
25-Apr-22	11.82	17.00	O *
14-Jul-22	10.01	15.00	
29-Sep-22	12.38	16.00	
27-Oct-22	15.38	17.00	

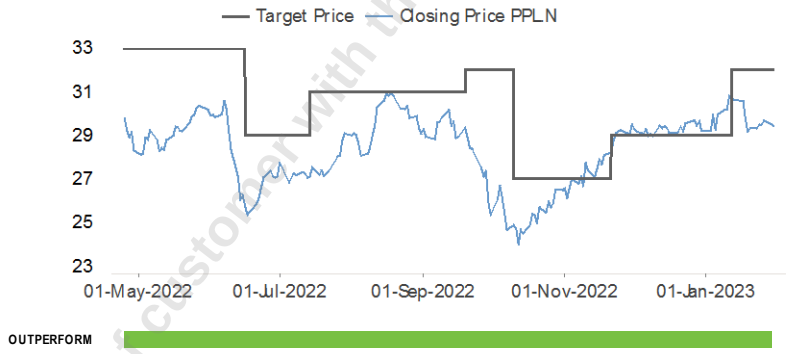
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3-Year Price and Rating History for PPL Corporation (PPL.N)

PPL.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
25-Apr-22	29.76	33.00	O *
16-Jun-22	25.74	29.00	
14-Jul-22	27.12	31.00	
19-Sep-22	29.35	32.00	
10-Oct-22	24.87	27.00	
21-Nov-22	28.22	29.00	
12-Jan-23	30.72	32.00	

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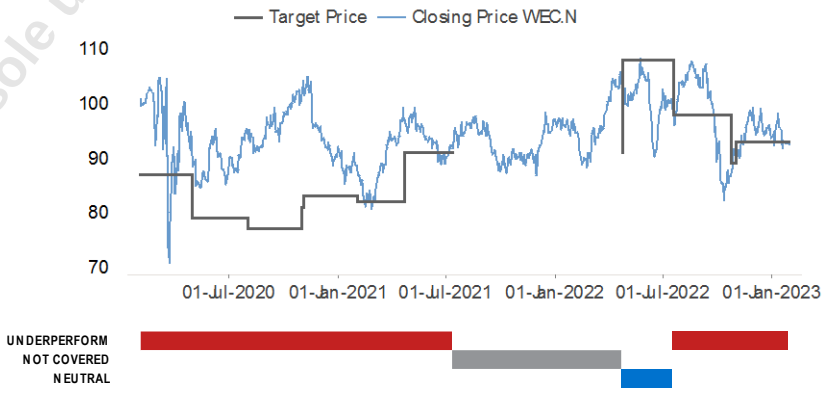


3-Year Price and Rating History for WEC Energy Group (WEC.N)

WEC.N	Closing Price	Target Price	
Date	(US$)	(US$)	Rating
03-Feb-20	100.89	87.00	U
30-Apr-20	90.55	79.00	
02-Aug-20	95.26	77.00	
01-Nov-20	100.55	81.00	
04-Nov-20	101.81	83.00	
03-Feb-21	87.22	82.00	
23-Apr-21	96.79	91.00	
13-Jul-21	91.89		NC
25-Apr-22	102.91	108.00	N *
20-Jul-22	96.13	98.00	U
24-Oct-22	86.76	89.00	
02-Nov-22	90.25	93.00	

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

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EVERCORE ISI

Energy | Power & Utilities

February 1, 2023

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Park Elsewhere – Q4 2022 Preview

After a strong showing in 2022 (UTY/S&P500 -2%/-19%), utilities have materially underperformed YTD with the group down -3% vs S&P500 +5%, as of Jan 30th. Utilities are now trading at ~18.5x, still above the 15-year average multiple of 17x (NTM) (pg.34). Versus Bond Yields, group valuation remains elevated at 18% expensive (pg.36). NTM P/E relative to S&P500 is 1.05x, modestly lower than the historical average of 1.07x (pg.35). Our sector thesis played out last year with utilities materially outperforming (see our Recession Read-throughs for Utilities deep dive note published in late March **here**), as we discussed earlier. Here, against an ongoing challenging macro backdrop (high inflation/rates, elevated customer bills driven by higher fuel costs, regulatory risk rising throughout the year), the group is expensive absolutely and versus bond yields. While Utes outperform in the run-up to a recession, the sector lags during and post the recession. With a recession approaching, we are cautious on the sector entering 2023 and expect reversal of the material outperformance last year.

Q4 2022 Preview (Park Elsewhere - More Headwinds than Tailwinds) – High inflation/rates have caused several utilities to rebase (lower) earnings expectations and we could see more companies disappoint versus 2023 estimates (see individual company section for details). Customer bill increases during winter months could range anywhere from high single digits to 50% driven by higher fuel costs, with gas utilities expected to be closer to the high end of that range. With elevated bills, we see regulatory risks increasing throughout the year. Not unique to utility sector, there is added pressure from material/supply chain constraints. We view the Inflation Reduction Act (IRA) signed into law on Aug 16th, 2022, as a major positive for the sector with a potential to boost rate base/earnings growth (driven by investment in renewables) while improving ESG profiles of companies within our coverage. With that said, given the already elevated customer bills and still constrained supply chain, we see limited upside in the near term and don't foresee material shifts (for most companies) in earnings/capex plans from IRA until later in 2023 or 2024. Overall, we generally expect Q4 results to be largely in line with expectations with the majority companies projected to meet or exceed estimates (pg.29). Based on National Oceanic and Atmospheric Administration (NOAA) heating degree day data, the weather in 4Q22 drove 23% higher degree days versus last year while being -1% below normal, on average, across the US (pg.30). Based on our Q4 preview conversations with several companies to date, weather has also been communicated as normal (in line with guidance), on average, but the impact does vary on a company-by-company basis. We are positive on SRE (O/P) going into 4Q prints and cautious on AES (O/P). We expect Sempra shares to benefit from positive messaging on the continued strong progress on LNG projects. Updated 2023 EPS guidance and 2024 earnings projections could also surprise to the upside. For AES, it continues to be our top pick, but we are cautious on the combination of top performance last year (AES total return of 21% vs peers 4%) and supply chain constraints that could slightly delay commercial operation/earnings recognition form Q4 '23 to '24. We expect management to guide conservatively on this account where 2023 numbers could come in below street expectations.

Stock Selection. We prefer value over quality: DTE, ETR, ES, 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, and XEL within quality.

Within, we include company-specific tear sheets with our / consensus fourth quarter 2022 EPS estimates along with discussion on key investor debates going into earnings.

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Outperform **TP $31**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project year-over-year EPS to increase by +$0.02 to $0.47, which would bring full-year 2022 EPS to $1.65, the top end of $1.55-1.65 guidance as the company has indicated it expected to deliver. Weather was likely not a major factor during the quarter. In terms of positive YoY drivers, we expect AES to benefit from new renewable generation, increased ownership of AES Andes, and a Fluence earnings true-up. In terms of negative YoY drivers, we anticipate a higher tax rate, increased interest expense, and lower earnings from Alto Maipo in Chile.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q4 expectations:** We expect AES to issue 2023 EPS guidance, a key item to look out for is that AES has said there might be risk to the timeline of solar panel deliveries into the US and even minor delays could push COD's of renewable projects from Q4 2023 into early 2024. The delay would also move ITC recognition from 2023 to 2024 which could be a headwind to 2023 earnings while boosting 2024, we estimate $0.10-$0.15 of 2023 EPS consensus (or 7% at the mid-pt) at risk.
  - **Ohio rate case:** A final order was issued in Dec. 2022 that included a $76MM revenue increase with a 10.0% ROE, 53.87% equity ratio on a rate base of $783MM. The rate increase will take effect once the pending Electric Security Plan (ESP) is approved, expected in second half of 2023. Recall on March 4th 2022, 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. 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.
  - **Ohio ESP 4 filing:** In September 2022, AES Ohio filed a new ESP 4 to provide a regulatory foundation to upgrade and modernize its network and settle any outstanding regulatory proceedings. The company is asking for a rider with quarterly updates. Hearing is scheduled for March 2023 with an approval expected within the next 12 months.
  - **Renewable PPAs and backlog**: Including the Jan 11th PPA signing with Codelco for 980 MW the Company has now signed 4,158 MW in 2022. Management at our January Utility CEO conference pointed to its Q3 disclosure of several large projects in late state negotiations that were intended to deliver a targeted 4.5-5.5GW of new PPA's in 2022.
  - **Green hydrogen production**: In December 2022, AES and Air Products announced a joint venture to invest ~$4 billion to build, own and operate a green hydrogen production facility in Wilbarger County, Texas. This mega-scale renewable power to hydrogen project includes roughly 1.4 GWs of wind and solar power generation, along with electrolyzer capacity capable of producing greater than 200 metric tons per day (MT/D) of green hydrogen, making it the largest green hydrogen facility in the United States. The facility is targeted to begin commercial operations in 2027 and will serve growing demand in the mobility market as well as other industrial markets. AES and Air Products will jointly and equally own the renewable energy and electrolyzer assets, with Air Products serving as the exclusive off-taker and marketer of the green hydrogen under a 30- year take or pay contract. The project is expected to generate $200- 350 million in annual tax credits using $3-5 per kilogram in PTCs and ITCs generated from wind, solar, storage and hydrogen production. AES projects a 10-13% levered after-tax return (or $40-52 million, $0.07 annual EPS at the mid-pt) on their equity portion of the investment ($400 million), with the remaining $1.6B to be funded by debt and/or tax equity. Lastly, Alberta Investment Management Company (AIMCo) is an investor in AES' clean energy business and will fund 25% of AES' capital investment. See our note here.

- **Positioning into Qtr: Cautious** AES has said there might be risk to the timeline of solar panel deliveries into the US and even minor delays could push COD's of renewable projects from Q4 2023 into early 2024. The delay would also move ITC recognition from 2023 to 2024 which could be a headwind to 2023 earnings while boosting 2024, we estimate $0.10-$0.15 of 2023 EPS consensus (or 7% at the mid-pt) at risk.

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	$1.44	$1.52	$0.21	$0.34	$0.63	$0.47	$1.65	$1.70	$1.90	$2.10
Consensus						0.47	1.64	1.74	1.91	2.07
% diff.						*0%*	*1%*	*-2%*	*0%*	*1%*

Source: Evercore ISI, FactSet as of 1/31/23

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Outperform **TP $93**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project year-over-year EPS to increase +$0.09 to $0.57/share, which would result in full-year 2022 EPS of $4.08, which would match the midpoint of the company's full-year $4.00-4.15 guidance. Last year in 4Q21, weather was $0.02 unfavorable and this year in 4Q22 it is not expected to be a major driver. 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, as well as higher energy efficiency performance incentives. 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, the company 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, Ameren should see some share dilution and higher interest expense.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q4 expectations**: As Ameren typically does, we expect it to issue 2023 EPS guidance. We also anticipate the Company will roll forward and update its five-year (2023-2027) EPS growth forecast (6-8%), its five-year capital plan, and its rate base growth outlook. Lastly, we expect AEE to refresh its financing plan with higher equity to support higher capex.
  - **Missouri electric rate case filing – Staff recommendation update**: On August 1, 2022, Ameren filed a Missouri electric rate case, requesting a $316MM revenue increase with a 10.2% ROE and 51.93% equity ratio on a rate base of $11.6B with a test year ended December 31, 2022. On January 10, 2023, Staff recommended a $147MM revenue increase with a 9.59% ROE and 51.84% on equity ratio on a rate base of $10.4B but with a test year ended June 30, 2022. Ameren's current Missouri electric rates are based on a black box settlement; but note for AFUDC purposes Ameren earns a 9.4-9.5% ROE. The main drivers of the $169MM lower rate increase recommendation (Request vs Staff's position) are $134MM- lower fuel/power expense and $40MM - lower ROE+equity layer offset by other items. The next step is Surrebuttal testimony on March 13th and a PSC decision is expected by June 2023 for new rates effective by July 1, 2023. Ameren has historically reached settlement on many Missouri electric rate cases.
  - **Illinois multi-year rate case filing:** On January 20th, Ameren filed a multi-year electric rate case with the Illinois commission to set distribution rates for 2024 through 2027. For 2024, the company requested a revenue increase of $175MM with a 10.5% ROE and 53.99% equity ratio on a forecasted average annual rate base of $4.3 billion. For 2025, Ameren requested a revenue increase of $91MM with a 10.5% ROE and 53.97% equity ratio on a forecasted average annual rate base of $4.6 billion. For 2026, the company requested a revenue increase of $104MM with a 10.5% ROE and 54.02% equity ratio on a forecasted average annual rate base of $5.0 billion. For 2027, Ameren requested a revenue increase of $79MM with a 10.5% ROE and 54.03% equity ratio on a forecasted average annual rate base of $5.3 billion. AEE has said it also proposed to defer 50% of the 2024 rate increase of $175MM as a regulatory asset to be collected from customers in 2026. The company said a regulatory decision is required by December 2023. On September 27, 2022, the Illinois commission issued performance incentives for Ameren (see our note).
  - **MISO transmission planning**: Ameren has been assigned $1.8B of the ~$10B of MISO approved Tranche 1 transmission projects, 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.
  - **IL Gas Rate Case**: In Jan. 2023, requested a $160 million annual base rate increase from the Commission; includes ~$77 million that would otherwise be recovered in 2024 under QIP and other riders. Based on 10.7% ROE, 54% equity ratio; $2.9 billion rate base; 2024 future test year. Rate base is year-end 2023 plus estimated average 2024 rate base additions. Commission decision required by Dec. 2023 with new rates expected to be effective by early Dec. 2023.

- **Positioning into Qtr: Neutral**.

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$2.31**	**$3.84**	**$0.97**	**$0.80**	**$1.74**	**$0.57**	**$4.08**	**$4.35**	**$4.65**	**$4.95**
Consensus						0.56	4.07	4.35	4.68	5.00
% diff.						*1%*	*0%*	*0%*	*-1%*	*-1%*

Source: Evercore ISI, FactSet as of 1/31/23

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In Line **TP $102**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project year-over-year EPS to increase by +$0.01 to $0.99/share, which would bring full-year 2022 EPS to $5.03, slightly above the midpoint of full-year guidance range of $4.97-5.07/share. Weather is expected to be favorable versus normal due to a cold snap in Texas. Positive YoY drivers primarily include rate relief, higher retail load, and the benefit of the TCOS and DCRF riders in Texas. On the negative side, we primarily expect transmission true-ups, higher depreciation and amortization, increased interest expense and higher property taxes. This quarter also reflects the removal of the FERC RTO adder. Lastly, 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):**

  - **Q4 expectations**: We expect AEP to reaffirm its 2023 EPS guidance and reiterate its long-term EPS (6-7% annual EPS growth), dividend, capital, rate base and financing outlooks that it rolled forward and updated at its Analyst Day in October 2022 and subsequently maintained with Q3 results. We also expect updates on KY and nonregulated renewable asset sale processes.
  - **Kentucky asset sale:** AEP recently announced that it plans to make a new FERC 203 filing. Next steps will be for the FERC to put out a procedural schedule. AEP intends to request for an expedited process, requesting a FERC decision by April 26th. Recall in mid-December 2022, the FERC denied AEP's proposed sale of its Kentucky operations to Liberty (Algonquin Power & Utilities). The final order denies the transaction without prejudice on the grounds that applicants failed to submit evidence showing that the sale will not have an adverse effect on rates. Obviously, we view the Commission decision as a negative development. Under the scenario where the sale does not move forward, AEP's financing needs would increase by $1.2B (net cash proceeds from the sale). Modeling a no sale framework, assuming AEP issues $1.2B in additional equity and adding back $60MM annual earnings from KY operations we see only a modest $0.03 or 0.5% pro forma EPS dilution versus our current 2024 EPS estimate of $5.65 (see our note).
  - **Unregulated renewable sale:** AEP has said its sales process for its unregulated renewable assets continues (began in August 2022) and is on track to close during 2Q23 with announcement expected on the Q4 call. The Company recently accepted bids for Phase I of the auction process and are proceeding into Phase II due diligence with selected bidders. We believe AEP could fetch $1.2-1.4B in cash proceeds using Con Ed's recent transaction multiple and yieldco trading multiples of 11-12x applied to $150MM of 2023 EBITDA less $375MM of debt.
  - **Retail business strategic review:** AEP had announced at its 2022 Analyst Day that it had initiated a strategic review of its retail business to be complete in 1H23; 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.
  - **House Bill 6 Second Subpoena:** AEP disclosed that they received a second subpoena from the SEC in August seeking various additional documents relating to its ongoing inquiry associated with HB6 investigation in OH. We do not view it as a material risk for AEP but will be following it closely.
  - **Regulatory update:** In Louisiana, on December 18, 2020, AEP filed a rate case for a $73MM net revenue increase based on a 10.35% ROE with a 50.8% equity ratio on a rate base of $2.1B with a December 31, 2019 test year. In January 2022, an unopposed motion was filed to stay the hearing as parties engaged in settlement discussions. An order in that case is expected in the first quarter of 2023. In Oklahoma, AEP filed a rate case on November 22, 2022, requesting a net revenue increase of $103MM with a 10.4% ROE and 54.6% equity ratio on a rate base of $4.4B with a test of year June 30, 2022. Separately, SWEPCO is taking steps to secure renewable resources, making regulatory filings in May 2022 in Arkansas, Louisiana and Texas to own three renewable turnkey projects totaling 999 MW. As an update, on October 19, 2022 related to these projects totaling $2.2 billion of investment, the Arkansas staff filed support of these resources subject to conditions. This $2.2B investment is currently reflected in the five-year $40B capital plan. ApCo's 409 MWs of owned solar and wind resources were approved by West Virginia and Virginia, marking a $841MM investment that is also included in the current capex plan.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$4.44**	**$4.74**	**$1.22**	**$1.20**	**$1.62**	**$0.99**	**$5.03**	**$5.30**	**$5.65**	**$6.00**
Consensus						0.99	5.03	5.29	5.64	5.98
% diff.						*0%*	*0%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 1/30/23

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CenterPoint Energy

Outperform **TP $32**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project year-over-year EPS to decrease by -$0.07 to $0.29/share, which would result in full-year 2022 EPS that is at the top end of guidance of $1.37-1.39/share. We expect weather to contribute favorably in 4Q22 versus normal due to a cold snap in Texas. In terms of positive YoY drivers, we anticipate positive contributions from the DCRF and TCOS riders, plus increased gas rates, and higher sales. The primary negative YoY drivers are loss of earnings from the Arkansas and Oklahoma gas LDC divestitures, higher depreciation & amortization expense, and increased interest expense.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q4 expectations:** We expect CenterPoint to reaffirm its current 2023 EPS guidance. We expect the company to also reaffirm its long-term EPS, capex, rate base, financing, O&M, and sales / customer growth outlooks. Given significant update on the Q3 call, we do not anticipate the company will provide major updates to these outlooks until after some rate cases are concluded.

  - **Leadership updates**: CenterPoint recently announced a series of leadership changes. Notably, the company announced the promotion of Jason Wells, EVP and CFO, to the role of President and COO, which became effective January 1st. Dave Lesar continues to serve as CEO. The company is currently conducting a public search for a CFO while Wells continues to serve in his current capacity until his successor has been appointed; CNP has said a new CFO could be announced in February 2023.

  - **Incremental capex:** With Q3 results, CenterPoint increased ten-year 2021-2030 capex plan by $2.3B to nearly $43B driven by resiliency and grid modernization ($1.6-1.8B) and transmission upgrades ($600-800MM). Roughly ~$300MM of which was expected to be deployed in 2022. The Company also identified another $3B of potential incremental opportunities from increased and accelerated C&I electrification, accelerated EV adoption and additional grid modernization projects. None of this total $5.3B incremental capex announced with Q3 results is currently factored into long-term guidance (8% annual EPS growth through 2024 and mid to high end thereafter). CNP's new five-year 2021-2025 capex now totals $20.3B versus $19.3B previously, company's five-year rate base growth for 2021-2025 is still expected to be 11% CAGR. CenterPoint now expects its ten-year 2021-2030 rate base to grow 9.5% CAGR versus 9.0% previously. Despite the capital raise, the Company still projects no equity issuance through 2030.

  - **Rate case schedule:** CenterPoint plans to file a Texas gas rate case in mid-2023, and a Texas electric case in late 2023 or early 2024. Indiana electric is expected to be filed in late 2023. An Ohio gas rate case is anticipated to be filed in mid-2024. Several gas cases are expected to be filed post-2025, including Louisiana, Mississippi, Northern Indiana, and Southern Indiana.

  - **Indiana IRPs:** CenterPoint received approval for projects totaling 460 MW gas combustion turbine, 400 MW of solar, and 335 MW of solar PPAs. The Company 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 soon, 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 storage that will help inform the process.

- **Positioning into Qtr: Neutral**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$1.40**	**$1.64**	**$0.47**	**$0.31**	**$0.32**	**$0.29**	**$1.39**	**$1.49**	**$1.61**	**$1.73**
Consensus						0.29	1.38	1.49	1.61	1.72
% diff.						*2%*	*0%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 1/31/23

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In Line **TP $68**
Analyst: Durgesh Chopra / Sharon Wang

- **Q4 EPS Bridge:** We project year-over-year EPS to increase +$0.12 to $0.59/share, which would result in full-year 2022 EPS of $2.88, matching the midpoint of the company's full-year $2.87 to $2.89 guidance. We expect weather to be relatively neutral this year versus normal last year also. Positive YoY result is primarily driven by electric rate increase, partially offset by refunds and Voluntary Refund Mechanism (VRM) filing discussed within.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q4 expectations**: We expect CMS to update 2023 EPS guidance issued on the Q3 call and refresh the current $14.3B five-year capex plan to include upside from the IRP approved last year. They will also discuss the approved settlement in electric rate case and recently filed gas rate case.

  - **Electric rate case settlement**: On Jan 19th, settlement agreement in electric rate case was approved. Total new revenue for the 2023 test year is $161 million vs. $272mm requested (raised to $293.5 million later), including surcharge to recover $6 million for a 2021 distribution deferral. The capital structure includes the existing 9.9% ROE with a 50.75% equity ratio vs, current 51.02%, which is consistent with the gas settlement. As per the agreement, Consumers Energy will provide a $15 million voluntary refund of 2022 revenue through a 12-month bill credit in 2023. The company will also make $10 million contribution towards programs that assist low-income customers. The settlement also includes pension and retiree health care expense deferral.

  - **Voluntary Refund Mechanism**: In Dec, the company filed for $22 million under the Voluntary Refund Mechanism (VRM) which if approved (could be voted on Feb 2nd commission meeting) would allow CMS to use $22 million in excess revenue form 2022 towards 2023 expenses (de-risk 2023).

  - **Gas rate case**: Gas rate case was filed in Dec. CMS requested a $212 million rate increase with 10.25% ROE and 51.50% equity ratio. Final decision is expected in September 2023 with rates going in to effect on Oct 1st, 2023.

  - **Commission's storm response review**: Management 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 in 2021 to proactively prepare for future events. CMS has stated that their average Interruption duration index is improved. Vegetarian management was doubled and recovered by the support of commission. The review is going to take place over the course of 2023 and may show the need for more reliability capital investment.

  - **Financing plan**: CMS completed $800M of debt issuances at the utility in 2022 as planned, priced at a weighted average coupon of 3.9%. For the acquisition of Covert plant ($815M), CMS priced $438M of equity-forward contracts during Q3 at a weighted average price of $68 per share. The settlement of equity forwards will largely occur in the first half of 2023, concurrent with the acquisition timing and in accordance with the approved IRP. 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.

- **Positioning into Qtr: Neutral**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$2.67**	**$2.65**	**$1.20**	**$0.53**	**$0.56**	**$0.59**	**$2.88**	**$3.10**	**$3.36**	**$3.65**
Consensus						0.57	2.88	3.10	3.36	3.61
% diff.						*3%*	*0%*	*0%*	*0%*	*1%*

Source: Evercore ISI and FactSet as of 1/31/23

This report is prepared solely for the use of Michael Weisenburger

In Line **TP $92**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project year-over-year EPS to decrease by -$0.20 to $0.80/share, which would bring the full-year 2022 EPS to $4.54/share, in line with the midpoint of $4.50-4.60 guidance. Negative YoY drivers include higher O&M, increased interest expense, higher depreciation & amortization, and increased property taxes. 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.

- **What to look for in the earnings report (reminder that ED does not host a conference call):**

  - **Q4 expectations**: As it typically does, we expect Con Ed to issue current-year (2023) EPS guidance and roll forward and update its long-term EPS (5-7% EPS CAGR through 2026), capex, rate base and financing plans. Investors are likely to focus on Con Ed's potential plan to buy back shares. We also expect an update on the progress of closure of the announced CEB asset sale expected in 1H23 and CECONY rate case settlement discussions.

  - **CECONY electric and gas rate case:** Con Edison is in settlement discussions which began on July 6th 2022 and another 30 day extension was requested on January 13th. 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 and use of proceeds, including potential share repurchase**: 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. Of the total $3.6-3.8B (updated from $3.9B) in expected after-tax proceeds, approximately $1.1B is expected to be allocated for debt redemption and another $850MM towards eliminating 2022 equity issuance, leaving ~$2B which could go towards elimination of 2023-2024 combined equity needs of previously $750MM (now rescinded for evaluation) and/or share buy backs. 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. The transaction is valued is 11x our 2023 EBITDA estimate of ~$600 million, a valuation which was in line with peer yieldco trading multiples of 11-12x.

  - **Steam rate case filing**: On November 23rd, Con Ed filed a CECONY Steam rate case, requesting in its one-year proposal a revenue increase of $137MM with a 10.0% ROE and 50.0% equity ratio on a rate base of $1,778MM with a test year ended June 30, 2022. The request includes a new revenue decoupling mechanism with a continuation of full reconciliation of costs for pension and OPEBs and environmental remediation. Con Ed is also requesting full reconciliation of property taxes, municipal infrastructure support costs, and long-term debt cost rate as well as continued reconciliation for uncollectible costs. In addition, the company is asking for symmetrical reconciliation for labor and non-labor inflation rate to the extent that actual inflation rate deviates from what is assumed in the revenue requirement by 50 bps up or down. Con Ed last filed a steam rate case several years ago in 2013 for rates effective in 2014. The business typically represents ~5% of consolidated annual earnings. Staff's position is expected in March with a final decision expected by year end.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$4.18**	**$4.39**	**$1.47**	**$0.64**	**$1.63**	**$0.80**	**$4.54**	**$4.70**	**$4.95**	**$5.40**
Consensus						0.80	4.55	4.84	5.13	5.36
% diff.						*0%*	*0%*	*-3%*	*-4%*	*1%*

Source: Evercore ISI, FactSet as of 1/31/22

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Outperform **TP $93**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project 4Q22 adjusted EBITDA of $550MM for Constellation, which would result in full-year 2022 EBITDA of $2,611MM which is in the upper half of company's 2022 EBITDA guidance range of $2,450-2,650MM.
- **What to look for in the earnings report (Key debates/themes):**
  - **Q4 expectations**: On the Q4 call, CEG plans on providing a 2023 EBITDA guidance range, a gross margin update for 2023, and a gross margin outlook for 2024. The company is also expected to provide a capital allocation update, they have previously guided to free cash flow for 2022-2023 of $1.8-2.2B which is still expected to be utilized for M&A, unidentified growth capital and/or return of capital to shareholders in the form of buybacks and special dividends. Constellation 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 its offering of sustainability products and services for its C&I customers.
  - **IRA legislation benefits**: The Nuclear PTC is in effect beginning after 12/31/23 and through 12/31/32. In the base year 2024, Constellation qualifies for the nuclear PTC up to $15/MWh; the PTC amount is reduced by 80% of gross receipts exceeding $25/MWh, phasing out completely after $43.75/MWh. The nuclear PTC can be credited against taxes or monetized by transferring to an eligible taxpayer. Starting in 2025, the maximum PTC and gross receipts threshold are subject to an inflation adjustment based on the GDP price deflator for the preceding calendar year: Inflation Adjustment = GDP price deflator in preceding year divided by GDP price deflator in 2023. Maximum PTC adjustment is rounded to nearest $2.5/MWh and gross receipts threshold is rounded to nearest $1/MWh.
  - **License renewals for Clinton and Dresden nuclear plants**: CEG is seeking license renewals for Clinton (1,080 MW) and Dresden Nuclear Power Plants (1,845 MW). These renewals, if granted, would allow the plants to operate for an additional 20 years. Clinton could operate until 2047 and Dresden could operate until 2049 (Unit 2) and 2051 (Unit 3).
  - **Credit rating upgrade**: On October 13th, Standard & Poor's (S&P) upgraded CEG from BBB- to BBB while maintaining a positive outlook.
  - **Agreement with city of Chicago**: Constellation recently executed a 300 MW agreement with the City of Chicago to purchase 100% clean, renewable energy by 2025.
  - **Potential changes to financial guidance and reporting**: CEG is evaluating providing revised metrics for financial guidance and disclosure. Among its guidance, the company currently issues EBITDA outlooks. Constellation is considering changing this to a different metric, such as earnings per share instead of EBITDA, given the IRA implementation of nuclear tax credits.
  - **PJM Plant Outage:** The PJM said Jan. 11 that it had an "unacceptably high" level of power generation resources unavailable for the Dec. 24, 2022, morning peak amid extremely cold weather. For those that did not perform as promised when called upon to do so, the grid operator said it expects to levy between $1 billion and $2 billion in fines. CEG and PSEG's jointly owned (43%/57% respectively) Salem unit 2 (1.1GW) was offline for a day during the December winter storm. Management stated that while unit 2 was offline for a day, other units operated at higher than normal capacity which would serve to offset any fines/penalties.
- **Positioning into Qtr: Neutral.**

Adj. EBITDA	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E
EVR ISI	$866	$603	$592	$550	$2,611	$3,100	$3,200
Consensus				$550	$2,583	$3,124	$3,384
% diff.				*0%*	*1%*	*-1%*	*-5%*

Source: Evercore ISI, FactSet as of 1/31/23

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In Line **TP $65**
Analyst: Durgesh Chopra / Sharon Wang

- **Q4 EPS Bridge:** We project year-over-year EPS to increase by +$0.08 to $0.98, which would bring full-year 2022 EPS to $4.04, closer to the low end of $4.03-4.18 guidance. We expect YoY drivers to include favorable weather vs last year, base revenue growth, absence of outage at Millstone offset by share dilution, higher interest expense and other.

- **What to look for in the earnings call (Key debates/themes):**

  - **Q4 call expectations**: Dominion has said they will provide any update they can on the strategic review followed by an analyst day later in 2023. 2023 guidance range is typically announced on the Q4 earnings call but that will not be the case this time around given the ongoing review. We also expect discussion around recently introduced legislations in VA.

  - **HB 1770 - Virginia Electric Utility Regulation Act**: As per the proposed bill, Dominion will move from a triennial to biannual review. The bill requires Dominion Energy Virginia, in its 2023 biennial review, to combine certain rate adjustment clauses having a combined annual revenue requirement of at least $300 million with the utility's base rates. The bill provides that the combination of such rate adjustment clauses is subject to audit by the Commission in the utility's 2023 biennial review filing. The bill also requires that if, during a biennial review, the Commission determines that the utility has earned more than 70 basis points above its fair combined rate of return on its generation and distribution services, the Commission will direct that 70 percent of the amount of such overearnings be credited to customers' bills. The bill if approved also implies an ROE floor of 10% and higher equity layer of 53.5% vs 52% currently. There is an identical bill in the Senate also being discussed, as a reminder the legislative session in VA ends of Feb 25th.

  - **SB 1477:** On Jan 18th, new legislation SB 1477 filed in the Virginia General Assembly could allow Dominion to sell a passive stake in its ~$10 billion Coastal Virginia Offshore Wind project. Senate Bill 1477 authorizes Dominion Energy Virginia to establish an offshore wind affiliate, subject to approval by the Virginia State Corporation Commission. The bill also includes provisions that allow the affiliate to "construct, own, or operate the project" and enable the affiliate to cost recovery as a public utility. Any premium or purchase price in excess of book value resulting from the sale will be passed onto customers

  - **Business review**: With Q3 results on Nov 4th, D Initiated a 'top-to-bottom' business review, they expect to share updates on Q4 2022 earnings call in early 2023 and plan to hold an investor day later in 2023. In our view, as part of this review process, the company could take actions to modify the regulatory construct in VA to address investor concerns around the triennial review/over earnings risk (40-45c annual EPS or ~10%% of our 2024E.

  - **Offshore wind settlement agreement**: On Dec. 15th, SCC adopted the Second Stipulation related to the 2.6 GW Coastal Virginia Offshore Wind (CVOW) project and struck the performance guarantee provision. Specifically, the Second Stipulation asks the Commission to replace the performance standard with five enumerated requirements, which address the following: (1) construction cost sharing; (2) operating performance provisions; (3) Inflation Reduction Act; (4) scope of agreement; and (5) no precedential effect. The cost-sharing approach includes: (1) Shareholders will share 50% of any costs in the range of $10.3B to $11.3B. D estimates total project cost to be $9.8B. (2) The company has further voluntarily agreed that shareholders will be responsible for 100% of any prudently incurred costs in the range of $11.3B to $13.7B, if any. (3) There is no cost-sharing agreement for any costs that exceed $13.7 billion. D will provide a detailed explanation of the factors contributing to any shortfall in energy output from projected amounts in a future Commission proceeding. The order on reconsideration stated that the Commission finds that the performance standard ordered in the Final Order is stricken and replaced with the Second Stipulation.

  - **Utah rate case**: On Dec 23rd, the Public Service Commission of Utah (PSC) approved a revenue increase of $47.8 million (vs $70.5M requested) for Dominion Energy Utah (DEU), with ROE of 9.6% (vs requested 10.3%) and equity layer of 51% (vs requested 53.21%).

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$3.54**	**$3.86**	**$1.18**	**$0.77**	**$1.11**	**$0.98**	**$4.04**	**$3.53**	**$3.76**	**$4.00**
Consensus						1.04	4.11	4.28	3.83	4.19
% diff.						*-6%*	*-2%*	*-17%*	*-2%*	*-5%*

Source: Evercore ISI, Capital IQ, Factset as of 1/31/23

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DTE

Outperform **TP $126**
Analyst: Durgesh Chopra / Sharon Wang

- **Q4 EPS Bridge:** We project year-over-year EPS to increase by +$0.16 to $1.21, which would bring full-year 2022 EPS to $6.00, the mid-point of $5.90-$6.10 guidance. We expect YoY drivers to include rate increases and favorable weather versus last year offset by higher depreciation, interest and other items.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q4 Expectation:** We expect DTE to reiterate its LT operating EPS growth target of 6%-8%, supported by utility capital investment recently rolled forward and increased by $3.5B in the 5-year plan from $18.1B to $21.6B, which is 95% of the total $23B projected capital investment. At EEI, the company provided 2023 operating EPS early outlook of $6.09 - $6.40, which delivers 7% growth from original 2022 guidance midpoint of $5.84.
  - **Electric rate case**: On Nov. 18th, MPSC authorized DTE to implement a rate increase of $31mm on a rate base of $20.5B, with a 9.9% ROE and 50% equity ratio. The largest amount of the reduction in the approved rate increase versus DTE's ask was disputed sales forecast projections. The commission found that, despite DTE Electric's previous projections of declining electric use among its residential customers, residential electric sales surged in 2020 and increased again in 2021, even as many Michiganders returned to working from their places of employment and resumed pre-COVID activities. DTE's requested $388mm rate increase was based on rate base of $21.3B, ROE of 10.25% and equity ratio of 50%, versus company's current ROE of 9.9%. The staff recommended in May a rate increase of $143mm, rate base of $20.6bn, ROE of 9.60% and equity ratio of 50%. 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%. In Dec, DTE submitted petition for rehearing. There could be a potential order on Feb 2nd. Company still views their relationship with regulators as constructive.
  - **Future rate cases**: DTE is still considering the timing to file both electric and gas rate cases (originally it was planned for Q1, but timing could move due to the rehearing petition we discussed earlier). In the next electric rate case, DTE is going to introduce a tracker for distribution investment in the grid, which is similar to what they have in the gas business and will help the company to stay out longer between rate cases.
  - **Clean Vision Plan (IRP) filing**: In early November, DTE filed an updated IRP to support generation transformation to cleaner energy and the modernization of electric grid for resiliency and reliability to prepare for increasing climate extremes and load growth from EV adoption. The plan accelerates 4,100 MW of coal plant retirements and drives 5,400 MW renewables development in 2023 – 2032, and 10,000 MW in 2033 – 2042. Some of the IRP investment could be incremental to current capex in the back end of five-year plan. Final commission decision is expected in 2H 2023.
  - **Commission investigation**: At our January Utility CEO conference DTE pointed to its track record and does not view the process as punitive but rather creating more alignment between the two parties. In Nov, the company submitted a report updating the Commission on the efforts to improve the utilities' storm response and restoration times.
  - **Customer Bill increases:** DTE is relatively well positioned to mitigate customer bill impacts from rising commodities as they are 75%/50% hedged at the gas utility for 2023/2024 respectively. Furthermore 80% of the fuel costs at the electric utility are fixed/contracted through 2023

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$5.61**	**$5.99**	**$2.31**	**$0.88**	**$1.60**	**$1.21**	**$6.00**	**$6.25**	**$6.64**	**$7.21**
Consensus						1.24	6.01	6.24	6.71	7.23
% diff.						*-2%*	*0%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, Factset as of 1/31/23

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DUKE ENERGY

In Line **TP $102**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project 4Q22 adjusted EPS of $1.10/share, which excludes the Commercial Renewables segment that is being sold and will be reported as discontinued operations. In terms of positive YoY drivers, we expect rate cases and riders to contribute favorably, in addition to higher sales growth, lower O&M, 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, and reduced market equity returns for the executive benefit trust.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q4 expectations**: We expect Duke to reaffirm its 2023 EPS guidance and also maintain its five-year 2023-2027 EPS growth outlook (5-7% CAGR through 2027), both of which it issued with Q3 results. We also expect an update regarding the Company's strategic review of its Commercial Renewables business, for which Duke anticipates making an announcement in 1Q23 for closure by mid-2023. In addition, we expect the Company to provide an update on its 2023 cost mitigation target of $300MM.
  - **Commercial Renewables strategic review**: Duke completed the strategic review of its Commercial Renewables segment and expects to announce a sale in 1Q23 for close by mid-2023. We estimate DUK could fetch $3-3.5 billion in cash proceeds at a 11-13x EV/EBITDA multiple applied to our $360 million of EBITDA estimate less $1B of debt. The sale will be presented as discontinued operations in Q4. The company says it addresses its equity needs through at least 2027.
  - **North Carolina commission issues order adopting an initial Carbon Plan.** Duke at our January Utility CEO conference said that the December 31st decision on the Carbon Plan is in line with its expectations. Consistent with the Companies' proposal, Duke says the order recognizes the value of an "all-of-the-above" approach to achieving CO2 emission reductions. The order approves a number of near-term activities requested by the Companies that are needed to continue progress toward achieving the CO2 emissions reduction targets. It also affirms the resource ownership structure described in HB 951. All new generation facilities or other resources selected by the North Carolina commission to achieve the CO2 emission reductions shall be owned and recovered on a cost of service basis by DUK, with a carveout for solar and solar plus storage generation facilities, where the Companies will own 55%, and 45% will be procured through long term purchase power agreements with third parties. The Carbon Plan also approves Duke's proposed plan to continue utilizing remaining coal generation assets, ensuring that appropriate replacement generating units and associated transmission infrastructure are in service before existing generating units are retired and providing an orderly transition out of coal generation by 2035. The order requires DUK to refresh the Carbon Plan modeling – including impacts of the Inflation Reduction Act of 2022, Infrastructure Investment Jobs Act, and other future legislative changes and changing conditions – and file an updated Carbon Plan with the North Carolina commission by September 1, 2023. The Carbon Plan will be reviewed and adjusted every two years thereafter. In Aug. 2023, Duke will file an IRP with the South Carolina PSC, which will take into account the Carbon Plan, the IRA legislation and other factors relevant to resource planning.
  - **DEP 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 $236MM revenue increase with a 10.20% ROE and 53% equity layer and is based on a retail rate base of $12.3B as of December 31, 2021, adjusted for known and measurable changes projected through April 30, 2023. The MYRP includes impacts of approximately $3.8B (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 Oct. 1, 2023. In South Carolina, Duke announced on January 12th that it has reached a settlement agreement for a revenue increase of $52MM ($89MM requested) with an ROE of 9.6% (ask 10.2%) and equity ratio of 52.43% (request 53.0%). A final decision is expected in March 2023. Separately, Duke plans to file a DEC rate case in 1Q23.
  - **Cost mitigation**: With Q3 results, Duke raised its cost mitigation target for 2023 to $300MM from $200MM to offset inflation and higher interest expense.
  - **Indiana IRP filing**: In Indiana, following the filing of the IRP in December 2021, Duke issued a request for proposal for generation resources. The company held stakeholder meetings to review updated IRP results ahead of a planned CPCN filing in early 2023.
  - **Ohio electric rate case**: In Dec. 2022, the Ohio commission issued an order in the rate case, approving the settlement for a $22.5MM revenue increase (request $55MM), ROE of 9.5% (ask was 10.3% and existing 9.84%), and equity ratio of 50.5% (request was also 50.5% and existing 50.8%) on a rate base of $2,036MM (ask was $2,069MM).

- **Positioning into Qtr: Neutral**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$5.12**	**$5.24**	**$1.30**	**$1.14**	**$1.78**	**$1.10**	**$5.32**	**$5.65**	**$6.00**	**$6.35**
Consensus						1.06	5.27	5.65	6.00	6.34
% diff.						*4%*	*1%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 1/31/23

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EDISON INTERNATIONAL®

In Line **TP $70**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project year-over-year EPS to decline -$0.07 to $1.09/share, which would result in full-year 2022 EPS of $4.58/share, matching the midpoint of the company's $4.48-4.68/share guidance. We expect the primary drivers to be higher interest expense related to wildfire financing, increased O&M, higher depreciation & amortization and increased property taxes, partially offset by higher rate base growth.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q4 expectations**: As it typically does, we expect EIX to issue current-year (2023) EPS guidance and revisit its five-year EPS (5-7% CAGR through 2025), capital, rate base and financing outlooks. Extension of the plan beyond 2025 is not expected given the anticipated rate case filing in May this year.

  - **Best estimate of expected losses for the 2017/2018 Wildfire/Mudslide events**: with Q3 results, EIX increased its best estimate of expected losses for SCE by $880MM to $8.8B; it resolved $350MM of claims and now 85% (vs. 89% last quarter) of the best estimate has been resolved. SCE still 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.

  - **Equity issuance plan**: As previously disclosed and expected, EIX stated that it deferred equity content issuances planned for 2022 to 2023. The company had originally planned to issue $300-400MM last year. With Q3 results, EIX had stated that it expected to issue $100MM of common equity via internal programs ($75MM completed as of then) in 2022. The company said it will incorporate deferred equity issuances into its 2023 financing plan to be shared on the 4Q22 call. As of now, EIX still expects to issue equity content up to $250MM annually, on average from 2022-2025.

  - **Cost of Capital filings**: EIX recently posted an illustration of its Cost of Capital mechanism on its website (see link) with data through December 2022. On November 3, 2022, for the 2022 Cost of Capital proceeding the California commission found that an extraordinary event did occur and thus the CCM would not be automatically triggered, so the 2022 authorized cost of capital is preserved. For the 2023-2025 Cost of Capital filing, the Commission recently issued a decision for a 10.05% ROE (request was 10.53%) versus the prior 10.3%.

  - **Rate case**: EIX plans to file a rate case in May 2023 for the 2025-2028 period.

  - **Wildfire mitigation:** Management still estimates that its wildfire mitigation and PSPS have reduced probability of losses from catastrophic wildfires by 65-70%.

- **Positioning into Qtr: Neutral**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$4.52**	**$4.59**	**$1.07**	**$0.94**	**$1.48**	**$1.09**	**$4.58**	**$4.80**	**$5.15**	**$5.50**
Consensus						1.09	4.57	4.75	5.08	5.47
% diff.						*0%*	*0%*	*1%*	*1%*	*1%*

Source: Evercore ISI, FactSet as of 1/31/23

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Outperform **TP $118**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project year-over-year EPS to decrease by -$0.30 to $0.46/share, which would result in full-year 2022 EPS of $6.40 within the $6.25-6.45 guidance. We expect weather to be relatively neutral this year versus normal. In terms of positive YoY drivers, we primarily anticipate the benefits of rate relief and riders, and one-time adjustments from the same period last year. In terms of negative YoY drivers, we primarily expect 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):**
  - **Q4 expectations**: We expect ETR to revisit its current 2023 EPS guidance as well as refresh its long-term EPS (6-8% CAGR through 2025), capex, rate base, and financing outlooks. At the EEI conference in November 2022, the company rolled forward its three-year capital plan to 2023-2025 as well as its rate base outlook and provided drivers for its 2023 EPS guidance.
  - **Hurricane Ida Louisiana cost recovery**: On January 29th, the commission voted 3-2 approving recovery of all but $180MM of the $1.6B of storm costs, which was the NPV of storm ADIT benefits and not a disallowance. ETR has used this net securitization approach before for Hurricane Rita costs in Texas.
  - **SERI update:** On December 23rd, the FERC issued orders regarding the SERI sale leaseback and uncertain tax position case. Entergy believes the orders are a positive step toward resolving a number of long-standing issues raised by its retail regulators. The company said that while it disagrees with some elements of FERC's findings, in particular its ruling on the sale leaseback claim, it is pleased that FERC's remedy results in no additional refunds due to customers beyond those already provided in 2021 on the uncertain tax positions taken by SERI.
    - Regarding the uncertain tax position issue, FERC's orders address a series of decommissioning uncertain tax positions that SERI said it took in order to benefit customers. SERI assumed the risk of Internal Revenue Service penalties and interest that could have resulted from unsuccessful portions of these positions. The IRS ultimately allowed over $100MM of an uncertain tax position SERI took in 2015. The remedy in FERC's order directed SERI to compute a refund based on the accumulated deferred income tax, or ADIT, amounts resulting from the IRS's partial allowance of SERI's 2015 decommissioning uncertain tax position. Consistent with FERC's order, upon resolution with the IRS of the 2015 uncertain tax position, SERI began to provide an ongoing rate base credit for the ADIT associated with the successful portion of the uncertain tax position, which is estimated to result in a benefit of $69MM to customers over the remaining expected life of Grand Gulf. Additionally, in 2021, SERI provided a one-time credit of $25MM inclusive of interest for the ADIT created by the 2015 decommissioning uncertain tax position, which is consistent with the directives of FERC's order. Therefore, SERI's position is that it has already satisfied the remedy required in FERC's order. The FERC's order also specified that the remedy must not "reestablish" ADIT balances for tax positions that were denied by the IRS, as SERI received no tax benefits from tax positions that were not successful. Beyond the partial acceptance of the 2015 tax position, the IRS did not allow any portion of SERI's other decommissioning uncertain tax positions. Under the remedy specified by FERC, for uncertain tax positions that the IRS fully disallowed, and for which SERI received no tax benefits, no refunds are due. Entergy therefore calculates the remaining refund for the uncertain tax positions issue to be zero dollars. Litigators in the case are calling for $800MM in additional refunds ($450MM additional refunds taking into account SERI's previous settlement with the Mississippi PSC). SERI intends to file a compliance refund report reflecting that calculation as required by the order, which FERC will review and address in a future order (expected in 60 days from 12/23/22).
    - On the sale leaseback case, the order calls for SERI to refund approximately $149MM, including interest, resulting from the disallowance of $17MM in annual lease payments from 2015 through 2022. Taking into account SERI's previous settlement with the Mississippi PSC, the total sale leaseback refund amount is $89MM. The order also states that SERI can no longer collect $17MM in annual lease payments on a prospective basis. Net of the Entergy Mississippi settlement, the prospective exclusion would be $10MM annually (or $0.03 EPS hit). SERI disagrees with this ruling and will seek rehearing. Regarding the financial impacts of these FERC orders, assuming there are no changes to either order upon rehearing, Entergy reaffirmed its adjusted EPS guidance for 2022 and adjusted EPS outlooks for 2023-2025.
- **Resiliency spending:** The current five-year $25B capex program includes $2.2B of accelerated "resiliency" spending, with potential upside to $4B based on planned regulatory filings. Entergy New Orleans filed for $1.5 billion in investment over ten years in the third quarter with a final decision expected in Q42023. Entergy Louisiana recently filed in December 2022 for $9B in investment over ten years. Entergy Texas is expected to file by mid-2023.

- **Positioning into Qtr: Neutral**.

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	$5.66	$6.02	$1.32	$1.78	$2.84	$0.46	$6.40	$6.70	$7.15	$7.70
Consensus						0.47	6.39	6.72	7.20	7.72
% diff.						*-2%*	*0%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, FactSet as of 1/31/23

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EVERSOURCE

Outperform **TP $92**
Analyst: Durgesh Chopra / Sharon Wang

- **Q4 EPS Bridge:** We project year-over-year EPS to increase by $0.01 to $0.92, which would result in full-year 2022 EPS of $4.09, matching the midpoint of the company's full-year $4.04 to $4.14 guidance. We expect positive drivers to include increased transmission earnings, rate increase at NSTAR electric and gas companies, and trackers. Negative drivers include higher depreciation and property taxes, debt interest expense, share dilution, $10 million corporate contribution, and storm damage,

- **What to look for in the earnings report (Key debates/themes):**
  - **Q4 expectations**: We expect ES to issue 2023 EPS guidance, update capex plan and rate base growth outlook. We expect extension of the upper half of 5-7% EPS growth target through 2027(vs 2026 currently) with the potential of achieving the top end of the range. The company is likely to provide an update on offshore wind strategic review and the remaining $0.5B incremental capex to fill offshore earnings loss (As of Q3 ES identified $2.5B of investment opportunities with $0.5B remining to be identified to replace the offshore earnings loss).
  - **NSTAR Electric rate case**: In Nov, MA Department of Public Utilities (DPU) granted NSTAR Electric (Eversource's MA subsidiary) a $64M rate increase effective Jan 1.2023. The allowed ROE was modestly lowered to 9.8% versus 10% currently and the DPU accorded the requested equity ratio of 53.21%. The order also renews the Performance based ratemaking (PBR) plan for a total of five consecutive years starting January 1, 2023, with the last adjustment taking effect on January 1, 2027. Under the PBR framework, the company can adjust rates annually based on established performance metrics with a revenue cap tied to inflation. The PBR also calls for earnings sharing mechanism whereby If the Company's actual ROE exceeds the authorized ROE by more than 100bps, the earnings above the 100bps dead band will be shared 75 percent with customers and 25 percent with the Company. We view the outcome as constructive, striking the right balance between investor and customer interest. In a separate order issued in November, the DPU also authorized company's proposed AMI spending of $535M through 2028 (versus ask of $575M) which would be incremental to the current five-year plan.
  - **Offshore wind strategic review:** The strategic review of the offshore wind investment portfolio is advancing, which could result in a potential sale of all or part of Eversource's 50% interest in offshore wind joint venture with Ørsted. ES said they are working closely with potential buyers and seeing great interest in the assets, as their wind assets are more mature in the market and over 85% contracted now. We estimate up to $3-3.5B in proceeds from the sale of Eversource's share. Sale proceeds would be used to fund incremental capex opportunities (AMI, onshore transmission, etc.) and/or reduce current financing needs. We will look for an update on the year-end call, but management suggested they may not have completed the review by then.
  - **$3B incremental Capex to offset offshore earnings loss:** By 2026, incremental investments required to replace the earnings contribution from offshore wind will be approximately $3B above the current $18B capital forecast. 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 $2.5B in higher spending is now identified, which includes 1) $1.1B AMI spending where approval was granted in MA and the company is still waiting for authorization in CT. 2) $0.5B in transmission interconnection spending of which they already have approval for $0.2B; 3) $0.9B in DER related spending with a $150M project approved recently and the and remaining five projects totaling $750M to be decided by the commission this year.
  - **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 sometime this year (vs Q4 2022 previously). In November, the MA DPU authorized company's proposed AMI spending of $535M through 2028 (versus ask of $575M) which would be incremental to the current five year plan
  - **Aquarion rate case**: 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 in year 1 and $22.4M over 2 subsequent rate years with a 10.35% ROE and a 53% Equity Layer. Expected decision date is March 15, 2023. In January, the Attorney general recommended that the Commission should reject Aquarion's rate increase. The Office of Consumer Counsel suggested that company's requested ROE of 10.35% should be reduced to 9.00% or lower.
- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$3.64**	**$3.86**	**$1.30**	**$0.86**	**$1.01**	**$0.92**	**$4.09**	**$4.40**	**$4.70**	**$5.15**
Consensus						0.94	4.09	4.38	4.70	5.07
% diff.						*-2%*	*0%*	*1%*	*0%*	*2%*

Source: Evercore ISI, Factset as of 1/31/23

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evergy

In Line **TP $62**
Analyst: Durgesh Chopra / Sharon Wang

- **Q4 EPS Bridge:** we project year-over-year EPS to increase by $0.14 to $0.30/share, which would result in full-year 2022 EPS of $3.75, above top end of the company's full-year $3.53 to $3.63 guidance. Overall weather is close to normal. Key positive YoY factors are returning to normal weather, lower O&M offset by higher D&A, interest and Sibley related drag.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q4 expectations**: We expect EVRG to issue 2023 EPS guidance, reaffirm its long-term EPS growth forecast (currently 6-8% CAGR through 2025, unlikely to get extended), roll over capex plan to 2027 and update rate base growth outlook. The company pointed to $0.08 of EPS hit ($0.05 Sibley related disallowance and $0.03 other items) from the MO rate order which combined with our estimated higher interest expense impact of $0.10-$0.12 represents a total $0.20 (or 5% of our 23E) headwind for 2023. Management stated they will try to find offsets largely around O&M savings and provide guidance on the Q4 call. Company mentioned the true inflection point that will impact their outlook and perspective on the mix of capital expenditures is going to be IRP update in the second quarter, which would support more owned renewable generation.

  - **Kansas rate case**: Evergy is preparing to file Kansas Central and Kansas Metro rate cases in late April 2023. We expect to see staff testimony in August. 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.

  - **Annual update to IRP:** EVRG will file an annual update to its IRP for both states in Q2 this year, which will include the impact of IRA, higher commodity curves, and increased SPP (Southwest Power Pool) capacity margin requirement, which are the factors that can be more supportive of EVRG owning more renewables. Recall that in June 2022, Evergy filed an annual update to its Missouri and Kansas IRP. The Company's preferred plan for the next decade is consistent with the resource plan laid out in 2021 triennial IRP filing and the renewables development discussed during EVRG's Investor Day in Sep 2021. 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 this 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: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$3.10**	**$3.54**	**$0.58**	**$0.86**	**$2.01**	**$0.30**	**$3.75**	**$3.70**	**$4.00**	**$4.27**
Consensus						0.25	3.65	3.65	3.96	4.23
% diff.						*21%*	*3%*	*1%*	*1%*	*1%*

Source: Evercore ISI, Factset as of 1/31/23

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Outperform **TP $46**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project 4Q22 adjusted EPS of $0.41/share for Exelon, which as a reminder is now a standalone utility that has been reporting as such for the fourth time since 1Q22 following its separation from GenCo in February 2022. Our 4Q22 EPS estimate would result in a full-year 2022 EPS of $2.25/share, which matches the midpoint of the company's full-year guidance range of $2.21-2.29/share. We expect weather to be favorable this year in 4Q22 versus normal. 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, we expect higher rates and a benefit in Illinois from the increased 30-year Treasury rate. We see the primary negative drivers being higher O&M and increased interest expense.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q4 expectations**: We expect EXC to issue 2023 EPS guidance as well as roll forward and update its long-term EPS (6-8% CAGR through 2025), dividend, capex, rate base and financing outlooks.
  - **Leadership change:** CEO Chris Crane retired from his position as CEO and as a director of the Exelon Board on December 30th. The Exelon Board elected Calvin G. Butler Jr., previously president and COO, to the role of president and CEO on December 31st. Butler stated that he is focused on executing on the existing plan.
  - **Illinois multi-year plan rate case filing**: On January 17th, ComEd filed its Illinois electric distribution multi-year rate plan asking for base rate revenue requirements of ~$3.8B in 2024, $3.9B in 2025, $4.1B in 2026 and $4.4B in 2027. ComEd's requested revenue requirements are based on requested returns on common equity of 10.50%, 10.55%, 10.60%, and 10.65% in 2024, 2025, 2026, and 2027, respectively, and on capital structures that reflect between 50.58% and 51.19% common equity. The approved revenue requirements will be reconciled to actual costs incurred during each such year, subject to certain limitations and to ICC review, in accordance with law. In the filing, ComEd will ask the ICC to phase-in the new rates by deferring 35% of the 2024 base rate increase, with that amount being recovered in 2026. The ICC must review the Rate and Grid Plans in a proceeding on a consolidated basis and issue a decision by mid-December 2023. On September 27, 2022, the Illinois commission issued performance incentives for Exelon (see our note).
  - **Equity needs**: Exelon still expects to issue no more than $1B of equity through 2025, and just $425MM remains. The issuance plan is intended to target 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%.
  - **Delmarva rate cases**: In October 2022, Exelon received a final order in its Delaware gas rate case for a ~$13.4MM rate increase with a 9.6% ROE and 50% equity ratio, both in line with previously levels. In December 2022, the Maryland commission approved 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). In December 2022, Exelon filed a Delaware electric rate case, requesting a $72MM revenue increase with a 10.5% ROE and 50.5% equity ratio on a rate base of $1.1B with a test year of 6/30/23. A final decision is expected by year-end 2023.
  - **Expected future rate case filings**: ComEd expects to file for reconciliation of 2022 actual costs in April 2023 through its final rider filing. Final orders are expected from the Illinois commission by December 2023. BGE expects to file its second gas and electric multi-year plan in 1Q23 for rates effective 2024-2026. BGE expects this filing to include a reconciliation from its first multi-year plan. Final orders are anticipated in December 2023. Pepco DC expects to file its second multi-year plan in 1H23 (upon conclusion of the PSC's stay-out provision) for rates effective 2024-2026. Pepco DC expects to file a reconciliation from its first multi-year plan. Pepco MD expects to file a second electric multi-year plan in 2Q23 for rates effective 2024-2026. Pepco MD expects this filing to include the reconciliation of year one of its multi-year plan. A final order is anticipated by March 31, 2024.
  - **AMT Impact from the Inflation Reduction Act**: 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	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$0.64**	**$0.44**	**$0.75**	**$0.41**	**$2.25**	**$2.35**	**$2.50**	**$2.70**
Consensus				0.44	2.26	2.36	2.51	2.73
% diff.				*-6%*	*-1%*	*0%*	*0%*	*-1%*

Source: Evercore ISI, FactSet as of 1/31/23

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FirstEnergy

Outperform **TP $48**
Analyst: Michael Lonegan / Durgesh Chopra

- **Q4 EPS Bridge:** We project year-over-year EPS to increase +$0.05 to $0.56/share, which would result in $2.48/share for the full-year 2022, the top half (company also said top half) of full-year guidance of $2.30-2.50/share. Weather is not expected to be materially different than normal. In terms of positive YoY divers, we anticipate FirstEnergy will benefit from higher rates from Ohio grid modernization, plus Pennsylvania and transmission rate base growth, as well as increased Signal Peak earnings. 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, loss of earnings from the FET sale, and share dilution from the equity financing transaction in November 2021.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q4 expectations**: We expect FE to update its 2023 EPS guidance, including the impact of pension expense. We do not anticipate the company will extend its forecasts beyond the existing 2025 year for EPS, capex and rate base until a new CEO is well situated in his/her role. FirstEnergy plans to announce an EPS-accretive sale of a minority interest in a transmission or distribution asset by January 31st and said it could announce a new CEO as early as the 4Q22 call on February 14th.
  - **CEO search**: FirstEnergy said the Board's external search is narrowed down to 2-4 candidates, and it expects to make an announcement as early as the 4Q22 earnings call. The key attributes the Company is looking for include a strong track record of executive leadership within the utility industry, a demonstrated ability to execute on the regulatory front, leading operational and financial discipline, and high credibility with external stakeholders. Candidates have included existing and retired utility executives.
  - **Planned asset sales**: FirstEnergy plans to announce an EPS-accretive sale of a minority interest in a transmission or distribution asset by January 31st. The company has been saying that it was leaning towards divesting part of a transmission asset. The sale is expected to accelerate FirstEnergy's post-2023 credit metric target for FFO to debt of 14-15% into this year (currently targeting 13% this year). We think a divestiture could fetch as high as 35-45x and 25-35x LTM P/E valuation, respectively. Proceeds could be used to pay down HoldCo debt, avoid additional debt at the utilities, and fund capital projects.
  - **Pension update**: For the full-year 2022, FirstEnergy said to assume the same 2023 EPS impact of $0.45 that it had stated as of September 30th. On the third quarter 2022 call, the company said that the headwind from the qualified pension plan had increased from $0.30/share as of June 30th to approximately $0.45/share as of September 30th. FE had said it was confident in its previously outlined mitigation plan to address the $0.30/share and stated that it had captured the majority of it already. This includes costs FirstEnergy had already begun accelerating into 2022, the benefits from its balance sheet improvement efforts, specifically the $1 billion of high coupon debt that FE retired in June 2022, and the expected uplift from other corporate cost reductions and earnings from its legacy investment in the Signal Peak mining operation. At our Utility CEO conference earlier this month, the company stated that it had not given up on offsetting the full $0.45 as Signal Peak earnings are expected to be higher than previously anticipated for 2023. FirstEnergy said that it was continuing to contemplate longer-term regulatory approaches to moderate the impact of market volatility on its pension plan. The funded status of FE's qualified pension plan was 81% as of the third quarter of 2022, lower than the 84% as of the second quarter of 2022. There are no expected cash contributions through 2024.
  - **FE was awarded onshore transmission investment (incremental to plan) to support New Jersey offshore wind.** On October 26th, FirstEnergy was awarded $723 million in investment opportunity by the New Jersey Board of Public Utilities for onshore wind transmission projects to support offshore wind development off the coast of the state. FE stated that this spending would likely begin in late 2024 or in 2025 and that it would be incremental to its long-term capital plan. The Company also has the option to buy a 20% stake in an offshore wind transmission project being developed by Mid-Atlantic Offshore Development, which is 50:50 partnership between Shell New Energies US, LLC and EDF Renewables North America.
  - **Ohio audits and SEC investigation:** As known, the four Ohio audits are stayed until February 2023.The SEC investigation remains ongoing with no timeline for a decision.
  - **Strong Signal Peak mining results**: FirstEnergy's Signal Peak coal mining legacy investment in Montana dates back to the late 2000s with the Company as a minority investor with a 33% share in the facility. Historically, the mining business has not been a significant driver of earnings. However, given higher commodity prices, the mine had been outperforming expectations for 2022 (through the third quarter) with both earnings and cash distributions, which has provided flexibility to accelerate reliability and maintenance work in the distribution business. FE originally assumed $0.10/share of EPS this year from this business, and zero earnings contribution in 2023 and beyond. The company has most recently said it was expecting $0.20-0.25/share in 2022 and expects an even higher contribution this year. FE has generally been looking at exploring how to transition out of the facility over time, but it is a challenge to do given lack of interest in coal.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	$2.39	$2.60	$0.60	$0.53	$0.79	$0.56	$2.48	$2.50	$2.63	$2.80
Consensus						0.52	2.44	2.47	2.67	2.84
% diff.						*7%*	*2%*	*1%*	*-1%*	*-1%*

Source: Evercore ISI, FactSet as of 1/31/23

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In Line **TP $39**
Analyst: Michael Lonegan / Durgesh Chopra

- **Q4 EPS Bridge:** We project year-over-year EPS to increase -+0.06 to $0.56/share, which would bring them to full-year 2022 EPS of $2.24/share or above the top end of $2.02-2.20/share. In terms of positive drivers, we primarily expect higher ARA revenues. We anticipate the primary negative YoY drivers to include higher interest expense, increased O&M, higher depreciation, increased property taxes, and a fuel cost risk-sharing penalty at the utilities. We expect bank provisioning expenses to have a relatively neutral impact for the quarter with -$700,000 YTD versus -$3 million to +$3 million guidance for the full-year.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q4 expectations**: We expect Hawaiian to issue 2023 EPS guidance, including its typical breakouts for the utility, bank and HoldCo. The Company is expected to update its long-term forecasts for EPS, capex and rate base. HE also typically provides an update to its current-year equity issuance plan.
  - **New CFO announcement**: Hawaiian recently announced (effective January 1st) the appointment of Paul Ito as CFO. Ito had been serving as the interim CFO since July 2022. He has been with HE since 2018, and has served as vice president of tax, controller and treasurer. Ito has led the accounting, financial reporting, tax and treasury functions, and provided support in the enterprise risk management, investment analysis, and strategic and operating plan functions. He also managed information technology efforts, digital transformation initiatives in accounting, tax and financial reporting.
  - **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. American Savings Bank reported Q4 earnings on January 30th and reported $80MM in net income for the full year 2022, which would equate to roughly $0.73/share, the lower half of $0.72-0.76 guidance.
  - **Utility EPS growth and regulatory lag**: With Q3 results, Hawaiian rescinded its expectation for 2022-2024 earnings growth of 5% with upside from Performance Incentive Mechanisms (PIMs), just stating that it is currently going through its annual process of refreshing its long-term forecast and will provide an update along with 2023 guidance in February 2023. HE has previously said it continues to expect the utilities to grow EPS by 5% per year starting in 2022 through 2024, excluding any upside from PIMs, which are expected to materially improve regulatory lag, a persistent problem for the Company.
  - **PIMs:** Hawaiian has stated that there is the potential for a moderate net penalty from PIMs in 2022 driven the most by a maximum fuel cost risk sharing penalty expected given high fuel prices.
  - **Cost management**: HE has been implementing aggressive cost management to respond to the inflationary and interest rate environment. Higher generation cost is being offset by savings in labor, outside services, and leased space expense. For the utility, 2022 adjusted O&M excluding pension has been expected to be moderately above than ARA allowed levels. Hawaiian accelerated long-term-debt financing to ensure adequate liquidity and pre-fund a December 2022 maturity.
  - **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 some, 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.
  - **Capex and supply chain**: With third quarter results, Hawaiian stated that it anticipated that 2022 capex would be $350-375 million, down from the $350-400 million range previously, due to headwinds from continuing supply chain disruptions, customer work delays, resource availability constraints, and permitting delays. The Company had said that it now expected 2023 capex to total $370-410 million, down $10 million from $380-420 million previously, and 2024 capex to be $320-420 million, down $10 million at the top end of the range from $320-430 million previously.
  - **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.
  - **Major projects:** HE has pending filings for major projects as it relates to public EV charging, self-build storage and resiliency, for which decisions are expected in 2023.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$1.81**	**$2.25**	**$0.63**	**$0.48**	**$0.57**	**$0.56**	**$2.24**	**$2.30**	**$2.45**	**$2.55**
Consensus						0.54	2.17	2.33	2.50	2.64
% diff.						*3%*	*3%*	*-1%*	*-2%*	*-3%*

Source: Evercore ISI, FactSet as of 1/31/23

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NiSource

Outperform **TP $31**
Analyst: Durgesh Chopra / Sharon Wang

- **Q4 EPS Bridge**: We project year-over-year EPS to increase $0.09 to $0.48. 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, higher interest expense, and share dilution. We expect rate relief and other income to be the primary positive drivers.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q4 call expectations:** We expect NI to provide an update on the minority interest sale of NIPSCO. We also expect the company to reaffirm its 2023 EPS guidance, long-term EPS growth target (6-8% through 2027), dividend, capital plan and financing outlooks issued at its Investor Day last year.

  - **Minority Interest sale**: 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. The company has initiated the sale process, and we expect an announcement by mid-year and close by year-end. We estimate $1.5-$2B in cash proceeds.

  - **OH rate case**: On Oct 31st, 2022, Columbia Gas of Ohio filed a settlement representing a $68.2M revenue increase with 9.6% ROE and 50.6% equity layer, 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 were held on Nov. 16, 2022, and the commission approved the settlement last week.

  - **NIPSCO Electric rate case:** On Sep 18th, NIPSCO Electric rate case was filed in Indiana, requesting rate increase of $292M with a 10.4% ROE and 53.2% equity ratio on a rate base of $5.95B. The settlement deadline is Feb 27th, and hearings begin on March 13th. The company expect to get a final order by mid-July. The company expects rates to go into effect in the fall of 2023, and the second tranche in spring of 2024.

  - **Virginia gas rate case**: On Dec 9th, Columbia Gas of Virginia reached a settlement with $40.3 million rate increase, inclusive of SAVE (Steps to Advance Virginia's Energy Plan) infrastructure tracker ($14.5MM), representing a settlement as to a specific revenue number but not as to a specific ROE. Recall that NiSource requested $40.6MM revenue increase 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. An order is expected in 1Q23.

  - **Pennsylvania gas rate case:** In Dec 2022, the settlement proposing rate increase of $44.5M was approved. Columbia gas of PA will use the ROE for gas utilities contained in the Commission's most recent Quarterly Report on the Earnings of Jurisdictional Utilities and will update the ROE each quarter. The company initially requested a revenue increase of $82.2MM on Mar 17th, with an 11.2% ROE and 54.38% equity ratio on $3.0B forecasted rate base with a 12/22 test year.

  - **Maryland rate case:** In November, NI received final order approving settlement in Maryland gas rate case with $4.8M rate increase (vs $6.7M requested), ROE of 9.65% (vs 10.95% requested), equity layer of 52.97% (vs 52.97% requested). New rate went into effect in December.

  - **O&M management:** NI projects O&M to be flat from 2023 to 2027, which supports average annual customer rate increases of <3% annually and provides bill headroom for customer and reliability related investments. They also plan to invest ~$1B in IT systems to support field and customer service enhancements and productivity.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$1.32**	**$1.37**	**$0.75**	**$0.12**	**$0.10**	**$0.48**	**$1.45**	**$1.55**	**$1.65**	**$1.80**
Consensus						0.48	1.45	1.54	1.66	1.80
% diff.						*0%*	*0%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, FactSet as of 1/31/23

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In Line **TP $42**
Analyst: Durgesh Chopra

- **Q4 EBITDA Bridge:** We project NRG's 4Q22 EBITDA to be $431MM, which would bring full-year 2022 EBITDA to $1,750MM which is $200MM lower than NRG's targeted $1,950MM, or the low end of the $1,950-$2,050 guidance range. We estimate $100MM lower generation EBITDA (vs guidance) from lower than forecasted power prices in Texas and model another $100MM EBITDA headwind related to PJM Dec plant outages.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q4 expectations:** We expect NRG to revisit base business 2023 EBITDA guidance range of $2.27-2.47B. If VVNT acquisition is closed by the time of earnings release, we would expect NRG to share 2023 expected contribution from the newly acquired business line. NRG has also said that they will provide more clarity around their targeted 15-20% free cash flow per share growth through 2025.
  - **VVNT acquisition:** On 12/06/22, NRG announced that they have entered into a definitive agreement to acquire Vivint Smart Home, Inc (NYSE: VVNT) for $2.8B or $12/share in an all-cash transaction ($5.2B Enterprise Value including VVNT's debt). The acquisition price of $12/share represents a ~33% premium to VVNT's closing price of $8.99 on 12/05/22. NRG's expected annual run-rate EBITDA is $835mm (including $100mm of assumed synergies to be realized by '25), representing a transaction multiple of 6.3x EV/EBITDA with a 16% FCF Yield (or 7.2x EV/EBITDA pre-synergies). Management plans to finance the acquisition with a mix of debt, hybrid securities ($2,290mm), and cash on hand ($600mm). The transaction is expected to close in 1Q23 and is subject to antitrust review under the Hart-Scott-Rodino (HSR) act
  - **$1 Billion Share Repurchase Program.** As of 12/06/22, NRG had completed $640MM in share repurchases with $360MM remaining to be executed in 2023.
  - **Parish Unit 8 Fire.** On May 9th, 2022, 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 still targeting to return the unit to service by the end of the second quarter of 2023.
  - **PJM Plant Outage:** The PJM said on January 11th that it had an "unacceptably high" level of power generation resources unavailable for the Dec. 24, 2022, morning peak amid extremely cold weather. For those that did not perform as promised when called upon to do so, the grid operator said it expects to levy between $1 billion and $2 billion in fines. Our preliminary estimate is $100MM EBITDA hit for NRG's assets that failed to meet the performance requirement during the winter storm.

- **Positioning into Qtr: Neutral.**

Adj. EBITDA	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E
EVR ISI	**$2,004**	**$2,423**	**$509**	**$358**	**$452**	**$431**	**$1,750**	**$2,300**	**$2,350**
Consensus						$583	1,893	2,851	2,907
% diff.						*-26%*	*-8%*	*-19%*	*-19%*

Source: Evercore ISI, FactSet as of 01/31/23
Note: We do not incorporate EBITDA contribution from VVNT acquisition (expected to close in 1Q 2023) in our 23/24 estimates.

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In Line **TP $39**
Analyst: Durgesh Chopra / Sharon Wang

- **Q4 EPS Bridge:** We project year-over-year utility (plus parent) EPS to increase +$0.05 to $0.22/share, which would bring full-year 2022 EPS to $2.14, higher than top end of $2.08-$2.12 guidance. Note our full-year 2022 EPS estimate excludes ET contribution. We expect weather to be more favorable this year. Positive drivers include securitization of 4 cents and transmission reserve of 2 cents in the fourth quarter last year, FRP Rider (Formula Rate Plan Rider) in Arkansas, grid enhancement rider in Oklahoma, rate case went into effect in mid-2022, and customer growth. Negative drivers include O&M and D&A.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q4 expectations:** We expected OGE to issue 2023 EPS guidance, extend LT EPS growth rate target (5-7% through 2026), and update capex and financing plans.
  - **Oklahoma fuel rate case.** OGE adjusts its fuel factor once a year. Since the balance (over-recovered or-under recovered) became greater than $50 million, OGE filed for interim factor update in Sep 2022. Oklahoma Corporation Commission initiated a Show Cause docket because of the recovery size, regarding OGE's request to recover ~$450 million in higher fuel costs over 24 months ending in Oct 2024. OGE submitted their factors again in December adjusting the unrecovered fuel balance to $460 million, which was approved by the Commission staff for recovery starting Jan 1, 2023, over the original recovery period through Oct 2024.
  - **Uri proceeds.** Winter Storm Uri bond proceeds of $750MM in Oklahoma were received in July 2022. In Arkansas, the Company had filed a request to recover $80MM of Uri costs over ten years at a weighted average cost of capital (WACC). On Jan 2nd, 2023, commission authorized OGE to recover the remaining balance of ~$64 million at WACC over eight years.
  - **Energy Transfer unit exit:** As of September 30, 2022, OGE Energy sold all 95.4 million Energy Transfer limited partner units acquired in the merger between Energy Transfer and Enable in December 2021. OGE Energy no longer has any ownership interest in Natural Gas Midstream Operations and has transformed to a pure-play electric utility. Realized average pre-tax sales price of $11.19 per unit compared to $8.32 per unit (+34%) on the transaction close date and $6.96 per unit (+61%) on transaction announcement date, which translates to ~$1.07B proceeds in total.
  - **Re-issued solar RFP:** OGE re-issued the solar RFP last year to incorporate favorable opportunities from the Inflation Reduction Act. The company received multiple bids in early November. Decision is expected in May 2023. Management said they will review the three active RFPs (solar, CT units, and existing resource) for long-term generation holistically as their service area continues to grow combined with the increased reserve margin requirements, and they will provide an update once they review the results from all the RFP's.
  - **Limited interest rate exposure:** OGE is targeting 18-20% FFO to debt ratio. Due to Energy Transfer unit exit and increased capital plan, the company will start to grow holdco debt over the years. OGE has less than $200 million of floating-rate debt. In terms of refinancing risk, the company has no fixed-rate debt maturity through 2026.
  - **Natural gas storage plan:** Following storm URI in 2021, OGE started to build up and acquire more physical gas storage capabilities. The company said they will continue to take the opportunities to build and fill their physical storage capability which can help with supply shortages caused by extreme weather or outages.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$2.08**	**$2.36**	**$0.24**	**$0.45**	**$1.23**	**$0.22**	**$2.14**	**$2.03**	**$2.17**	**$2.30**
Consensus						0.17	2.24	2.04	2.17	2.30
% diff.						*26%*	*-5%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 1/31/23. Note our full-year 2022 EPS estimate excludes ET contribution.

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PINNACLE WEST CAPITAL CORPORATION

Underperform **TP $73**
Analyst: Michael Lonegan / Durgesh Chopra

- **Q4 EPS Bridge:** We project year-over-year EPS to decrease by -$0.34 to -0.10/share, which would result in full-year 2022 EPS of $4.38, above the top end of $4.25-4.35 guidance. 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):**

  - **Q4 expectations**: PNW said it is leaning towards issuing 2023 EPS guidance, which would be a change from prior practice where the company had not issued current-year guidance during a pending rate case. Pinnacle West also said it may roll forward its long-term EPS growth forecast (5-7% EPS CAGR through 2026) and, as it typically does, also roll forward its capex plan and rate base outlook. PNW may also provide an update to its financing plan. In addition, we anticipate Pinnacle West will update current-year and long-term customer / sales growth.
  - **New Arizona commissioners**: Republicans Kevin Thompson and Nick Meyers recently won the election of the Arizona Corporation Commission. Incumbent Democrat Sandra Kennedy lost her seat. The Commission is now a 4:1 Republican majority and Pinnacle West feels constructive about this outcome. The commissioners have signaled support for the utility during the election process as well as during the swearing in ceremony.
  - **Arizona rate case:** The Company filed its Arizona rate case on October 28th and key highlights include: Requested net revenue increase of 460 million; Equity ratio of 51.93% (versus current 54.67%); ROE of 10.25% (versus current 8.7%); ACC adjusted rate base of $10.5 billion with test year ended June 30, 2022; A 1% return on the increment of fair value rate base above APS's original cost rate base, as provided for by Arizona law; Modification of its adjustment mechanisms including the elimination of the Environmental Improvement Surcharge and collection of costs through base rates; Eliminating the Lost Fixed Cost Recovery mechanism and collecting costs through base rates and the Demand Side Management Adjustment Charge ("DSMAC"); Maintaining as inactive the Tax Expense Adjustor Mechanism; Maintaining the Transmission Cost Adjustment mechanism; Modifying the performance incentive in the DSMAC; Modifying the Renewable Energy Adjustment Charge to include recovery of capital carrying costs of APS owned renewable and storage resources; Changes to its limited-income program, including a second tier to provide an additional discount for customers with greater need; using a Twelve months of post-test Year plant to reflect used and useful projects that will be placed into service prior to July 1, 2023. Staff testimony is due May 22nd and hearings are set for August 2nd. APS requested that the increase become effective December 1, 2023.
  - **Strong sales growth:** With third quarter results, Pinnacle West's sales growth forecast for 2022 was increased to 2-3% versus 1.5-2.5% previously under the same 1.5-2.5% retail customer growth outlook. For 2022-2024, the Company still assumes retail customer growth of 1.5-2.5% and weather-normal retail sales growth of 3.5-4.5%.
  - **O&M expense amid inflation:** Pinnacle West continues to target declining O&M per kWh (with respect to 2021 levels) over its long-term plan. The company had previously also targeted flat nominal O&M, but inflation has presented a challenge to achieving that.
  - **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 were held in November 2022, with a final decision date unknown but likely within the next few months.

- **Positioning into Qtr: Neutral.** We expect the beat versus current consensus to be driven by favorable weather.

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**4.87**	**5.47**	**0.15**	**1.45**	**2.88**	**(0.10)**	**4.38**	**4.20**	**4.60**	**4.75**
Consensus						(0.19)	4.29	4.12	4.64	4.80
% diff.							*2%*	*2%*	*-1%*	*-1%*

Source: Evercore ISI, FactSet as of 1/31/23

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Outperform **TP $32**
Analyst: Durgesh Chopra / Sharon Wang

- **Q4 EPS Bridge:** We project year-over-year ongoing EPS to increase by $0.06 to $0.28, which would result in full-year 2022 EPS of $1.40/share, matching the midpoint of the company's $1.35-1.45/share guidance, driven by addition of Rhode Island Energy and sales volumes, O&M savings, partially offset by less favorable weather than last year, and higher depreciation & amortization expense.

- **What to look for in the earnings report (Key debates/themes):**

  - **PPL January Investor Update:** On Jan 11th, PPL extended its long-term 6%-8% annual EPS and dividend growth guidance from 2025 through at least 2026. Company issued 2023 EPS forecast range of $1.50-$1.65, with midpoint representing 7% growth off 2022. Management also announced expected increase to quarterly common stock dividend by 7% to $0.24 per share, with payout ratio of 60-65%. PPL added $2.5 billion of generation replacement and transmission investments to the capital plan through 2026, increasing projected rate base growth rate from 3.5% to 5.6% in 2022 – 2026 timeframe. We view this as a positive update for PPL to accelerate their decarbonization plan, extend earnings growth, while maintaining strong balance sheet with no equity issuance.

  - **Q4 expectations:** We expect PPL to reaffirm its 2023 EPS guidance, long-term EPS growth target, dividend, capital plan and financing outlooks issued in January.

  - **$175M O&M savings target**: Management increased annual cost savings target from $150 million by 2025 to at least $175 million by 2026, driven by continued deployment of technology and T&D operational playbook. PPL continues to see additional opportunities to scale and drive incremental savings longer term.

  - **Financing plan**: The new plan still calls for no equity issuances while targeting an FFO/CFO to Debt ratio in the range of 16-18%, supportive of Baa1/A- rating at Moody's/S&P respectively. PPL is also targeting holding company debt to remain less than 25% of total debt.

  - **KY CPCN filling**: In Dec, PPL subsidiaries Kentucky Utilities Company and Louisville Gas and Electric Company announced their plan to replace 1,500 MW of aging coal-fired generation by 2028. LG&E and KU are seeking approval from the KPSC (Kentucky Public Service Commission) by Oct.1, 2023. If approved by the KPSC, the proposed replacement plan represents ~$2.1B of investment in Kentucky from 2023-2028. PPL's updated capex plan through 2026 includes $1.6 billion out of the total $2.1 billion KY replacement generation spend and ~$1B of transmission spend in PA and RI.

  - **Additional details on the coal replacement strategy.** The proposal includes building two new 621 MW combined-cycle natural gas plants, building a 120 MW solar array, acquiring another 120 MW array to be developed by a third-party and constructing 125 MW of battery storage. LG&E and KU also plan to secure PPA (Power Purchase Agreement) for over 600 MW of additional solar generation and adding 14 new energy efficiency programs, which would reduce LG&E and KU's overall need for future generation by nearly 200 MW. PPL is also seeking permission to book AFUDC (Allowance for Funds During Construction) on these projects while under construction.

  - **Future rate cases**: 60% of planned capex through 2026 is eligible for recovery through existing regulatory mechanisms including trackers/formula rates, and $175mm in targeted O&M savings will account for return on the balance of the spending, such that there will be no major rate cases in PA or KY through at least 2026. PPL plans to file a RI rate case in 2025 for rates to be effective in mid-2026.

- **Positioning into Qtr: Neutral**.

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$2.40**	**$1.05**	**$0.41**	**$0.30**	**$0.41**	**$0.28**	**$1.40**	**$1.59**	**$1.68**	**$1.80**
Consensus						0.28	1.41	1.59	1.71	1.83
% diff.						*0%*	*0%*	*0%*	*-2%*	*-2%*

Source: Evercore ISI, Factset as of 1/31/23

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PSEG
We make things work for you.

Outperform **TP $68**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project year-over-year adjusted EPS to decrease by -0.07 to $0.62/share, which would bring full-year 2022 adjusted EPS to $3.45, matching the midpoint of the guidance range of $3.40-3.50/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 higher interest expense and reduced capacity revenues.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q4 expectations:** We expect PEG to refine its 2023 EPS guidance. At the EEI conference in November 2022, the company issued long-term 2023-2027 EPS (5-7% CAGR), capex and rate base outlooks, which we expect it to reaffirm with Q4 results and possibly revisit at its Analyst Day this year in March.
  - **Offshore wind Transmission investment:** On October 26th, PEG was awarded just ~$40MM of offshore wind transmission projects by the NJ BPU; the Company had been expecting a much higher $1-3B, however, the BPU also indicated an additional solicitation to consider the state's increased offshore wind generation targets. PEG says it remains optimistic that the Coastal Wind Link's emphasis on reliability and resiliency will keep it as a strong contender for any future transmission solicitations to bring regional offshore wind projects onshore.
  - **Offshore wind generation:** On 01/18/23 PEG announced an agreement to sell to Orsted its 25% equity stake in the Ocean Wind 1 offshore wind project, providing Orsted with 100% ownership of the project. We estimate PEG will receive ~$200MM in proceeds from the sale (PEG's last disclosure was $190MM in their share of spending) upon transaction close, expected in the first half of this year. We think that this announcement increases the likelihood that they could sell their offshore wind leases, which we estimate could fetch $150MM. In total, the $350MM of potential cash inflow would be incremental to PEG's current earnings and financing plan through 2027. Assuming the company uses $350MM in excess cash to pay down debt at 4%, or lower future debt issuances in the plan, we see a small $0.02/share (or less than 1% of our 24E) EPS benefit. While we see a modest EPS benefit, we believe PEG's strategic decision to exit offshore wind and focus on its core utilities and nuclear generation business will be well perceived by investors.
  - **Pension**: PEG said to expect 2023 EPS pension impacts due to higher pension expense to be consistent with the $0.25-0.30 headwind it disclosed at the EEI conference. The Company made a pension 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 such that they could offset 20% of the headwind. PEG is also considering a lift-out approach which could mitigate another 20-30% of the impact. The lift-out pension expense mitigation strategy (transferring some pension related assets and obligations to a third party thereby reducing pension expense volatility) being considered is expected to be completed by the Analyst Day early next year. PEG will also look to offset the remaining impact with sustainable O&M reductions. As a reminder, 70% of the company's pension is recoverable through future rate cases, which PEG plans on filing for in early 2024.
  - **Analyst Day**: PEG said it plans to host an Analyst Day in March 2023, where the company will revisit its 2023, long-term outlooks and plans for offshore generation.
  - **PJM Plant Outage:** The PJM said Jan. 11 that it had an "unacceptably high" level of power generation resources unavailable for the Dec. 24, 2022, morning peak amid extremely cold weather. For those that did not perform as promised when called upon to do so, the grid operator said it expects to levy between $1 billion and $2 billion in fines. CEG and PSEG's jointly owned (43%/57% respectively) Salem unit 2 (1.1GW) was offline for a day during the December winter storm. Management stated that while unit 2 was offline for a day, other units operated at higher than normal capacity which would serve to offset any fines/penalties.

- **Positioning into Qtr: Neutral**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$3.43**	**$3.65**	**$1.33**	**$0.64**	**$0.86**	**$0.62**	**$3.45**	**$3.45**	**$3.60**	**$4.00**
Consensus						0.62	3.45	3.44	3.74	4.10
% diff.						*0%*	*0%*	*0%*	*-4%*	*-2%*

Source: Evercore ISI, FactSet as of 1/31/23

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Sempra Energy®

Outperform **TP $175**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project year-over-year EPS to decrease -$0.16 to $2.00/share, which would result in a full-year 2022 EPS of $8.86, slightly above the midpoint of $8.70-9.00/share guidance. We expect weather to be favorable this year due to a cold snap in Texas. In terms of negative YoY drivers, we anticipate the Infrastructure business will see the impact of lower ownership share and higher O&M expense from signed contracts, plus the high-priced commodity environment, partially offset by the benefit of new projects. We also expect higher interest expense at the parent. In terms of positive drivers, 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. Lastly, SRE will benefit from a lower share count due to its buybacks.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q4 expectations**: Sempra will revisit its previously-issued 2023 EPS guidance and initiate expectations for 2024 EPS, as well as extend its long-term EPS growth (6-8% CAGR through 2026), capex and rate base outlooks. The Company is expected to layer in capex and financing associated with Port Arthur.
  - **LNG project updates**: Sempra recently signed an agreement with RWE to provide 2.3 million tons per year of LNG from the Port Arthur Phase 1 project under development in Texas. The company also received export licenses for two LNG projects, announcing that ECA LNG and Vista Pacifico received authorization from the US Department of Energy to re-export US-sourced LNG from Mexico to non-Free Trade agreement (FTA) nations. The DOE also increased the authorized export volumes of ECA LNG Phase 2, permitting it to export up to 636 Bcf/year of LNG from US-sourced natural gas from the proposed project in Baja California to non-FTA nations. In a third development, Sempra also announced an agreement with ENGIE for supply of US LNG from Port Arthur LNG Phase 1. Sempra Infrastructure is targeting a FID for Phase 1 of its Port Arthur LNG project in the first quarter of 2023. The company stated that it has launched project-level financing options for Phase 1 ($10.5B investment) which includes issuing debt at the project level and raising capital by selling project-level equity to one or more investors. COD for Phase 1 is expected to be 50-60 months from FID. Separately, Sempra Infrastructure has continued to advance its Cameron LNG Phase 2 project under development and anticipates FID on Train 4 after the front-end engineering and design process is completed, which is currently targeted for the summer of 2023.
  - **Oncor rate case**: On January 19th, the ALJ reversed out the mathematical error for the entire $680MM of accumulated depreciation rate base disallowance. The correction increases the revenue recommendation by +$51MM from -$61MM to -$9MM. Recall the ALJ is also recommending a 9.3% ROE and 42.5% equity layer. Next steps include reply to the exceptions due on February 1st, then the docket will get taken up at the open meeting scheduled for February 16th, though we believe it will not be fully decided upon until either the March 9th or March 23rd open meetings or during a special session, if scheduled. Recall that Staff is recommending a net revenue increase of $21MM, a 9.3% ROE and a 40% equity layer versus Oncor's $251MM revenue increase request on a 10.3% ROE and 45% equity layer (Authorized 9.8%/42.5%).
  - **California rate cases**: Sempra has a pending rate case in California for new rates effective in 2023 and 2024, respectively. A proposed decision is expected in May 2024.
  - **Cost of Capital filings**: On November 3rd, the California commission found that an extraordinary event did occur and thus the CCM would not be automatically triggered, so the 2022 authorized cost of capital is preserved. For the 2023-2025 cost of capital proceeding, a final decision has been issued, lowering ROE by 25bps to 9.95% for SDGE and to 9.80% for SCG, with the equity layer for both maintained at 52%. The CCM mechanism is still in place and if the current interest rate environment holds, could trigger to the upside in 2024 and increase ROE.
  - **SoCal gas reached 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.
- **Positioning into Qtr: Positive.** We expect Sempra shares to benefit from positive messaging on the continued strong progress on LNG projects. Updated 2023 EPS guidance and 2024 earnings projections could also surprise to the upside.

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	$8.03	$8.43	$2.91	$1.98	$1.97	$2.00	$8.86	$9.05	$9.65	$10.10
Consensus						2.04	8.87	8.99	9.62	10.18
% diff.						*-2%*	*0%*	*1%*	*0%*	*-1%*

Source: Evercore ISI, FactSet as of 1/31/23

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Southern Company

In Line **TP $70**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q4 EPS Bridge:** We project year-over-year EPS to decrease -$0.12 to $0.24/share, which would bring the full-year 2022 EPS to $3.55/share versus full-year guidance of $3.58/share. Weather last year in 4Q21 was -$0.07 unfavorable and weather this year is expected to be slightly unfavorable. In terms of negative YoY drivers, we primarily expect the Company to see higher O&M, increased interest expense, higher depreciation & amortization, and increased taxes other than income. For positive YoY drivers, Southern should benefit primarily from new electric rates and higher sales growth at the utilities.

- **What to look for in the earnings report (Key debates/themes):**
  - **Management change:** On January 5th, Southern announced that effective March 31st Chris Womack will become president of Southern Company and elected as a member of the board. Tom Fanning, the current chairman of the board, CEO and president of Southern Company, will relinquish the role of president upon Womack's assumption of the role in March and assume the role of Executive Chairman of the board upon Womack's assumption of the role of CEO. Womack has served as president of Georgia Power since 2020 and chairman, president and CEO since 2021.
  - **Q4 updates:** Consistent with prior practice, Southern is expected to issue a 2023 annual EPS outlook and quarterly 1Q23 EPS guidance. The Company has said it will also provide an update to its 2024 EPS outlook (tracking in the $4.00-$4.10 range) as well as its long-term capex and rate base forecasts. Headwinds for both 2023-2024 include higher interest expense and additional carrying costs with Vogtle overruns. The company has also alluded to potentially issuing a new long-term 5-7% EPS growth outlook based off of updated 2024 guidance.
  - **Vogtle:** On January 11, 2023, Georgia Power announced that during the start-up and pre-operational testing for Plant Vogtle Unit 3, it had identified, and is in the process of remediating, vibrations associated with certain piping within the cooling system. Southern expects to file a license amendment request with the U.S. Nuclear Regulatory Commission (NRC) to help expedite the remediation. As a result, Georgia Power now projects that initial criticality will occur during February 2023 and that Unit 3 will be placed in service during April 2023. Extension of the in-service date for Unit 3 beyond the first quarter 2023 is estimated to result in additional base capital costs for Georgia Power of up to $15 million pre-tax per month, as well as the related allowance for funds used during construction and any additional related construction, support resources, or testing costs. As it pertains to Vogtle unit 4, there is currently no delay or additional cost expected. As of 3Q22, Georgia Power's share of the total cost estimate was ~$10.4 billion and the remaining costs totalled ~$1.1 billion. A prudency review of Vogtle costs will occur in the July/August 2023 timeframe.
  - **Georgia rate case**: In November 2022, the Georgia PSC approved a settlement in Georgia Power's rate case. The company asked for roughly $1B revenue increased based on a 11% ROE and 56% equity ratio. The settlement included revenue increases of $216MM in year 1 (2023), $377MM in year 2 (2024) and $403MM in year 3 (2025), which equates to a total increase of $996MM. Southern was also granted a 10.5% set point ROE (matching previous, though top end of band came down from 12.0% to 11.9%) and 56% equity ratio (matching previous).

- **Positioning into Qtr: Neutral.**

Adj. EPS	2020A	2021A	1Q22A	2Q22A	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$3.25**	**$3.41**	**$0.97**	**$1.07**	**$1.31**	**$0.24**	**$3.55**	**$3.60**	**$4.10**	**$4.35**
Consensus		3.41				0.24	3.59	3.64	4.05	4.33
% diff.						*-2%*	*-1%*	*-1%*	*1%*	*1%*

Source: Evercore ISI, FactSet as of 1/31/23

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Outperform **TP $31**
Analyst: Durgesh Chopra

- **Q4 EBITDA Bridge:** We project VST's 4Q22 EBITDA to be $800MM, which would bring full-year 2022 EBITDA to $3,146MM in the upper half of the $2,960-$3,160 guidance range.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q4 expectations:** We expect VST to reaffirm 2023 EBITDA guidance range of $3,4B-$4B introduced on the Q3 call. We will also look for commentary around 2024-2025 EBTIDA expectations where they have been guiding to $3.5-3.7B using forward power curves through October 2022.
  - **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. The company's 2023 guidance incorporates a continued headwind this year, which we estimate to be $50MM through May 2023 (VST's obligation as a default service provider ends in May 2023) .
  - **Capital Allocation Update**: VST had completed~$2.05 billion of share repurchases as of November 1, 2022. The remaining~$1.2 billion of upsized $3.25 billion authorization is expected to be executed by year-end 2023.
  - **VST Zero**: 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 last year. 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 close to 1.5GW 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
  - **PJM Plant Outage:** The PJM said January 11th that it had an "unacceptably high" level of power generation resources unavailable for the Dec. 24, 2022 morning peak amid extremely cold weather. For those that did not perform as promised when called upon to do so, the grid operator said it expects to levy between $1 billion and $2 billion in fines.VST said that they managed the fleet well during the storm and some units operated at higher than normal capacity which would serve to offset any fines/penalties.

- **Positioning into Qtr: Neutral**

Adj. EBITDA	2020A	2021A	1Q22A	2Q22A	3Q22E	4Q22E	2022E	2023E	2024E
EVR ISI	**$3,685**	**$1,941**	**$547**	**$761**	**$1,038**	**$800**	**$3,146**	**$3,500**	**$3,600**
Consensus						$808	3,088	3,663	3,649
% diff.						*-1%*	*2%*	*-4%*	*-1%*

Source: Evercore ISI, FactSet as of 10/18/22

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WEC Energy Group

In Line **TP $98**
Analyst: Durgesh Chopra / Sharon Wang

- **Q4 EPS Bridge:** We project year-over-year EPS to increase $0.03 to $0.74 in Q4 2022, which would result in full-year 2022 EPS of $4.40/share, matching the top end of the company's $4.38-4.40/share guidance. We expect weather to be warmer than normal but colder than last year, which is roughly 4c hit YoY. Positive drivers include accounting order of 8c, Michigan gas utility settlement of 1c, WEC Infrastructure of 1c, and lower O&M expense of 2c, partially offset by weather and higher D&A of 5c year over year.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q4 expectations:** 2023 EPS guidance of $4.58-$4.62 was provided in December following WEC's board meeting. We expect WEC to reaffirm its recently issue 2023 EPS guidance and targeted long term annual EPS growth of 6.5%-7%.
  - **WI Rate Case**: In Dec, WI Rate Case final order was issued, approving rate increase of $505mm predicated on 9.80% authorized ROE, 53% equity layer vs current 52.5%, and earnings sharing mechanism. Requested ROE was 10.00% for Wisconsin Electric & Wisconsin Public Service and 10.20% for Wisconsin Gas. Commission staff positions were 9.8% for all. WEC had reached a partial settlement earlier for a base revenue increase of $507mm with a 53% equity ratio, earnings sharing mechanism unchanged from 2022, and an authorized ROE to be decided by the commission.
  - **Limited Reopener**: WEC will file for a limited reopener in April or May 2023 to address the revenue requirements associated with recovering new capital investments that will achieve commercial operation in 2023 and 2024, as well as to address reduced O&M expenses from future coal plant retirements
  - **Illinois Rate Reviews**: In January, Peoples Gas and North Shore Gas filed applications with the Illinois Commerce Commission for rate increase of $194.7 million and $18.7 million, respectively. Peoples Gas proposed ROE is 9.9% vs current 9.05%, and North Shore Gas proposed ROE is 9.9% vs current 9.67%. Proposed equity ratios for both are 54% vs Peoples Gas current 50.33% and North Shore Gas current 51.58%. Final Order is expected in Q4 2023 for new rates effective January 1, 2024.
  - **QIP (Qualifying Infrastructure Plant) Rider**: Currently in place through 2023, the rider supports $280-300MM on average in investment in IL or ~$0.05 (or 1%) annual EPS contribution for WEC. Management stated that Peoples Gas will not seek an extension of the QIP rider.
  - **MERC Rate Case**: In Nov, WEC filed a rate review at one of their smaller utilities, Minnesota Energy Resources Corporation (MERC). The company is seeking an adjusted increase in revenues of $32.8M with a 10.3% ROE and a 53.0% equity layer, leading to an overall bill increase of 7.9% primarily driven by capital investment. Decision is expected in Q4 2023 with new rates going into effect January 1, 2024.
  - **Capex Plan Update**: With Q3 results WEC introduced 2023-2027 capex plan of $20.1B vs prior plan of $17.7B for 2022-2026, increasing five-year capital plan by $2.4B, mainly at ATC and WI Generation. The drivers of increase include: 1) renewable investments in Wisconsin bolstered by the Inflation Reduction Act (IRA), 2) increased needs in transmission investment, driven by renewable projects and the long-range planning process conducted by MISO, and 3) $700M 10-year grid hardening program in WI for reliability. The higher WI generation capex is driven by raised capacity for renewable regulated energy projects to 3,300 MW from 2,400 MW in the previous plan, which will result in $5.4B investment in total in the updated plan. The 3,300 MW regulated renewables include 1,900MW of solar projects, 670MW of wind projects, and 720MW of storage projects.
  - **Maple Flats Solar Energy Center**: In October WEC announced plans to invest approximately $360M for 80% ownership of the Maple Flats Solar Energy Center, a 250-MW solar project with commercial operation expected in early 2024. This project is the first solar investment in WEC's Infrastructure segment. The company also has existing or planned investments in eight major wind farms totaling more than 1.5 gigawatts of capacity.
  - **MISO Transmission Capex**: In July 2022, MISO awarded roughly $900 million investment opportunity out of the total $10.3B MISO transmission capex in the first tranche of Phase 1 projects to ATC (American Transmission Company), in which WEC has an approximately 60% equity ownership interest. Investment in these projects is expected to start as early as 2024 (portion of $900m is included in WEC's 2023-2027 plan). 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	3Q22A	4Q22E	2022E	2023E	2024E	2025E
EVR ISI	**$3.79**	**$4.11**	**$1.79**	**$0.91**	**$0.96**	**$0.74**	**$4.40**	**$4.60**	**$4.90**	**$5.25**
Consensus						0.75	4.40	4.61	4.92	5.25
% diff.						*-1%*	*0%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 1/31/23

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Q4 Estimates vs. Consensus and Positioning for Quarter

Q4'22 EPS Estimates vs. Consensus

Ticker	Evercore I	Consensu	% Diff	Positioning for (	
AES	0.47	0.47	0.4%	Cautious	✓
AEE	0.57	0.56	0.9%	Neutral	
AEP	0.99	0.99	0.0%	Neutral	
CMS	0.59	0.57	3.3%	Neutral	
CNP	0.29	0.29	1.6%	Neutral	
D	0.98	1.04	-5.9%	Neutral	
DTE	1.21	1.24	-2.3%	Neutral	
DUK	1.10	1.06	3.3%	Neutral	
ED	0.80	0.80	0.2%	Neutral	
EIX	1.09	1.09	-0.4%	Neutral	
ES	0.92	0.94	-2.3%	Neutral	
ETR	0.46	0.47	-2.4%	Neutral	
EVRG	0.30	0.25	20.6%	Neutral	
EXC	0.41	0.44	-5.8%	Neutral	
FE	0.56	0.52	7.4%	Neutral	
HE	0.56	0.54	3.1%	Neutral	
NI	0.48	0.48	-0.1%	Neutral	
OGE	0.22	0.17	25.8%	Neutral	
PEG	0.62	0.62	-0.4%	Neutral	
PNW	-0.10	-0.19	NA	Neutral	
PPL	0.28	0.28	0.5%	Neutral	
SO	0.24	0.24	-1.9%	Neutral	
SRE	2.00	2.04	-1.8%	Positive	✓
WEC	0.74	0.75	-0.7%	Neutral	
Average			**1.9%**		

Q4'22 EBITDA Estimates vs. Consensus ($mm)

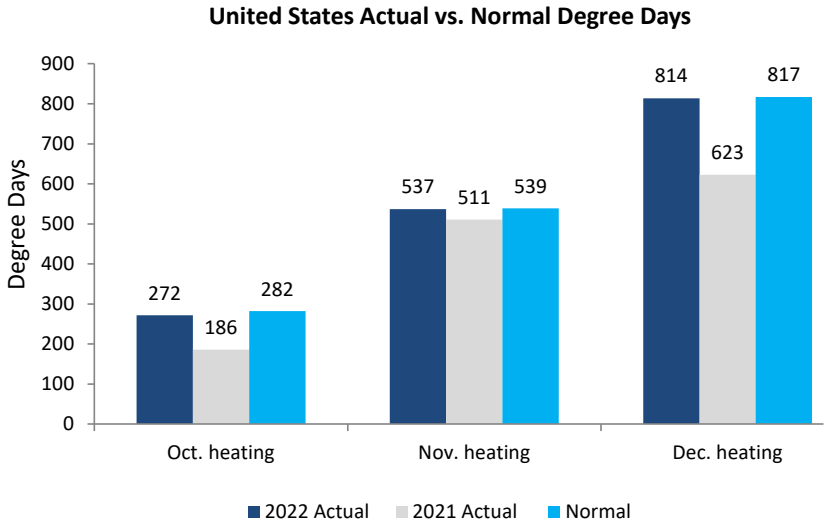
Ticker	Evercore ISI	Consensus	% Diff	Positioning for Q4
CEG	550	550	0.0%	Neutral
NRG	431	583	-26.1%	Neutral
VST	800	808	-1.0%	Neutral
Average			**-9.0%**	

Source: Everocre ISI, FactSet. Consensus as of 1/31/23

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US weather in 4Q 2022 was relatively normal, on average, but very favorable for utilities versus the same period last year.

- **US weather in 4Q 2022 was relatively normal, on average, but very favorable for utilities versus the same period last year**. Based on National Oceanic and Atmospheric Administration (NOAA) heating degree day data, the weather in 4Q22 drove 23% higher degree days versus last year while being -1% below normal, on average, across the US. All regions were meaningfully higher when compared to the same period last year in 4Q21, with the SW Central having the largest increase and New England the smallest. Relative to normal, about half of the regions had favorable weather versus half that did not, with the SW Central, Mountain and Pacific regions having a similar amount of favorability and New England having most unfavorable weather. Based on our Q4 preview conversations with several companies to date, weather has also been communicated as normal (in line with guidance), on average, but the impact does vary on a company-by-company basis.



	Q4 2022	Q4 2021	Norm	% change vs. year-ago	% change vs. norm
New England	2,017	1,926	2,272	5%	-11%
Middle Atlantic	1,934	1,642	2,064	18%	-6%
NE Central	2,245	1,865	2,316	20%	-3%
NW Central	2,561	2,030	2,512	26%	2%
South Atlantic	1,055	811	1,058	30%	0%
SE Central	1,368	1,030	1,377	33%	-1%
SW Central	938	518	896	81%	5%
Mountain	2,088	1,650	1,964	27%	6%
Pacific	1,227	1,116	1,145	10%	7%
U.S.	1,623	1,320	1,638	23%	-1%

Region	Oct. heating 2022 actual	Oct. heating 2021 actual	Oct. heating norm	% change vs. year-ago	% change vs. norm
New England	390	281	467	39%	-16%
Middle Atlantic	376	186	399	102%	-6%
NE Central	429	245	424	75%	1%
NW Central	423	315	424	34%	0%
South Atlantic	190	76	164	150%	16%
SE Central	245	121	213	102%	15%
SW Central	94	48	83	96%	13%
Mountain	327	340	360	-4%	-9%
Pacific	120	227	186	-47%	-35%
United States	**272**	**186**	**282**	**46%**	**-4%**

Region	Nov. heating 2022 actual	Nov. heating 2021 actual	Nov. heating norm	% change vs. year-ago	% change vs. norm
New England	631	730	727	-14%	-13%
Middle Atlantic	583	672	667	-13%	-13%
NE Central	708	766	757	-8%	-6%
NW Central	847	734	840	15%	1%
South Atlantic	296	381	339	-22%	-13%
SE Central	446	512	449	-13%	-1%
SW Central	356	257	293	39%	22%
Mountain	804	493	676	63%	19%
Pacific	492	277	396	78%	24%
United States	**537**	**511**	**539**	**5%**	**0%**

Region	Dec. heating 2022 actual	Dec. heating 2021 actual	Dec. heating norm	% change vs. year-ago	% change vs. norm
New England	996	915	1,078	9%	-8%
Middle Atlantic	975	784	998	24%	-2%
NE Central	1,108	854	1,135	30%	-2%
NW Central	1,291	981	1,248	32%	3%
South Atlantic	569	354	555	61%	3%
SE Central	677	397	715	71%	-5%
SW Central	488	213	520	129%	-6%
Mountain	957	817	928	17%	3%
Pacific	615	612	563	0%	9%
United States	**814**	**623**	**817**	**31%**	**0%**

Source: NOAA, Evercore ISI Research

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Regulated Utility Valuation Goes To ~16.1x '25 EPS

Regulated Utilities

Ticker	Company Name	1/30/23 Price	ISI Rating	Shares Out	Market Cap	2023 Div Yld	2023 Payout	ISI EPS Estimate 2023	2024	2025	P/E Multiple 2023	2024	2025	Price to Book	Prem. to Group
XEL	Xcel Energy Inc	$68.10	Outperform	537	36,553	2.9%	58%	3.37	3.59	3.84	20.2x	19.0x	**17.7x**	2.0x	10%
WEC	WEC Energy Group	$92.62	In Line	316	29,286	3.3%	67%	4.60	4.90	5.25	20.1x	18.9x	**17.7x**	2.4x	10%
ED	Consolidated Edison Inc	$95.05	In Line	362	34,393	3.4%	68%	4.70	4.95	5.40	20.2x	19.2x	**17.6x**	1.5x	9%
AEE	Ameren Corp	$86.91	Outperform	267	23,199	2.8%	57%	4.35	4.65	4.95	20.0x	18.7x	**17.5x**	1.9x	9%
CNP	CenterPoint Energy Inc	$29.84	Outperform	635	18,935	2.1%	43%	1.49	1.61	1.73	20.0x	18.6x	**17.2x**	2.0x	7%
CMS	CMS Energy Corp	$62.67	In Line	297	18,583	3.1%	63%	3.10	3.36	3.65	20.2x	18.7x	**17.2x**	2.3x	7%
OGE	OGE Energy Corp	$39.03	In Line	201	7,841	4.3%	83%	2.03	2.17	2.30	19.2x	18.0x	**17.0x**	1.7x	5%
PPL	PPL Corp	$29.45	Outperform	737	21,707	3.2%	60%	1.59	1.68	1.80	18.6x	17.6x	**16.4x**	1.5x	2%
HE	Hawaiian Electric Industries, Inc	$41.47	In Line	111	4,597	3.4%	61%	2.30	2.45	2.55	18.0x	16.9x	**16.3x**	1.7x	1%
DUK	Duke Energy Corp	$101.64	In Line	779	79,168	4.0%	72%	5.65	6.00	6.35	18.0x	16.9x	**16.0x**	1.5x	-1%
SRE	Sempra Energy	$161.24	Outperform	319	51,378	3.2%	58%	8.95	9.65	10.10	18.0x	16.7x	**16.0x**	1.7x	-1%
DTE	DTE Energy Co	$114.33	Outperform	205	23,489	3.1%	58%	6.25	6.64	7.21	18.3x	17.2x	**15.9x**	2.0x	-2%
ES	Eversource Energy	$81.37	Outperform	353	28,743	3.3%	62%	4.40	4.70	5.15	18.5x	17.3x	**15.8x**	1.7x	-2%
D	Dominion Resources Inc	$62.69	In Line	822	51,516	4.4%	79%	3.53	3.76	4.00	17.7x	16.7x	**15.7x**	1.6x	-3%
PNW	Pinnacle West Capital Corp	$74.01	Underperform	123	9,087	4.7%	83%	4.20	4.60	4.75	17.6x	16.1x	**15.6x**	1.3x	-3%
SO	Southern Company Inc	$67.43	In Line	1,088	73,364	4.1%	77%	3.60	4.10	4.35	18.7x	16.4x	**15.5x**	2.0x	-4%
AEP	American Electric Power Co Inc	$92.87	In Line	531	49,311	3.5%	61%	5.30	5.65	6.00	17.5x	16.4x	**15.5x**	1.7x	-4%
EXC	Exelon Corp	$41.75	Outperform	999	41,694	3.4%	61%	2.35	2.50	2.70	17.7x	16.7x	**15.5x**	1.5x	-4%
NI	NiSource Inc	$27.55	Outperform	451	12,436	3.6%	63%	1.55	1.65	1.80	17.8x	16.7x	**15.3x**	2.1x	-5%
FE	FirstEnergy Corp	$41.30	Outperform	552	22,801	3.9%	65%	2.50	2.63	2.80	16.5x	15.7x	**14.8x**	2.5x	-8%
EVRG	Evergy	$61.69	In Line	231	14,226	4.0%	66%	3.70	4.00	4.27	16.7x	15.4x	**14.4x**	1.8x	-10%
ETR	Entergy Corp	$107.69	Outperform	211	22,713	3.8%	61%	6.70	7.15	7.70	16.1x	15.1x	**14.0x**	1.6x	-13%
EIX	Edison International	$68.14	In Line	398	27,153	7.0%	100%	4.80	5.15	5.50	14.2x	13.2x	**12.4x**	1.1x	-23%
PCG	PG&E Corp	$15.85	Rating Suspended	1,988	30,551	0.0%	0%	1.10	1.23	1.36	14.4x	12.9x	**11.7x**	1.4x	-27%
Regulated Group Average (Excludes PCG for Div Values)						**3.7%**	**66.3%**				**18.1x**	**16.9x**	**15.8x**	**1.78x**	
Regulated Group Average (Excluding Stocks: EIX and PCG)						3.5%	64.7%				18.4x	17.2x	16.1x	1.83x	
Regulated Group Max (Excludes PCG for Div Values)						7.0%	100.0%				20.2x	19.2x	17.7x	2.5x	
Regulated Group Min (Excludes PCG for Div Values)						2.1%	42.6%				14.2x	12.9x	11.7x	1.1x	

Diversified Utilities

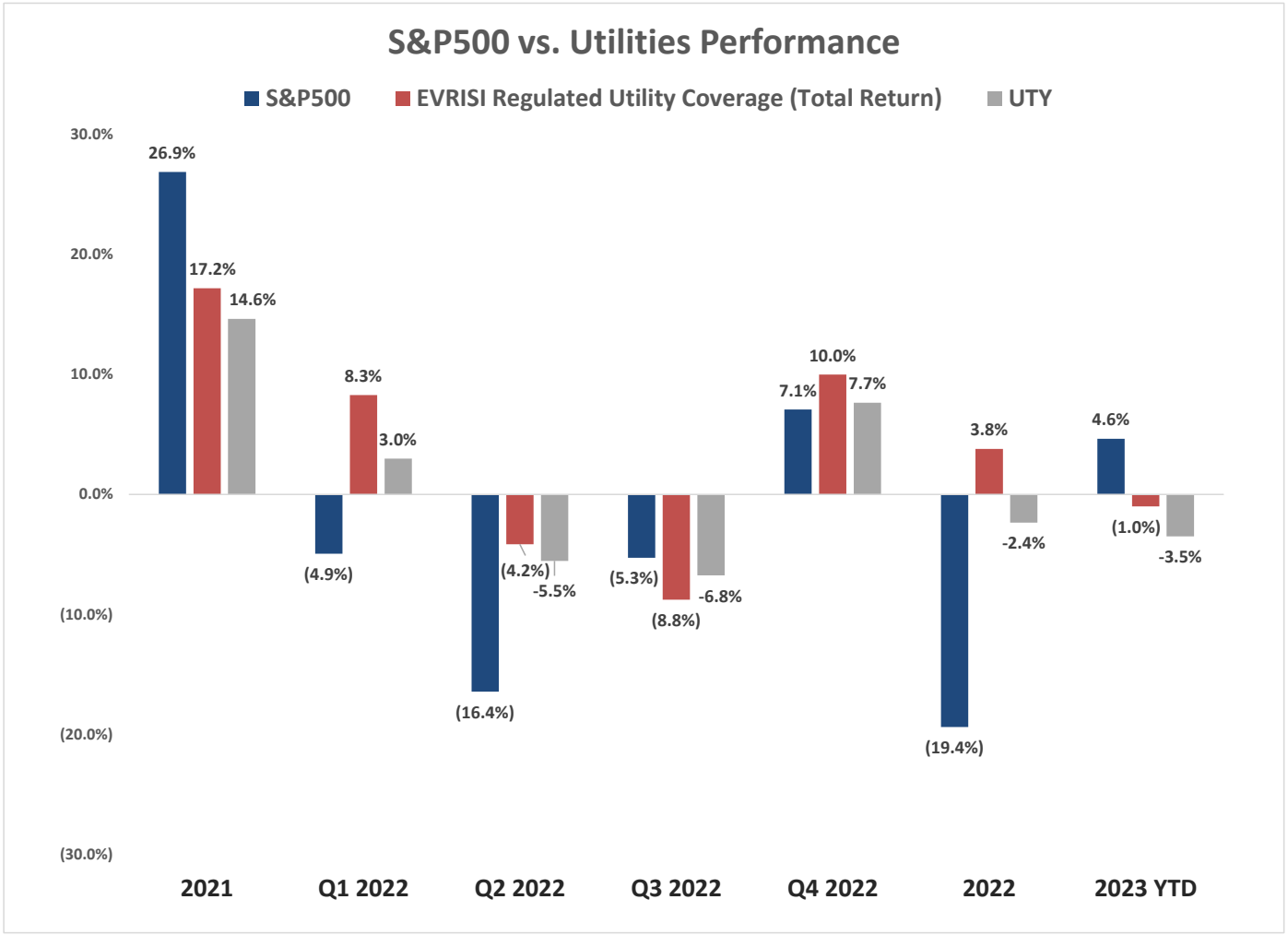
Ticker	Company Name	1/30/23 Price	ISI Rating	Shares Out	Market Cap	2023 Div Yld	2023 Payout	ISI EPS Estimate 2023	2024	2025	P/E Multiple 2023	2024	2025	Price to Book	Prem. to Group
NEE	NextEra Energy, Inc.	$75.05	In Line	2,004	150,365	2.5%	60%	3.10	3.40	3.65	24.2x	22.1x	**20.6x**	3.4x	30%
PEG	Public Service Enterprise Group	$61.10	Outperform	500	30,550	3.7%	65%	3.45	3.60	4.00	17.7x	17.0x	**15.3x**	2.1x	-3%
AES	AES Corp	$26.45	Outperform	668	17,669	2.5%	38%	1.75	1.90	2.10	15.1x	14.0x	**12.6x**	2.8x	-20%
Diversified Group Average						**2.9%**	**54%**				**19.0x**	**17.7x**	**16.2x**	**2.8x**	
Diversified Group Max						3.7%	65%				24.2x	22.1x	20.6x	3.4x	
Diversified Group Min						2.5%	38%				15.1x	14.0x	12.6x	2.1x	

Updated as of 1/30/23, Note – PCG estimates above reflect consensus view from FactSet

Source: FactSet, Evercore ISI Research

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Utes Outperformed in 2022 but Underperformed in 2023 YTD



Updated as of 1/30/23

Source: FactSet, Evercore ISI Research

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Utilities Are 18% Expensive on '24 Yields Assuming Yields Remain Unchanged

Utility Valuation			10 YR	3.55%
1/30/23			Baa	5.40%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2023 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	2.54%	2.45%	25.6x	41.4%
	2.76%	2.60%	24.1x	33.2%
	2.98%	2.75%	22.8x	25.8%
	3.20%	2.91%	21.6x	19.3%
	3.42%	3.06%	20.5x	13.3%
	3.64%	3.21%	19.6x	8.0%
- 68% Confidence Interval	3.86%	3.36%	18.7x	3.1%
Current Valuation	4.08%	3.51%	17.9x	-1.4%
	4.30%	3.66%	17.1x	-5.4%
	4.52%	3.82%	16.5x	-9.2%
	4.74%	3.97%	15.8x	-12.7%
	4.96%	4.12%	15.2x	-15.9%
	5.18%	4.27%	14.7x	-18.9%
Predicted Valuation	5.40%	4.42%	14.2x	-21.7%
	5.62%	4.57%	13.7x	-24.3%
	5.84%	4.73%	13.3x	-26.7%
	6.06%	4.88%	12.9x	-29.0%
	6.28%	5.03%	12.5x	-31.1%
	6.50%	5.18%	12.1x	-33.1%
+ 68% Confidence Interval	6.72%	5.33%	11.8x	-35.0%
	6.94%	5.49%	11.4x	-36.8%
	7.16%	5.64%	11.1x	-38.5%
	7.38%	5.79%	10.8x	-40.1%
	7.60%	5.94%	10.6x	-41.7%
	7.82%	6.09%	10.3x	-43.1%
+ 95% Confidence Interval	8.04%	6.24%	10.1x	-44.5%

Regulated utilities now look ~22% expensive on current yields

Utility Valuation			10 YR	3.55%
1/30/23			Baa	5.40%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2024 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	2.54%	2.45%	25.5x	48.3%
	2.76%	2.60%	24.0x	39.7%
	2.98%	2.75%	22.7x	32.0%
	3.20%	2.91%	21.5x	25.1%
	3.42%	3.06%	20.5x	18.9%
	3.64%	3.21%	19.5x	13.2%
- 68% Confidence Interval	3.86%	3.36%	18.6x	8.1%
	4.08%	3.51%	17.8x	3.5%
Current Valuation	4.30%	3.66%	17.1x	-0.8%
	4.52%	3.82%	16.4x	-4.8%
	4.74%	3.97%	15.8x	-8.4%
	4.96%	4.12%	15.2x	-11.8%
	5.18%	4.27%	14.6x	-14.9%
Predicted Valuation	5.40%	4.42%	14.1x	-17.8%
	5.62%	4.57%	13.7x	-20.6%
	5.84%	4.73%	13.2x	-23.1%
	6.06%	4.88%	12.8x	-25.5%
	6.28%	5.03%	12.4x	-27.8%
	6.50%	5.18%	12.1x	-29.9%
+ 68% Confidence Interval	6.72%	5.33%	11.7x	-31.9%
	6.94%	5.49%	11.4x	-33.8%
	7.16%	5.64%	11.1x	-35.5%
	7.38%	5.79%	10.8x	-37.2%
	7.60%	5.94%	10.5x	-38.8%
	7.82%	6.09%	10.3x	-40.4%
+ 95% Confidence Interval	8.04%	6.24%	10.0x	-41.8%

If rates stay unchanged for the next 12 months, regulated utilities now ~18% expensive

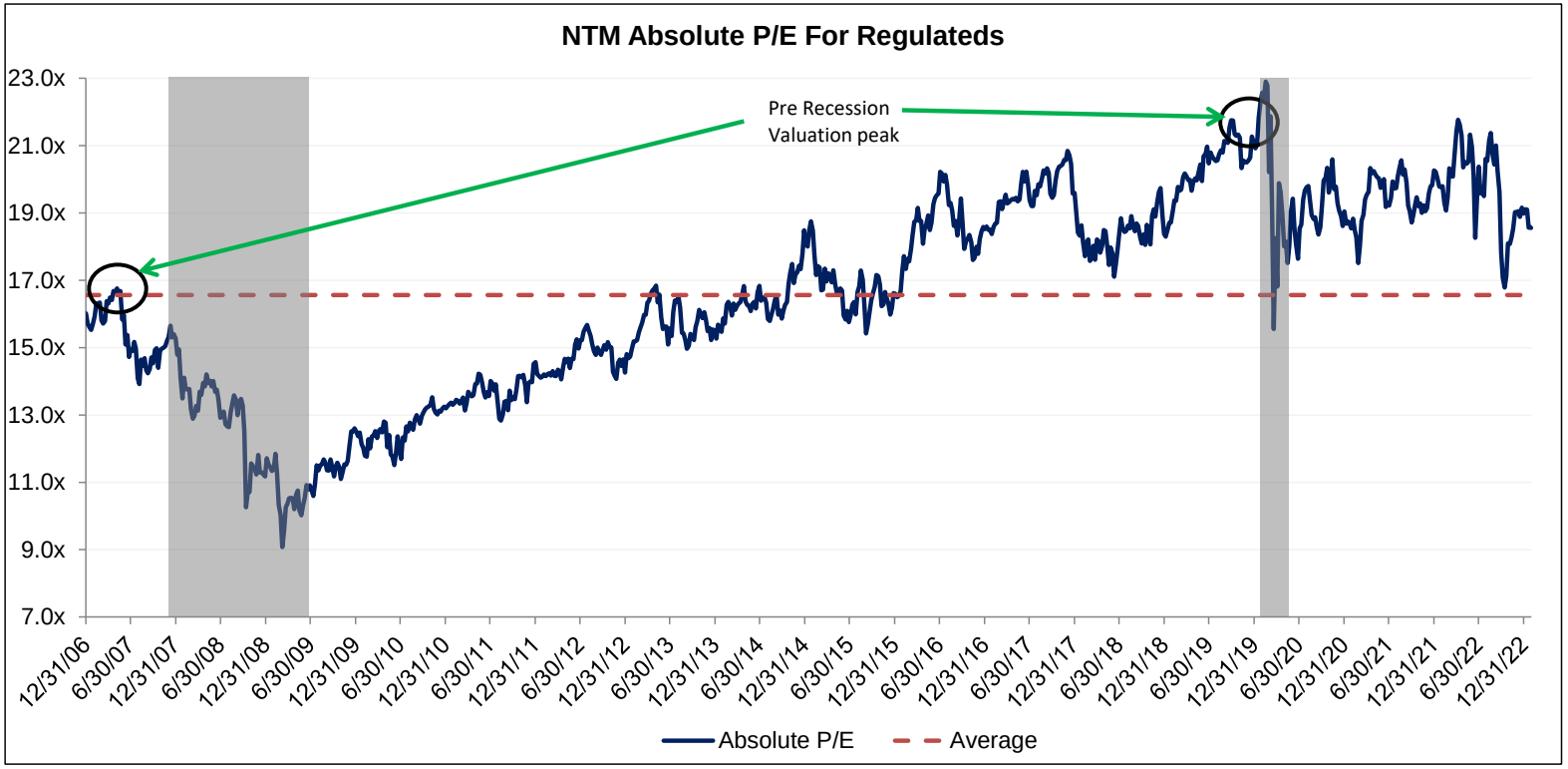
Updated as of 1/30/23

Source: FactSet, Evercore ISI Research

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Absolute valuation is higher than historical average

- The group is now trading at ~18.5x, above the 15-year average multiple of 17x (NTM)
- 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 24% upside from current levels at ~18.5x.



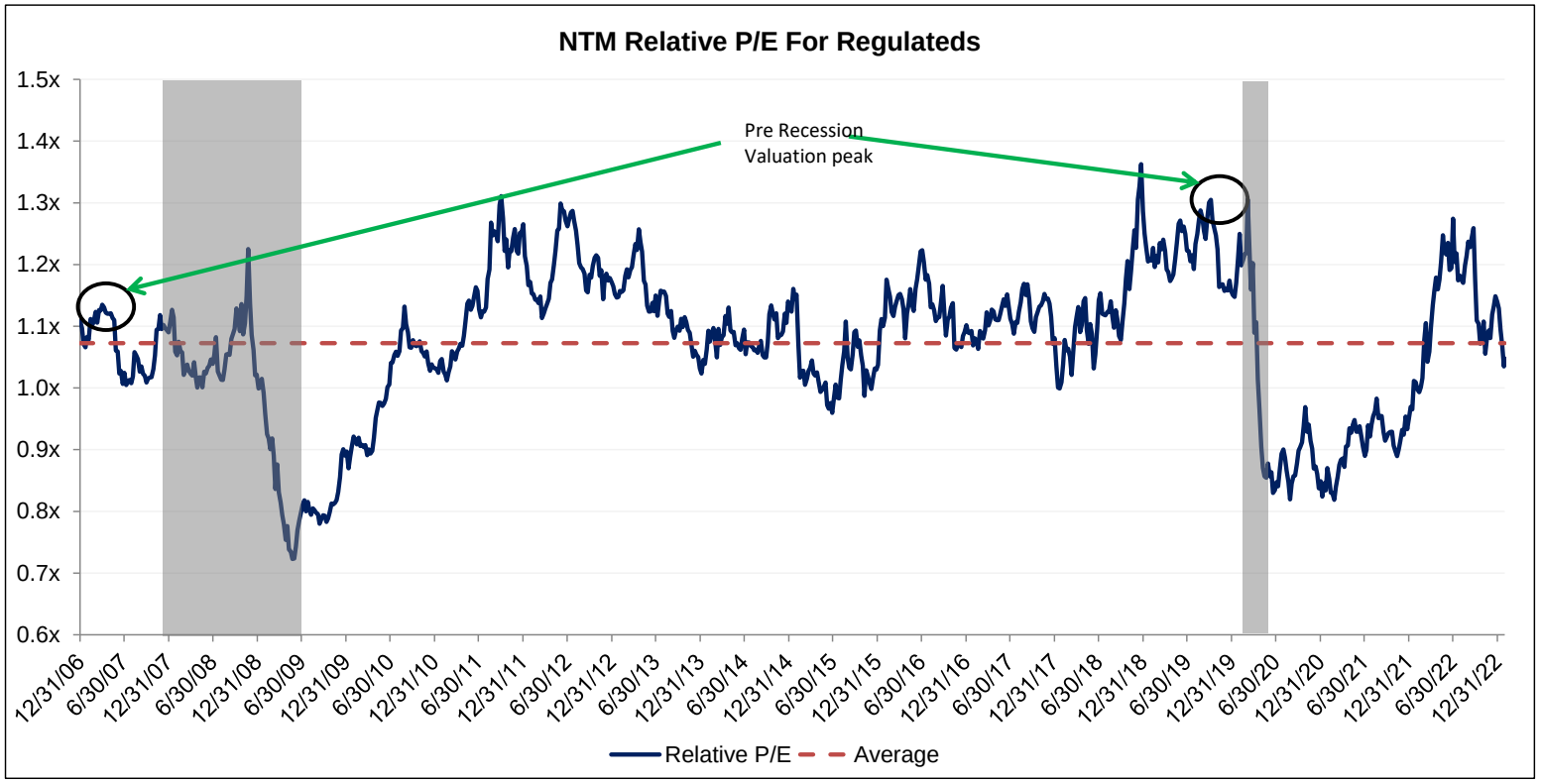
Updated as of 1/30/23

Source: FactSet, Evercore ISI Research

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Group's NTM P/E relative to S&P 500 is modestly lower than the historical average

- NTM P/E relative to S&P 500 is 1.05x, modestly lower than the historical average of 1.07x
- NTM relative PEs for Utes averaged 1.07x 12mths leading up to the 08/09 recession peaking at 1.13x, 8% higher than 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 ~24% upside from current levels at 1.05x assuming S&P500 stays flat.



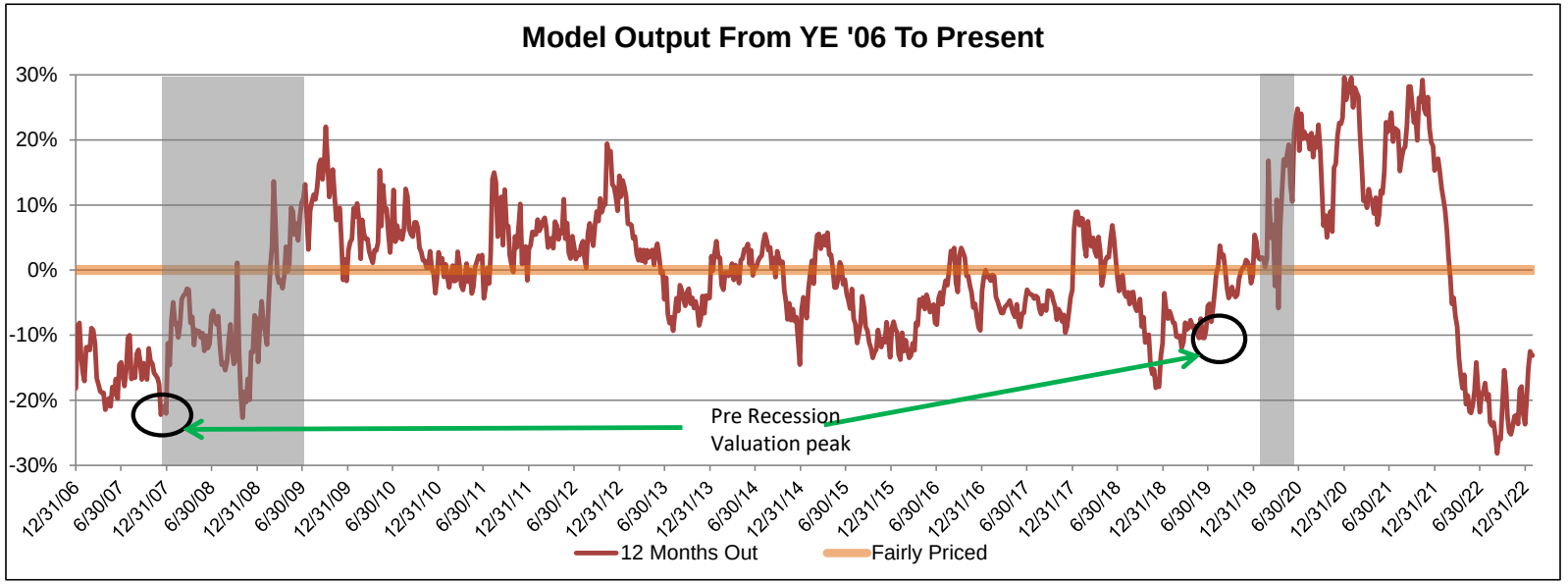
Updated as of 1/30/23

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Versus Bond Yields, group valuation remains elevated, 18% expensive

- 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 18% expensive in our bond model, 6% below 08/09 pre-recession peak.



Updated as of 1/30/23

Source: FactSet, Evercore ISI Research

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Time of dissemination: January 31 2023 9:19 PM ET

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage sector.
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's coverage sector.
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Hold- the total forecasted return is expected to be greater than or equal to 0% and less than or equal to 10%

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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.

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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.
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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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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 01/31/2023)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	489	59	Buy	58	12
Hold	302	36	Hold	20	7
Sell	15	2	Sell	0	0
Coverage Suspended	17	2	Coverage Suspended	3	18
Rating Suspended	7	1	Rating Suspended	2	29

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From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: 2023 Outlook, D/VA, NI, DUK, MA/Wind, Uranium, SMR, PCG, IRS - Guggenheim Securities, LLC
Date: Monday, January 23, 2023 8:29:22 AM

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The Guggenheim Daily Transmission: 2023 Outlook, D/VA, NI, DUK, MA/Wind, Uranium, SMR, PCG, IRS

Power & Utilities January 23, 2023

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Guggenheim Utilities Research Team

Access This Report

2023 Utilities Outlook Client Conference Call w/ Shar Pourreza & Team including Director of Utility Trading John Ritter — TODAY at 8:15am

For details on our Guggenheim-hosted client Utility events including our WEC NDR, DUK NDR, ES NDR, PNW NDR, and other events, scroll down…

2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All? (see our note HERE)

D/VA — Legislation introduced Friday would shorten process for next OSW project by 2 years

D/VA — AWS announces plans to invest $35B in Virginia data centers by 2040

NI — Office of the Utility Consumer Counselor weighs in on NIPSCO rate case

DUK — North Carolina and South Carolina lawmakers are drafting substation security legislation

MA/Wind — DPU hearing officer gives parties until Friday to respond to Mayflower and Commonwealth wind motions

Uranium — Russian nuclear industry drawing increasing sanctions scrutiny

SMR – NuScale receives final certification for 50MW design

PCG – City of San Francisco re-initiates public utility alternative study

IRS – Republican IRS policies could endanger tax credit deployments

D/VA – Legislation introduced Friday would shorten process for next OSW project by 2 years

- "**Development of offshore wind capacity; cost recovery.** Provides that the State Corporation Commission shall give preference to requests for cost recovery by a Phase II Utility for generating facilities utilizing energy derived from offshore wind that maximize economic benefits to the Commonwealth. The bill also shortens the timeline for public utilities to construct or purchase one or more offshore wind generation facilities located off the Commonwealth's Atlantic shoreline or in federal waters and interconnected directly into the Commonwealth from 2034 to 2032." - LIS
- More HERE

Guggenheim takeaway: *Interesting minor development on the last day for introductions – flagged for your awareness. See our prior note HERE for more on some of the more important pieces of legislation we are tracking.*

D/VA – AWS announces plans to invest $35B in Virginia data centers by 2040

- "Governor Glenn Youngkin today announced that Amazon Web Services (AWS), an Amazon.com, Inc. company (NASDAQ: AMZN), plans to invest $35 billion by 2040 to establish multiple data center campuses across Virginia. Numerous localities in the Commonwealth are under consideration and will be decided at a later date. These new campuses will combine expandable capacity to position AWS for long-term growth in the Commonwealth. Amazon is among the largest private-sector employers in the Commonwealth of Virginia, establishing its first AWS data centers and operations facilities in 2006 and later announcing its second headquarters (HQ2) in Arlington in 2018. This announcement of planned investment will create at least 1,000 total new jobs across Virginia." - release
- More HERE

Guggenheim takeaway: *Data center load and potential underlying transmission capex opportunities remain a unique positive nuance to the Virginia market in our view, which is already one of the strongest zones within PJM by load growth (~5% 10-year summer peak load growth). See the recently updated 2023 PJM load forecast for DOM HERE for more.*

NI – Office of the Utility Consumer Counselor weighs in on NIPSCO rate case

- On Friday, the OUCC in Indiana proposed that NIPSCO should receive a 9.2% ROE, vs 9.75% currently authorized and the company's ask in the current case of 10.4%.
- The OUCC also proposed a capital structure consisting of 49.26% equity, vs 47.86% currently authorized and the company's ask in the current case of 51.63%.

- Finally, the OUCC recommends that NIPSCO's proposed variable cost tracker for its coal-fired generation plants be rejected and the costs that would otherwise be recoverable in the rider be reflected in base rates instead.
- Docket 45772

Guggenheim takeaway: *Note: evidentiary hearings are scheduled beginning March 13, 2023.*

DUK – North Carolina and South Carolina lawmakers are drafting substation security legislation

- Following recent attacks on utility infrastructure in Moore County, North Carolina as well as other attacks in Washington, Oregon, South Carolina and Nevada, new legislation is being prepared.
- In North Carolina and South Carolina, lawmakers are drafting legislation which would require utilities to provide 24/7 substation security. Security provisions would vary from site to site, some of which are already protect with gates and nearby cameras, however others remain more exposed.
- More HERE

Guggenheim takeaway: *FYI. The legislation is still in the process of being drafted.*

MA/Wind – DPU hearing officer gives parties until Friday to respond to Mayflower and Commonwealth wind motions

- "Any party that wishes to submit a written response to the motion filed on January 19, 2023 by Mayflower Wind Energy LLC in the above-referenced proceedings must do so by 5:00 P.M. on Friday, January 27, 2023." - DPU
- More HERE

Guggenheim takeaway: *For your calendars and awareness.*

Uranium – Russian nuclear industry drawing increasing sanctions scrutiny

- Lengthy reporting by the Washington Post indicates that key companies in the industry may be aiding sanctions evasion, raising further discussion of EU sanctions on the industry
- More HERE

Guggenheim takeaway: *Flagged for your awareness as this was something we took an in-depth look at last year in our uranium baseline note – HERE.*

SMR – NuScale receives final certification for 50MW design

- The 50MW configuration received its final certification from the NRC
- More HERE

Guggenheim takeaway: *Heads up and an important conclusion the company's initial pathway through the NRC – as a reminder the 77MW uprate is now before the Commission (second SDA).*

PCG – City of San Francisco re-initiates public utility alternative study

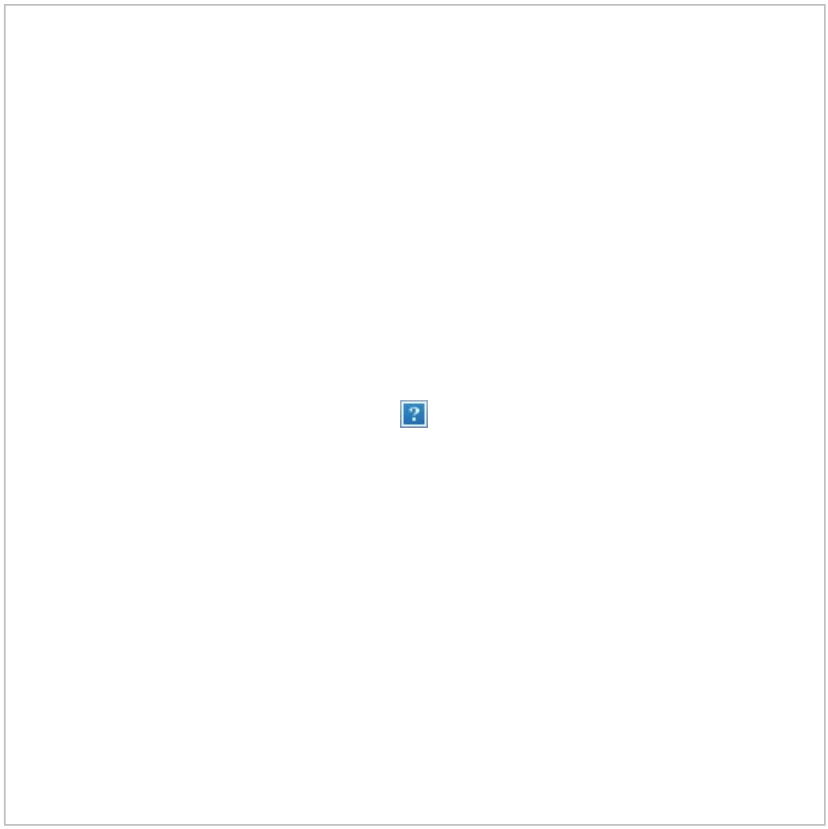
- City of San Francisco restarted the analysis on forming a public utility that was a part of the PG&E bankruptcy alternatives plan.
- The alternative utility system proposal is supported by energy advocates.
- More in media here

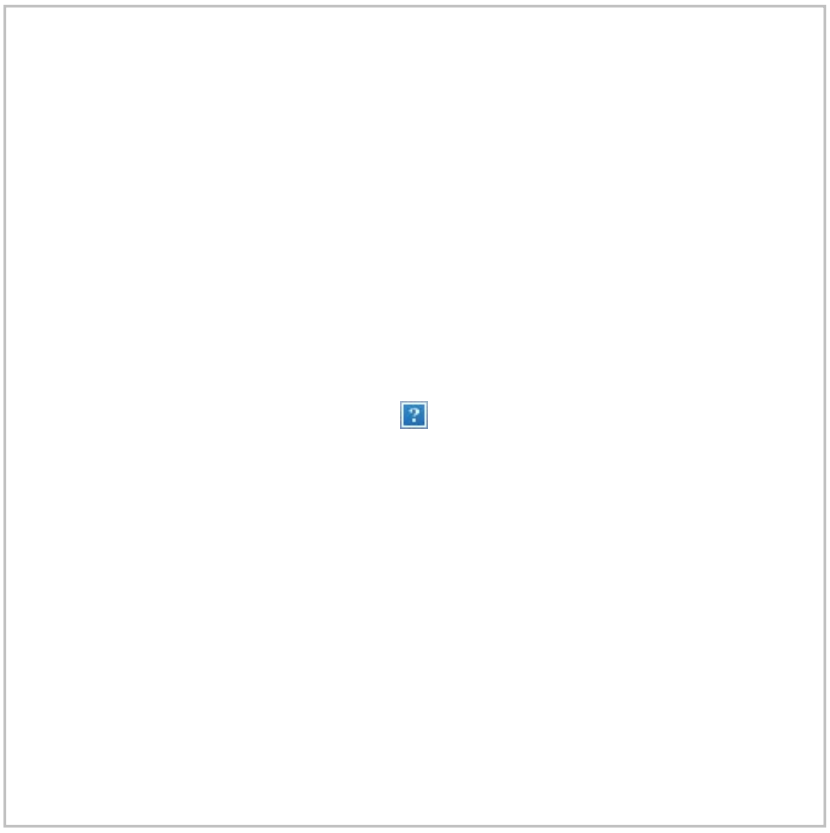
Guggenheim takeaway: *FYI. The conversation of municipal utility options occasionally comes up, but the complexity usually makes such action prohibitive or expensive as the municipal entity would have to compensate PG&E for the assets. More specifically in the case of San Francisco, such a move would concentrate wildfire risk and would be at odds with state policy.*

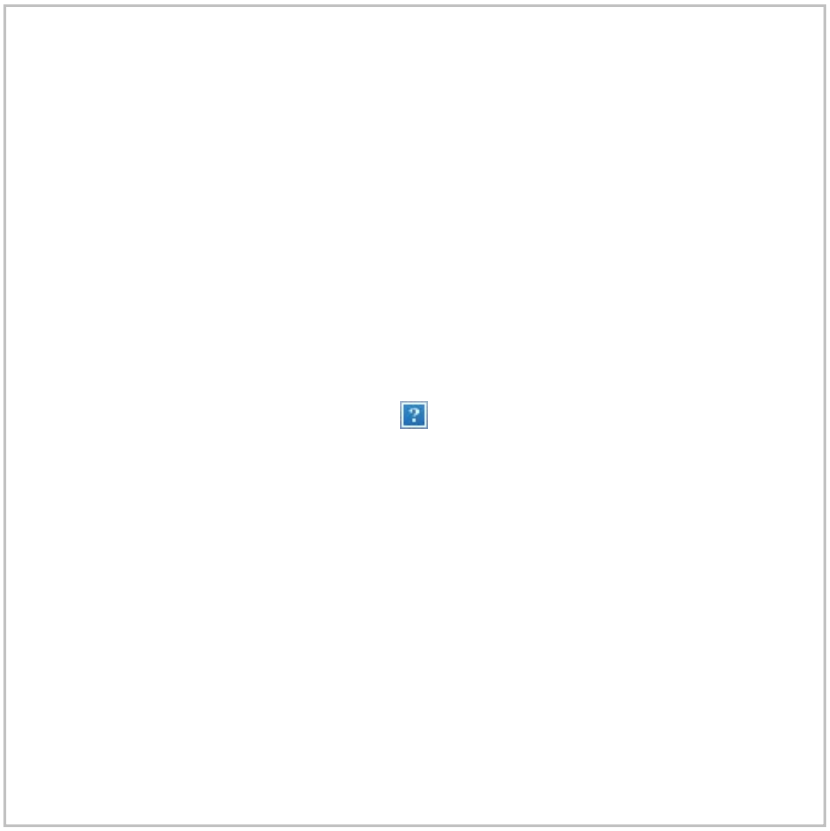
IRS – Republican IRS policies could endanger tax credit deployments

- Media is reporting that Treasury officials have been airing concerns in private that Republican efforts to rescind funding from the IRS could impact their ability to implement the credit provisions of the IRA
- More HERE

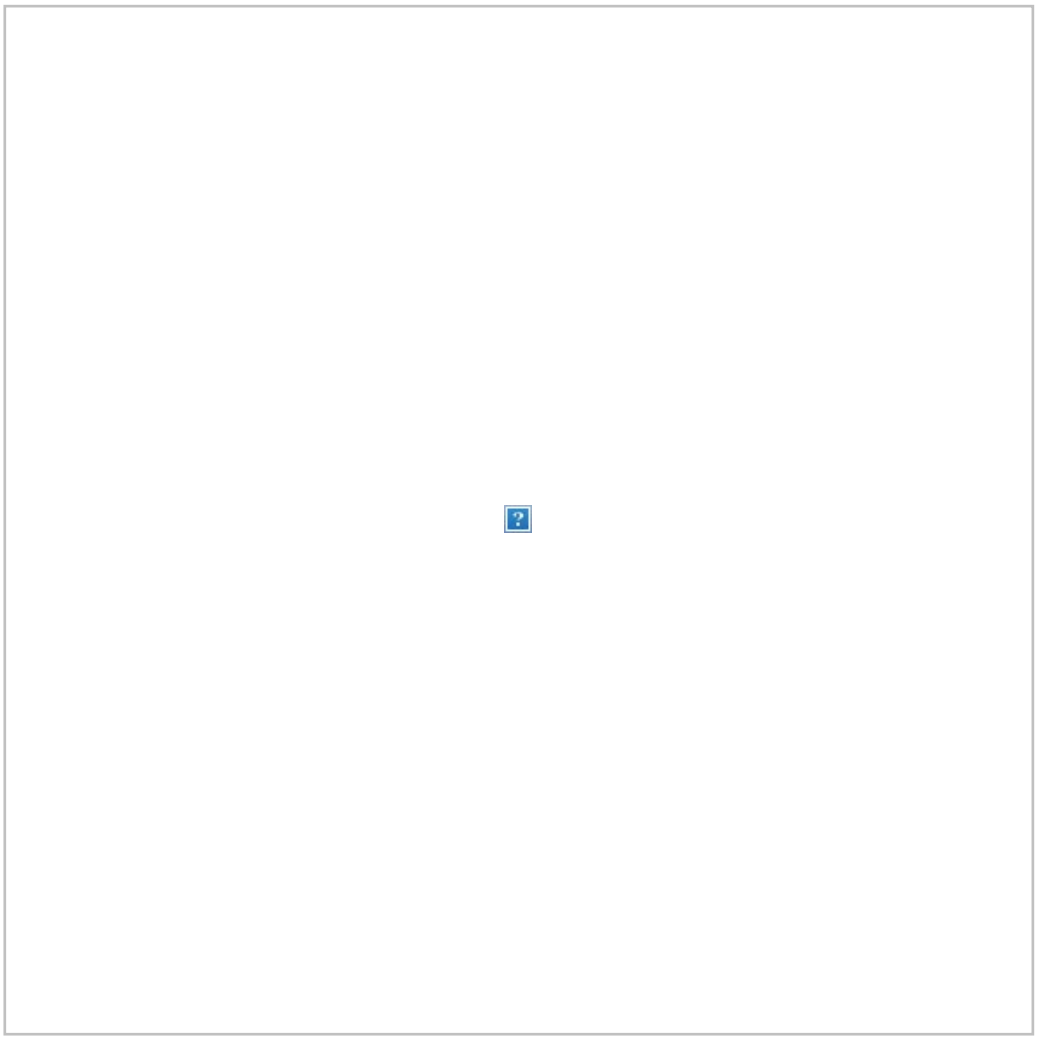
Guggenheim takeaway: *The implementation processes at Treasury and the IRS are moving somewhat slowly in our view – we continue to monitor.*



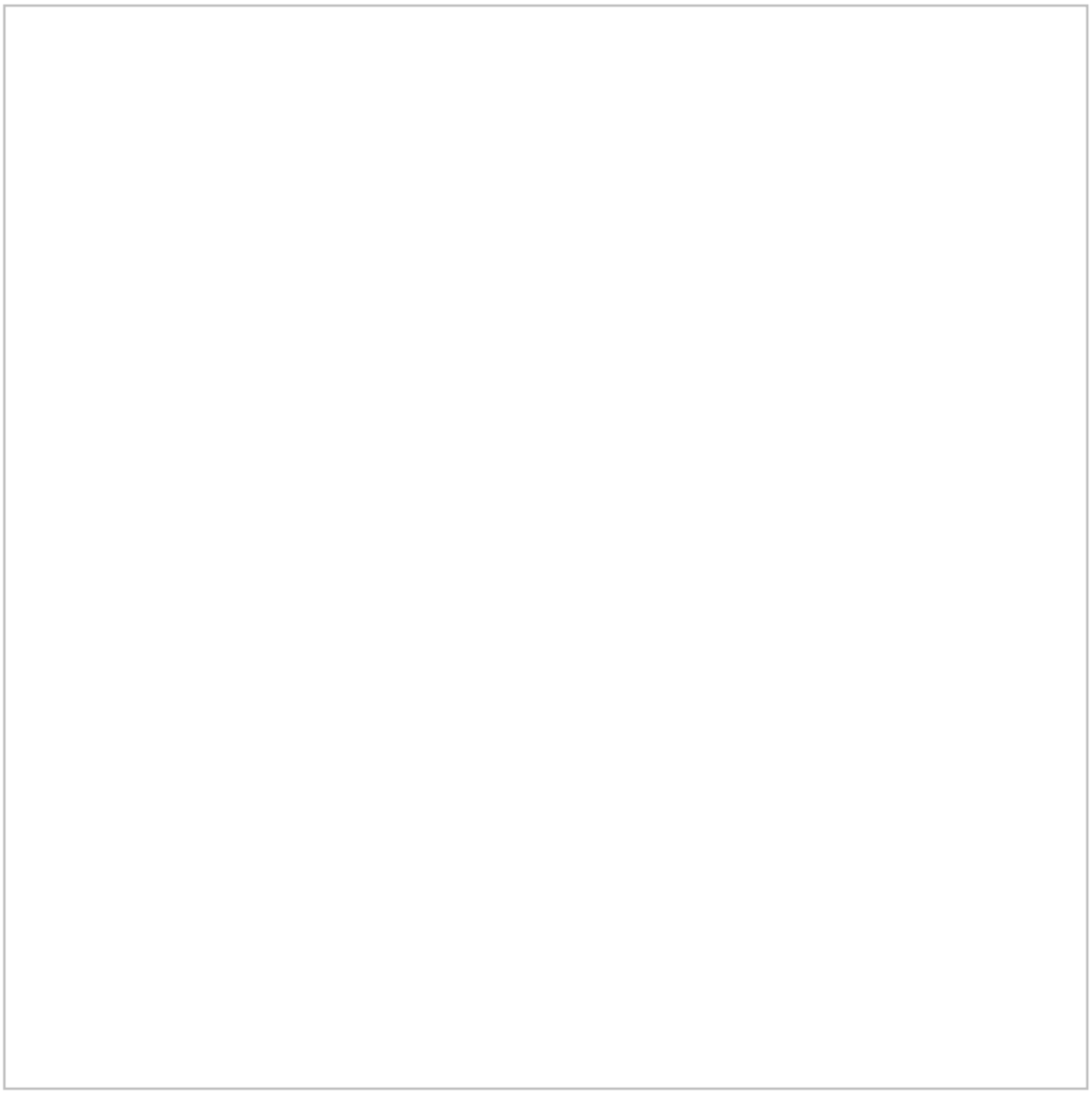




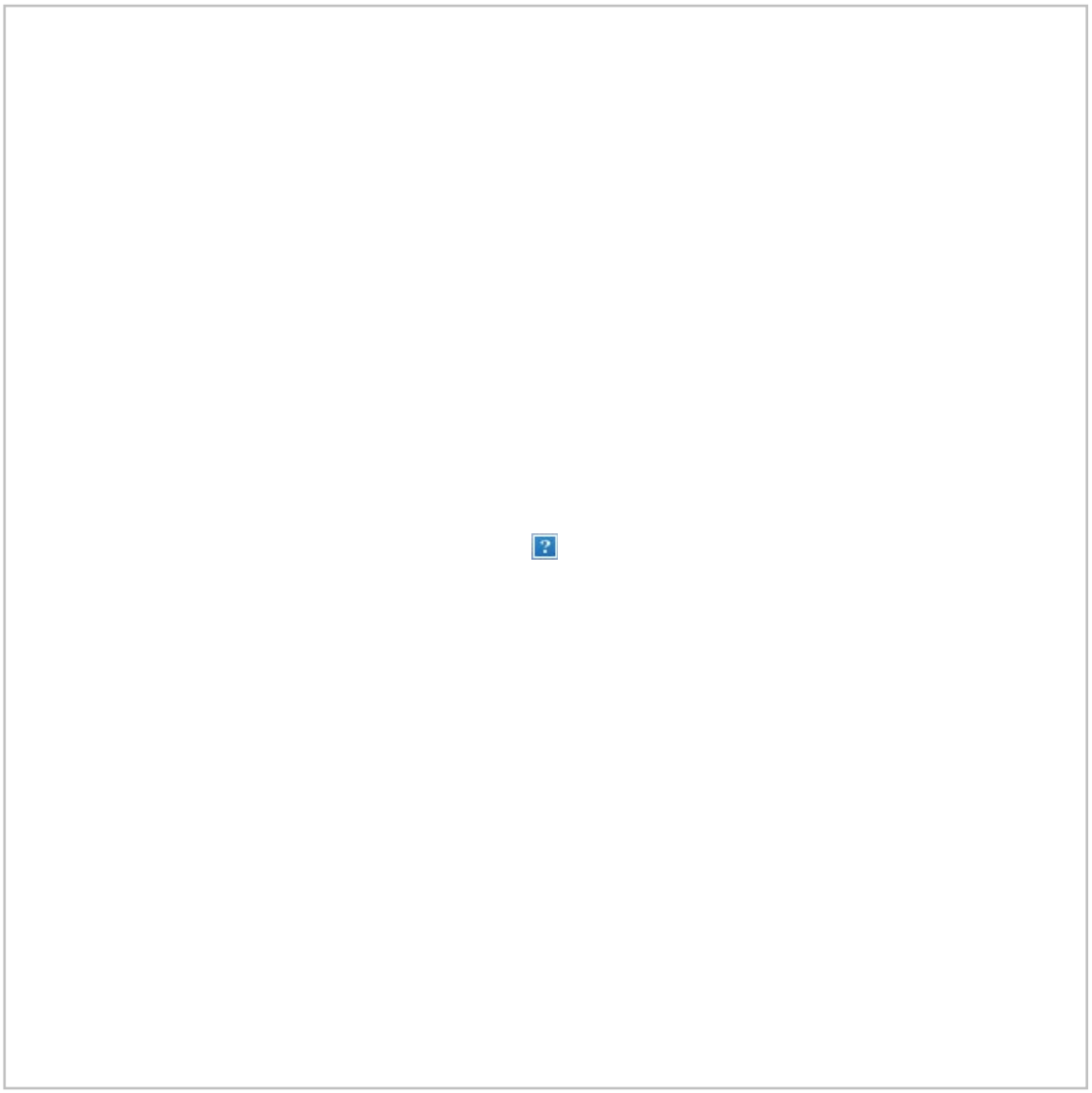
Guggenheim 2023 Client and Corporate Access Utility Events



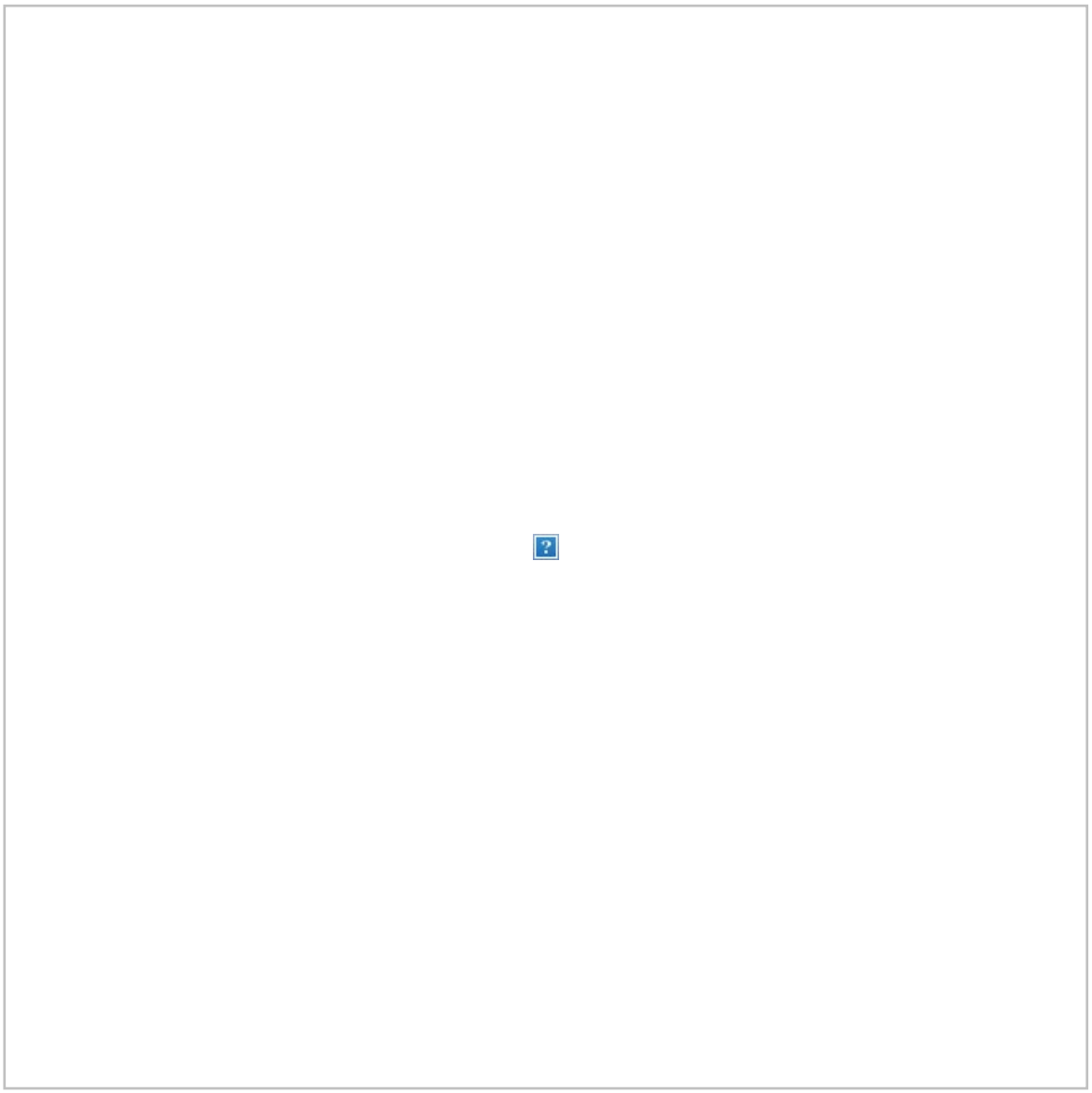
Guggenheim Comp Sheet



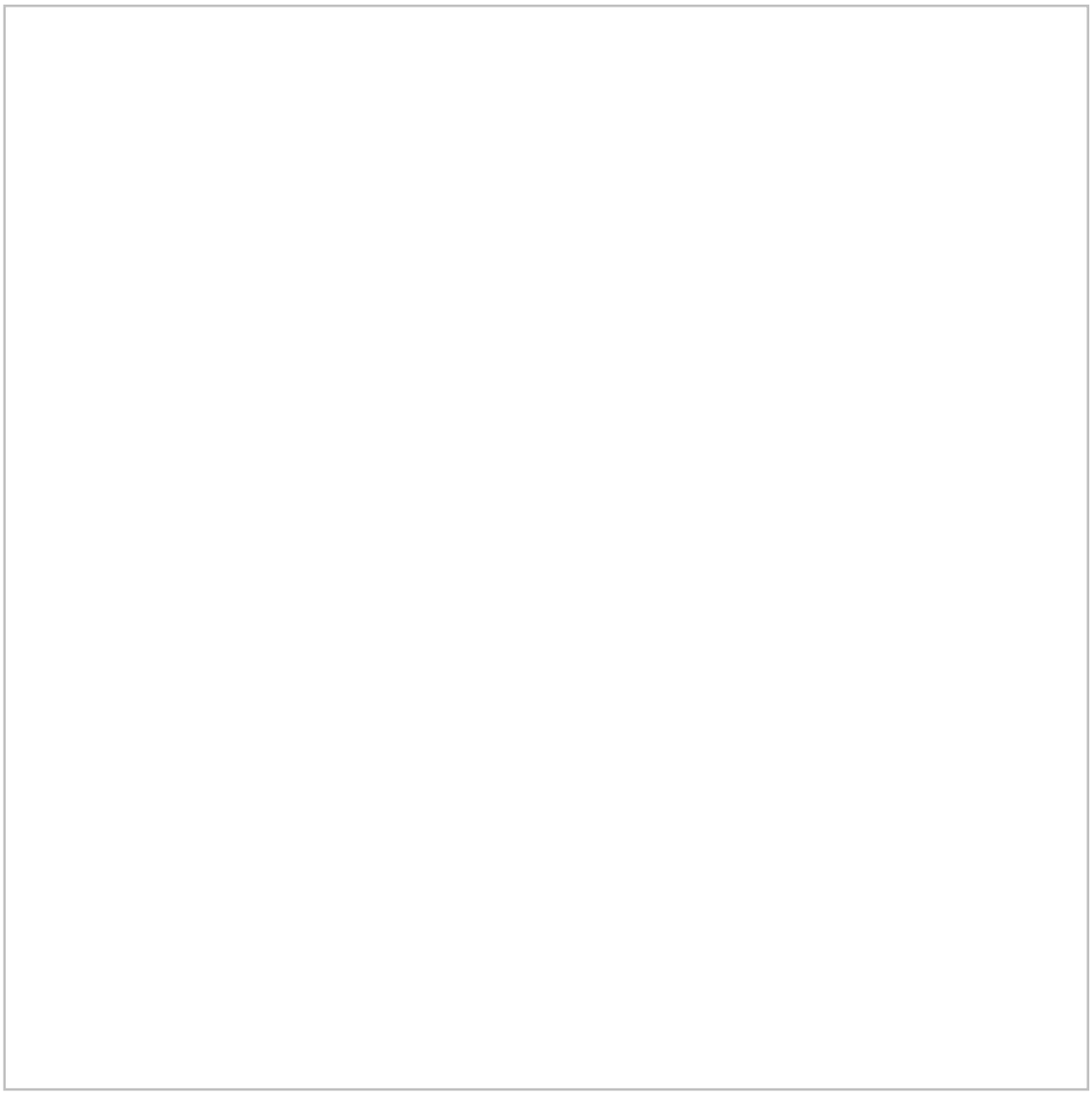
Share Price Performance (Year-to-Date, Three-Month, One-Month, & Five-Day Trailing)



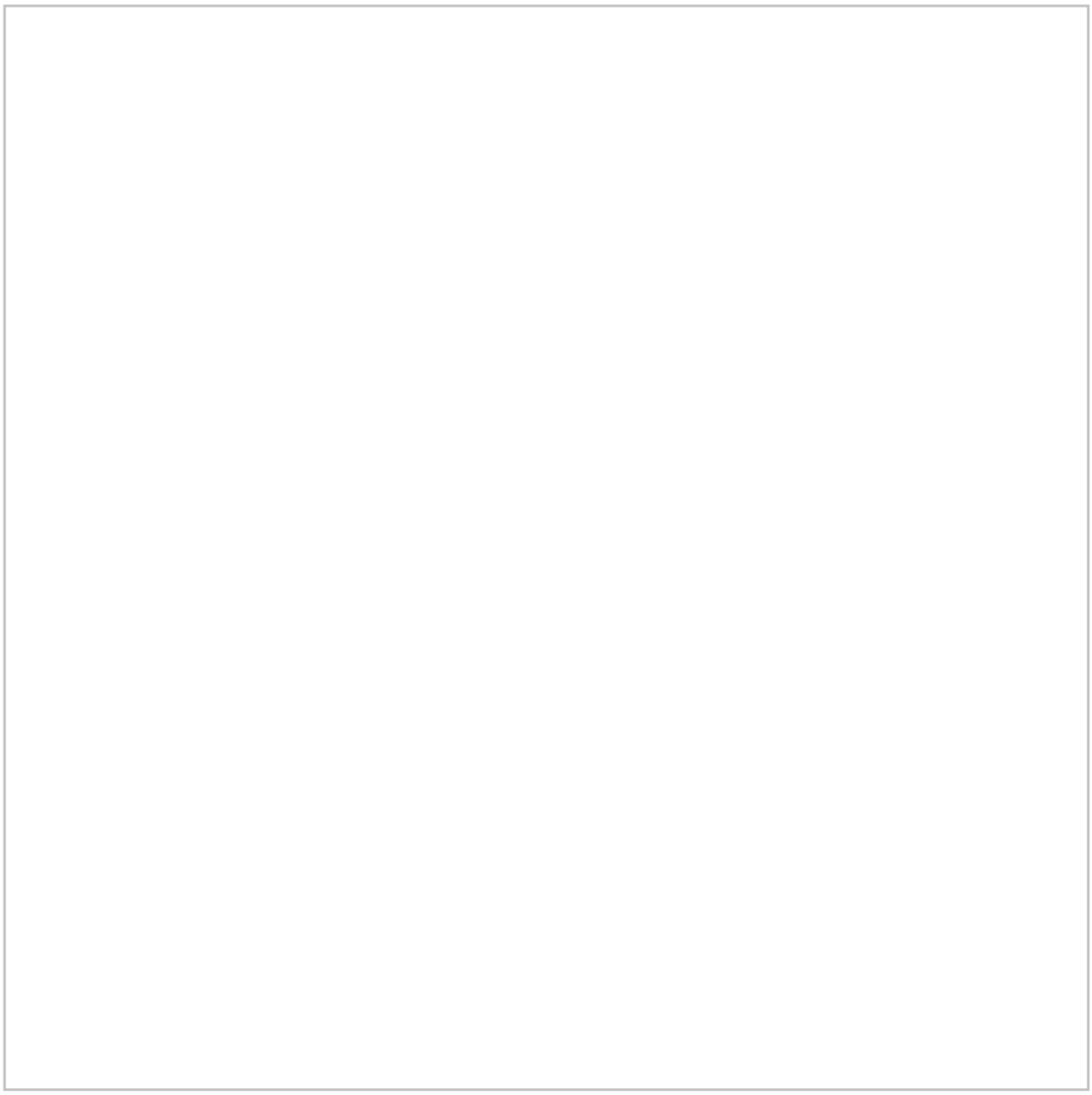
Generation and Mix



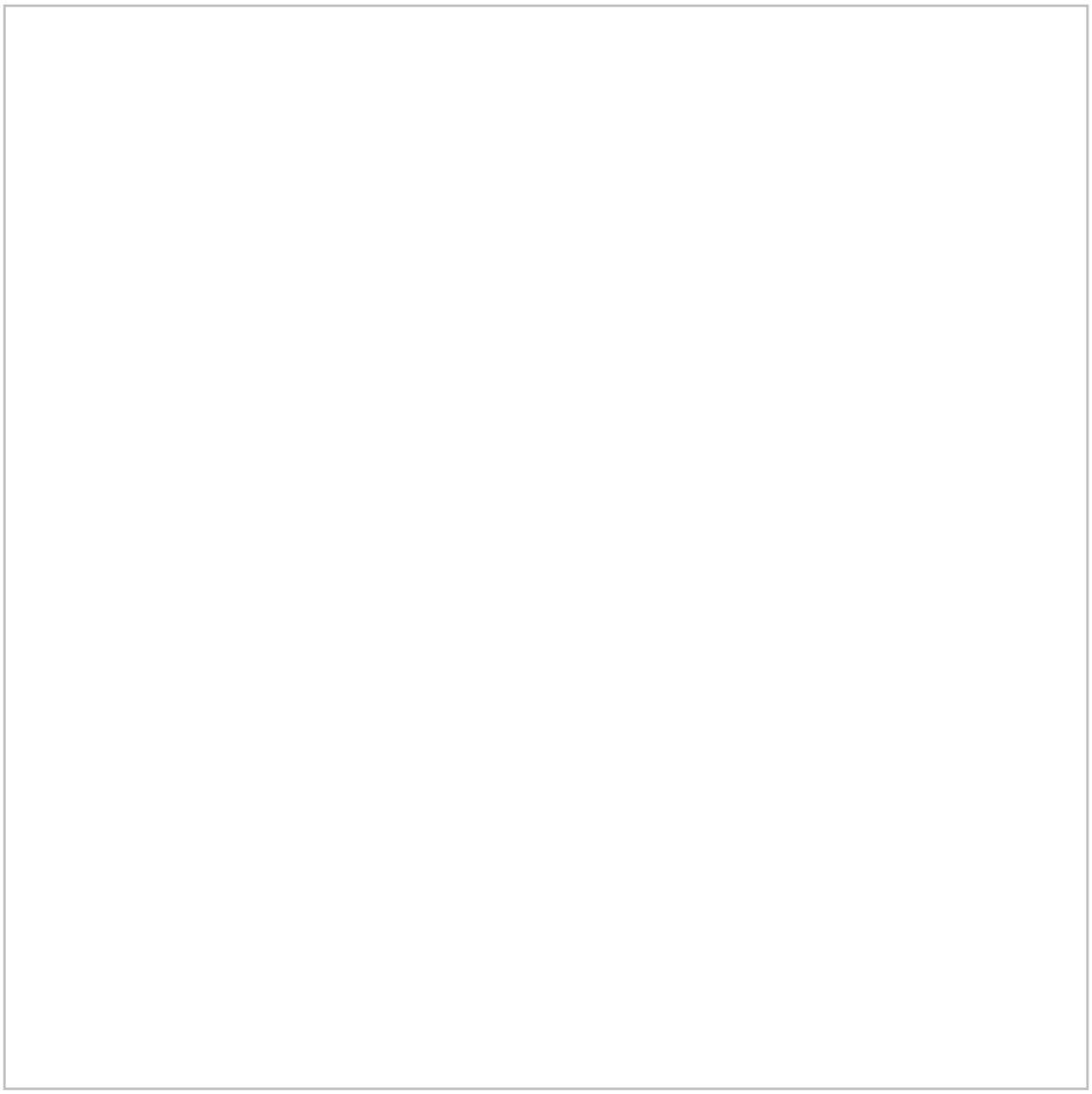
Generation and Mix (continued)



Weather



Peak Load



Regulatory Calendar

Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- D NDR – January Bounce? A Game of Chess, Not Checkers… Information Vacuum Persists, But that Gap Is Narrowing; Momentum Builds Quickly in New Year
- 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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Ticker	Price	Rating
AEE	83.71	Neutral
HE	37.47	Neutral
NI	27.76	Buy

Power & Utilities

March 15, 2023

The Guggenheim Daily Transmission: HE, NI, AEE, VA, MI, IN, AZ

For our AGA conference (May 20-23) meeting schedule, please scroll down…

For details on our Guggenheim-hosted client Utility events including our NEE NDR, AEE NDR, PPL NDR, EXC NDR, ETR NDR, DTE NDR, PCG NDR, SMR NDR, ES NDR, LNT NDR, PNW NDR, CMS NDR, POR NDR, and other events, scroll down…

HE – Making Sense of Banking Turbulence; HE's ASB Remains Well Insulated From Isolated Liquidity Issues (see our note HERE)

NI – NiSource announces leadership succession, new CFO and group president

AEE – Surrebuttal testimony filed in MO

VA – Energy legislation transmitted to Governor

MI – Energy Storage legislation getting traction in Michigan

IN – IN house bill for greater consideration of reliability and resiliency in utility resource plans passed Senate committee

AZ – Arizona bills on in-state transmission development put on consent calendar in Senate

NI – NiSource announces leadership succession, new CFO and group president

- NiSource announced leadership changes including succession for CFO and group president and appointment of Michael Luhrs (external from LNT) as executive vice president of strategy and risk and the company's chief commercial officer.
- Coinciding with these changes, Shawn Anderson, currently SVP of risk and chief strategy officer, will move into the role of EVP and CFO. Donald Brown, NiSource's current CFO, will assume the role of EVP and chief innovation officer, replacing Melody Birmingham, who has been named EVP and group president of NiSource utilities.
- More here.

Guggenheim takeaway: *FYI. Major progression in terms of leadership succession.*

AEE – Surrebuttal testimony filed in MO

- AEE MO, OPC, PSC Staff, and other stakeholders have all filed surrebuttal testimony in the ongoing case ahead of hearings next month
- Staff have also updated the accounting schedules through December 31st
- Rate base of $11.263B – see build up for rev req HERE
- "Staff found no reason to change Staff's recommended authorized ROE of 9.59%" - testimony
- More HERE

Guggenheim takeaway: *For your awareness as we continue to parse the full filings. Procedurally, the surrebuttal testimony will now be followed by final reconciliations ahead of evidentiary hearings in early April. As a reminder, management pointed to this general timeframe (March/April) for potential settlement discussions on the recent 4Q22 call.*

VA – Energy legislation transmitted to Governor

- SB1075, SB1265, SB1477, and other pieces of legislation were transmitted to Governor Youngkin on Monday

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- More HERE

Guggenheim takeaway: *This is a procedural step at this point, and while we have very minimal expectations for any changes whatsoever to most of the energy legislation passed this winter by the General Assembly, we remain on the lookout for any commentary around the finalization process.*

MI ─ Energy Storage legislation getting traction in Michigan

- Michigan House bill HB 4256, addressing energy storage goals in support of Governor Whitmer's energy policy was filed and referred to committee.
- The bill would mandate 2,500 MW of storage by 2030 and 4,000 MW by 2040.
- The MPSC would also set targets for long duration storage of greater than 10 hours and multi-day storage as part of implementation.
- Bill text here.

Guggenheim takeaway: *FYI. While DTE and CMS have already put forth IRPs which included almost 2,500MW of storage deployment, the legislative codification could accelerate deployment with a defined regulatory framework.*

IN – IN house bill for greater consideration of reliability and resiliency in utility resource plans passed Senate committee

- IN Senate committee passed the House bill for increased guidance on utility resource plans and the need to consider reliability and resiliency of resources.
- The process saw Senate add co-sponsors to the bill.
- Regulators would need to consider the ability of resources to provide dispatchable power.
- The guidance from the bill also includes affordability and competitive rates as a goal for the IURC.
- Bill text here: HB1007

Guggenheim takeaway: *FYI. The bill tries to bring a legislated balance to IN decarbonization focus (i.e., balancing reliability with intermittent resources like solar and wind).*

AZ – Arizona bills on in-state transmission development put on consent calendar in Senate

- Arizona HB 2496 and HB 2437 were put on consent calendar in the Senate (proper for consideration from rules committee).
- HB 2437 addresses in state transmission statutory requirements for environmental certifications, facilitating development process.
- HB 2496 deals with the statutory definitions of transmission lines to be a minimum of a quarter mile.
- Bill text here: HB2437

Guggenheim takeaway:*FYI. Minor progress on transmission bills in AZ.*

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Equity Research | Corporate Access

NextEra Energy, Inc. (NEE)

Kirk Crews, *Chief Financial Officer*

Dates & Location
March 14 – 16, 2023
West Coast

Meeting Format
NDR - 1:1 Meetings

Company Information
Market Cap: $151.6bn
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

Ameren Corporation (AEE)

Martin Lyons, *President & Chief Executive Officer*
Michael Moehn, *Executive VP, Chief Financial Officer*
Andrew Kirk, *Director, Investor Relations*

Date
Wednesday, March 22, 2023

Meeting Format
Virtual NDR - 1:1 Meetings & Group Meeting

Company Information
Market Cap: $22.3bn
Ameren Corp. is a public utility holding company that engages in the provision of electric and natural gas services. It operates through the following segments: Ameren Missouri, Ameren Illinois Electric Distribution, Ameren Illinois Natural Gas, Ameren Transmission, and Other. The Ameren Transmission segment consists of the aggregated electric transmission businesses of Ameren Illinois and Ameren Transmission Company of Illinois (ATXI). The company was founded in 1902 and is headquartered in St. Louis, MO. (Source: FactSet)

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Equity Research | Corporate Access

PPL Corporation (PPL)

Vince Sorgi, *President & Chief Executive Officer*
Andy Ludwig, *VP, Investor Relations*

Dates & Location
April 3 – 4, 2023
Boston

Meeting Format
NDR - 1:1 Meetings

Company Information
Market Cap: $20.0bn
PPL Corp. (PPL) engages in the generation, transmission and distribution of electricity. It operates through the two reportable segments: Kentucky Regulated & Pennsylvania Regulated. The Kentucky Regulated segment consists of LKE's regulated electricity generation, transmission and distribution operations of Louisville Gas and Electric Company and Kentucky Utilities Company as well as regulated distribution and sale of natural gas of Louisville Gas and Electric Company. The Pennsylvania Regulated segment consists of the regulated electricity transmission and distribution operations of PPL Electric Utilities Corporation. The company was founded in 1994 and is headquartered in Allentown, PA. (Source: FactSet)

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Equity Research | Corporate Access

Exelon Corporation (EXC)

Calvin Butler, *President & Chief Executive Officer*
Jeanne Jones, *Chief Financial Officer*
Andrew Plenge, *VP, Investor Relations*

Dates & Location

May 15 – 16, 2023
New York

Meeting Format

NDR - 1:1 Meetings, Group Meeting & Small Group Dinner

Company Information

Market Cap: $42.4bn

Exelon Corporation (EXC) operates as a utility services holding company, which engages in the energy generation, power marketing, and energy delivery business. It operates through the following segments: Mid Atlantic, Midwest, New York, Electric Reliability Council of Texas (ERCOT) and other Power Regions. The Mid-Atlantic segment represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina. The Midwest segment operates in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky. The New York (NY) segment provides operations within ISO–NY, which covers the state of New York in its entirety. The ERCOT segment includes operations within the Electric Reliability Council of Texas, covering most of the state of Texas. The Other Power Regions consist of the operations in New England, South, West, and Canada. The company was founded in February 1999 and is headquartered in Chicago, IL. (Source: FactSet)

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SAVE THE DATE

2023 AGA Financial Forum

Dates

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Location

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Guggenheim Hosted Dinner

e ill be hosting a dinner ith Shar Pourre a and team to ic o the con erence on Saturda Ma at : PM T.

Company Meetings

**Additional meetings may be added*

Sunday, May 21st	
Time	*Co.*
12:00PM	NI
12:50PM	NWN
1:40PM	CMS
2:30PM	NJR
3:20PM	AVA
4:10PM	SR

Monday, May 22nd	
Time	*Co.*
7:40AM	SO
8:30AM	WEC
9:30AM	DUK
10:20AM	SRE
11:10AM	ED
12:00PM	NWE
1:00PM	CPK
1:00PM	BKH
1:50PM	PEG
2:40PM	DTE
3:30PM	OGS
4:20PM	D

Tuesday, May 23rd	
Time	*Co.*
8:30AM	CNP
10:10 AM	AEE
11:00 AM	MDU

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Equity Research | Corporate Access

Entergy Corporation (ETR)

Drew Marsh, *Chairman & Chief Executive Officer*
Kimberly Fontan, *Chief Financial Officer*
Bill Abler, *VP, Investor Relations*

Dates & Location

June 1 – 2, 2023
West Coast

Meeting Format

NDR - 1:1 Meetings

Company Information

Market Cap: $22.64bn

Entergy Corp. (ETR) is a holding company that engages in electric power generation and distribution. It operates through the following segments: Utility and Entergy Wholesale Commodities. The Utility segment includes the generation, transmission, distribution, and sale of electric power and the operations of a natural gas distribution business. The Entergy Wholesale Commodities segment owns, operates, and decommissions nuclear power plants and sells electric power. The company was founded by Harvey Couch on November 13, 1913, and is headquartered in New Orleans, LA. (Source: FactSet)

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Guggenheim 2023 Client and Corporate Access Utility Events

Ticker	Dates	Regions
EIX	1/10 & 1/11	Boston & New York
Commissioner Roundtable Event	1/20	In Person at Guggenheim
2023 Utilities Conference Call	1/23	Dial-In
Virginia Policy Call	2/7	Dial-In
Wisconsin Regulatory Call (Chair Valcq)	2/9	Virtual
WEC	2/14–2/16	West Coast
Wisconsin Regulatory Call (Commissioner Huebner)	2/17	Virtual
Arizona Regulatory Call (Commissioners Myers and Thompson)	2/27	Virtual
DUK	3/7-3/8	NYC
NEE	3/14-3/16	West Coast
AEE	3/22	Virtual
PPL	4/3–4/4	Boston
EXC	5/15–5/16	NYC
AGA Conference Meetings	5/20–5/23	Fort Lauderdale, FL
ETR	6/1–6/2	West Coast
DTE	6/7	NYC
PCG	6/12	NYC
SMR	6/15	NYC
ES	6/21–6/22	NYC
LNT	7/17-7/18	NYC
PNW	8/9–8/10	NYC
CMS	8/30–8/31	NYC
POR	9/13–9/14	NYC

MORE TO BE ADDED…

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Guggenheim Comp Sheet

3/14/2023		Market	Guggenheim EPS Ests					Consensus					Δ vs Consensus (>$0.02)					Implied P/E Multiple					Prem/(Disc) vs Mid/Lg Cap Utes				'22–'27	NTM	Payout	Guggenheim		NTM Total	Consensus		NTM Total
	Price	Cap ($m)	2022E	2023E	2024E	2025E	2026E	2022E	2023E	2024E	2025E	2026E	2022E	2023E	2024E	2025E	2026E	2022E	2023E	2024E	2025E	2026E	2023E	2024E	2025E	2026E	EPS	Yield	Ratio	Rating	Target	Return	Rating	Target	Return
Small Cap Electric																																		
ALE	$62.98	3,606	3.38	3.70	4.17	4.56	4.87	3.69	3.73	4.03	4.35	4.83	(0.31)	–	0.14	0.21	0.04	17.1x	16.9x	15.6x	14.5x	13.1x	-4%	-4%	-6%	-6%	8.4%	4.4%	72%	Sell	$54	-10%	Neutral	$65	7%
AVA	$41.31	3,099	1.89	2.28	2.49	2.61	2.67	1.89	2.32	2.46	2.58	2.67	–	(0.04)	0.03	–	–	21.9x	17.8x	16.8x	16.0x	15.5x	2%	3%	4%	4%	7.6%	4.5%	79%	Sell	$35	-11%	Sell	$39	-2%
NWE	$56.52	3,378	3.18	3.42	3.55	3.75	3.91	3.28	3.46	3.60	3.77	3.88	(0.10)	(0.04)	(0.05)	–	0.03	17.3x	16.3x	15.7x	15.0x	14.6x	-7%	-4%	-2%	-2%	5.1%	4.6%	75%	Sell	$46	-14%	Buy	$58	8%
POR	$47.87	4,282	2.74	2.68	3.00	3.15	3.31	2.78	2.70	3.05	3.22	3.35	(0.04)	–	(0.05)	(0.07)	(0.04)	17.2x	17.7x	15.7x	14.9x	14.3x	1%	-4%	-3%	-3%	5.0%	4.0%	69%	Buy	$54	17%	Buy	$52	13%
		14,365																**18.4x**	**17.2x**	**16.0x**	**15.1x**	**14.3x**	**-2%**	**-3%**	**-2%**	**-2%**	**6.6%**	**4.4%**	**74%**						
Mid/Large Cap Electric																																		
AEE	$83.71	21,934	4.14	4.35	4.67	5.05	5.40	4.08	4.36	4.68	5.01	5.33	0.06	–	–	0.04	0.07	20.5x	19.2x	17.9x	16.7x	15.7x	9%	9%	9%	9%	6.5%	3.1%	58%	Neutral	$89	9%	Buy	$93	14%
AEP	$90.25	46,425	5.09	5.30	5.64	6.00	6.39	5.01	5.29	5.64	5.99	6.34	0.08	–	–	–	0.05	18.0x	17.1x	16.0x	15.1x	14.2x	-3%	-2%	-2%	-2%	6.0%	3.7%	63%	Buy	$105	20%	Buy	$102	17%
CMS	$60.12	17,511	2.89	3.12	3.41	3.65	3.91	2.88	3.10	3.35	3.63	3.87	–	–	0.06	–	0.04	20.9x	19.4x	18.0x	16.6x	15.5x	10%	10%	8%	8%	8.1%	3.3%	63%	Neutral	$68	16%	Buy	$68	16%
CNP	$28.69	18,058	1.38	1.51	1.62	1.74	1.89	1.38	1.49	1.62	1.73	1.86	–	–	–	–	–	20.7x	19.3x	17.8x	16.6x	15.4x	10%	9%	8%	8%	8.2%	2.6%	49%	Neutral	$32	14%	Buy	$32	13%
D	$54.71	45,697	4.11	4.15	3.75	3.97	4.24	4.11	3.98	3.84	4.07	4.52	–	0.17	(0.09)	(0.10)	(0.28)	13.3x	13.7x	14.2x	13.4x	12.1x	-22%	-13%	-12%	-12%	1.8%	4.9%	68%	Buy	$63	20%	Neutral	$62	17%
DTE	$107.48	22,153	6.10	6.26	6.73	7.19	7.75	6.01	6.24	6.70	7.17	7.65	0.09	–	0.03	–	0.10	17.9x	17.2x	16.1x	15.0x	14.0x	-2%	-2%	-2%	-2%	6.4%	3.6%	61%	Buy	$131	25%	Buy	$129	23%
DUK	$95.09	73,219	5.27	5.65	6.05	6.35	6.75	5.30	5.63	5.99	6.34	6.72	–	–	0.06	–	0.03	17.9x	16.9x	15.9x	15.0x	14.2x	-4%	-3%	-2%	-2%	6.3%	4.4%	73%	Buy	$114	24%	Buy	$107	17%
ED	$94.01	33,378	4.57	4.82	5.18	5.40	5.71	4.55	4.87	5.21	5.47	5.79	–	(0.05)	–	(0.07)	(0.08)	20.7x	19.3x	18.0x	17.2x	16.3x	10%	10%	12%	12%	5.5%	3.5%	66%	Neutral	$86	-5%	Sell	$89	-2%
EIX	$68.30	26,129	4.63	4.70	4.94	5.36	5.70	4.58	4.74	5.14	5.51	5.83	0.05	(0.04)	(0.20)	(0.15)	(0.13)	14.9x	14.4x	13.3x	12.4x	11.7x	-18%	-19%	-19%	-19%	5.7%	4.3%	61%	Buy	$75	14%	Buy	$71	8%
ES	$75.93	26,475	4.09	4.34	4.75	5.04	5.37	4.10	4.36	4.68	4.99	5.31	–	–	0.07	0.05	0.06	18.5x	17.4x	16.2x	15.2x	14.3x	-1%	-1%	-1%	-1%	6.9%	3.6%	62%	Buy	$91	23%	Buy	$88	19%
ETR	$103.69	21,992	6.42	6.71	7.16	7.76	8.31	6.39	6.71	7.20	7.73	8.25	–	–	(0.04)	–	0.06	16.2x	15.5x	14.4x	13.4x	12.6x	-12%	-12%	-13%	-13%	6.9%	4.2%	64%	Buy	$128	28%	Buy	$120	20%
EVRG	$59.69	13,698	3.71	3.65	3.97	4.24	4.47	3.65	3.64	3.95	4.20	4.37	0.06	–	–	0.04	0.10	16.3x	16.4x	15.1x	14.2x	13.6x	-7%	-8%	-7%	-7%	5.1%	4.2%	68%	Buy	$72	25%	Neutral	$63	10%
EXC	$41.34	41,081	2.27	2.36	2.50	2.74	2.93	2.26	2.36	2.51	2.72	2.91	–	–	–	–	–	18.3x	17.5x	16.5x	15.2x	14.2x	-0%	1%	-1%	-1%	6.4%	3.6%	61%	Neutral	$45	12%	Buy	$46	14%
FE	$39.19	22,426	2.41	2.54	2.69	2.89	3.07	2.44	2.50	2.67	2.86	2.98	(0.03)	0.04	–	0.04	0.09	16.1x	15.7x	14.7x	13.7x	13.2x	-11%	-10%	-11%	-11%	6.3%	4.1%	63%	Buy	$46	21%	Buy	$44	16%
LNT	$52.06	13,074	2.80	2.90	3.08	3.27	3.50	2.80	2.89	3.15	3.28	3.47	–	–	(0.06)	–	0.03	18.6x	18.0x	16.6x	15.9x	15.0x	2%	1%	3%	3%	5.6%	3.5%	62%	Neutral	$52	3%	Neutral	$57	13%
OGE	$35.33	7,076	2.16	2.02	2.16	2.25	2.37	2.09	2.01	2.12	2.26	2.35	0.07	–	0.04	–	–	16.9x	17.6x	16.7x	15.7x	15.0x	0%	2%	2%	2%	2.8%	4.8%	83%	Neutral	$38	12%	Neutral	$39	14%
PCG	$15.99	31,796	1.10	1.22	1.37	1.47	1.61	1.10	1.22	1.35	1.47	1.59	–	–	–	–	–	14.6x	13.1x	11.9x	10.9x	10.1x	-25%	-27%	-29%	-29%	9.7%	0.8%	10%	Buy	$22	38%	Buy	$18	15%
PEG	$58.52	29,188	3.47	3.45	3.67	4.10	4.29	3.46	3.45	3.72	4.07	4.33	–	–	(0.05)	0.03	(0.04)	16.9x	17.0x	15.7x	14.4x	13.5x	-3%	-4%	-6%	-6%	5.8%	3.9%	66%	Buy	$68	20%	Buy	$66	17%
PNW	$77.89	8,815	4.26	4.05	4.60	4.80	5.05	4.31	4.11	4.71	4.88	5.15	(0.05)	(0.06)	(0.11)	(0.08)	(0.10)	18.1x	18.9x	16.5x	16.0x	15.1x	8%	1%	4%	4%	4.7%	4.5%	84%	Neutral	$77	3%	Neutral	$75	1%
PPL	$26.99	19,883	1.41	1.58	1.71	1.82	1.96	1.41	1.59	1.71	1.83	1.95	–	–	–	–	–	19.2x	16.9x	15.8x	14.8x	13.8x	-4%	-3%	-4%	-4%	8.1%	3.6%	61%	Buy	$34	30%	Buy	$32	21%
SO	$66.18	72,048	3.60	3.60	4.05	4.30	4.55	3.58	3.61	4.02	4.30	4.47	–	–	0.03	–	0.08	18.5x	18.3x	16.5x	15.4x	14.8x	4%	1%	0%	0%	5.9%	4.2%	76%	Buy	$73	15%	Neutral	$71	11%
WEC	$92.43	29,156	4.45	4.60	4.91	5.24	5.61	4.40	4.61	4.90	5.26	5.61	0.05	–	–	–	–	21.0x	20.1x	18.9x	17.6x	16.5x	14%	15%	15%	15%	6.1%	3.4%	68%	Neutral	$99	11%	Buy	$101	13%
Mid/Lg Cap (excl. EIX, PCG)																		**18.2x**	**17.6x**	**16.4x**	**15.3x**	**15.3x**					**6.0%**	**3.8%**	**66%**						
SMID + Lg Cap		**655,577**																**18.3x**	**17.5x**	**16.3x**	**15.3x**	**14.4x**					**6.1%**	**3.9%**	**67%**						

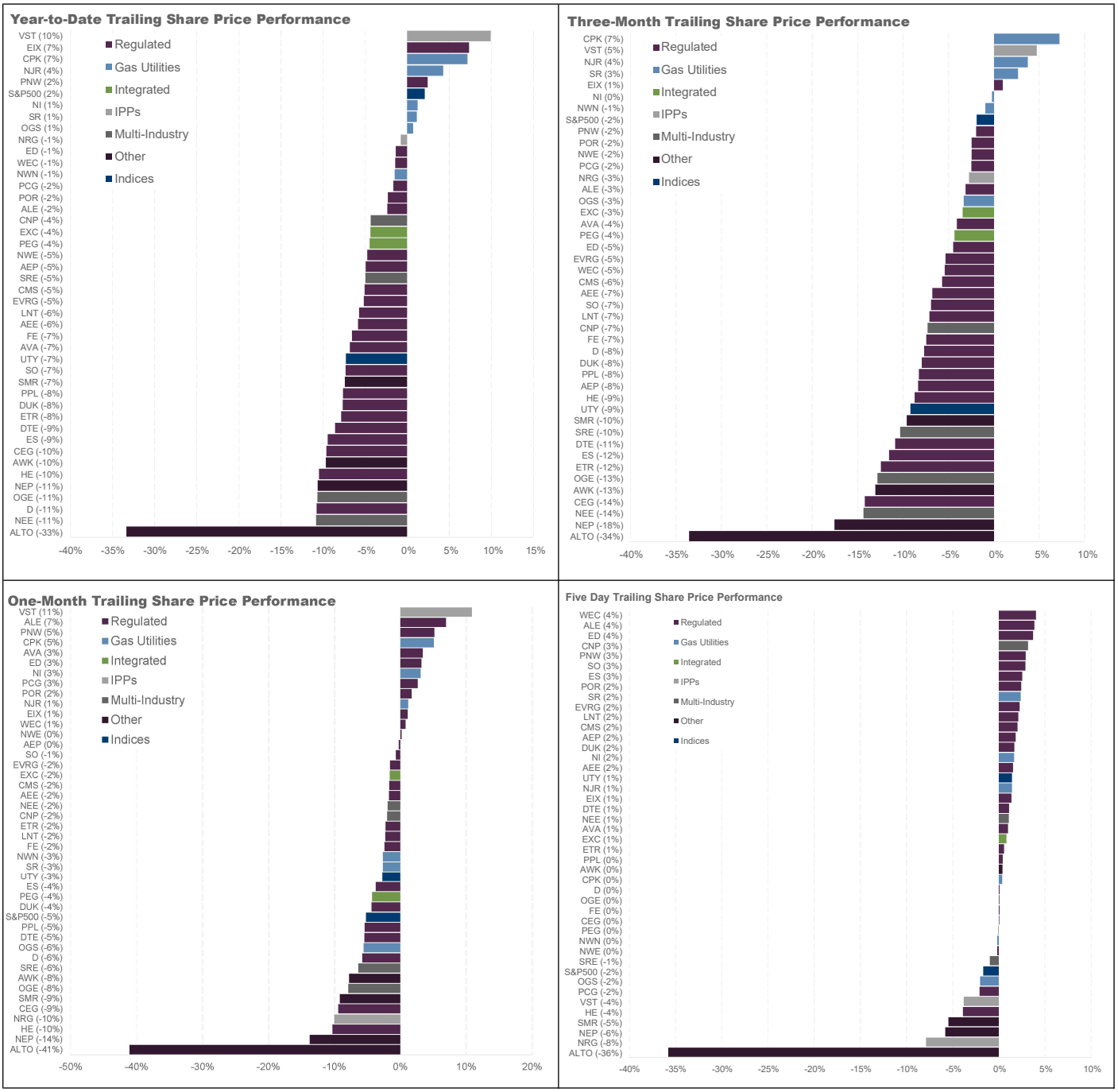
		Market	Guggenheim EPS Ests					Consensus					Δ vs Consensus (>$0.02)					Implied P/E Multiple					Prem/(Disc) vs Mid/Lg Cap Utes				'22–'27	NTM	Payout	Guggenheim		NTM Total	Consensus		NTM Total
Diversified	Price	Cap ($m)	2022E	2023E	2024E	2025E	2026E	2022E	2023E	2024E	2025E	2026E	2022E	2023E	2024E	2025E	2026E	2022E	2023E	2024E	2025E	2026E	2023E	2024E	2025E	2026E	EPS	Yield	Ratio	Rating	Target	Return	Rating	Target	Return
HE	$37.47	4,102	2.20	2.32	2.50	2.63	2.76	2.18	2.28	2.46	2.59	2.75	–	0.04	0.04	0.04	–	17.2x	16.4x	15.2x	14.5x	13.6x	-7%	-7%	-6%	-6%	6%	3.9%	62%	Neutral	$42	16%	Sell	$39	9%
NEE	$74.55	148,168	2.90	3.13	3.43	3.69	3.99	2.88	3.11	3.39	3.68	4.03	–	–	0.04	–	(0.04)	25.9x	24.0x	22.0x	20.3x	18.5x	37%	34%	32%	32%	8%	2.6%	60%	Buy	$96	31%	Buy	$93	27%
SRE	$146.85	46,195	9.21	9.00	9.50	10.13	10.80	8.86	9.00	9.62	10.18	10.76	0.35	–	(0.12)	(0.05)	0.04	16.6x	16.3x	15.3x	14.4x	13.6x	-7%	-7%	-6%	-6%	5%	3.4%	54%	Buy	$174	22%	Buy	$170	19%
		198,464																**19.9x**	**18.9x**	**17.5x**	**16.4x**	**15.3x**	**8%**	**7%**	**7%**	**7%**	**6.2%**	**3.3%**	**59%**						
Gas LDCs																																		
NI	$27.76	11,451	1.47	1.57	1.68	1.82	1.95	1.45	1.56	1.68	1.81	1.95	–	–	–	–	–	19.1x	17.8x	16.6x	15.3x	14.3x	2%	2%	0%	0%	7%	3.7%	64%	Buy	$31	15%	Buy	$31	15%
CPK	$126.63	2,247	5.05	5.42	5.84	6.23	6.59	4.95	5.41	5.82	6.24	6.59	0.10	–	–	–	–	25.6x	23.4x	21.8x	20.3x	19.2x	34%	34%	33%	33%	7%	1.8%	42%	Neutral	$116	-7%	Buy	$135	9%
NJR	$51.74	5,013	2.50	2.67	2.65	2.85	3.05	2.45	2.68	2.75	2.93	3.15	0.05	–	(0.10)	(0.08)	(0.10)	21.1x	19.3x	18.8x	17.6x	16.4x	10%	15%	15%	15%	6%	3.1%	59%	Neutral	$46	-8%	Neutral	$51	2%
NWN	$46.88	1,645	2.54	2.65	2.83	2.98	3.09	2.55	2.67	2.78	2.99	3.05	–	–	0.05	–	0.04	18.4x	17.6x	16.9x	15.7x	15.4x	0%	3%	2%	2%	5%	4.2%	73%	Neutral	$45	0%	Buy	$54	20%
OGS	$76.25	4,376	4.08	4.14	4.24	4.53	4.98	4.07	4.13	4.30	4.59	4.98	–	–	(0.06)	(0.06)	–	18.7x	18.4x	17.7x	16.6x	15.3x	5%	9%	9%	9%	5%	3.4%	63%	Neutral	$77	4%	Neutral	$80	8%
SR	$69.65	3,660	3.86	4.25	4.31	4.57	4.73	3.89	4.26	4.33	4.60	4.81	–	–	–	(0.03)	(0.08)	17.9x	16.4x	16.1x	15.1x	14.5x	-6%	-1%	-1%	-1%	5%	4.2%	69%	Neutral	$69	3%	Neutral	$72	8%
		28,392																**20.1x**	**18.8x**	**18.0x**	**16.8x**	**15.8x**	**8%**	**10%**	**10%**	**10%**	**5.8%**	**3.4%**	**62%**						
Regulated Water																																		
AWK	$137.67	26,793	4.51	4.76	5.14	5.59	5.98	4.47	4.78	5.14	5.59	6.04	0.04	–	–	–	(0.05)	30.8x	28.8x	26.8x	24.6x	22.8x	64%	64%	61%	61%	7%	2.1%	60%	Neutral	$152	12%	Neutral	$158	17%

		Market	Guggenheim EBITDA Ests					Consensus					Δ vs Consensus (>$20m)					Implied EV/EBITDA Multiple					Enterprise Value				'22–'25	NTM	Payout	Guggenheim		NTM Total	Consensus		NTM Total
IPPs	Price	Cap ($m)	2022E	2023E	2024E	2025E	2026E	2022E	2023E	2024E	2025E	2026E	2022E	2023E	2024E	2025E	2026E	2022E	2023E	2024E	2025E	2026E	2023E	2024E	2025E	2026E	Growth	Yield	Ratio	Rating	Target	Return	Rating	Target	Return
CEG	$77.93	25,457	2,667	3,100	3,254	3,333	3,455	2,578	3,066	3,455	3,590	3,362	89	34	(201)	(257)	93	11.7x	9.4x	7.9x	7.2x	–	28,871	27,441	25,984	24,477	7.7%	1.5%	28%	Buy	$110	43%	Buy	$97	26%
NRG	$31.58	7,256	1,754	3,084	3,136	3,140	n/a	1,783	2,797	2,912	3,024	2,733	(29)	287	224	116	–	7.3x	6.0x	5.3x	4.6x	–	16,820	15,551	14,028	–	21.4%	4.9%	26%	Neutral	$34	13%	Neutral	$38	24%
VST	$25.50	9,727	3,115	3,725	3,784	3,716	3,465	3,074	3,592	3,854	3,850	3,865	41	133	(70)	(134)	(399)	7.0x	6.1x	5.6x	5.4x	–	21,994	21,468	20,607	19,938	6.1%	3.2%	27%	Buy	$31	25%	Buy	$32	27%
Other																																		
ALTO	$1.92	144	13	24	40	46	42	16	27	47	262	316	–	–	–	(216)	(275)										54.8%	–	–	Buy	$9	369%	Buy	$7	265%
NEP	$62.64	5,423	1,796	1,837	1,977	2,143	2,325	1,728	1,910	2,047	2,031	1,983	68	(73)	(70)	112	342										6.1%	5.7%	–	Buy	$95	57%	Buy	$87	45%
SMR	$9.50	493	(188)	(100)	(57)	8	96	(133)	(74)	(49)	9	85	(55)	(26)	–	–	–											–	–	Buy	$18	89%	Buy	$16	72%

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) Re ulated utilte del er ert end-u e u t er a re ulated tran n d tr ut n (T D) n ra tru ture ert ally nte rated utlte t re ulated r tly ntra ted enerat n are al n luded.

(2) L al Ga D tr ut n C ane (LDC), a ella d er ed utlte t a u ne xlar ely r ed a n ra tru ture and related a t te (.e., LDC ran e , nter tate elne , and/ r t er a d trea a t te).

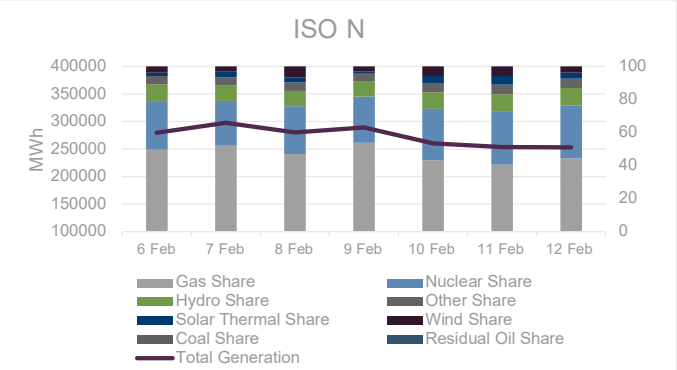
(3) Inte rated utlte n and erate re ulated T D ran e , a ella un-re ulated er enerat n t dty ex ure.

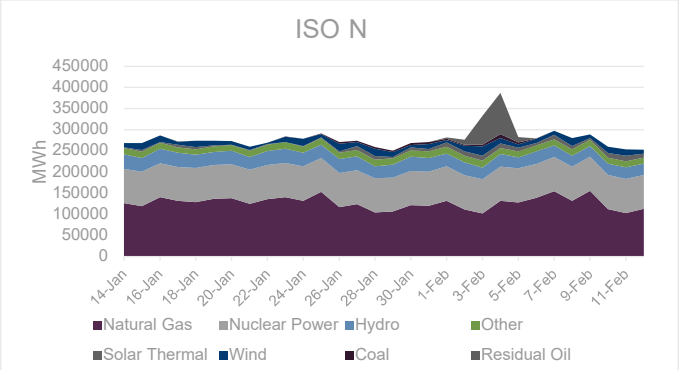
(4) IPP erate er ant (.e., un-re ulated, n n-utlty) er lant t at etet ell er n le ale ar et rt r u retal ar etn u ne e .

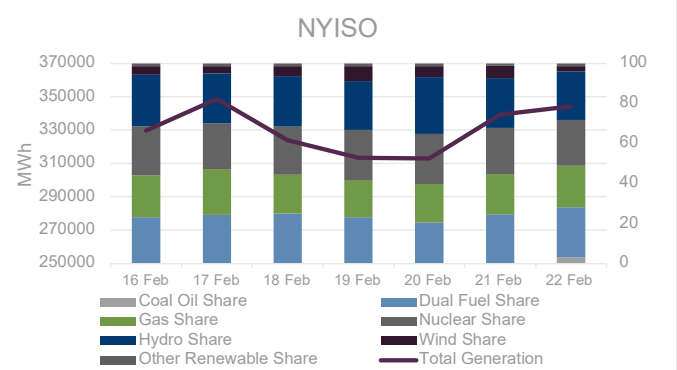
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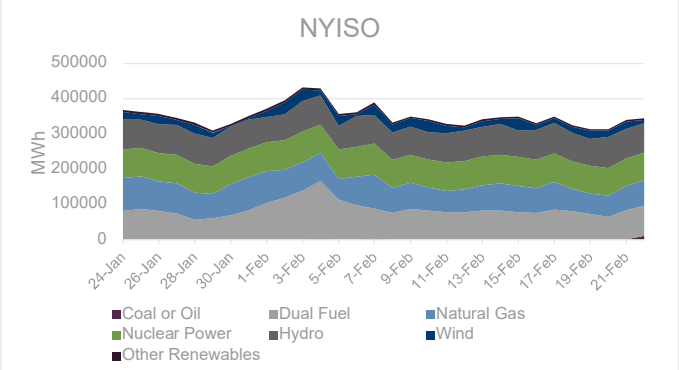
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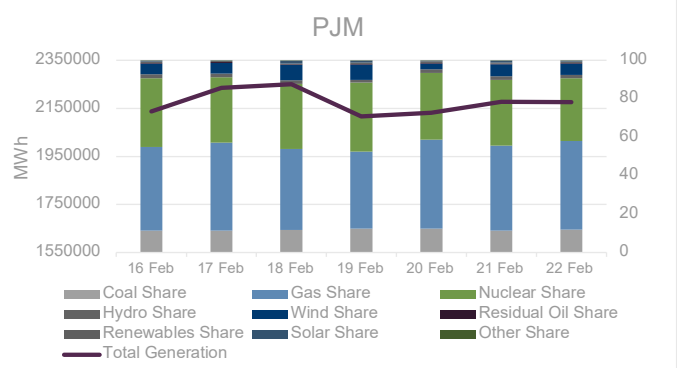
Generation and Mix

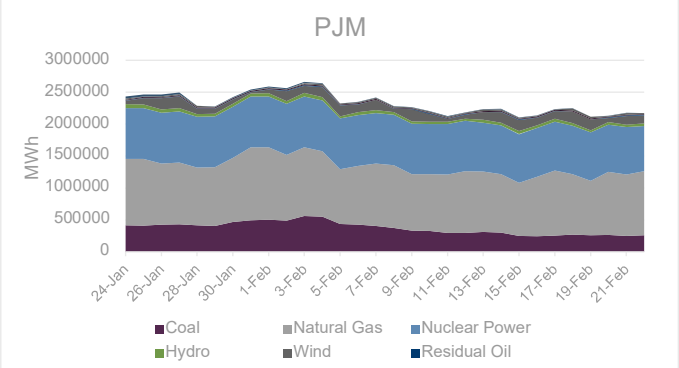


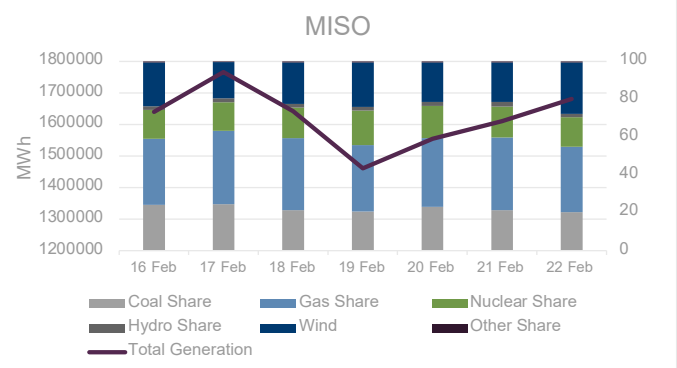


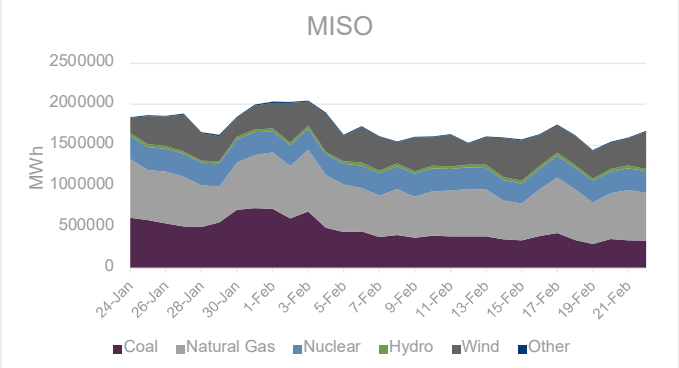








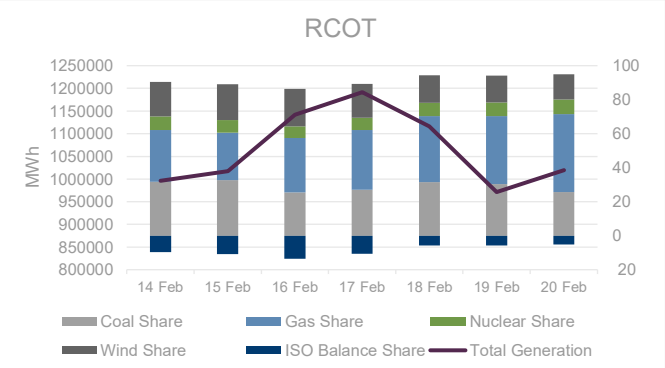


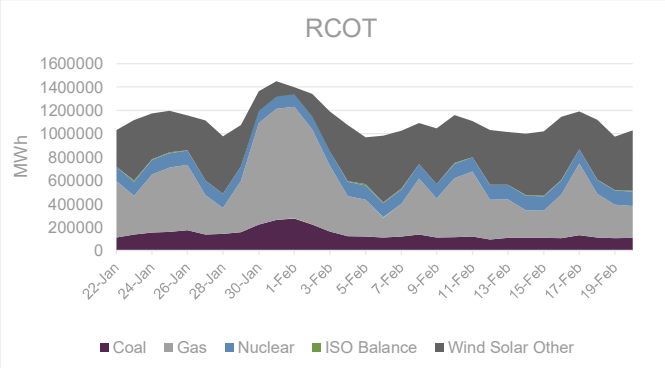


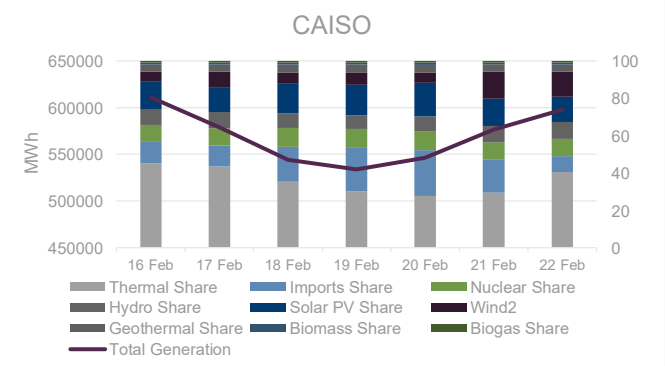
Source: S&P Global Platts, Guggenheim Securities, LLC.

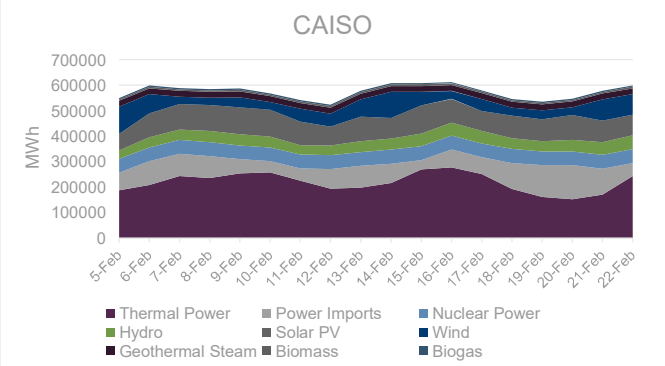
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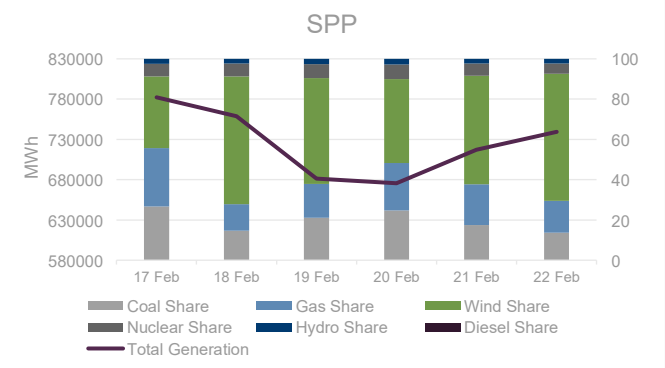
Generation and Mix (continued)

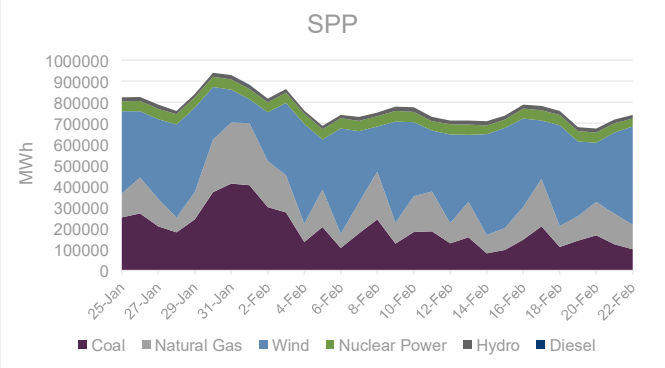








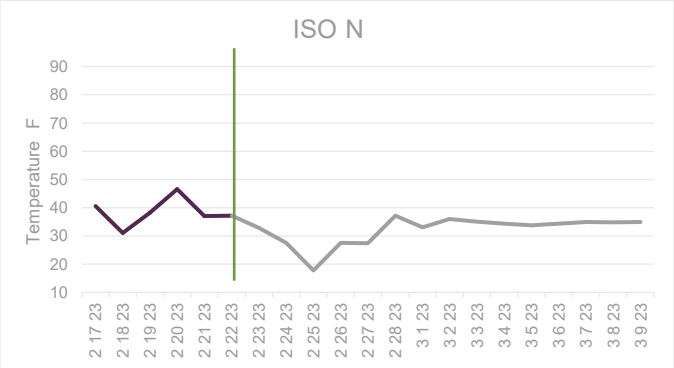


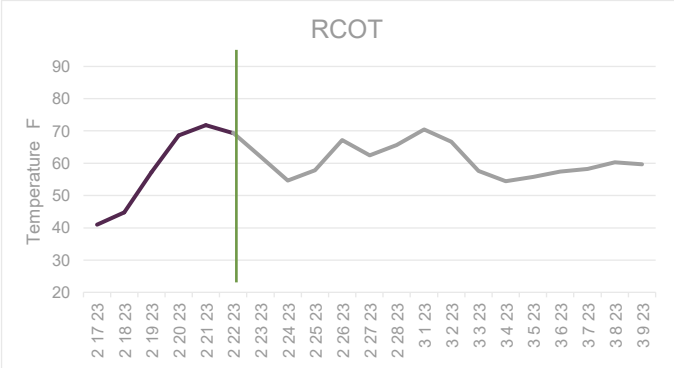


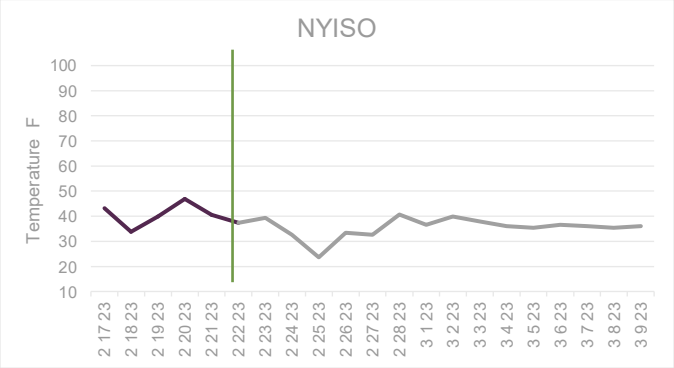
Source: S&P Global Platts, Guggenheim Securities, LLC.

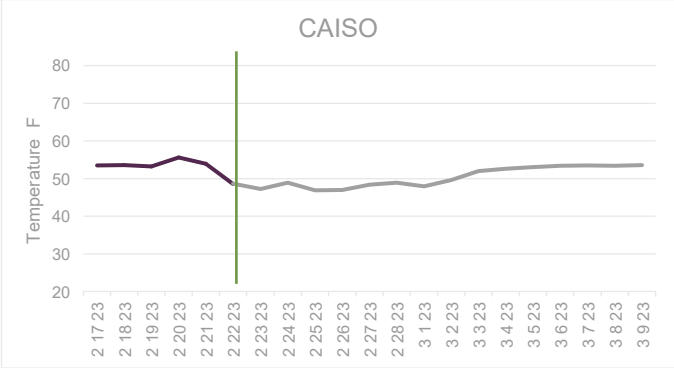
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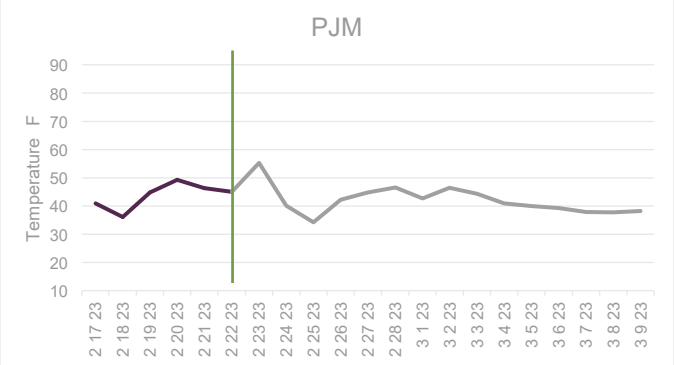
Weather

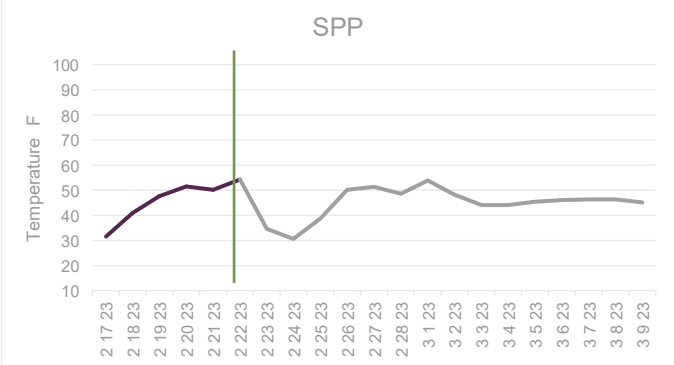










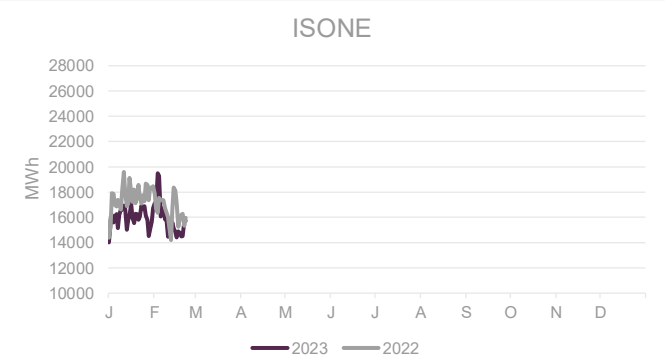


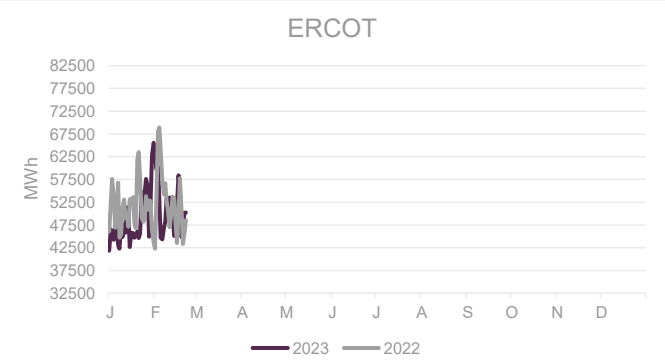


Source: S&P Global Platts, Guggenheim Securities, LLC.

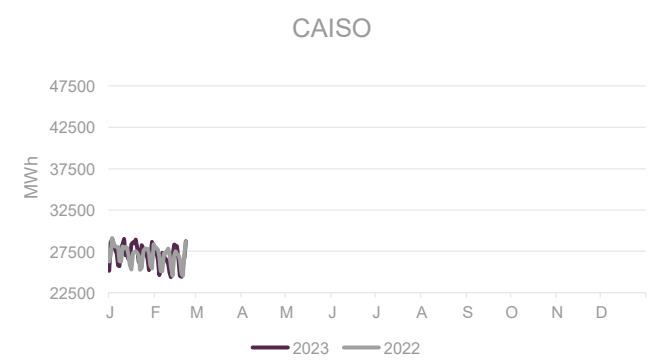
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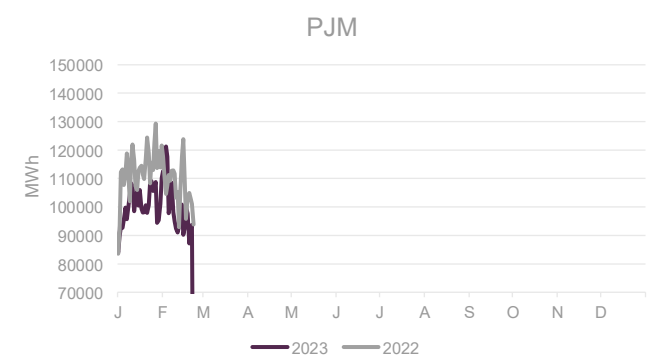
YTD Peak Load

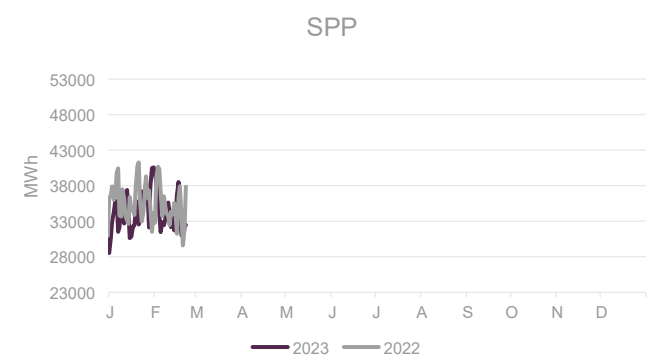


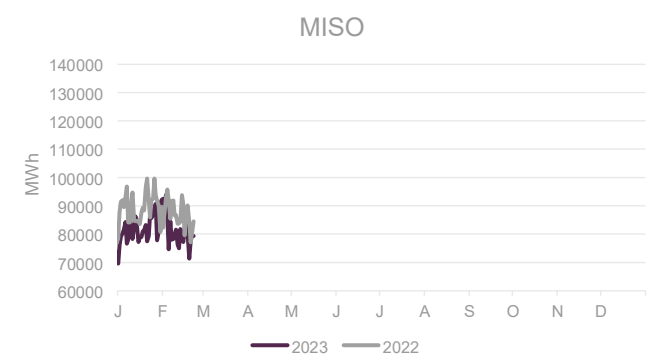












Source S P Global Platts Guggenheim Securities LLC.

Average Deviation in Peak Load vs Prior Year

RTO/ISO	Q	Q	Q	Q	Q
ISONE	1 5%	-1 2%	5 1%	-0 9%	-6 9%
NYISO	2 1%	-0 1%	3 5%	-0 7%	-7 4%
PJM	3 9%	3 8%	0 2%	2 1%	-9 2%
MISO	4 0%	5 0%	0 1%	0 7%	-7 4%
CAISO	1 6%	1 2%	4 0%	0 3%	0 2%
ERCOT	13 7%	19 1%	7 9%	7 4%	-2 9%
SPP	5 9%	9 7%	5 0%	7 1%	-3 0%

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Regulatory Calendar

Power and Utilities Coverage Calendar / / - / /

Date	State	Ticker	Utility/Event	Docket	Description
1 1 2023 1 31 2023	IL	A	Ameren Illinois		lectric rate filing e pected
1 1 2023 3 31 2023	IL	A	Ameren Illinois		Gas rate case filing e pected
1 1 2023 1 31 2023	IL	C	Commonwealth dison Co.		lectric rate filing e pected
1 1 2023 1 31 2023	IN	CNP	Indiana Gas Co.	Ca 45611 TDSIC 1	Decision possible in TDSIC proceeding
1 1 2023 1 31 2023	IN	NI	Northern IN Public Svc Co.	Ca 45557 TDSIC 2	Decision possible in TDSIC proceeding
1 1 2023 3 31 2023	NC	D K	Duke nergy Carolinas LLC		Multi year general rate case to be filed
1 1 2023 1 31 2023	OH	NI	Columbia Gas Ohio Inc.	C 21 0637 GA AIR	Decision possible in rate proceeding
1 1 2023 1 31 2023	VA	NI	Columbia Gas of Virginia Inc	C P R 2022 00036	Hearning aminer s report may be issued in rate case
1 1 2023 1 31 2023	WV	A P	Appalachian Power Co.	C 22 0393 N C	Decision possible in N C proceeding
1 9 2023	SC	D K	Duke nergy Progress LLC	D 2022 254	videntiary hearings begin
1 10 2023	MO	A	nion lectric Co.	C R 2022 0337	Staff and intervenor testimony regarding revenue re uirement due in rate proceeding
1 10 2023	T	TR	ntergy Te as Inc.	D 53719	Settlement status report due in rate case
1 10 2023 1 11 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00090 Rider W	Hearings slated in Rider W update proceeding
1 11 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00121 Rider S4	Staff to file testimony in Rider S 4 proceeding
1 13 2023 1 27 2023	T	TR	ntergy Te as Inc.	D 53719	Briefs to be filed in rate case suspended due to settlement talks
1 18 2023 1 19 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00089 Rider	Hearings scheduled in Rider proceeding
1 20 2023	IN	NI	Northern IN Public Svc Co.	Ca 45772	O CC and intervenor testimony due in rate proceeding
1 20 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00120 Rider S3	Staff to file testimony in Rider S 3 proceeding
1 24 2023	MO	A	nion lectric Co.	C R 2022 0337	Staff and intervenor testimony regarding rate design due in rate proceeding
1 24 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00140 Rider GT	Intervening parties to file testimony in Rider GT update proceeding
1 25 2023 2 15 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00090 Rider W	Hearing aminers report may be issued in Rider W update proceeding
1 30 2023 1 31 2023	VA	D	Virginia lectric Power Co.	P R 2022 00124 Rider C	Hearing scheduled in Rider C update proceeding
2 1 2023 2 28 2023	MO	VRG	vergy Missouri West	C R 2023 0185	lectric rate case filing e pected
2 1 2023 2 15 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00089 Rider	Hearing aminer report may be issued in Rider proceeding
2 3 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00164 Rder S 2	Intervening parties to file testimony in Rider S 2 update proceeding
2 7 2023 2 8 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00121 Rider S4	Hearings scheduled in Rider S 4 proceeding
2 15 2023	MO	A	nion lectric Co.	C R 2022 0337	Rebuttal testimony due in rate proceeding
2 16 2023	IN	NI	Northern IN Public Svc Co.	Ca 45772	Company rebuttal testimony due in rate proceeding
2 17 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00162 Rider SNA	Intervening parties to file testimony in Rider SNA adjustment proceeding
2 17 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00164 Rder S 2	Staff to file testimony in Rider S 2 proceeding
2 21 2023 3 20 2023	NC	D K	Duke nergy Progress LLC	D 2 Sub 1300	Hearings scheduled in electric rate case
2 21 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00140 Rider GT	Staff to file testimony in Rider GT update proceeding
2 22 2023 2 23 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00120 Rider S3	Hearings scheduled in Rider S 3 proceeding
2 24 2023	CA	PCG	Pacific Gas and lectric Co.	A 21 06 021 Track 2	Briefs due in Track 2 proceeding
2 27 2023	IN	NI	Northern IN Public Svc Co.	Ca 45772	Deadline for settlement to be filed in rate proceeding
2 28 2023	MI	CMS	Consumers nergy Co.	C 21224	Decision e pected in rate case by
2 28 2023	VA	NI	Columbia Gas of Virginia Inc	C P R 2022 00036	Decision may be issued in rate case
2 28 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00088 Rider B	Decision may be issued in Rider B proceeding
2 28 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00089 Rider	Decision e pected in Rider update proceeding
2 28 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00090 Rider W	Decision e pected in Rider W update proceeding
2 28 2023	VA	D	Virginia lectric Power Co.	P R 2022 00124 Rider C	Hearing aminer s report may be issued in Rider C proceeding
3 1 2023	SC	D K	Duke nergy Progress LLC	D 2022 254	Final order due in rate case
3 1 2023 3 31 2023	T	TR	ntergy Te as Inc.	D 53719	ALJ recommended decision may be issued in rate case suspended due to settlement talks
3 1 2023 3 15 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00120 Rider S3	Hearing aminers report may be issued in Rider S 3 proceeding
3 1 2023 3 15 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00121 Rider S4	Hearing aminers report may be issued in Rider S 4 proceeding
3 1 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00164 Rder S 2	Rebuttal testimony due in Rider S 2 proceeding
3 6 2023	MO	A	nion lectric Co.	C R 2022 0337	Settlement conference to begin in rate proceeding
3 10 2023	KY	D K	Duke nergy Kentucky Inc.	C 2022 00372	Intervenor testimony due in rate proceeding
3 13 2023	IN	NI	Northern IN Public Svc Co.	Ca 45772	Hearing to begin in rate proceeding
3 14 2023 3 15 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00164 Rder S 2	Hearings scheduled in Rider S 2 proceeding
3 17 2023	CA	SR	San Diego Gas lectric Co.	A 22 05 016 lec	Intervenor testimony due
3 17 2023	CA	SR	San Diego Gas lectric Co.	A 22 05 016 Gas	Intervenor testimony due
3 21 2023 3 22 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00140 Rider GT	Hearings scheduled in Rider GT update proceeding
3 21 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00162 Rider SNA	Staff to file testimony in Rider SNA adjustment proceeding
3 24 2023	CA	PCG	Pacific Gas and lectric Co.	A 21 06 021 Track 2	Reply briefs due in Track 2 proceeding
3 24 2023	VA	SO	Virginia Natural Gas Inc.	C P R 2022 00052	Intervening parties to file testimony in rate case
3 27 2023	NC	D K	Duke nergy Progress LLC	D 2 Sub 1300	Public Staff intervenor testimony due by
3 31 2023	T	SR	Oncor lectric Delivery Co.	D 53601	Decision may be issued in rate case
3 31 2023	VA	D	Virginia lectric Power Co.	C O R 2022 00187 Rider OSW	Intervening parties to file testimony in Rider OSW update proceeding
3 31 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00120 Rider S3	Decision e pected in Rider S 3 proceeding
3 31 2023	VA	D	Virginia lectric Power Co.	C P R 2022 00121 Rider S4	Decision e pected in Rider S 4 proceeding
3 31 2023	VA	D	Virginia lectric Power Co.	P R 2022 00124 Rider C	Decision e pected in Rider C update proceeding

S urce S&P Gl al Mar et Intelligence C any Filings Guggenhei Securities LLC

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Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- FE – The Same Board Who Set The Current Strategic Plan Is Also Picking The CEO… Follow-Up Thoughts Post Our Mgmt. Call
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D NDR – January Bounce? A Game of Chess, Not Checkers… Information Vacuum Persists, But that Gap Is Narrowing; Momentum Builds Quickly in New Year
- 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

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- 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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ANALYST CERTIFICATION

By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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Please refer to this website for company-specific disclosures referenced in this report: https://guggenheimsecurities.bluematrix.com/sellside/Disclosures.action. Disclosure information is also available from Compliance, 330 Madison Avenue, New York, NY 10017.

Rating and Price Target History for: Ameren Corporation (AEE) as of 03-14-2023



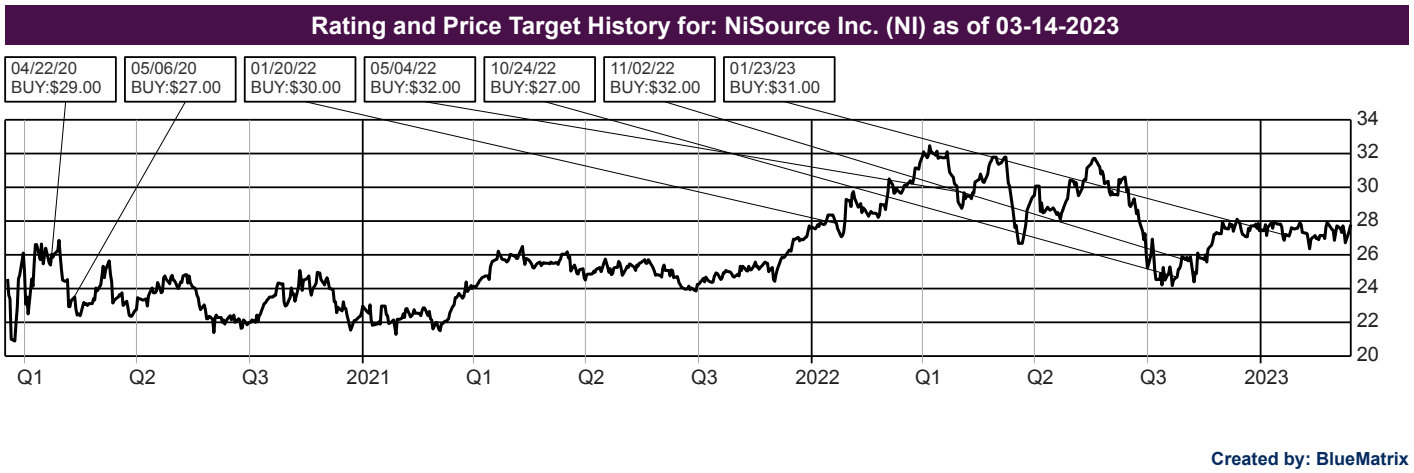
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Rating and Price Target History for: Hawaiian Electric Industries, Inc. (HE) as of 03-14-2023



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RATINGS EXPLANATION AND GUIDELINES

BUY (B) - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 10% or more within a 12-month period.

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

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

CS - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

NC - Not covered. Guggenheim Securities, LLC does not cover this company.

Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

Under Review (UR) - Following the release of significant news from this company, the rating has been temporarily placed under review until sufficient information has been obtained and assessed by the analyst.

Guggenheim Securities, LLC methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Price targets are assigned for Buy- and Sell-rated stocks. Price targets for Neutral-rated stocks are provided at the discretion of the analyst.

Equity Valuation and Risks: For valuation methodology and risks associated with covered companies or price targets for covered companies, please see the most recent company-specific research report at https://guggenheimlibrary.bluematrix.com/client/library.jsp, contact the primary analyst or your Guggenheim Securities, LLC representative, or email GSResearchDisclosures@guggenheimpartners.com.

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			IB Serv./ Past 12Mos.	
Rating Category	**Count**	**Percent**	**Count**	**Percent**
BUY	236	65.01%	45	19.07%
NEUTRAL	118	32.51%	11	9.32%
SELL	9	2.48%	0	0.00%

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From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: NEE, TX, PJM, WEC/Hydrogen, DUK, NI, CMS - Guggenheim Securities, LLC
Date: Friday, March 24, 2023 8:46:02 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.

The Guggenheim Daily Transmission: NEE, TX, PJM, WEC/Hydrogen, DUK, NI, CMS

Power & Utilities March 24, 2023

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Guggenheim Utilities Research Team

Access This Report

For our AGA conference (May 20-23) meeting schedule, please scroll down…

For details on our Guggenheim-hosted client Utility events including our PPL NDR, EXC NDR, ETR NDR, PNW NDR, DTE NDR, PCG NDR, SMR NDR, ES NDR, LNT NDR, AWK NDR, CMS NDR, POR NDR, and other events, scroll down…

NEE NDR: Management Continues to Chop Through IRA Upside Opportunities but Baseline Remains Conservative; Headline Hurdles Require Time (see our note HERE)

TX – Texas Senate Bill on transmission certificate of necessity approval process is scheduled for public hearing

PJM – PJM updates cost of new entry calculations

WEC/Hydrogen – Emissions reduced at MI gas plant using hydrogen mix in fuel

DUK – Hearing scheduled in Kentucky rate case

NI – Limited rehearing granted in Columbia Gas rate case

CMS – MI appeals court denies rehearing appeal of CMS IRP

TX – Texas Senate Bill on transmission certificate of necessity approval process is scheduled for public hearing

- TX SB 1076 was set for public hearing on March 28, 2023.
- The bill addresses timelines for CPCN approvals on transmission projects.

Guggenheim takeaway:*FYI. Texas legislative session starting to pick up as we are watching multiple utility related bills including on the electric side where there is a capital structure bill proposed (HB 3042). The bill proposes a 180-day timeframe for CPCN approval of transmission projects for requests made after the bill is enacted, which would shorten the time for Texas utilities to gain CPCN approval incl. CNP, SRE, ETR, AEP.*

PJM – PJM updates cost of new entry calculations

- PJM has updated the cost of new entry and avoided cost calculations (CONE) for the 2026/2027 delivery year.
- CONE helps set pricing curves for PJM capacity auction.
- The review is on a 4-year cycle and FERC still has to approve those changes.
- Major changes include:
  - Nuclear power up to $2,568/MW-day.
  - Combined-cycle gas up to $540/MW-day,
  - Combustion turbines up to $427/MW-day.
  - Energy storage decreased to $502/MW-day.

Guggenheim takeaway:*FYI and a pricing datapoint.*

WEC/Hydrogen ─ Emissions reduced at MI gas plant using hydrogen mix in fuel

- The test results, announced yesterday, occurred in October 2022 and were conducted at the 55 MW UMERC-operated AJ Mihm power plant.
- Emissions were reduced by 9% at the plant by using a 25% hydrogen blend.
- More HERE

Guggenheim takeaway: *WEC continues to prioritize carbon-reduction strategies, including the use of hydrogen blends in generation fuel mixes. We continue to monitor the hydrogen market in general given material growth prospects for our space. For some visibility on hydrogen, see our NEE NDR note (link above) as hydrogen opportunities and IRS guidance visibility on the topic was a key inquiry among investors throughout our 3-day roadshow.*

DUK ─ Hearing scheduled in Kentucky rate case

- A hearing in this matter will be held on May 9, 2023, through May 12, 2023, at 9 a.m. EDT.
- Witnesses who sponsor schedules, testimony, or responses to requests for information shall participate in person at the hearing.
- Docket 2022-00372

Guggenheim takeaway: *For your calendar. We continue to model a 9.6% ROE and 50% equity layer.*

NI ─ Limited rehearing granted in Columbia Gas rate case

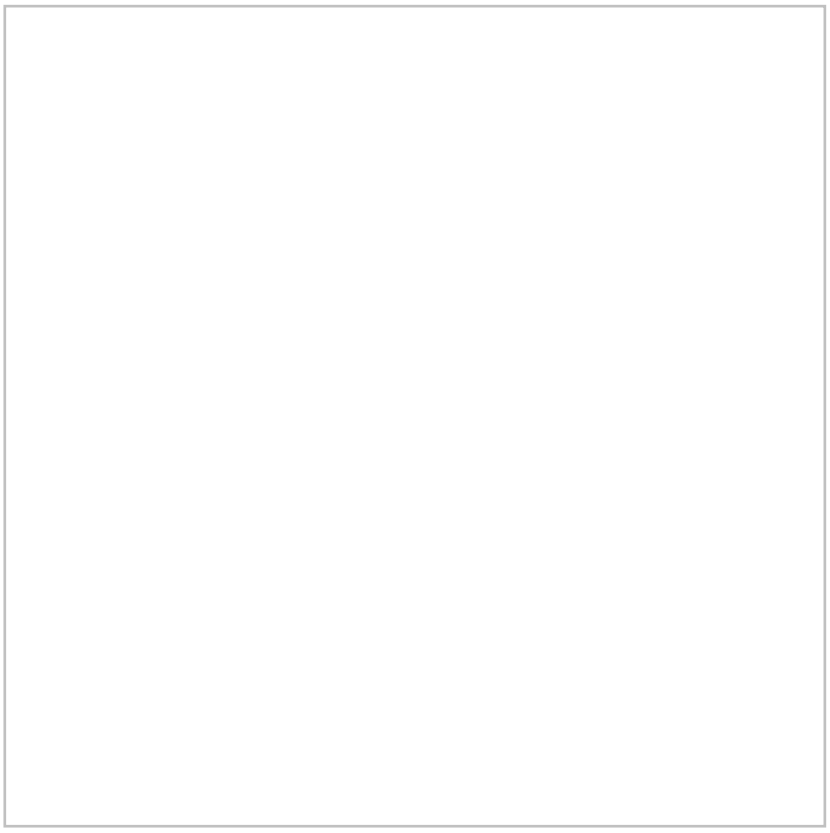
- January 26, 2023: the Commission issued its Opinion and Order in this proceeding, **approving the Stipulation**.
- February 27, 2023: OPAE, ELPC, and CUB each filed an application for rehearing. OPAE filed a corrected application for rehearing later that same day. ELPC filed a corrected application for rehearing on February 28, 2023.
- March 9, 2023: **Columbia Gas *and* OCC** filed memoranda *against the applications for rehearing* filed by OPAE, ELPC and CUB.
- Docket 21-0637-GA-AIR

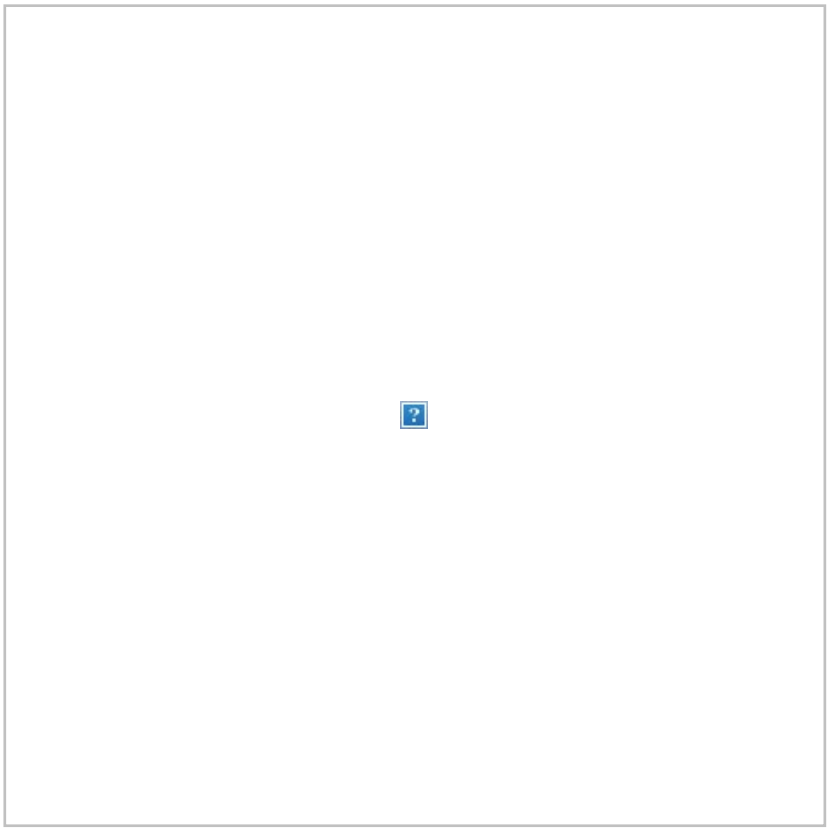
Guggenheim takeaway: *For your awareness. We continue to model the $68.2m rate increase authorized, with a 9.6% ROE and 50.6% equity layer.*

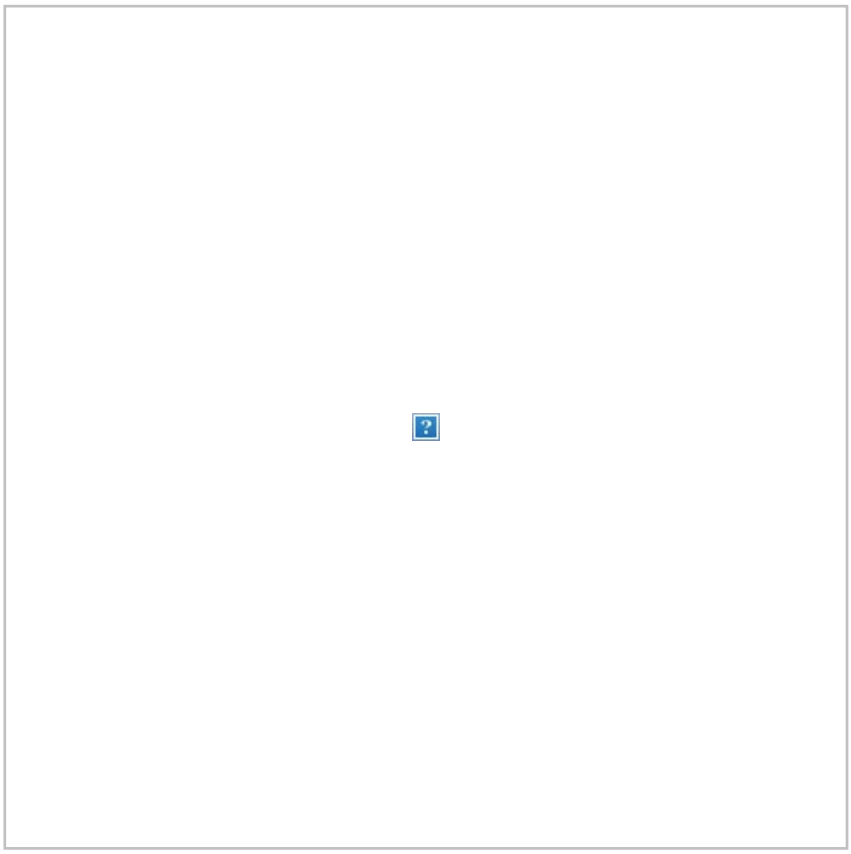
CMS – MI appeals court denies rehearing appeal of CMS IRP

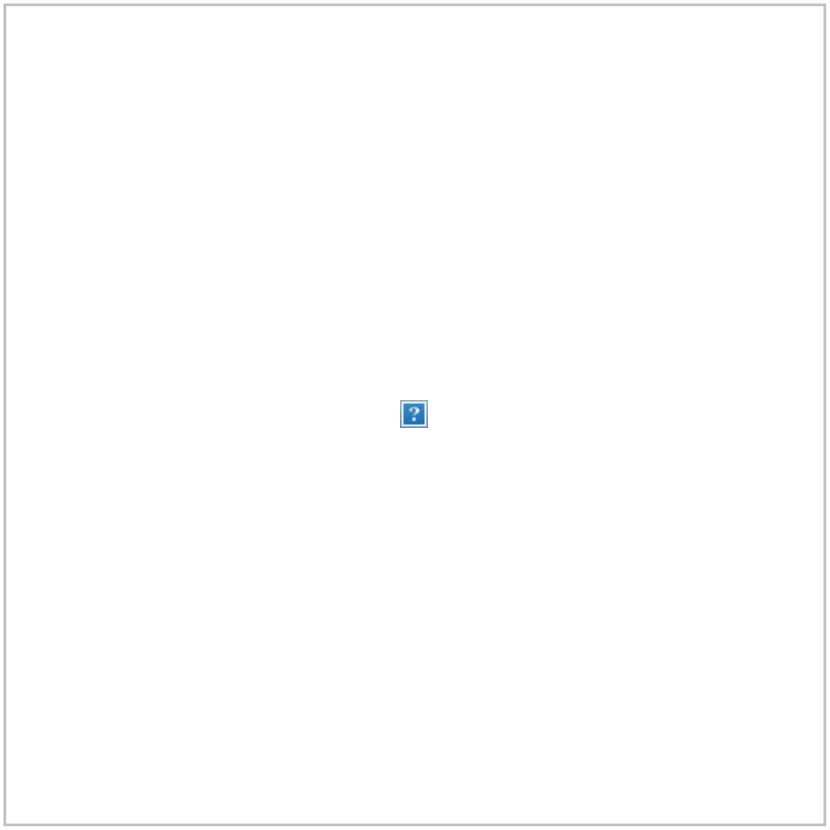
- The MI appeals court denied a stakeholder appeal for rehearing of the CMS IRP.
- The complaint was opposed to shutting down coal but didn't prove there was an unjust MPSC decision in approving settlement.
- The IRP settlement was a strong multiparty agreement. Key points from the IRP are:
    - A full exit of coal and ~60% carbon emissions reduction by 2025. CMS will collect the unrecovered book value of Campbell 1-3 through the design life (2031 for Campbell 1&2 and 2039 for Campbell 3). CMS will earn a return of 9.0% ROE on these retired assets.
    - Acquisition of the natural gas Covert plant for $815M in May of 2023.
    - An RFP for PPAs for up to 700 MW of Michigan-based capacity starting in 2025 (CMS Enterprises can participate in the RFP).
    - An FCM equal to CMS's after-tax WACC on new PPAs.
- Docket: U-21090

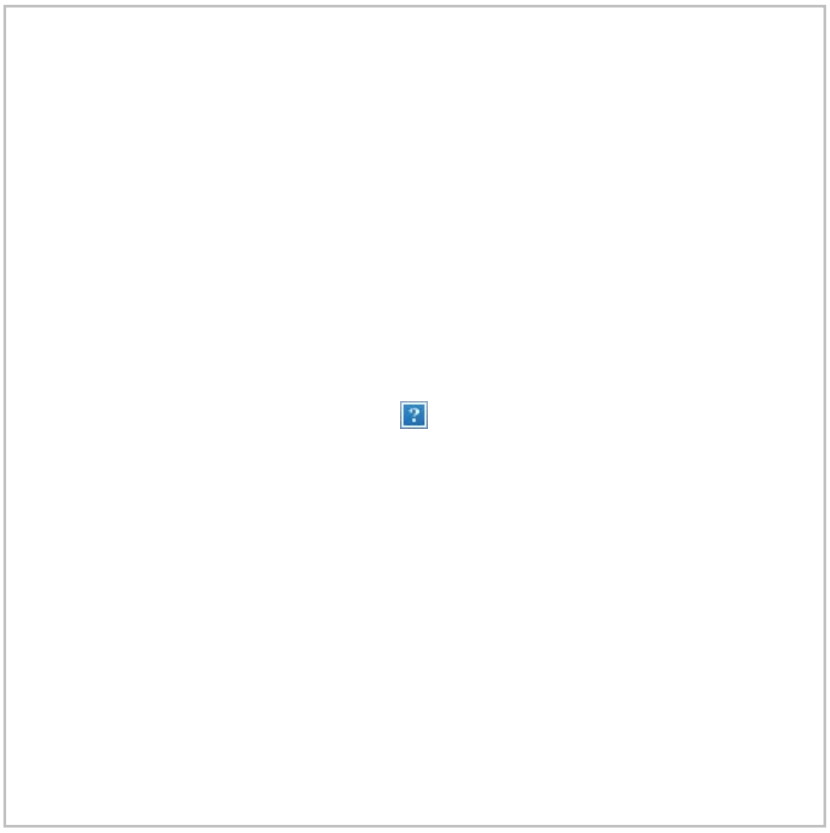
Guggenheim takeaway: *FYI and not a surprise. CMS has one of the more aggressive coal retirement stories within our coverage.*

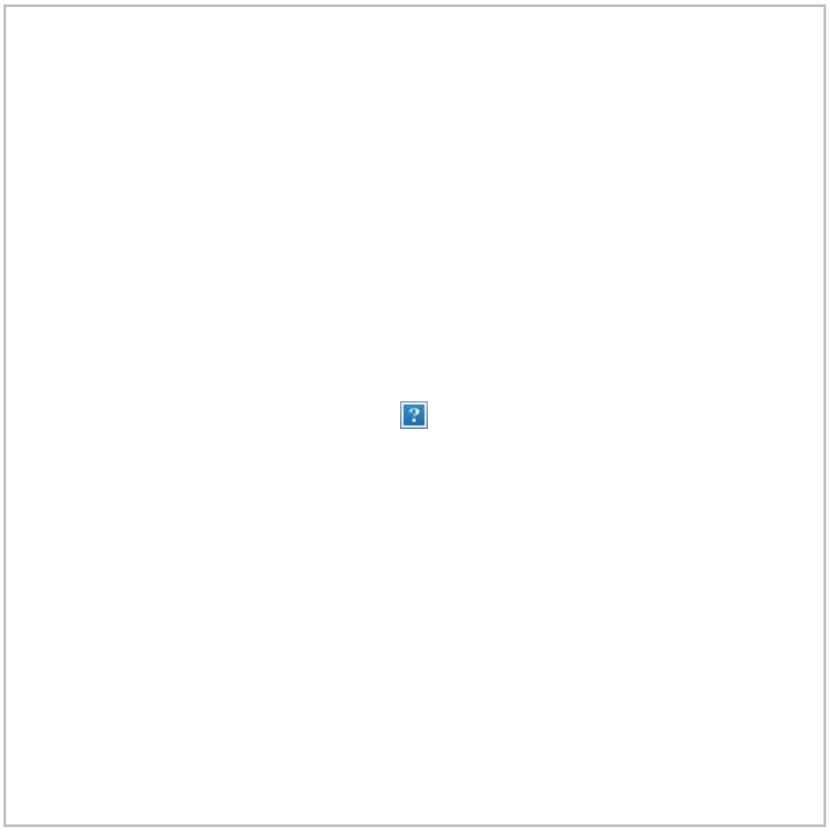




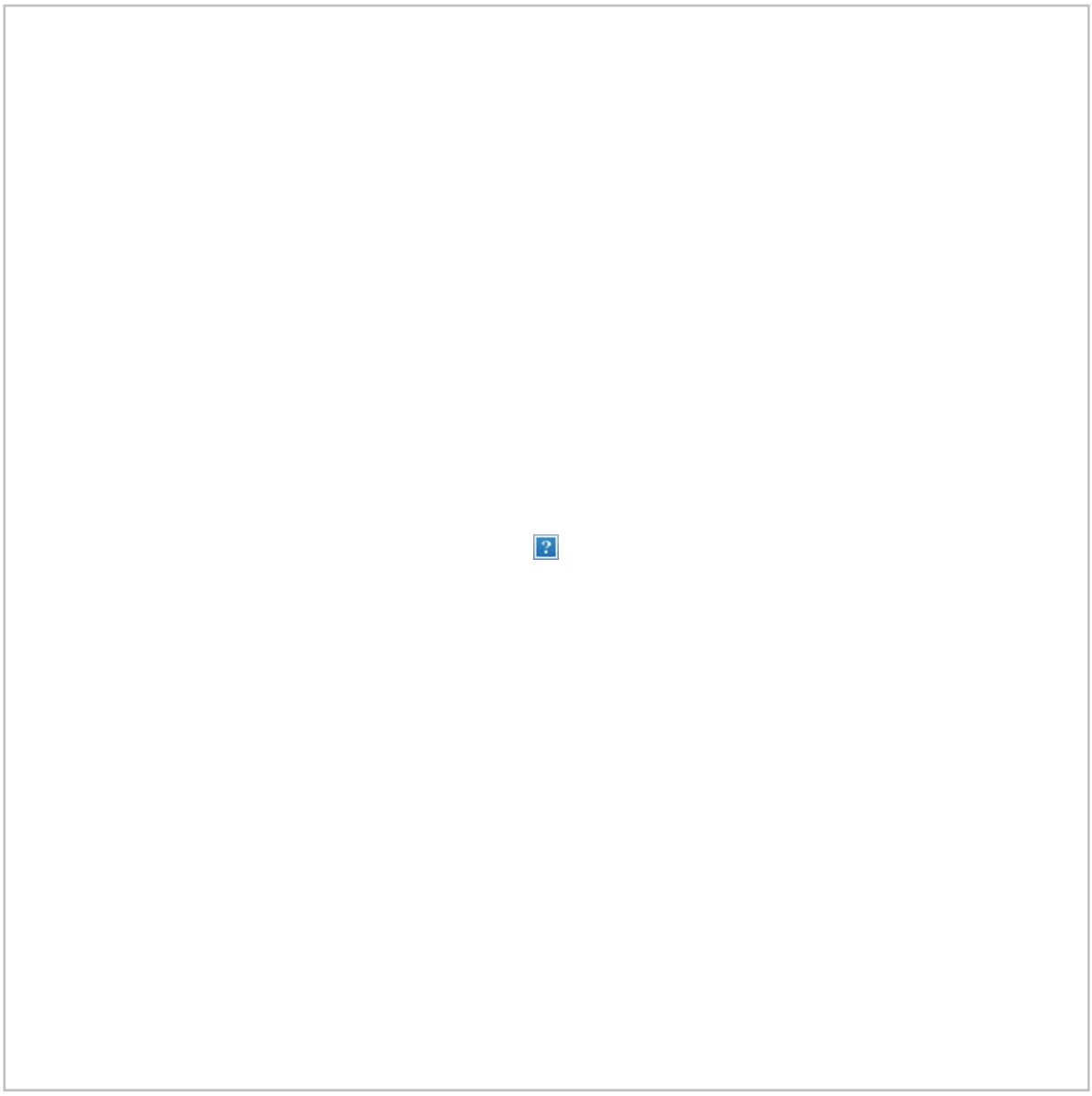




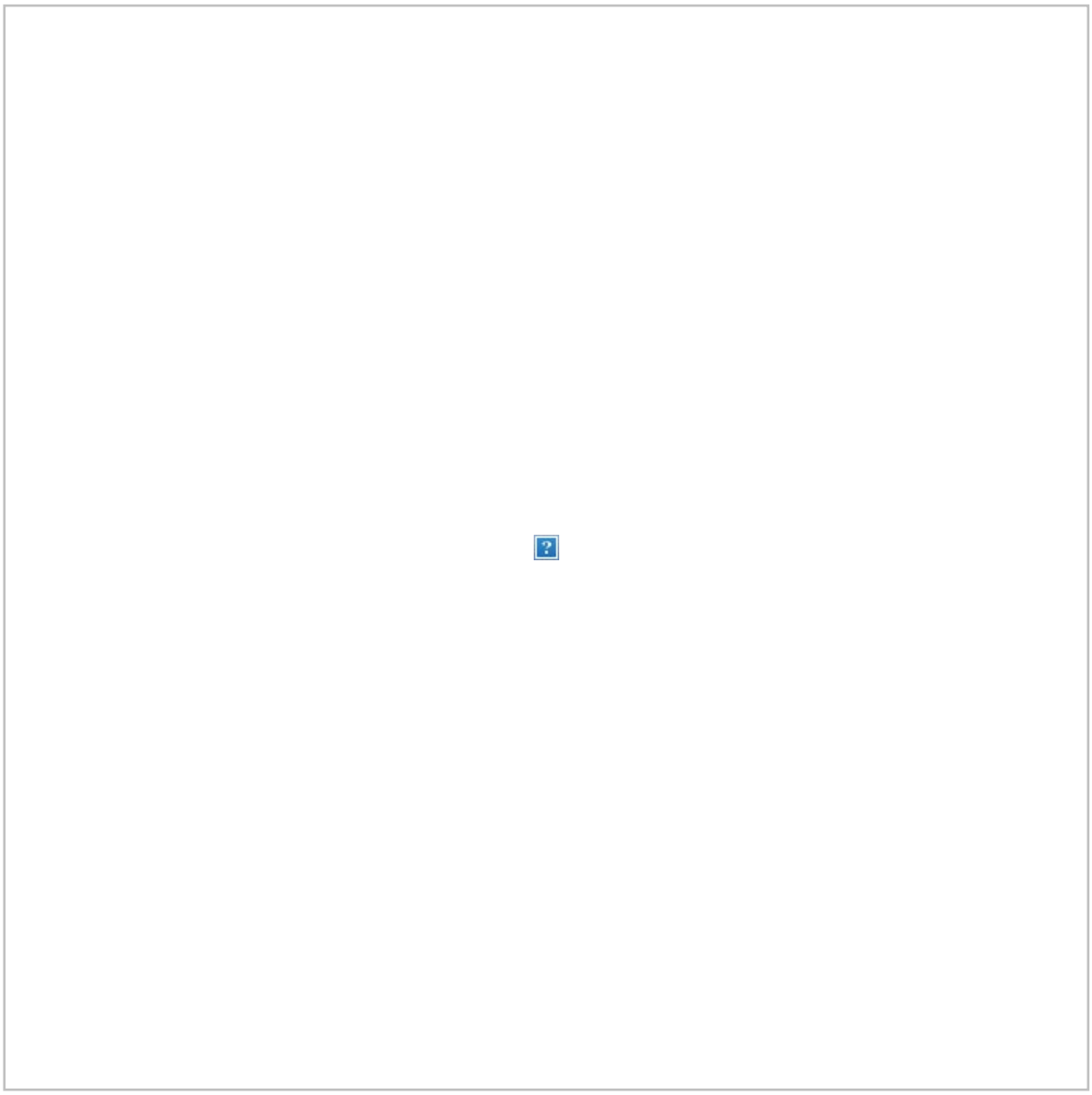




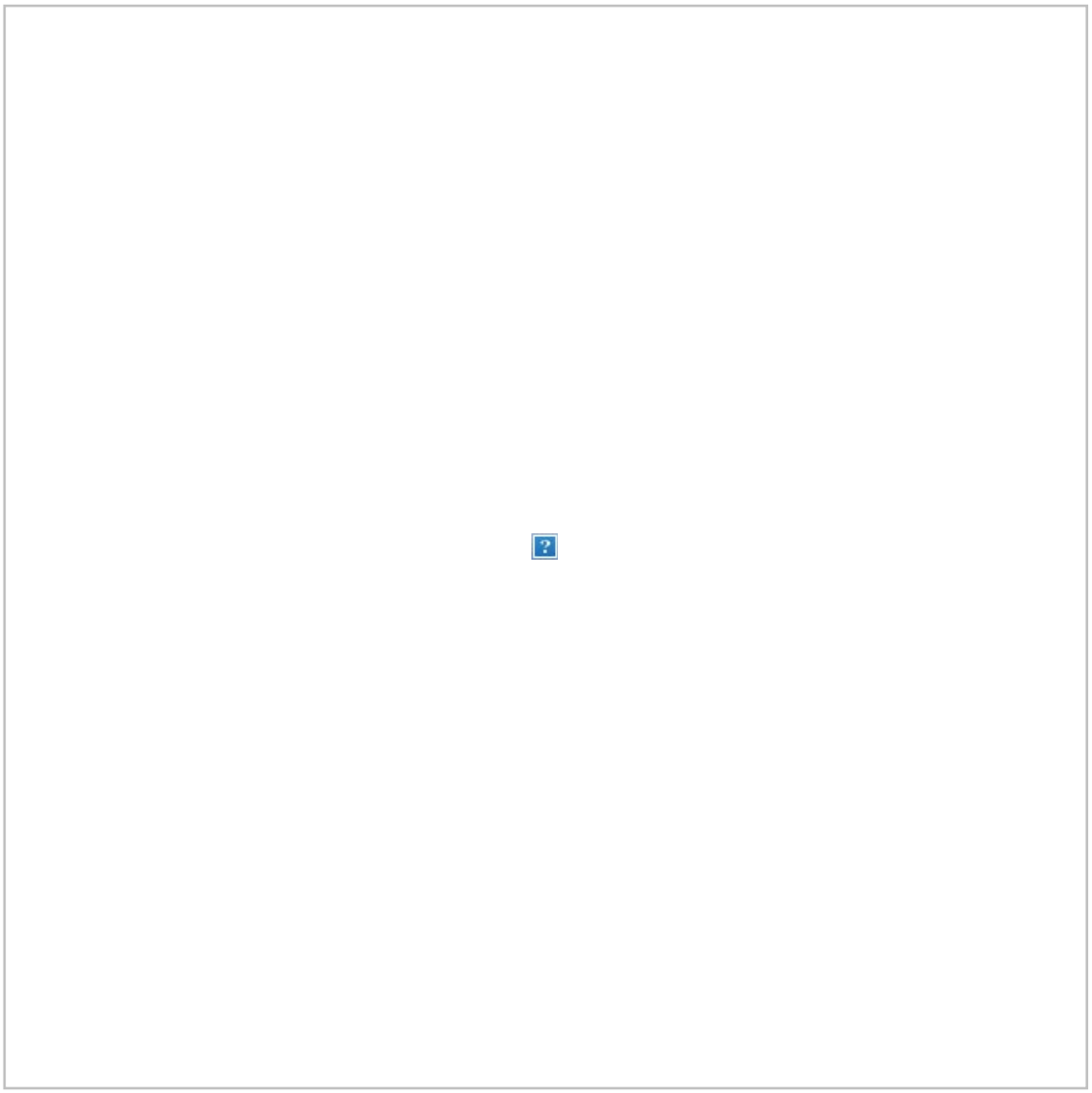
Guggenheim 2023 Client and Corporate Access Utility Events



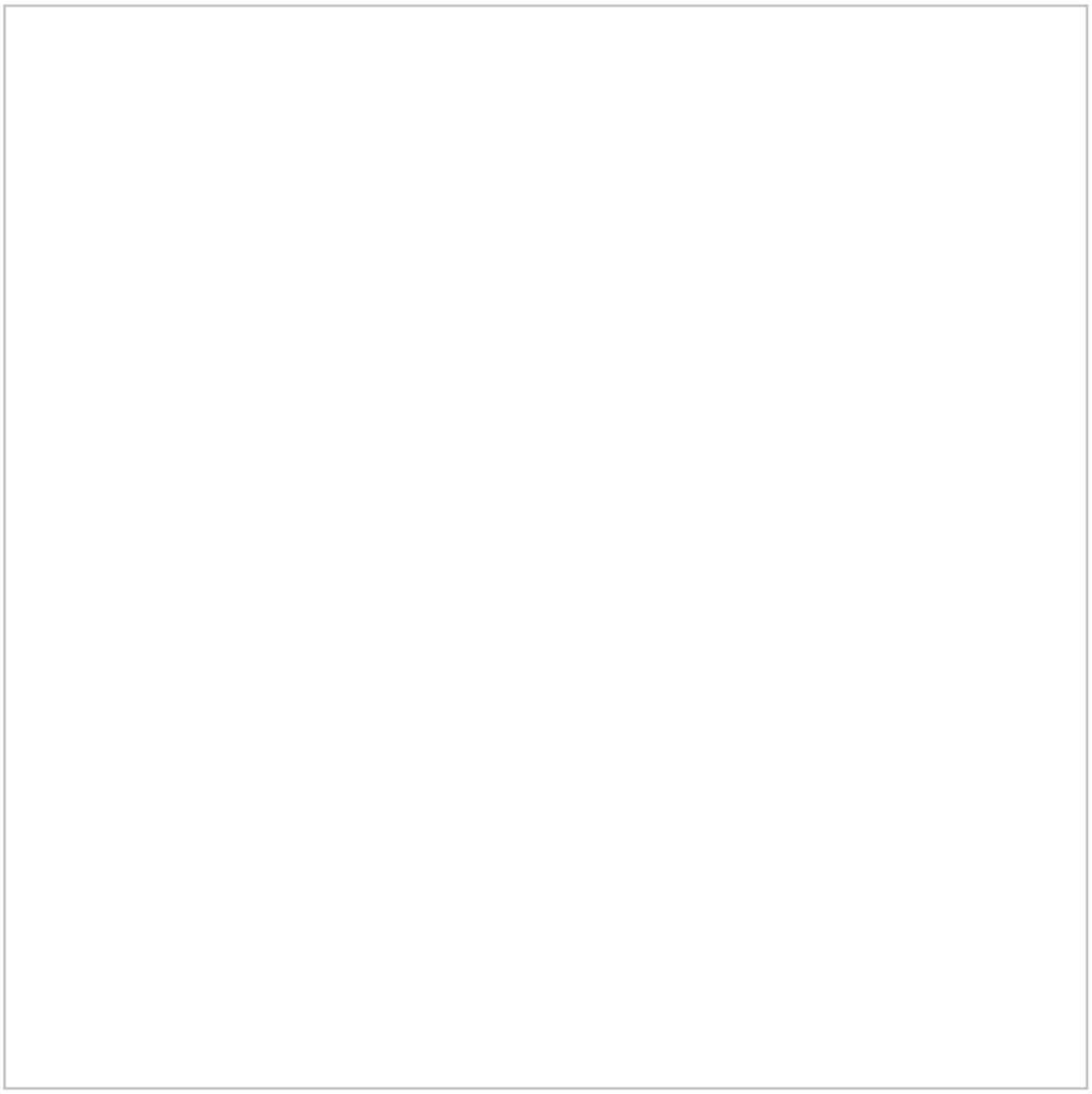
Guggenheim Comp Sheet



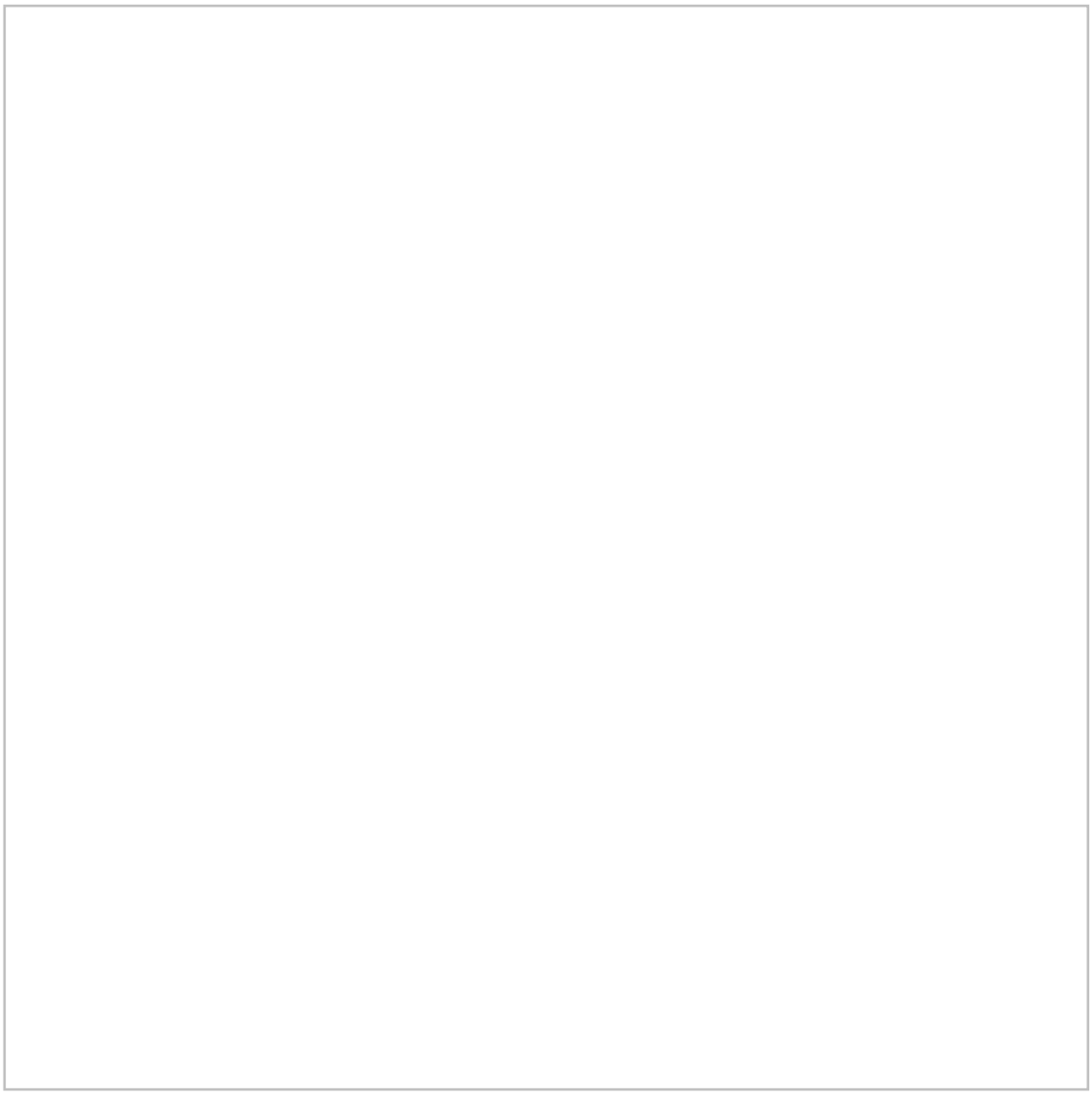
Share Price Performance (Year-to-Date, Three-Month, One-Month, & Five-Day Trailing)



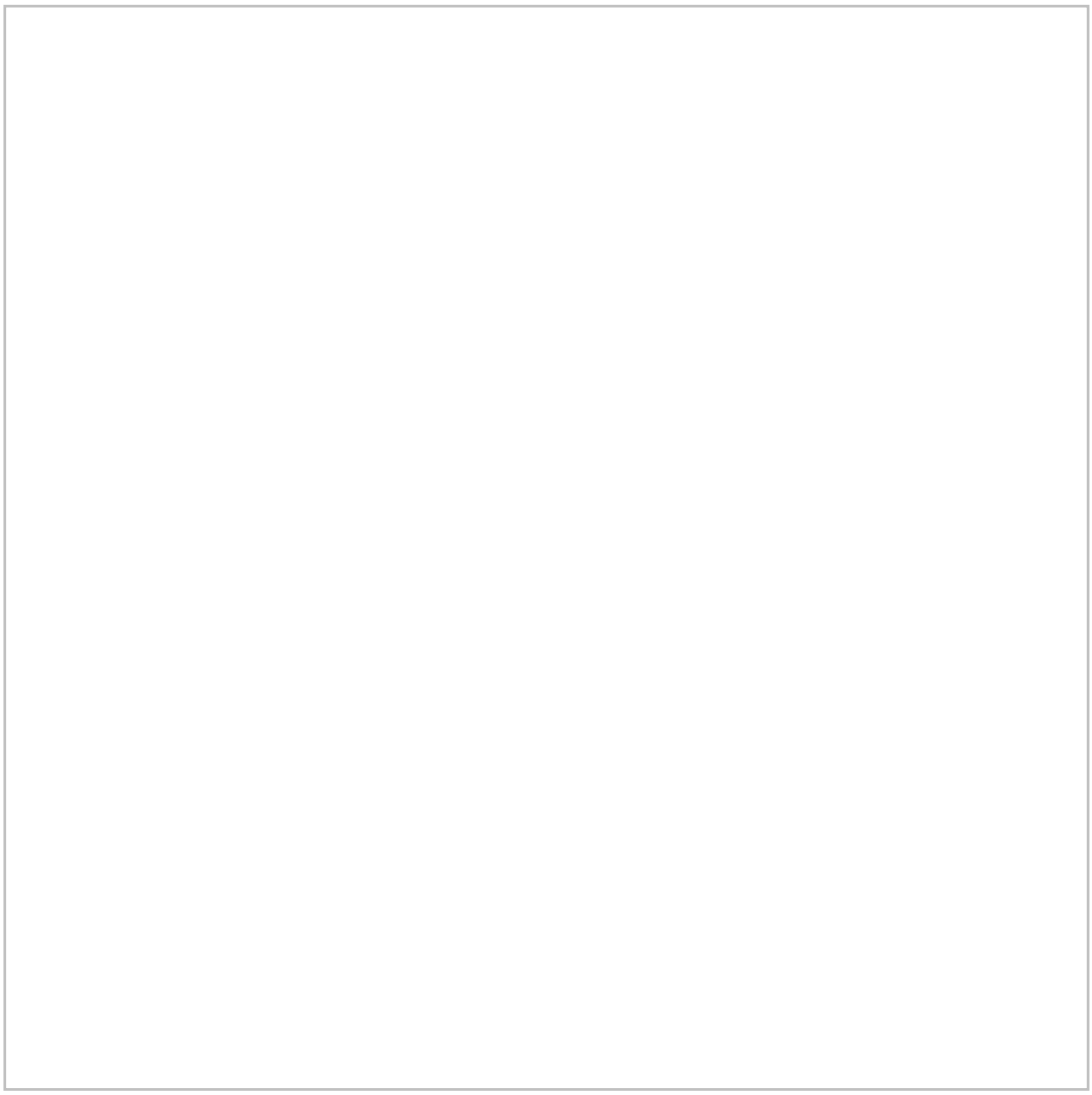
Generation and Mix



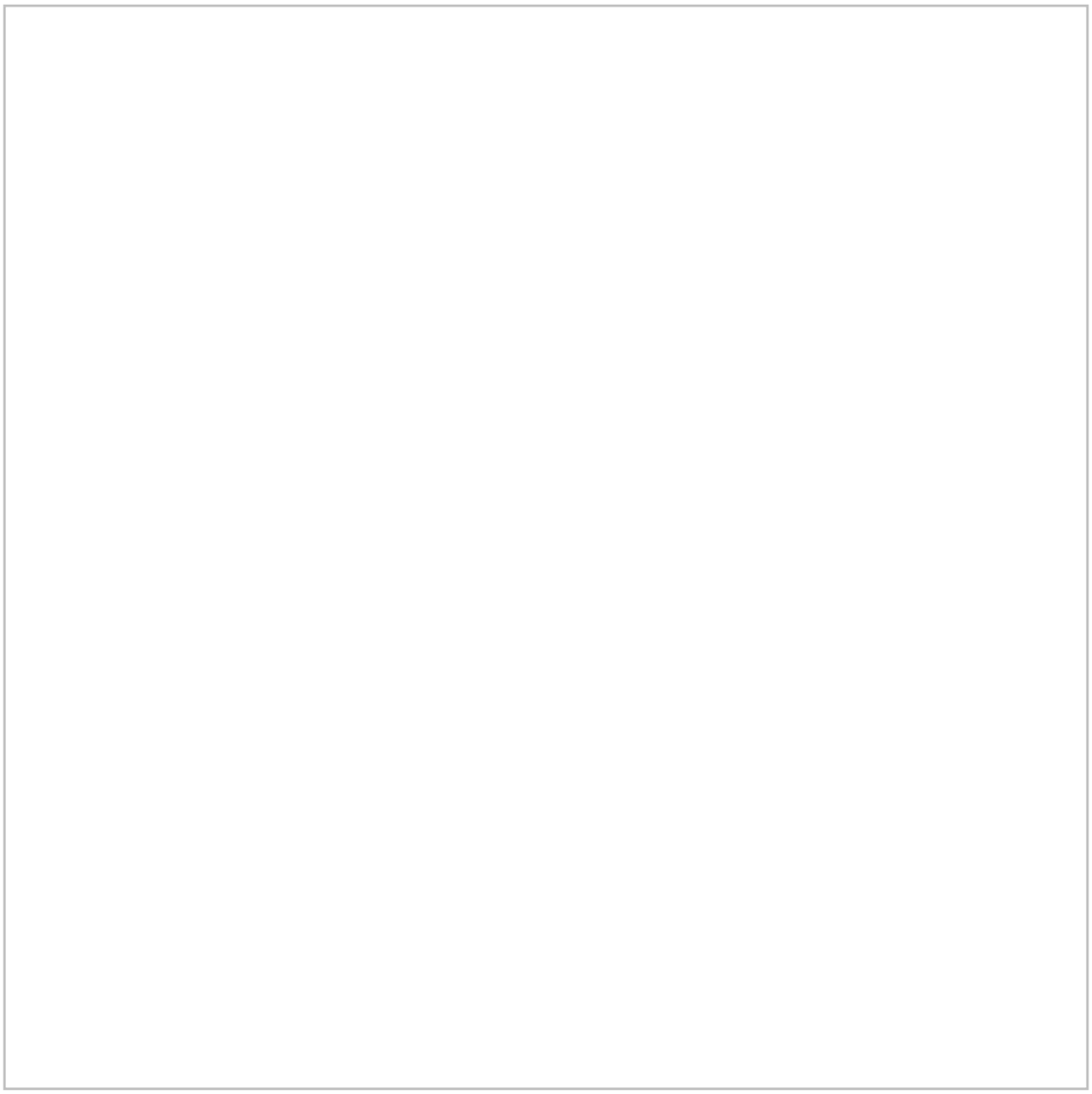
Generation and Mix (continued)



Weather



YTD Peak Load



Regulatory Calendar

Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- NEE NDR: Management Continues to Chop Through IRA Upside Opportunities but Baseline Remains Conservative; Headline Hurdles Require Time
- ES: What Are the Bears Playing for Now? The Dislocation to Group Getting Out of Hand
- SRE: Port Arthur Reaches FID, Few Holdovers with Project Equity, but Economics Are Broadly Accretive
- VST: Sensible Transaction and Organizational Realignment Look to Freeze the Melting Ice Cube Argument
- SMR: 2023 to See Slightly Heightened Cash Usage as Focus Remains on Execution

HE – Making Sense of Banking Turbulence; HE's ASB Remains Well Insulated From Isolated Liquidity Issues

- DUK: CEO NDR – How to Strengthen the Balance Sheet Without a "Rip-the-Band-Aid-Off" Equity Scenario? Patience.
- PEG Analyst Day – Straight Talking with PEG; Mgmt. Backs Up Sustainable 5-7% EPS Growth with Room to Exceed
- SRE: PUCT Modifies Oncor PFD, Approves Oncor Rate Case; 9.7% ROE and 42.5% Equity Ratio – Above Our Expectation
- Arizona Regulation: Taking a Deep Dive in the Desert — New Commissioners Bring a Wealth of Experience, Insights, and Planned Improvements to the ACC
- PNW: APS Wins Appeal of 2019 Rate Case's Penalty ROE and SCR Disallowance — Arizona Supreme Court May Be Next
- VST: Sensible Transaction and Organizational Realignment Look to Freeze the Melting Ice Cube Argument
- Deal or No Deal? Taking the Pulse of Fuel Deferrals Across Our Coverage Universe
- PJM: How Low Can You Go? Residualization of the BRA Marches On…
- D: Legislative Breakthrough Yields a Deal; Focus Turns to Credit Repair
- AEP: Contracted Renewables Sale Above Our Expectations
- LNT: Cleanup in Aisle 4? PSCW's Damage Control Proves Effective: Upgrading to NEUTRAL
- PSCW: Conversation with Chair Valcq Strikes a Balanced Tone
- D: Halftime in Richmond as Multiple Bills Advance
- D: SB1265 Amended Ahead of Crossover Deadline Tomorrow
- FE – The Same Board Who Set The Current Strategic Plan Is Also Picking The CEO… Follow-Up Thoughts Post Our Mgmt. Call
- FE – Rebase Coming? No. Asset Sale Delay? No. New CEO Strategy Shift? No. Balance Sheet Concerns? No. More Growth Opps? Yes. FE Remains '23 Best Idea
- D: General Assembly Sausage-Making Enters Full Swing as Lawmakers Continue to Cement the Bid-Ask
- D: Key Bills Pass Out of Senate Committee
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D: New Legislation Proposes Novel Option for OSW Stake Sale – Mosaic Pieces Continue to Form a Clearer Picture
- ETR – LPSC Votes on Modified Settlement Proposal with Customer Benefits, but Recognition of Hurricane Cost Prudency
- D: Opening Move in Richmond: Evolutionary Legislation Lays Path Forward

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North American Utilities

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

We are updating our models to account for recent reports and filings. Please see changes below.

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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	15,307.18	109.16	OW	n/c	119.00	Dec-23	131.00	n/c
NiSource Inc.	NI US	10,940.42	26.71	OW	n/c	30.00	Dec-23	31.00	n/c
New Jersey Resources	NJR US	4,795.25	49.63	UW	n/c	45.00	Dec-23	47.00	n/c
Spire Inc	SR US	3,470.26	66.48	N	n/c	68.00	Dec-23	73.00	n/c
Southwest Gas Holdings Inc.	SWX US	3,415.10	59.29	N	n/c	67.00	Dec-23	75.00	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 10 Mar 23.

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Adj. EPS Estimate Changes

$		FY23E			FY24E		
Company	**BBG Ticker**	**Prev**	**Cur**	**Δ**	**Prev**	**Cur**	**Δ**
Atmos Energy	ATO US	6.00	6.00	0.00	6.45	6.45	0.00
NiSource Inc.	NI US	1.54	1.56	0.02	1.66	1.67	0.00
New Jersey Resources	NJR US	2.47	2.72	0.25	2.72	2.74	0.02
Spire Inc	SR US	4.16	4.25	0.09	4.30	4.30	0.00
Southwest Gas Holdings Inc.	SWX US	3.97	3.10	(0.87)	4.06	3.86	(0.20)

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

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Investment Thesis, Valuation and Risks

Atmos Energy *(Overweight; Price Target: $119.00)*

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 YE 2023 price target to $119 from $131/share. We base our valuation on our 2024 EPS estimate and a 18.4x 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

NiSource hosted its most recent investor day last year, 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 lower our YE 2023 price target to $30 from $31/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 17.6x and 18.4x P/E multiples, respectively. These represent premiums to peers' on account of NI's coal generation transition, incremental renewables investment, ongoing pipe replacement programs, and above-average growth as a result, plus favorable ratemaking mechanisms. 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: $45.00)*

Investment Thesis

New Jersey Resources is facing uncertainty in recapturing CEV's solar development momentum in the face of PJM interconnection delays and an extended 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 a pushout of segment investment. 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.

Valuation

We decrease our YE 2023 price target to $45/share, from $47, using a 16.3x 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 in flux, 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. Should the company's pivot outside of NJ and PJM enable an acceleration of capex versus current levels, earnings growth could exceed our estimates.

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Investment Thesis, Valuation and Risks

Spire Inc *(Neutral; Price Target: $68.00)*

Investment Thesis

With an MO rate order in hand approving Spire's rate case settlement last year, regulatory risk going forward stands at lows relative to recent history over the past two years. Execution against the company's current plan, including the Spire Storage expansion project, is now in focus as SR moves on from back-to-back rate cases and EPS volatility associated with its 2021 rate order. We see current levels as fairly balancing the company's MO regulatory exposure and inconsistent growth track record with this new clean regulatory slate following the rate case.

Valuation

We lower our YE23 price target to $68/share from $73. We base our price target on a P/E multiple of 15.9x applied to our 2024 EPS estimate. The multiple incorporates a discount to the gas utility peer group, reflecting MO regulatory risk and limited line of sight to recurring Marketing earnings. The lower price target is primarily 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.

Our estimates assume some inflation-driven regulatory lag. Cost controls or other operational variances to offset these impacts could drive results above our estimates.

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Investment Thesis, Valuation and Risks

Southwest Gas Holdings Inc. *(Neutral; Price Target: $67.00)*

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 the MountainWest sale and Centuri spin as positive steps 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 $67 from $75/share, based on an SOTP valuation using our 2024 segment forecasts. Our price target includes $40 of value for SWX's natural gas distribution operations inclusive of parent drag, utilizing a 14.2x 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 $26/share of value for Centuri, based on an in-line 9.6x EV/EBITDA multiple. 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 +/- $4-5 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 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	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	**3,407**	**4,202**	**5,261**	**5,616**	**5,857**
COGS	(1,033)	(1,683)	(2,452)	(2,595)	(2,595)
Gross profit	**2,375**	**2,519**	**2,809**	**3,020**	**3,261**
SG&A	(994)	(1,029)	**(1,069)**	**(1,091)**	**(1,116)**
Adj. EBITDA	**1,381**	**1,490**	**1,740**	**1,929**	**2,145**
D&A	(478)	(536)	(604)	(656)	(710)
Adj. EBIT	**903**	**955**	**1,136**	**1,273**	**1,434**
Net Interest	(84)	(103)	(162)	(204)	(246)
Adj. PBT	**819**	**852**	**974**	**1,068**	**1,188**
Tax	(154)	(78)	(106)	(97)	(107)
Minority Interest	-	-	-	-	-
Adj. Net Income	**666**	**774**	**868**	**972**	**1,081**
Reported EPS	5.13	5.61	6.00	6.45	6.91
Adj. EPS	**5.13**	**5.61**	**6.00**	**6.45**	**6.91**
DPS	**2.50**	**2.72**	**2.96**	**3.23**	**3.52**
Payout ratio	48.8%	48.5%	49.3%	50.0%	50.9%
Shares outstanding	130	138	145	151	156

Income Statement - Quarterly	1Q23A	2Q23E	3Q23E	4Q23E
Revenue	**1,484A**	**1,837**	**1,022**	**917**
COGS	(738)A	(994)	(391)	(329)
Gross profit	**746A**	**843**	**632**	**588**
SG&A	(257)A	(256)	(274)	(283)
Adj. EBITDA	**488A**	**587**	**358**	**306**
D&A	(146)A	(149)	(153)	(156)
Adj. EBIT	**342A**	**438**	**206**	**150**
Net Interest	(37)A	(39)	(41)	(45)
Adj. PBT	**306A**	**399**	**164**	**105**
Tax	(34)A	(41)	(19)	(12)
Minority Interest	-	-	-	-
Adj. Net Income	**272A**	**358**	**145**	**92**
Reported EPS	1.92A	2.49	1.00	0.63
Adj. EPS	**1.92A**	**2.49**	**1.00**	**0.63**
DPS	**0.74A**	**0.74**	**0.74**	**0.74**
Payout ratio	38.6%A	29.7%	74.0%	117.8%
Shares outstanding	142A	144	145	147

Balance Sheet & Cash Flow Statement	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	117	52	0	0	0
Accounts receivable	-	-	-	-	-
Other current assets	2,722	2,996	1,357	1,494	1,639
Current assets	**2,839**	**3,048**	**1,357**	**1,494**	**1,639**
PP&E	15,064	17,240	19,530	21,623	23,813
Other non current assets	1,706	1,905	1,797	1,837	1,877
Total assets	**19,609**	**22,193**	**22,683**	**24,955**	**27,329**
Short term borrowings	2,400	2,386	253	467	688
Payables	-	-	-	-	-
Other short term liabilities	1,110	1,216	1,330	1,330	1,330
Current liabilities	**3,510**	**3,603**	**1,584**	**1,798**	**2,019**
Long-term debt	4,930	5,761	6,995	7,769	8,584
Other long term liabilities	3,261	3,411	3,518	3,615	3,722
Total liabilities	**11,702**	**12,774**	**12,097**	**13,182**	**14,325**
Shareholders' equity	7,907	9,419	10,587	11,773	13,005
Minority interests	-	-	-	-	-
Total liabilities & equity	**19,609**	**22,193**	**22,683**	**24,955**	**27,329**
BVPS	**59.71**	**66.85**	**71.75**	**76.70**	**81.71**
y/y Growth	*10.7%*	*12.0%*	*7.3%*	*6.9%*	*6.5%*
Net debt/(cash)	7,214	8,096	7,248	8,237	9,273
Cash flow from operating activities	**(1,084)**	**978**	**1,184**	**1,547**	**1,714**
o/w Depreciation & amortization	478	536	604	656	710
o/w Changes in working capital	(2,379)	(364)	(342)	(138)	(145)
Cash flow from investing activities	**(1,964)**	**(2,430)**	**(2,808)**	**(2,750)**	**(2,900)**
o/w Capital expenditure	(1,970)	(2,444)	(2,811)	(2,750)	(2,900)
as % of sales	*57.8%*	*58.2%*	*53.4%*	*49.0%*	*49.5%*
Cash flow from financing activities	**3,144**	**1,387**	**1,628**	**1,204**	**1,175**
o/w Dividends paid	(324)	(376)	(427)	(486)	(550)
o/w Net debt issued/(repaid)	2,797	784	1,362	990	1,025
Net change in cash	**96**	**(65)**	**4**	**1**	**(11)**
Adj. Free cash flow to firm	**(2,986)**	**(1,373)**	**(1,483)**	**(1,017)**	**(962)**
y/y Growth	*259.9%*	*(54.0%)*	*8.0%*	*(31.4%)*	*(5.4%)*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	69.7%	60.0%	53.4%	53.8%	55.7%
EBITDA margin	40.5%	35.5%	33.1%	34.3%	36.6%
EBIT margin	26.5%	22.7%	21.6%	22.7%	24.5%
Net profit margin	19.5%	18.4%	16.5%	17.3%	18.5%
ROE	9.1%	8.9%	8.7%	8.7%	8.7%
ROA	3.8%	3.7%	3.9%	4.1%	4.1%
ROCE	5.5%	5.3%	5.7%	6.1%	6.2%
SG&A/Sales	29.2%	24.5%	20.3%	19.4%	19.1%
Net debt/equity	0.9	0.9	0.7	0.7	0.7
P/E (x)	21.3	19.5	18.2	16.9	15.8
P/BV (x)	1.8	1.6	1.5	1.4	1.3
EV/EBITDA (x)	13.5	13.6	11.5	11.1	10.7
Dividend Yield	2.3%	2.5%	2.7%	3.0%	3.2%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	16.5	14.5	10.7	9.4	8.7
Operating leverage	41.4%	24.6%	75.3%	178.1%	296.1%
Revenue y/y Growth	20.8%	23.3%	25.2%	6.7%	4.3%
EBITDA y/y Growth	9.5%	7.9%	16.7%	10.9%	11.2%
Tax rate	18.8%	9.1%	10.9%	9.0%	9.0%
Adj. Net Income y/y Growth	14.7%	16.4%	12.1%	12.0%	11.3%
EPS y/y Growth	8.5%	9.4%	7.1%	7.5%	7.2%
DPS y/y Growth	8.7%	8.8%	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	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	**4,901**	**5,834**	**5,755**	**6,009**	**6,248**
COGS	(1,392)	(2,111)	(1,760)	(1,760)	(1,760)
Gross profit	**3,509**	**3,723**	**3,995**	**4,249**	**4,489**
SG&A	(1,696)	(1,754)	**(1,760)**	**(1,785)**	**(1,811)**
Adj. EBITDA	**1,852**	**2,010**	**2,235**	**2,464**	**2,677**
D&A	(748)	(821)	(907)	(961)	(1,016)
Adj. EBIT	**1,104**	**1,189**	**1,329**	**1,502**	**1,661**
Net Interest	(341)	(362)	(443)	(448)	(505)
Adj. PBT	**763**	**828**	**886**	**1,054**	**1,156**
Tax	(132)	(137)	(140)	(184)	(204)
Minority Interest	(59)	(43)	(46)	(77)	(74)
Adj. Net Income	**571**	**648**	**700**	**793**	**877**
Reported EPS	1.37	1.46	1.56	1.67	1.80
Adj. EPS	**1.37**	**1.46**	**1.56**	**1.67**	**1.80**
DPS	**0.88**	**0.94**	**1.00**	**1.06**	**1.12**
Payout ratio	64.3%	64.2%	64.1%	63.6%	62.3%
Shares outstanding	417	443	448	476	487

Income Statement - Quarterly	1Q23E	2Q23E	3Q23E	4Q23E
Revenue	**1,943**	**1,169**	**1,031**	**1,611**
COGS	(725)	(313)	(222)	(500)
Gross profit	**1,219**	**856**	**809**	**1,111**
SG&A	(451)	(441)	(420)	(448)
Adj. EBITDA	**768**	**415**	**389**	**663**
D&A	(220)	(225)	(229)	(233)
Adj. EBIT	**548**	**191**	**160**	**430**
Net Interest	(104)	(109)	(116)	(113)
Adj. PBT	**444**	**81**	**44**	**317**
Tax	(78)	(13)	(0)	(49)
Minority Interest	(18)	(3)	(12)	(14)
Adj. Net Income	**348**	**66**	**32**	**255**
Reported EPS	0.78	0.15	0.07	0.57
Adj. EPS	**0.78**	**0.15**	**0.07**	**0.57**
DPS	**0.25**	**0.25**	**0.25**	**0.25**
Payout ratio	32.2%	170.6%	351.4%	44.1%
Shares outstanding	448	448	448	448

Balance Sheet & Cash Flow Statement	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	95	75	0	0	0
Accounts receivable	826	1,042	1,042	1,042	1,042
Other current assets	1,000	1,467	1,640	1,777	1,940
Current assets	**1,921**	**2,584**	**2,681**	**2,819**	**2,981**
PP&E	17,882	19,843	22,386	24,175	26,409
Other non current assets	4,354	4,310	2,310	2,310	2,310
Total assets	**24,157**	**26,737**	**27,377**	**29,303**	**31,700**
Short term borrowings	560	1,762	976	1,798	2,511
Payables	698	900	900	900	900
Other short term liabilities	1,488	1,999	1,969	1,969	1,969
Current liabilities	**2,746**	**4,661**	**3,844**	**4,666**	**5,379**
Long-term debt	9,183	9,524	10,629	11,304	12,154
Other long term liabilities	4,954	4,651	4,791	4,975	5,179
Total liabilities	**16,884**	**18,835**	**19,263**	**20,944**	**22,712**
Shareholders' equity	7,273	7,902	8,114	8,359	8,988
Minority interests	-	-	-	-	-
Total liabilities & equity	**24,157**	**26,737**	**27,377**	**29,303**	**31,700**
BVPS	**17.94**	**19.17**	**18.09**	**17.36**	**18.29**
y/y Growth	*20.4%*	*6.8%*	*(5.6%)*	*(4.1%)*	*5.3%*
Net debt/(cash)	9,649	11,210	11,604	13,101	14,664
Cash flow from operating activities	**1,218**	**1,409**	**1,574**	**1,801**	**1,935**
o/w Depreciation & amortization	748	821	907	961	1,016
o/w Changes in working capital	(260)	(285)	(173)	(138)	(163)
Cash flow from investing activities	**(2,205)**	**(2,570)**	**(1,450)**	**(2,750)**	**(3,250)**
o/w Capital expenditure	(1,838)	(2,203)	(3,450)	(2,750)	(3,250)
as % of sales	*37.5%*	*37.8%*	*60.0%*	*45.8%*	*52.0%*
Cash flow from financing activities	**956**	**1,141**	**587**	**127**	**602**
o/w Dividends paid	(400)	(437)	(421)	(510)	(548)
o/w Net debt issued/(repaid)	31	1,488	1,075	675	850
Net change in cash	**(31)**	**(20)**	**711**	**(822)**	**(713)**
Adj. Free cash flow to firm	**(338)**	**(492)**	**(1,503)**	**(580)**	**(899)**
y/y Growth	*(3.7%)*	*45.4%*	*205.7%*	*(61.5%)*	*55.1%*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	71.6%	63.8%	69.4%	70.7%	71.8%
EBITDA margin	37.8%	34.5%	38.8%	41.0%	42.8%
EBIT margin	22.5%	20.4%	23.1%	25.0%	26.6%
Net profit margin	11.7%	11.1%	12.2%	13.2%	14.0%
ROE	8.7%	8.5%	8.7%	9.6%	10.1%
ROA	2.5%	2.5%	2.6%	2.8%	2.9%
ROCE	5.6%	5.5%	5.8%	6.0%	6.1%
SG&A/Sales	34.6%	30.1%	30.6%	29.7%	29.0%
Net debt/equity	1.3	1.4	1.4	1.6	1.6
P/E (x)	19.5	18.2	17.1	16.0	14.8
P/BV (x)	1.5	1.4	1.5	1.5	1.5
EV/EBITDA (x)	9.2	9.3	8.8	8.8	8.8
Dividend Yield	3.3%	3.5%	3.7%	4.0%	4.2%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	5.4	5.6	5.1	5.5	5.3
Operating leverage	87.0%	40.8%	(862.4%)	296.1%	265.4%
Revenue y/y Growth	4.3%	19.0%	(1.4%)	4.4%	4.0%
EBITDA y/y Growth	1.4%	8.5%	11.2%	10.2%	8.7%
Tax rate	17.4%	16.5%	15.8%	17.4%	17.7%
Adj. Net Income y/y Growth	12.6%	13.5%	8.0%	13.3%	10.6%
EPS y/y Growth	3.7%	7.0%	6.6%	6.7%	8.2%
DPS y/y Growth	4.8%	6.8%	6.4%	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	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	**2,157**	**2,906**	**3,000**	**3,021**	**3,049**
COGS	(1,352)	(1,949)	(1,962)	(1,962)	(1,962)
Gross profit	**805**	**957**	**1,038**	**1,058**	**1,086**
SG&A	(367)	(362)	**(379)**	**(383)**	**(388)**
Adj. EBITDA	**400**	**536**	**598**	**614**	**638**
D&A	(111)	(129)	(151)	(166)	(182)
Adj. EBIT	**288**	**406**	**447**	**448**	**455**
Net Interest	(79)	(86)	(119)	(127)	(133)
Adj. PBT	**234**	**343**	**343**	**341**	**349**
Tax	(33)	(76)	(77)	(79)	(79)
Minority Interest	(83)	8	3	3	3
Adj. Net Income	**208**	**240**	**263**	**265**	**273**
Reported EPS	2.16	2.50	2.72	2.74	2.82
Adj. EPS	**2.16**	**2.50**	**2.72**	**2.74**	**2.82**
DPS	**1.33**	**1.45**	**1.56**	**1.67**	**1.78**
Payout ratio	61.7%	58.0%	57.4%	61.0%	63.2%
Shares outstanding	96	96	97	97	97

Income Statement - Quarterly	1Q23A	2Q23E	3Q23E	4Q23E
Revenue	**724A**	**954**	**548**	**774**
COGS	(416)A	(625)	(393)	(528)
Gross profit	**307A**	**329**	**155**	**247**
SG&A	(80)A	(88)	(90)	(121)
Adj. EBITDA	**209A**	**210**	**56**	**122**
D&A	(37)A	(37)	(38)	(39)
Adj. EBIT	**173A**	**173**	**18**	**83**
Net Interest	(29)A	(29)	(30)	(31)
Adj. PBT	**148A**	**147**	**(8)**	**56**
Tax	(33)A	(34)	2	(13)
Minority Interest	1A	1	1	1
Adj. Net Income	**110A**	**114**	**(5)**	**44**
Reported EPS	1.14A	1.18	(0.06)	0.45
Adj. EPS	**1.14A**	**1.18**	**(0.06)**	**0.45**
DPS	**0.39A**	**0.39**	**0.39**	**0.39**
Payout ratio	34.1%A	33.0%	NM	86.2%
Shares outstanding	96A	97	97	97

Balance Sheet & Cash Flow Statement	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	6	1	0	0	0
Accounts receivable	223	236	480	480	480
Other current assets	406	519	551	583	614
Current assets	**636**	**756**	**1,031**	**1,063**	**1,094**
PP&E	4,214	4,650	5,069	5,539	5,986
Other non current assets	873	855	744	567	337
Total assets	**5,722**	**6,261**	**6,844**	**7,169**	**7,418**
Short term borrowings	450	499	663	760	838
Payables	395	392	269	269	269
Other short term liabilities	206	213	252	252	252
Current liabilities	**1,051**	**1,104**	**1,185**	**1,282**	**1,360**
Long-term debt	2,162	2,485	2,724	2,770	2,762
Other long term liabilities	878	855	974	1,053	1,133
Total liabilities	**4,091**	**4,444**	**4,883**	**5,105**	**5,254**
Shareholders' equity	1,631	1,817	1,962	2,064	2,163
Minority interests	-	-	-	-	-
Total liabilities & equity	**5,722**	**6,261**	**6,844**	**7,169**	**7,418**
BVPS	**16.90**	**18.87**	**20.26**	**21.32**	**22.35**
y/y Growth	*(12.1%)*	*11.7%*	*7.4%*	*5.2%*	*4.8%*
Net debt/(cash)	2,606	2,983	3,387	3,530	3,600
Cash flow from operating activities	**391**	**323**	**201**	**478**	**503**
o/w Depreciation & amortization	111	129	151	166	182
o/w Changes in working capital	10	(78)	(357)	(32)	(32)
Cash flow from investing activities	**(622)**	**(591)**	**(581)**	**(635)**	**(630)**
o/w Capital expenditure	(625)	(598)	(581)	(635)	(630)
as % of sales	*29.0%*	*20.6%*	*19.4%*	*21.0%*	*20.7%*
Cash flow from financing activities	**118**	**263**	**333**	**154**	**157**
o/w Dividends paid	(117)	(128)	(148)	(163)	(173)
o/w Net debt issued/(repaid)	(18)	442	275	140	100
Net change in cash	**(113)**	**(5)**	**(48)**	**(3)**	**30**
Adj. Free cash flow to firm	**(166)**	**(208)**	**(288)**	**(59)**	**(24)**
y/y Growth	*(13.3%)*	*25.2%*	*38.3%*	*(79.4%)*	*(59.7%)*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	37.3%	32.9%	34.6%	35.0%	35.6%
EBITDA margin	18.5%	18.4%	19.9%	20.3%	20.9%
EBIT margin	13.4%	14.0%	14.9%	14.8%	14.9%
Net profit margin	9.6%	8.3%	8.8%	8.8%	8.9%
ROE	12.0%	13.9%	13.9%	13.2%	12.9%
ROA	3.7%	4.0%	4.0%	3.8%	3.7%
ROCE	5.8%	7.0%	6.8%	6.3%	6.2%
SG&A/Sales	17.0%	12.5%	12.6%	12.7%	12.7%
Net debt/equity	1.6	1.6	1.7	1.7	1.7
P/E (x)	23.0	19.8	18.2	18.1	17.6
P/BV (x)	2.9	2.6	2.4	2.3	2.2
EV/EBITDA (x)	15.3	12.1	11.6	11.5	11.2
Dividend Yield	2.7%	2.9%	3.1%	3.4%	3.6%
Sales/Assets (x)	0.4	0.5	0.5	0.4	0.4
Interest cover (x)	5.1	6.2	5.0	4.8	4.8
Operating leverage	320.2%	117.9%	306.1%	48.1%	166.5%
Revenue y/y Growth	10.4%	34.7%	3.2%	0.7%	0.9%
EBITDA y/y Growth	18.9%	34.0%	11.6%	2.7%	3.8%
Tax rate	14.2%	22.2%	22.5%	23.1%	22.8%
Adj. Net Income y/y Growth	5.8%	15.7%	9.5%	0.8%	2.9%
EPS y/y Growth	4.2%	15.9%	8.7%	0.7%	2.9%
DPS y/y Growth	6.4%	9.0%	7.6%	7.1%	6.6%

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	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	**2,236**	**2,199**	**2,157**	**1,914**	**1,961**
COGS	(946)	(924)	(796)	(539)	(539)
Gross profit	**1,289**	**1,275**	**1,361**	**1,375**	**1,422**
SG&A	(629)	(638)	**(631)**	**(616)**	**(616)**
Adj. EBITDA	**660**	**637**	**730**	**759**	**806**
D&A	(213)	(237)	(251)	(260)	(274)
Adj. EBIT	**447**	**400**	**479**	**499**	**532**
Net Interest	(107)	(120)	(177)	(187)	(196)
Adj. PBT	**340**	**280**	**301**	**312**	**335**
Tax	(69)	(59)	(53)	(53)	(59)
Minority Interest	-	-	-	-	-
Adj. Net Income	**251**	**201**	**228**	**244**	**262**
Reported EPS	4.86	3.86	4.25	4.30	4.49
Adj. EPS	**4.86**	**3.86**	**4.25**	**4.30**	**4.49**
DPS	**2.60**	**2.74**	**2.88**	**3.02**	**3.18**
Payout ratio	53.5%	71.0%	67.7%	70.3%	70.7%
Shares outstanding	52	52	54	57	58

Income Statement - Quarterly	1Q23A	2Q23E	3Q23E	4Q23E
Revenue	**814A**	**790**	**317**	**236**
COGS	(419)A	(273)	(61)	(43)
Gross profit	**395A**	**516**	**256**	**193**
SG&A	(177)A	(175)	(147)	(132)
Adj. EBITDA	**218A**	**341**	**109**	**61**
D&A	(62)A	(63)	(63)	(64)
Adj. EBIT	**156A**	**278**	**46**	**(2)**
Net Interest	(44)A	(44)	(44)	(46)
Adj. PBT	**113A**	**235**	**2**	**(48)**
Tax	(22)A	(40)	(0)	8
Minority Interest	-	-	-	-
Adj. Net Income	**81A**	**191**	**(1)**	**(43)**
Reported EPS	1.55A	3.60	(0.03)	(0.79)
Adj. EPS	**1.55A**	**3.60**	**(0.03)**	**(0.79)**
DPS	**0.72A**	**0.72**	**0.72**	**0.72**
Payout ratio	46.6%A	20.0%	NM	NM
Shares outstanding	53A	53	54	55

Balance Sheet & Cash Flow Statement	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	11	21	0	0	0
Accounts receivable	596	623	780	780	780
Other current assets	709	949	859	892	924
Current assets	**1,317**	**1,592**	**1,639**	**1,672**	**1,704**
PP&E	5,610	5,950	6,416	6,817	7,188
Other non current assets	2,430	2,542	2,656	2,660	2,664
Total assets	**9,356**	**10,084**	**10,711**	**11,149**	**11,556**
Short term borrowings	1,608	2,354	2,216	2,320	2,392
Payables	-	-	-	-	-
Other short term liabilities	0	0	0	0	0
Current liabilities	**1,608**	**2,354**	**2,216**	**2,320**	**2,392**
Long-term debt	2,939	2,959	3,525	3,510	3,685
Other long term liabilities	2,141	1,940	1,918	1,971	2,030
Total liabilities	**6,688**	**7,252**	**7,659**	**7,802**	**8,107**
Shareholders' equity	2,668	2,832	3,052	3,347	3,449
Minority interests	-	-	-	-	-
Total liabilities & equity	**9,356**	**10,084**	**10,711**	**11,149**	**11,556**
BVPS	**-**	**-**	**-**	**-**	**-**
y/y Growth	-	-	-	-	-
Net debt/(cash)	4,536	5,292	5,741	5,831	6,077
Cash flow from operating activities	**250**	**55**	**165**	**520**	**558**
o/w Depreciation & amortization	213	237	251	260	274
o/w Changes in working capital	(319)	(470)	(377)	(33)	(32)
Cash flow from investing activities	**(622)**	**(547)**	**(712)**	**(661)**	**(645)**
o/w Capital expenditure	(625)	(552)	(715)	(661)	(645)
as % of sales	*27.9%*	*25.1%*	*33.1%*	*34.5%*	*32.9%*
Cash flow from financing activities	**379**	**501**	**459**	**36**	**15**
o/w Dividends paid	(148)	(157)	(156)	(171)	(185)
o/w Net debt issued/(repaid)	538	610	476	(15)	175
Net change in cash	**7**	**9**	**(88)**	**(104)**	**(72)**
Adj. Free cash flow to firm	**(290)**	**(403)**	**(404)**	**14**	**75**
y/y Growth	*281.6%*	*38.9%*	*0.4%*	*(103.5%)*	*426.4%*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	57.7%	58.0%	63.1%	71.8%	72.5%
EBITDA margin	29.5%	29.0%	33.8%	39.6%	41.1%
EBIT margin	20.0%	18.2%	22.2%	26.1%	27.1%
Net profit margin	11.2%	9.2%	10.6%	12.7%	13.3%
ROE	9.7%	7.3%	7.7%	7.6%	7.7%
ROA	2.9%	2.1%	2.2%	2.2%	2.3%
ROCE	5.2%	4.1%	4.7%	4.6%	4.7%
SG&A/Sales	28.2%	29.0%	29.2%	32.2%	31.4%
Net debt/equity	1.7	1.9	1.9	1.7	1.8
P/E (x)	13.7	17.2	15.6	15.5	14.8
P/BV (x)	-	-	-	-	-
EV/EBITDA (x)	11.1	12.5	11.9	11.9	11.5
Dividend Yield	3.9%	4.1%	4.3%	4.5%	4.8%
Sales/Assets (x)	0.3	0.2	0.2	0.2	0.2
Interest cover (x)	6.2	5.3	4.1	4.1	4.1
Operating leverage	568.0%	639.6%	(1048.8%)	(37.8%)	268.1%
Revenue y/y Growth	20.5%	(1.7%)	(1.9%)	(11.3%)	2.4%
EBITDA y/y Growth	63.4%	(3.5%)	14.6%	4.0%	6.2%
Tax rate	20.1%	21.1%	17.6%	17.1%	17.5%
Adj. Net Income y/y Growth	30.2%	(19.9%)	13.2%	7.1%	7.3%
EPS y/y Growth	29.2%	(20.5%)	10.2%	1.1%	4.4%
DPS y/y Growth	4.4%	5.4%	5.1%	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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J.P.Morgan

Southwest Gas Holdings Inc.: Summary of Financials

Income Statement - Annual	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	**3,680**	**4,960**	**4,893**	**5,115**	**5,369**
COGS	(431)	(799)	(789)	(789)	(789)
Gross profit	**4,161**	**4,103**	**4,326**	**4,580**	**0**
SG&A	(2,512)	(3,721)	**(3,174)**	**(3,324)**	**(3,499)**
Adj. EBITDA	**737**	**440**	**929**	**1,002**	**1,081**
D&A	(371)	(470)	(433)	(444)	(455)
Adj. EBIT	**366**	**(31)**	**497**	**558**	**627**
Net Interest	(119)	(243)	(223)	(207)	(210)
Adj. PBT	**247**	**(273)**	**274**	**351**	**416**
Tax	(40)	76	(50)	(69)	(83)
Minority Interest	(6)	(6)	(6)	(6)	(6)
Adj. Net Income	**247**	**197**	**218**	**276**	**328**
Reported EPS	3.39	(3.10)	3.10	3.86	4.52
Adj. EPS	**4.17**	**3.01**	**3.10**	**3.86**	**4.52**
DPS	**2.36**	**2.46**	**2.48**	**2.56**	**2.66**
Payout ratio	69.5%	NM	79.9%	66.2%	58.7%
Shares outstanding	59	66	70	72	72

Income Statement - Quarterly	1Q23E	2Q23E	3Q23E	4Q23E
Revenue	**1,238**	**1,134**	**1,115**	**1,407**
COGS	(297)	(147)	(100)	(245)
Gross profit	**990**	**1,042**	**1,073**	**1,221**
SG&A	(658)	(797)	(842)	(877)
Adj. EBITDA	**283**	**189**	**172**	**285**
D&A	(115)	(99)	(107)	(113)
Adj. EBIT	**168**	**91**	**65**	**173**
Net Interest	(63)	(53)	(54)	(52)
Adj. PBT	**105**	**38**	**11**	**120**
Tax	(13)	(8)	(6)	(23)
Minority Interest	(1)	(1)	(1)	(1)
Adj. Net Income	**90**	**28**	**4**	**96**
Reported EPS	1.33	0.39	0.06	1.34
Adj. EPS	**1.33**	**0.39**	**0.06**	**1.34**
DPS	**0.62**	**0.62**	**0.62**	**0.62**
Payout ratio	46.5%	157.8%	1034.3%	46.1%
Shares outstanding	68	71	71	71

Balance Sheet & Cash Flow Statement	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	223	123	0	0	0
Accounts receivable	707	866	866	866	866
Other current assets	685	2,718	2,758	2,798	2,838
Current assets	**1,615**	**3,708**	**3,624**	**3,664**	**3,704**
PP&E	7,594	7,025	7,389	7,741	8,084
Other non current assets	3,556	2,464	834	554	574
Total assets	**12,765**	**13,197**	**11,847**	**11,960**	**12,362**
Short term borrowings	2,206	1,587	1,973	2,181	2,372
Payables	353	662	662	662	662
Other short term liabilities	552	529	529	529	529
Current liabilities	**3,112**	**2,779**	**3,164**	**3,372**	**3,563**
Long-term debt	4,116	4,403	2,327	2,020	1,962
Other long term liabilities	2,387	2,796	2,847	2,915	2,999
Total liabilities	**9,615**	**9,979**	**8,338**	**8,308**	**8,524**
Shareholders' equity	3,151	3,218	3,509	3,653	3,838
Minority interests	0	0	0	0	0
Total liabilities & equity	**12,765**	**13,197**	**11,847**	**11,960**	**12,362**
BVPS	**53.17**	**49.09**	**49.86**	**50.99**	**53.00**
y/y Growth	*5.0%*	*(7.7%)*	*1.6%*	*2.3%*	*3.9%*
Net debt/(cash)	6,099	5,868	4,300	4,201	4,334
Cash flow from operating activities	**111**	**407**	**791**	**1,029**	**806**
o/w Depreciation & amortization	371	470	433	444	455
o/w Changes in working capital	(443)	(240)	(40)	(40)	(40)
Cash flow from investing activities	**(3,036)**	**(839)**	**703**	**(797)**	**(797)**
o/w Capital expenditure	(716)	(859)	(797)	(797)	(797)
as % of sales	*19.4%*	*17.3%*	*16.3%*	*15.6%*	*14.8%*
Cash flow from financing activities	**3,063**	**356**	**(1,723)**	**(376)**	**(117)**
o/w Dividends paid	(138)	(161)	(175)	(183)	(192)
o/w Net debt issued/(repaid)	1,208	568	(1,796)	(243)	25
Net change in cash	**139**	**(75)**	**(229)**	**(143)**	**(108)**
Adj. Free cash flow to firm	**(504)**	**(142)**	**177**	**399**	**177**
y/y Growth	*351.8%*	*(71.8%)*	*(224.3%)*	*125.9%*	*(55.6%)*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	113.1%	82.7%	88.4%	89.5%	0.0%
EBITDA margin	20.0%	8.9%	19.0%	19.6%	20.1%
EBIT margin	9.9%	(0.6%)	10.2%	10.9%	11.7%
Net profit margin	6.7%	4.0%	4.5%	5.4%	6.1%
ROE	8.2%	6.2%	6.5%	7.7%	8.7%
ROA	2.3%	1.5%	1.7%	2.3%	2.7%
ROCE	4.0%	(0.4%)	4.8%	5.7%	6.3%
SG&A/Sales	68.3%	75.0%	64.9%	65.0%	65.2%
Net debt/equity	1.9	1.8	1.2	1.2	1.1
P/E (x)	14.2	19.7	19.1	15.4	13.1
P/BV (x)	1.1	1.2	1.2	1.2	1.1
EV/EBITDA (x)	14.4	24.6	10.4	9.6	9.1
Dividend Yield	4.0%	4.1%	4.2%	4.3%	4.5%
Sales/Assets (x)	0.3	0.4	0.4	0.4	0.4
Interest cover (x)	6.2	1.8	4.2	4.8	5.1
Operating leverage	(104.2%)	(311.7%)	126837.2%	270.7%	248.4%
Revenue y/y Growth	11.6%	34.8%	(1.4%)	4.5%	5.0%
EBITDA y/y Growth	(1.5%)	(40.3%)	111.3%	7.8%	8.0%
Tax rate	16.1%	(27.7%)	18.3%	19.6%	20.0%
Adj. Net Income y/y Growth	6.2%	(20.1%)	10.7%	26.6%	18.5%
EPS y/y Growth	0.5%	(27.8%)	3.1%	24.4%	17.2%
DPS y/y Growth	4.4%	4.2%	1.0%	3.0%	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 ($)	Price Target ($)
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
24-Oct-22	OW	101.74	115
09-Jan-23	OW	112.53	125
01-Feb-23	OW	117.54	131

NiSource Inc. (NI, NI US) Price Chart



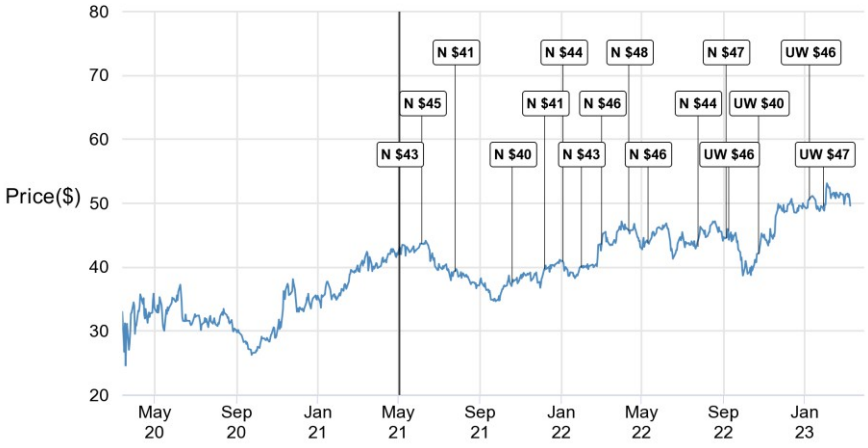
Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
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
09-Dec-22	OW	27.77	31

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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
24-Oct-22	UW	42.08	40
09-Jan-23	UW	50.48	46
30-Jan-23	UW	49.44	47

Spire Inc (SR, SR US) Price Chart

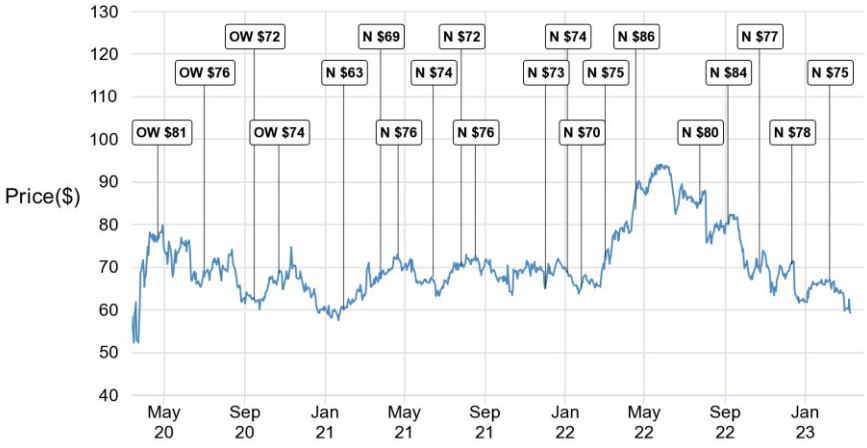


Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 20, 2013. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
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
25-Jul-22	N	70.09	72
05-Sep-22	N	69.01	74
09-Sep-22	OW	69.59	78
02-Nov-22	OW	70.35	75
05-Dec-22	N	68.74	69
22-Dec-22	N	68.34	71
30-Jan-23	N	71.31	73

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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 ($)	Price Target ($)
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
24-Oct-22	N	70.35	77
12-Dec-22	N	70.67	78
07-Feb-23	N	67.01	75

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North American Utilities Weekly

Utilities Outperform in a Volatile Week; CNP/PCG/NI CFO Changes; News Flow; Weekly Comps

- **Utilities surge as investors seek stability; sentiment check.** Utilities (+4.0%) outperformed the S&P 500 (+1.5%) as investors de-risked while financials continued to dominate market headlines. Within the group, a flight to quality saw **WEC**, **XEL**, and **AWK** outperform, plus defensive trades benefiting Canadians **FTS** and **EMA**. **NEE** ended the week relatively flat with uncertainty surrounding the ultimate timeline of Supreme Court appeal and FEC issues. CFO changes across **CNP**, **PCG**, and **NI** sparked investor conversation but no notable pushback. We continue to see **CMS** and **NI** as top picks in the current market.

- **Please join us at the JPM Midwest Utilities & Midstream 1x1 Forum, April 5-6.** Working with our US IG credit colleagues, the Chicago event will feature ~15 expected corporate attendees hosting 1x1 meetings with regional investors. April 5th will feature Utility management representatives from **AEE**, **AEP**, **CMS**, **ETR**, **ES**, **EXC**, **WEC**, and **XEL**. April 6th will feature Midstream management representatives from **ENB**, **EPD**, **OKE**, **PPL CN**, **TRGP, PAA, DTM** and **KEY CN**. Please contact your J.P. Morgan sales representative for more details.

- **Please join us at the 2023 AGA Financial Forum, May 21-23.** The American Gas Association will host its annual investor conference in Fort Lauderdale this spring, where we will meet with ~18 management teams, including **ED**, **NI**, **NJR**, and **SWX** on May 21st, **AEE**, **AGR**, **ATO**, **CMS**, **CNP**, **D**, **DTE**, **NWE**, **PEG**, **SRE**, and **XEL** on May 22nd, and **DUK**, **SR**, and **WEC** on May 23rd. Please contact your J.P. Morgan sales representative for more details.

Table 1: Weekly Dashboard

Total Return	1Wk	YTD
S&P Utilities	4.0%	-5.0%
Utility Coverage	4.1%	-2.2%
S&P 500	1.5%	2.4%
REITs	-0.2%	-2.5%
AMNA	-4.5%	-4.7%
AMZ	-4.3%	0.1%
Commodity	**1Wk**	**Price**
WTI Crude Oil	-13.5%	$66.36
Henry Hub Gas	-3.0%	$2.36

Top & Bottom Performers			
1Wk		YTD	
FTS	8.7%	AQN	23.1%
WEC	7.6%	EMA	9.5%
XEL	6.6%	FTS	8.0%
SO	6.2%	EIX	6.5%
AES	-3.7%	AES	-21.7%
NEP	-0.7%	NEP	-10.5%
SRE	0.9%	NEE	-8.9%
PCG	1.7%	ES	-8.6%

Sector Performance			
SubSector		1Wk	YTD
Canadians		7.5%	10.7%
Water		5.8%	-6.6%
Regulated		4.8%	-2.9%
LDCs		4.0%	1.8%
Diversifieds		3.3%	-7.4%
	Yield	10Yr	Spread
S&P Utilities	3.36%	3.43%	-0.07%

Source: Bloomberg Finance L.P.

- **CNP and PCG CFO announcements surprise, with PCG CFO Chris Foster moving to CNP.** In dueling updates, **CNP** announced its hire of PCG CFO Chris Foster to fill the company's CFO role opened after last year's promotion of Jason Wells to President and COO. Additionally, **PCG** tapped current company advisor Carolyn Burke to assume the CFO role upon Foster's May departure. For Centerpoint, this change echoes a similar move by Wells to CNP from PCG, where both executives previously overlapped. We see Foster bringing a highly visible track record to the company, having led PCG's financial efforts since shortly after the emergence from bankruptcy. For PG&E, Burke offers wide enterprise improvement experience from stints at Dynegy and NRG Energy after restructurings and was most recently CFO of Chevron Phillips Chemical Company before joining PCG as an advisor earlier this year. PCG CEO Patti Poppe, outgoing CFO Chris Foster, and incoming CFO Carolyn Burke held a call with the investment community shortly after the announcements. Points of emphasis included, 1) continuity in the transition with Foster staying on through May, 2) no changes to PCG's targets or financial

North American Utilities

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US Utilities Deep-Dive, 9/29/20

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plan, 3) alignment of Burke's efficiency experience, particularly at Dynegy, with PCG's ongoing work to transition from bankruptcy recovery to steady state operations, and 4) some potential to accelerate cost initiatives given Burke's deep expertise. Overall, these moves screen as a win-win for both companies, with CNP landing a well-regarded industry figure in Foster and PCG leveraging Burke's unique experience as the company continues its post-bankruptcy transformation.

- **NI management shuffle sees CFO change, among others.** NiSource announced a series of leadership changes, including naming Shawn Anderson as CFO and current CFO Donald Brown as Chief Innovation Officer. In speaking with the company, management offered a message emphasizing plan continuity, no changes to financial targets, and Anderson's longstanding work with Brown that includes close collaboration on the strategic review and current financial plan. We highlight that Anderson is a familiar face to the investment community in his current role as SVP of Risk and Chief Strategy Officer, in a positive development, and see these moves as consistent with broadening experience across the executive bench. As such, we have no concerns on the timing overlap with NI's NIPSCO minority stake sale process given the normal course nature of these changes and that this also furthers personnel changes under CEO Lloyd Yates after assuming leadership of NI last year. In taking over as Chief Innovation Officer, Brown will oversee a critical area of technology and transformation that underpins the company's O&M efforts identified at last year's investor day. Other changes include, 1) the hire of Michael Luhrs as EVP of Strategy and Risk and Chief Commercial Officer (joining from Alliant Energy), and 2) the naming of Melody Birmingham as EVP, NiSource and group president, NiSource Utilities (currently Chief Innovation Officer).

- **AQN: $0.22 actual, $0.20 JPMe, $0.19 Street.** On the KY Power acquisition, management pointed to company efforts as part of last month's new FERC application, encompassing commitments that run through the transaction agreement's April 26 outside date. Declining to speculate beyond this date or quantify long-term growth drivers with and without KY Power, management appears focused on meeting these near-term commitments until the outside date. Unsurprisingly in reaction, investors appear to be reading this commentary as softening resolve to see the deal through or extend beyond April 26. We do not expect this sentiment to change absent a definitive company update alongside FERC review that reiterates AQN's long-term commitment to the deal should approvals lag the accelerated timeframe currently targeted. Optionality to meet its $1bn 2023 asset sale target stood as another top call theme, but plan color otherwise remains high level across timing, current or planned processes, and potential tie-ins with Atlantica's (AY, covered by Mark Strouse) strategic review. Here, we see the company's sprawling portfolio as offering logical divestments across both the regulated and renewables businesses, potentially driving a multi-year capital rotation opportunity. However, the KY Power deal remains a key hurdle to framing this overall need, before considering the impact of various Atlantica outcomes as well.

- **News flow: ES** announced a joint proposal with Orsted for Revolution Wind 2, an 884MW offshore wind project in Rhode Island. If selected, RW2 will include a ~$35mm investment into a regional offshore wind logistics and operations hub at Quonset Point, the construction of two new crew transfer vessels, and more than $2bn in direct economic benefits to Rhode Island. Separately, the PURA voted 2-1 to uphold the draft decision clipping Aquarion's proposed annual revenue requirement by $36mm to $197mm, premised upon an 8.70% ROE (vs 10.35% requested) on a 50.35% equity layer and rate base valued at $989.4mm. President Joe Biden and European Commission President Ursula von der Leyen pledged more cooperation and transparency on green incentives, working to end a recent dispute over protectionism. Judy Chang, the former Massachusetts Undersecretary of Energy

and Climate Solutions under Governor Charlie Baker (R), is being considered for an opening on the FERC. The DOE is launching a $750mm fund for green hydrogen R&D. With the support of both Legislative Chambers and the Governor, New York is poised to become the first state to fully ban natural gas in new buildings, requiring the use of electric stoves and heating instead. The Texas Legislature is considering offering low interest loans to incentivize the construction of natural gas fired power plants while also cutting subsidies for renewables. **ETR** is requesting to add 3 GW of new solar power in Louisiana, representing the largest increase in its renewable generation to-date. The request is part of ETR's plan to add 17 GW of renewables by the end of 2031. The EIA predicts that U.S. energy-related carbon emissions will fall to 25-38% below 2005 levels by 2030, short of the 50-52% called for in the Paris Agreement.

Table 2: 4Q22 Earnings Table

Company	Ticker	Rating	4Q22 Consensus EPS Est. Max	Min	Mean	Median	JPMe	JPMe vs. Median	Actual	Actual vs. Median	Actual vs. JPMe
Regulated											
Ameren Corporation	AEE	OW	$0.59	$0.54	$0.57	$0.57	$0.57	0%	$0.63	11%	11%
American Electric Power	AEP	OW	$1.02	$0.96	$0.99	$0.99	$1.00	2%	$1.05	7%	5%
Allete Inc.	ALE	N	$1.26	$0.96	$1.14	$1.25	$0.96	-23%	$0.90	-28%	-6%
CMS Energy Corporation	CMS	OW	$0.61	-$1.39	$0.44	$0.59	$0.61	3%	$0.60	2%	-2%
Dominion Energy Inc	D	N	$1.09	$0.98	$1.04	$1.05	$1.05	0%	$1.06	1%	1%
Duke Energy Corp.	DUK	N	$1.16	$0.91	$1.06	$1.08	$1.10	2%	$1.11	3%	1%
Consolidated Edison Inc.	ED	UW	$0.93	$0.70	$0.80	$0.80	$0.82	3%	$0.81	2%	-1%
Edison International	EIX	N	$1.13	$1.07	$1.09	$1.09	$1.09	0%	$1.15	6%	6%
Eversource Energy	ES	N	$0.98	$0.91	$0.94	$0.94	$0.94	0%	$0.92	-2%	-2%
Entergy Corp.	ETR	OW	$0.52	$0.41	$0.47	$0.47	$0.48	2%	$0.51	9%	6%
Exelon Corp.	EXC	OW	$0.45	$0.41	$0.43	$0.43	$0.42	-2%	$0.43	0%	2%
FirstEnergy	FE	N	$0.56	$0.50	$0.53	$0.53	$0.52	-2%	$0.50	-6%	-4%
NorthWestern Corp	NWE	NR	$1.22	$1.05	$1.16	$1.19	$1.18	0%	$1.13	-5%	-4%
PG&E Corp.	PCG	N	$0.29	$0.25	$0.27	$0.26	$0.27	4%	$0.26	0%	-4%
The Southern Company	SO	UW	$0.26	$0.23	$0.24	$0.25	$0.23	-6%	$0.26	6%	13%
WEC Energy Group	WEC	N	$0.76	$0.74	$0.75	$0.74	$0.75	1%	$0.80	8%	7%
Xcel Energy	XEL	OW	$0.69	$0.64	$0.68	$0.68	$0.68	0%	$0.69	1%	1%
Diversified											
AES Corp.	AES	OW	$0.48	$0.43	$0.46	$0.47	$0.46	-2%	$0.49	4%	7%
Avangrid, Inc	AGR	UW	$0.42	$0.31	$0.39	$0.39	$0.40	3%	$0.39	0%	-3%
CenterPoint Energy, Inc.	CNP	OW	$0.30	$0.27	$0.28	$0.28	$0.29	4%	$0.28	0%	-3%
DTE Energy Company	DTE	N	$1.32	$1.15	$1.23	$1.23	$1.25	2%	$1.31	7%	5%
NextEra Energy Inc.	NEE	OW	$0.54	$0.47	$0.49	$0.50	$0.50	1%	$0.51	3%	2%
Public Service Enterprise Group	PEG	OW	$0.65	$0.59	$0.63	$0.62	$0.62	0%	$0.64	3%	3%
Sempra Energy	SRE	N	$2.17	$1.93	$2.03	$2.00	$2.08	4%	$2.35	18%	13%
LDCs											
Atmos Energy	ATO	OW	$1.97	$1.84	$1.93	$1.94	$1.97	2%	$1.91	-2%	-3%
New Jersey Resources	NJR	UW	$0.88	$0.59	$0.72	$0.71	$0.73	3%	$1.14	61%	56%
NiSource Inc.	NI	OW	$0.49	$0.46	$0.48	$0.48	$0.49	2%	$0.50	4%	2%
Spire Inc	SR	N	$1.23	$1.08	$1.17	$1.19	$1.17	-1%	$1.55	31%	32%
Southwest Gas Holdings Inc.	SWX	N	$2.04	$1.21	$1.60	$1.61	$1.41	-12%	$1.16	-28%	-18%
Canadians											
Algonquin Power & Utilities Corp.	AQN	N	$0.21	$0.17	$0.19	$0.19	$0.20	5%	$0.22	16%	10%
Emera Inc.	EMA	N	$0.72	$0.68	$0.70	$0.70	$0.70	0%	$0.76	9%	9%
Fortis Inc.	FTS	N	$0.73	$0.68	$0.71	$0.71	$0.70	-1%	$0.72	1%	3%
Water											
American Water Works Company, Inc.	AWK	N	$0.85	$0.75	$0.78	$0.76	$0.76	0%	$0.81	7%	7%
SJW Group	SJW	N	$1.04	$1.02	$1.03	$1.03	$0.61	-41%	$1.09	6%	79%

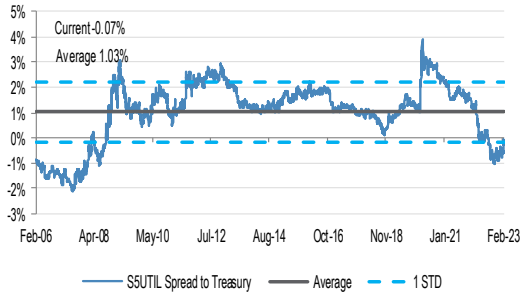
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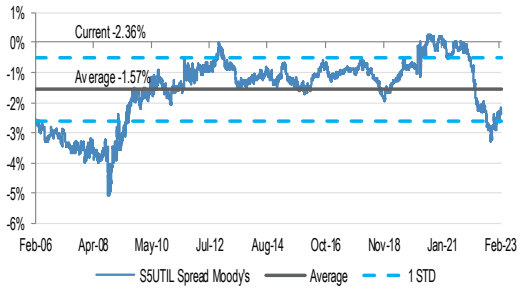
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Utility Valuation Snapshot

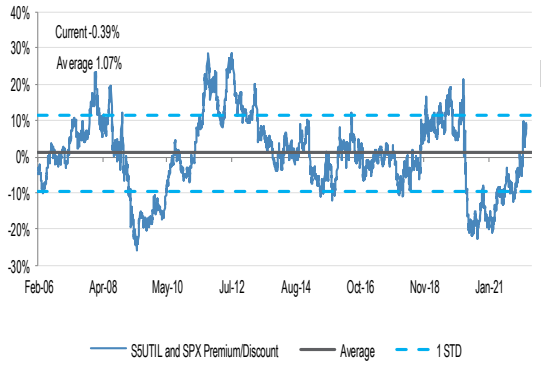
S&P Utilities Index Spread to 10-Year Treasury



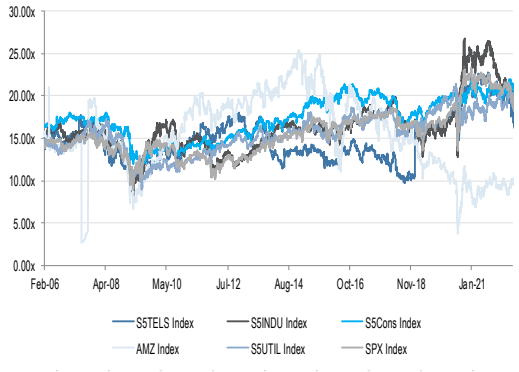
S&P Utilities Index Spread to Moody's Corporate BAA Bond Index



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 2023E	Payout 2023E	Dividend Estimates: Annual Dividend 2023E	2024E	2025E	Growth Rates 23/'22	'24/'23	'25/'24	Growth CAGR '22/'25	Current Yield Based on Annual Dividend 2023	2024	2025	Total Return YE23
Regulated																				
Ameren Corporation	AEE	OW	Jeremy Tonet	$22,278	$37,252	$95.00	$85.02	3.0%	58%	2.52	2.68	2.86	6.8%	6.5%	6.5%	6.6%	3.0%	3.2%	3.4%	14.7%
American Electric Power	AEP	OW	Jeremy Tonet	$46,657	$86,542	$102.00	$90.70	3.7%	64%	3.37	3.57	3.79	6.3%	6.0%	6.0%	6.1%	3.7%	3.9%	4.2%	16.2%
Allete Inc.	ALE	N	Richard Sunderland	$3,654	$6,139	$65.00	$63.82	4.2%	74%	2.71	2.82	2.93	4.2%	4.0%	4.0%	4.1%	4.2%	4.4%	4.6%	6.1%
CMS Energy Corporation	CMS	OW	Jeremy Tonet	$17,866	$32,828	$69.00	$61.34	3.2%	63%	1.95	2.08	2.21	6.0%	6.5%	6.5%	6.3%	3.2%	3.4%	3.6%	15.7%
Dominion Energy Inc	D	N	Jeremy Tonet	$46,273	$94,527	$59.00	$55.40	4.8%	74%	2.67	2.72	2.78	0.0%	2.0%	2.0%	1.3%	4.8%	4.9%	5.0%	11.3%
Duke Energy Corp.	DUK	N	Jeremy Tonet	$74,220	$155,137	$106.00	$96.39	4.2%	71%	4.02	4.19	4.38	2.0%	4.3%	4.5%	3.6%	4.2%	4.3%	4.5%	14.1%
Consolidated Edison Inc.	ED	UW	Jeremy Tonet	$33,953	$57,290	$81.00	$95.63	3.4%	67%	3.24	3.35	3.46	2.5%	3.4%	3.4%	3.1%	3.4%	3.5%	3.6%	-11.9%
Edison International	EIX	N	Jeremy Tonet	$25,923	$61,984	$75.00	$67.76	4.4%	62%	2.95	3.10	3.25	5.4%	5.1%	4.8%	5.1%	4.4%	4.6%	4.8%	15.0%
Eversource Energy	ES	N	Jeremy Tonet	$26,468	$48,850	$85.00	$75.91	3.6%	62%	2.70	2.86	3.03	5.9%	6.0%	6.0%	6.0%	3.6%	3.8%	4.0%	15.5%
Entergy Corp.	ETR	OW	Jeremy Tonet	$22,178	$50,173	$127.00	$104.57	4.2%	65%	4.34	4.60	4.88	6.0%	6.0%	6.0%	6.0%	4.2%	4.4%	4.7%	25.6%
Exelon Corp.	EXC	OW	Jeremy Tonet	$41,900	$81,283	$47.00	$42.14	3.4%	60%	1.44	1.54	1.65	6.7%	7.0%	7.0%	6.9%	3.4%	3.7%	3.9%	15.0%
FirstEnergy	FE	N	Jeremy Tonet	$22,764	$44,984	$41.00	$39.78	3.9%	62%	1.56	1.61	1.66	0.0%	3.0%	3.0%	2.0%	3.9%	4.0%	4.2%	7.0%
NorthWestern Energy	NWE	N	Jeremy Tonet	$3,374	$6,033	$55.00	$56.45	4.6%	74%	2.60	2.67	2.75	3.4%	3.0%	3.0%	3.1%	4.6%	4.7%	4.9%	2.0%
PG&E Corp.	PCG	N	Jeremy Tonet	$32,014	$84,858	$17.00	$16.10	1.2%	17%	0.20	0.40	0.40		100.0%	0.0%		1.2%	2.5%	2.5%	6.8%
The Southern Company	SO	UW	Jeremy Tonet	$73,921	$135,263	$68.00	$67.90	4.1%	77%	2.78	2.86	2.95	3.0%	3.0%	3.0%	3.0%	4.1%	4.2%	4.3%	4.2%
WEC Energy Group	WEC	N	Jeremy Tonet	$29,730	$47,264	$99.00	$94.25	3.3%	68%	3.12	3.34	3.57	7.2%	7.0%	7.0%	7.1%	3.3%	3.5%	3.8%	8.4%
Xcel Energy	XEL	OW	Jeremy Tonet	$36,774	$62,427	$73.00	$66.88	3.1%	62%	2.09	2.23	2.39	7.0%	7.0%	7.0%	7.0%	3.1%	3.3%	3.6%	12.3%
Mean				**$32,938**	**$64,284**			**3.7%**	**64%**				**4.5%**	**10.6%**	**4.7%**	**4.8%**	**3.7%**	**3.9%**	**4.1%**	**10.5%**
Median				**$29,730**	**$57,290**			**3.7%**	**64%**				**5.6%**	**6.0%**	**4.8%**	**5.5%**	**3.7%**	**3.9%**	**4.2%**	**12.3%**
Mean - ex EIX, PCG				**$33,467**	**$63,066**			**3.8%**	**67%**				**4.5%**	**5.0%**	**5.0%**	**4.8%**	**3.8%**	**4.0%**	**4.1%**	**10.4%**
Median - ex EIX, PCG				**$29,730**	**$50,173**			**3.7%**	**65%**				**5.9%**	**6.0%**	**6.0%**	**6.0%**	**3.7%**	**3.9%**	**4.2%**	**12.3%**
Diversified																				
AES Corp.	AES	OW	Richard Sunderland	$14,980	$41,175	$29.00	$22.39	3.0%	40%	0.67	0.71	0.74	5.0%	5.0%	5.0%	5.0%	3.0%	3.2%	3.3%	32.5%
Avangrid, Inc	AGR	UW	Richard Sunderland	$15,292	$25,562	$39.00	$39.55	4.5%	79%	1.76	1.76	1.76	0.0%	0.0%	0.0%	0.0%	4.5%	4.5%	4.5%	3.1%
CenterPoint Energy, Inc.	CNP	OW	Jeremy Tonet	$18,285	$35,793	$32.00	$29.05	2.6%	51%	0.76	0.82	0.89	8.6%	8.0%	8.0%	8.2%	2.6%	2.8%	3.1%	12.8%
DTE Energy Company	DTE	N	Jeremy Tonet	$22,062	$41,263	$121.00	$107.04	3.6%	61%	3.81	4.06	4.32	7.3%	6.5%	6.5%	6.7%	3.6%	3.8%	4.0%	16.6%
NextEra Energy Inc.	NEE	OW	Jeremy Tonet	$150,394	$224,366	$93.00	$75.67	2.5%	60%	1.87	2.05	2.23	10.0%	9.5%	9.0%	9.5%	2.5%	2.7%	2.9%	25.4%
Public Service Enterprise Group	PEG	OW	Jeremy Tonet	$29,193	$49,167	$68.00	$58.53	3.9%	66%	2.28	2.40	2.54	5.5%	5.5%	5.5%	5.5%	3.9%	4.1%	4.3%	20.1%
Sempra Energy	SRE	N	Jeremy Tonet	$45,731	$77,799	$166.00	$145.34	3.3%	53%	4.76	4.95	5.15	3.9%	4.0%	4.0%	4.0%	3.3%	3.4%	3.5%	17.5%
Mean (Regulated & Diversified)				**$35,662**	**$66,165**			**3.6%**	**62%**				**4.9%**	**9.1%**	**4.9%**	**5.1%**	**3.6%**	**3.8%**	**4.0%**	**12.7%**
Median (Regulated & Diversified)				**$27,830**	**$49,670**			**3.6%**	**62%**				**5.5%**	**5.8%**	**5.3%**	**5.5%**	**3.6%**	**3.8%**	**4.0%**	**14.4%**
LDCs																				
Atmos Energy	ATO	OW	Richard Sunderland	$16,419	$25,052	$119.00	$114.69	2.6%	49%	2.96	3.23	3.52	8.8%	9.0%	9.0%	8.9%	2.6%	2.8%	3.1%	6.3%
New Jersey Resources	NJR	UW	Richard Sunderland	$5,049	$8,331	$45.00	$52.11	3.0%	57%	1.56	1.67	1.78	7.6%	7.1%	6.6%	7.1%	3.0%	3.2%	3.4%	-10.7%
NiSource Inc.	NI	OW	Richard Sunderland	$11,332	$24,481	$30.00	$27.47	3.6%	64%	1.00	1.06	1.12	6.4%	6.0%	6.0%	6.1%	3.6%	3.9%	4.1%	12.9%
Spire Inc	SR	N	Richard Sunderland	$3,679	$8,572	$68.00	$70.01	4.1%	68%	2.88	3.02	3.18	5.1%	5.0%	5.0%	5.0%	4.1%	4.3%	4.5%	1.2%
Southwest Gas Holdings Inc.	SWX	N	Richard Sunderland	$4,302	$10,420	$67.00	$60.32	4.1%	80%	2.48	2.56	2.66	1.0%	3.0%	3.9%	2.6%	4.1%	4.2%	4.4%	15.2%
Mean				**$8,156**	**$15,371**			**3.5%**	**64%**				**5.8%**	**6.0%**	**6.1%**	**6.0%**	**3.5%**	**3.7%**	**3.9%**	**5.0%**
Median				**$5,049**	**$10,420**			**3.6%**	**64%**				**6.4%**	**6.0%**	**6.0%**	**6.1%**	**3.6%**	**3.9%**	**4.1%**	**6.3%**
Canadians																				
Algonquin Power & Utilities Corp.	AQN	N	Richard Sunderland	$5,440	$15,037	$12.00	$7.96	9.1%	110%	0.72	0.72	0.72	2.9%	0.0%	0.0%	1.0%	9.1%	9.1%	9.1%	59.8%
Emera Inc.	EMA	N	Richard Sunderland	$15,102	$35,334	$56.00	$55.92	5.0%	86%	2.79	2.90	0.00	4.1%	4.0%	-100.0%	-100.0%	5.0%	5.2%	0.0%	5.1%
Fortis Inc.	FTS	N	Richard Sunderland	$27,922	$60,192	$56.00	$57.91	4.0%	78%	2.29	2.41	2.53	5.5%	5.2%	5.0%	5.2%	4.0%	4.2%	4.4%	0.7%
Mean				**$16,155**	**$36,854**			**6.0%**	**91%**				**4.2%**	**3.1%**	**-31.7%**	**-31.3%**	**6.0%**	**6.1%**	**4.5%**	**21.9%**
Median				**$15,102**	**$35,334**			**5.0%**	**86%**				**4.1%**	**4.0%**	**0.0%**	**1.0%**	**5.0%**	**5.2%**	**4.4%**	**5.1%**
Water																				
American Water Works Company, Inc.	AWK	N	Richard Sunderland	$27,599	$39,946	$149.00	$141.81	2.0%	58%	2.78	3.00	3.24	8.2%	8.0%	8.0%	8.1%	2.0%	2.1%	2.3%	7.0%
SJW Group	SJW	N	Richard Sunderland	$2,335	$3,979	$74.00	$75.70	2.0%	62%	1.52	1.60	1.68	5.6%	5.3%	5.0%	5.3%	2.0%	2.1%	2.2%	-0.2%
Median				**$14,967**	**$21,962**			**2.0%**	**60%**				**6.9%**	**6.6%**	**6.5%**	**6.7%**	**2.0%**	**2.1%**	**2.3%**	**3.4%**
Yieldco																				
Nextera Energy Partners	NEP	N	Jeremy Tonet	$5,368	$21,894	$81.00	$62.01	5.6%	118%	3.44	3.87	4.33	12.2%	12.4%	12.0%	12.2%	5.6%	6.2%	7.0%	36.2%

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 2023E	EPS Forecast 2024E	EPS Forecast 2025E	P/E Multiple 2023E	P/E Multiple 2024E	P/E Multiple 2025E	P/E Multiple Prem/Disc (ex select names) 2023E	P/E Multiple Prem/Disc (ex select names) 2024E	P/E Multiple Prem/Disc (ex select names) 2025E	EPS Growth 23'/22	EPS Growth '24/'23	EPS Growth '25/'24	EV/EBITDA 2023E	EV/EBITDA 2024E	EV/EBITDA 2025E	FFO/Debt 2023E	FFO/Debt 2024E	FFO/Debt 2025E	Debt to Cap	Credit Rating Moody's	Credit Rating S&P
Regulated																								
Ameren Corporation	AEE	OW	Jeremy Tonet	4.35	4.68	5.01	19.5x	18.2x	17.0x	9.4%	8.8%	8.5%	5.2%	7.4%	7.0%	10.8x	10.1x	9.4x	18.0%	17.8%	17.9%	59%	Baa1	BBB+
American Electric Power	AEP	OW	Jeremy Tonet	5.29	5.64	5.97	17.1x	16.1x	15.2x	-4.0%	-3.8%	-2.9%	4.0%	6.7%	5.7%	10.7x	10.1x	9.5x	16.6%	15.7%	14.7%	63%	Baa2	A-
Allete Inc.	ALE	N	Richard Sunderland	3.67	4.05	4.17	17.4x	15.8x	15.3x	-2.5%	-5.7%	-2.3%	8.4%	10.5%	3.0%	13.7x	12.6x	12.0x	22.5%	20.9%	18.6%	37%	Baa1	BBB
CMS Energy Corporation	CMS	OW	Jeremy Tonet	3.12	3.37	3.63	19.7x	18.2x	16.9x	10.3%	8.8%	7.9%	7.8%	8.3%	7.6%	11.5x	10.8x	10.1x	15.2%	14.9%	14.7%	65%	Baa2	BBB+
Dominion Energy Inc	D	N	Jeremy Tonet	3.58	3.69	3.96	15.5x	15.0x	14.0x	-13.4%	-10.2%	-10.8%	-12.8%	3.0%	7.4%	11.6x	11.1x	10.2x	14.3%	15.1%	14.8%	62%	Baa2	BBB+
Duke Energy Corp.	DUK	N	Jeremy Tonet	5.64	6.00	6.34	17.1x	16.1x	15.2x	-4.2%	-3.9%	-2.9%	6.9%	6.5%	5.6%	11.9x	11.3x	10.7x	14.7%	14.5%	14.2%	60%	Baa2	BBB+
Consolidated Edison Inc.	ED	UW	Jeremy Tonet	4.85	5.21	5.46	19.7x	18.4x	17.5x	10.4%	9.8%	11.8%	6.2%	7.4%	4.8%	11.5x	10.9x	10.3x	16.8%	15.8%	15.5%	54%	Baa2	A-
Edison International	EIX	N	Jeremy Tonet	4.74	5.22	5.61	14.3x	13.0x	12.1x	-19.9%	-22.3%	-22.9%	2.2%	10.1%	7.6%	9.7x	9.1x	8.6x	15.3%	12.8%	12.3%	65%	Baa2	BBB
Eversource Energy	ES	N	Jeremy Tonet	4.34	4.66	5.02	17.5x	16.3x	15.1x	-2.1%	-2.4%	-3.4%	6.2%	7.2%	7.7%	10.8x	9.9x	9.2x	15.2%	15.0%	15.0%	59%	Baa1	A-
Entergy Corp.	ETR	OW	Jeremy Tonet	6.69	7.19	7.73	15.6x	14.6x	13.5x	-12.5%	-12.9%	-13.6%	4.2%	7.4%	7.5%	10.8x	10.2x	9.4x	14.8%	14.0%	13.6%	68%	Baa2	BBB+
Exelon Corp.	EXC	OW	Jeremy Tonet	2.40	2.51	2.76	17.5x	16.8x	15.3x	-1.8%	0.6%	-2.5%	6.0%	4.3%	10.1%	10.5x	10.1x	9.6x	13.9%	13.3%	13.1%	62%	Baa2	BBB+
FirstEnergy	FE	N	Jeremy Tonet	2.53	2.65	2.81	15.8x	15.0x	14.1x	-11.8%	-10.3%	-9.7%	5.0%	5.1%	6.0%	10.1x	9.3x	8.9x	14.5%	15.9%	15.7%	67%	Ba1	BBB-
NorthWestern Energy	NWE	N	Jeremy Tonet	3.51	3.60	3.85	16.1x	15.7x	14.7x	-9.8%	-6.1%	-6.3%	7.3%	2.6%	7.0%	11.4x	10.7x	10.0x	14.2%	13.5%	13.5%	50%	Baa2	BBB
PG&E Corp.	PCG	N	Jeremy Tonet	1.21	1.33	1.44	13.3x	12.1x	11.2x	-25.3%	-27.3%	-28.5%	9.9%	9.7%	8.6%	8.8x	8.4x	8.0x	16.6%	14.5%	16.4%	70%	Ba2	BB-
The Southern Company	SO	UW	Jeremy Tonet	3.60	4.00	4.33	18.9x	17.0x	15.7x	5.7%	1.6%	0.2%	-0.2%	11.1%	8.2%	12.3x	11.4x	10.9x	15.4%	16.3%	17.0%	63%	Baa2	BBB+
WEC Energy Group	WEC	N	Jeremy Tonet	4.60	4.91	5.25	20.5x	19.2x	18.0x	14.8%	15.0%	14.7%	3.3%	6.7%	6.9%	13.1x	12.3x	11.6x	14.8%	14.3%	14.3%	60%	Baa1	A-
Xcel Energy	XEL	OW	Jeremy Tonet	3.36	3.61	3.83	19.9x	18.5x	17.5x	11.4%	10.9%	11.5%	5.9%	7.3%	6.2%	11.7x	11.0x	10.4x	17.1%	17.9%	16.6%	61%	Baa1	A-
Mean							**17.4x**	**16.2x**	**15.2x**				**4.4%**	**7.1%**	**6.9%**	**11.2x**	**10.5x**	**9.9x**	**15.9%**	**15.4%**	**15.2%**	**60%**		
Median							**17.4x**	**16.1x**	**15.2x**				**5.9%**	**7.3%**	**7.0%**	**11.4x**	**10.7x**	**10.0x**	**15.2%**	**15.0%**	**14.8%**	**62%**		
Mean - ex EIX, PCG							**17.9x**	**16.7x**	**15.7x**				**4.2%**	**6.8%**	**6.7%**	**11.5x**	**10.8x**	**10.1x**	**15.9%**	**15.7%**	**15.3%**	**59%**		
Median - ex EIX, PCG							**17.5x**	**16.3x**	**15.3x**				**5.9%**	**7.2%**	**7.0%**	**11.5x**	**10.8x**	**10.1x**	**15.2%**	**15.1%**	**14.8%**	**61%**		
Diversified																								
AES Corp.	AES	OW	Richard Sunderland	1.70	1.93	2.10	13.2x	11.6x	10.7x	-26.2%	-30.5%	-31.8%	1.7%	13.4%	8.8%	10.3x	9.3x	8.6x	14.0%	15.2%	16.4%	81%	Baa3	BBB-
Avangrid, Inc	AGR	UW	Richard Sunderland	2.22	2.30	2.42	17.8x	17.2x	16.3x	-0.2%	2.8%	4.4%	-4.6%	3.7%	5.1%	11.2x	10.4x	9.7x	18.3%	15.8%	16.8%	32%	Baa2	BBB+
CenterPoint Energy, Inc.	CNP	OW	Jeremy Tonet	1.49	1.62	1.74	19.5x	18.0x	16.7x	9.1%	7.5%	6.8%	8.0%	8.4%	7.4%	11.2x	10.5x	9.8x	12.8%	12.3%	12.0%	63%	Baa2	BBB+
DTE Energy Company	DTE	N	Jeremy Tonet	6.24	6.62	7.11	17.1x	16.2x	15.1x	-4.0%	-3.2%	-3.8%	2.7%	6.0%	7.4%	10.6x	9.9x	9.3x	14.7%	14.0%	13.7%	65%	Baa2	BBB+
NextEra Energy Inc.	NEE	OW	Jeremy Tonet	3.12	3.41	3.69	24.2x	22.2x	20.5x	35.7%	33.0%	30.9%	7.6%	9.0%	8.4%	14.1x	12.4x	11.2x	17.4%	16.8%	16.5%	57%	Baa1	A-
Public Service Enterprise Group	PEG	OW	Jeremy Tonet	3.46	3.61	4.05	16.9x	16.2x	14.5x	-5.2%	-3.1%	-7.6%	0.1%	4.6%	12.0%	12.0x	11.5x	10.5x	18.1%	19.2%	19.3%	60%	Baa2	BBB+
Sempra Energy	SRE	N	Jeremy Tonet	8.95	9.58	10.11	16.2x	15.2x	14.4x	-9.1%	-9.2%	-8.3%	-2.8%	7.0%	5.6%	13.9x	13.3x	12.9x	15.8%	15.6%	15.3%	50%	Baa2	BBB+
Mean (Regulated & Diversified)							**17.5x**	**16.3x**	**15.3x**				**3.7%**	**7.2%**	**7.1%**	**11.4x**	**10.7x**	**10.0x**	**15.9%**	**15.5%**	**15.3%**	**60%**		
Median (Regulated & Diversified)							**17.3x**	**16.2x**	**15.2x**				**5.1%**	**7.3%**	**7.4%**	**11.3x**	**10.6x**	**9.9x**	**15.2%**	**15.2%**	**15.2%**	**61%**		
LDCs																								
Atmos Energy	ATO	OW	Richard Sunderland	6.00	6.45	6.91	19.1x	17.8x	16.6x	4.1%	4.3%	4.7%	7.1%	7.5%	7.2%	14.4x	13.0x	11.7x	21.1%	20.5%	20.0%	47%	A1	A-
New Jersey Resources	NJR	UW	Richard Sunderland	2.72	2.74	2.82	19.2x	19.0x	18.5x	4.4%	11.6%	16.7%	8.7%	0.7%	2.9%	13.6x	13.1x	12.5x	16.5%	14.4%	14.9%	63%	#N/A N/A	#N/A N/A
NiSource Inc.	NI	OW	Richard Sunderland	1.56	1.67	1.80	17.6x	16.5x	15.2x	-4.1%	-3.2%	-3.9%	6.6%	6.7%	8.2%	11.0x	9.9x	9.1x	14.5%	14.8%	14.3%	59%	Baa2	BBB+
Spire Inc	SR	N	Richard Sunderland	4.25	4.30	4.49	16.5x	16.3x	15.6x	-10.3%	-4.4%	-1.6%	10.2%	1.1%	4.4%	11.7x	11.3x	10.6x	11.0%	11.0%	11.2%	60%	Baa2	A-
Southwest Gas Holdings Inc.	SWX	N	Richard Sunderland	3.10	3.86	4.52	19.4x	15.6x	13.3x	5.9%	-8.3%	-15.9%	3.1%	24.4%	17.2%	11.2x	10.4x	9.6x	19.3%	25.4%	19.5%	65%	Baa2	BBB-
Mean							**18.4x**	**17.0x**	**15.8x**				**7.1%**	**8.1%**	**8.0%**	**12.4x**	**11.6x**	**10.7x**	**16.5%**	**17.2%**	**16.0%**	**59%**		
Median							**19.1x**	**16.5x**	**15.6x**				**7.1%**	**6.7%**	**7.2%**	**11.7x**	**11.3x**	**10.6x**	**16.5%**	**14.8%**	**14.9%**	**60%**		
Canadians																								
Algonquin Power & Utilities Corp.	AQN	N	Richard Sunderland	0.66	0.71	0.72	12.1x	11.2x	11.0x	-32.0%	-33.2%	-29.9%	-2.6%	8.8%	1.7%	11.2x	9.2x	8.5x	9.5%	13.3%	14.9%	51%	#N/A N/A	BBB
Emera Inc.	EMA	N	Richard Sunderland	3.24	3.40	0.00	17.2x	16.5x		-3.4%	-1.5%	#######	1.3%	4.8%	-100.0%	11.8x	11.2x		12.7%	12.9%	0.0%	63%	Baa3	BBB
Fortis Inc.	FTS	N	Richard Sunderland	2.94	3.08	3.18	19.7x	18.8x	18.2x	10.4%	12.4%	16.4%	5.8%	4.9%	3.0%	12.3x	11.8x	11.3x	11.3%	11.3%	11.2%	56%	Baa3	A-
Mean							**16.4x**	**15.5x**	**14.6x**				**1.5%**	**6.2%**	**-31.8%**	**11.8x**	**10.7x**	**9.9x**	**11.2%**	**12.5%**	**8.7%**	**57%**		
Median					**0.03**		**17.2x**	**16.5x**	**14.6x**				**1.3%**	**4.9%**	**1.7%**	**11.8x**	**11.2x**	**9.9x**	**11.3%**	**12.9%**	**11.2%**	**56%**		
Water																								
American Water Works Company, Inc.	AWK	N	Richard Sunderland	4.77	5.14	5.60	29.7x	27.6x	25.3x	66.4%	65.2%	61.8%	6.0%	7.6%	8.9%	17.4x	16.0x	14.8x	12.9%	12.1%	11.7%	62%	Baa1	A
SJW Group	SJW	N	Richard Sunderland	2.45	2.60	2.95	30.9x	29.2x	25.7x	73.1%	74.5%	63.9%	1.0%	6.0%	13.6%	15.6x	14.8x	13.8x	10.8%	10.6%	10.8%	60%	#N/A N/A	A-
Median							**30.3x**	**28.4x**	**25.5x**				**3.5%**	**6.8%**	**11.3%**	**16.5x**	**15.4x**	**14.3x**	**11.9%**	**11.4%**	**11.2%**	**61%**		
Yieldco																								
Nextera Energy Partners	NEP	N	Jeremy Tonet	2.93	3.29	3.86	21.2x	18.9x	16.1x				-49.2%	12.3%	17.3%	10.5x	9.5x					26%	Ba1	BB

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

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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
FTS 9%	AEE 6%	D 4%	EIX 2%		FTS 4%	NI 1%	ATO -2%	ES -5%
WEC 8%	CMS 6%	AGR 4%	NWE 2%		AQN 4%	EIX 0%	NWE -2%	PEG -5%
XEL 7%	ED 6%	ETR 4%	SJW 2%		PCG 3%	NEE 0%	SJW -3%	AWK -5%
SO 6%	CNP 5%	PEG 4%	SWX 2%		ALE 3%	CNP -1%	SR -3%	DTE -6%
AWK 6%	SR 5%	DUK 4%	PCG 2%		ED 3%	XEL -1%	FE -3%	SWX -7%
AQN 6%	ATO 5%	NEE 4%	SRE 1%		EMA 2%	CMS -1%	DUK -3%	SRE -8%
EMA 6%	EXC 5%	AEP 4%	NEP -1%		SO 2%	EXC -1%	AGR -3%	NEP -13%
ALE 6%	FE 4%	DTE 3%	AES -4%		NJR 2%	AEE -2%	ETR -4%	AES -15%
NJR 6%	ES 4%	NI 3%			WEC 1%	AEP -2%	D -4%	
7%	5%	4%	1%	Total Return	3%	-1%	-3%	-8%
25,246	22,623	46,400	16,753	Market Capitalization	25,423	41,267	22,948	21,963

Performance Rank - Three Months					Performance Rank - 2023 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
AQN 19%	ALE 1%	FE -2%	AWK -7%		AQN 23%	NI 1%	AEE -4%	AWK -7%
NJR 8%	NWE 1%	AEE -2%	DTE -7%		EMA 9%	ALE 0%	NWE -4%	AGR -7%
EMA 8%	ATO 1%	CNP -3%	SRE -7%		FTS 8%	PCG -1%	XEL -4%	DTE -8%
SR 8%	PCG 0%	XEL -3%	ES -7%		EIX 7%	SWX -2%	SO -4%	D -9%
FTS 6%	WEC 0%	DUK -3%	ETR -8%		NJR 6%	EXC -2%	FE -4%	ES -9%
EIX 5%	CMS 0%	AEP -3%	NEE -9%		ATO 3%	CMS -2%	DUK -5%	NEE -9%
NI 2%	PEG 0%	D -4%	NEP -14%		SR 3%	CNP -3%	SRE -6%	NEP -11%
ED 1%	SJW -1%	SWX -4%	AES -21%		WEC 1%	PEG -4%	ETR -6%	AES -22%
EXC 1%	SO -1%	AGR -5%			ED 1%	AEP -4%	SJW -6%	
7%	0%	-3%	-10%	Total Return	7%	-2%	-5%	-10%
19,147	23,167	31,872	39,347	Market Capitalization	18,360	22,800	33,731	38,554

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

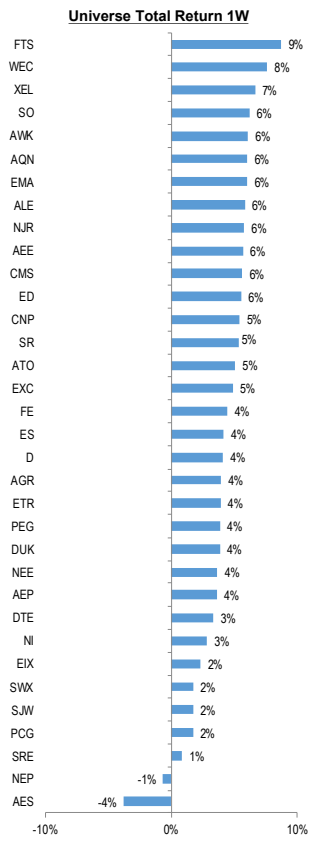
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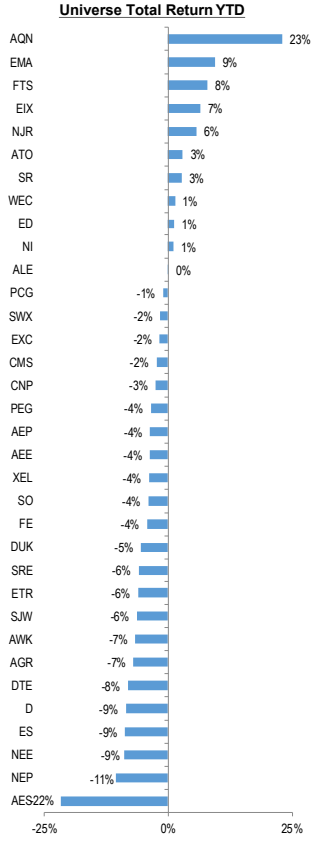
J.P.Morgan

Utilities Total Return Performance

		Total Return (%)				
Symbol	Unit Price	YTD	1W	1M	3M	1Y
Relevant Indexes						
UTY	$861.76	-5.4%	4.2%	-2.0%	-4.5%	-3.9%
S&P 500	$3,916.64	2.4%	1.5%	-3.8%	2.1%	-9.7%
REITs	$688.38	-2.5%	-0.2%	-9.4%	-3.0%	-20.6%
Regulated						
AEE	$85.02	-3.7%	5.7%	-1.8%	-2.4%	-1.4%
AEP	$90.70	-3.6%	3.6%	-1.9%	-3.2%	-1.1%
ALE	$63.82	0.1%	5.8%	3.4%	1.3%	0.5%
CMS	$61.34	-2.4%	5.6%	-1.0%	-0.1%	-5.5%
D	$55.40	-8.6%	4.1%	-4.5%	-4.3%	-30.3%
DUK	$96.39	-5.5%	3.8%	-3.1%	-3.0%	-5.9%
ED	$95.63	1.2%	5.5%	2.6%	1.4%	9.9%
EIX	$67.76	6.5%	2.3%	0.3%	5.3%	7.0%
ES	$75.91	-8.6%	4.2%	-4.6%	-7.5%	-7.1%
ETR	$104.57	-6.1%	3.9%	-4.4%	-7.7%	-1.7%
FE	$39.78	-4.2%	4.4%	-3.0%	-1.9%	-6.1%
PCG	$16.10	-1.0%	1.7%	3.4%	0.1%	36.9%
SO	$67.90	-3.9%	6.2%	1.9%	-1.2%	3.1%
WEC	$94.25	1.4%	7.6%	1.5%	-0.1%	1.4%
XEL	$66.88	-3.8%	6.6%	-0.9%	-2.9%	-1.3%
Diversifieds						
AES	$22.39	-21.7%	-3.7%	-14.6%	-20.5%	-1.8%
AGR	$39.55	-6.9%	3.9%	-3.3%	-5.0%	-8.5%
CNP	$29.05	-2.5%	5.4%	-0.5%	-2.6%	2.3%
DTE	$107.04	-8.1%	3.4%	-6.3%	-6.8%	-13.0%
EXC	$42.14	-1.7%	4.9%	-1.3%	1.4%	0.2%
NEE	$75.67	-8.9%	3.6%	0.1%	-9.5%	-6.5%
PEG	$58.53	-3.5%	3.9%	-5.0%	-0.2%	-10.6%
SRE	$145.34	-6.0%	0.9%	-8.3%	-6.9%	-4.0%
LDCs						
ATO	$114.69	3.0%	5.1%	-2.1%	0.6%	2.7%
NJR	$52.11	5.8%	5.8%	1.6%	8.1%	23.8%
NI	$27.47	1.1%	2.8%	1.2%	2.0%	-5.7%
SWX	$60.32	-1.6%	1.7%	-7.3%	-4.4%	-18.4%
SR	$70.01	2.8%	5.3%	-3.0%	7.5%	8.2%
Canadians						
AQN	$10.92	23.1%	6.0%	3.5%	19.2%	-38.8%
EMA	$55.92	9.5%	6.0%	2.1%	7.8%	-2.4%
FTS	$57.91	8.0%	8.7%	3.9%	6.3%	-0.8%
Water						
AWK	$141.81	-6.6%	6.1%	-5.2%	-6.6%	-8.3%
SJW	$75.70	-6.3%	1.7%	-2.6%	-0.8%	15.0%
YieldCos						
NEP	$62.01	-10.5%	-0.7%	-13.3%	-13.5%	-20.2%

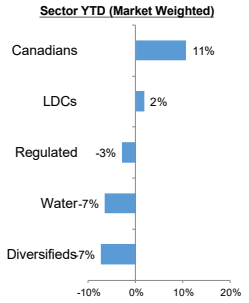
Source: Bloomberg Finance L.P., J.P. Morgan estimates.

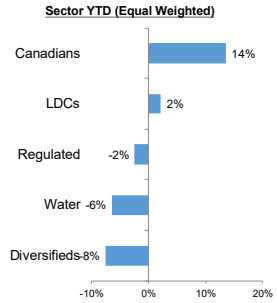


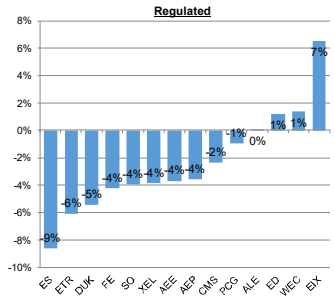


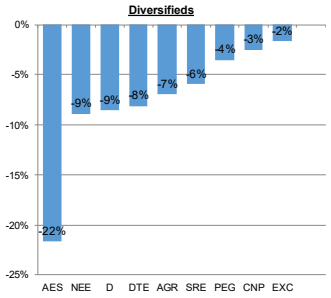
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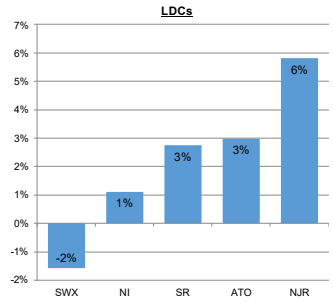
Year-to-Date Total Return Performance By Sector

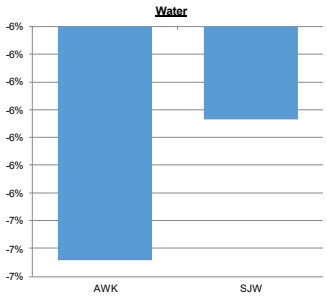


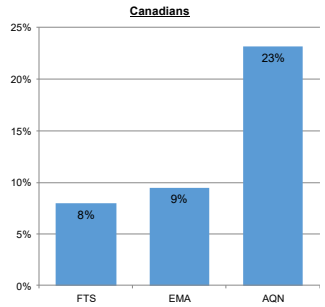












Source: Bloomberg Finance L.P.

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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														NEE	691.4
AEE	$85.02	22.3	$99.20	$73.28	86%	116%	0.4%	260.4	99%	120.3	3.9	338.3	2.8	D	306.5
AEP	$90.70	46.7	$105.60	$80.30	86%	113%	0.1%	513.8	100%	254.4	7.3	673.0	2.6	DUK	293.1
ALE	$63.82	3.7	$68.46	$47.77	93%	134%	0.4%	57.0	100%	19.4	1.0	63.6	3.3	SO	292.5
CMS	$61.34	17.9	$73.76	$52.41	83%	117%	0.5%	289.8	100%	110.2	6.8	419.2	3.8	EXC	285.1
D	$55.40	46.3	$88.78	$52.92	62%	105%	0.2%	833.7	100%	306.5	5.4	318.5	1.0	AEP	254.4
DUK	$96.39	74.2	$116.33	$83.76	83%	115%	0.1%	768.5	100%	293.1	8.0	797.0	2.7	PCG	223.0
ED	$95.63	34.0	$102.21	$78.10	94%	122%	0.2%	354.5	100%	166.7	5.8	543.2	3.3	SRE	194.2
EIX	$67.76	25.9	$73.32	$54.45	92%	124%	0.1%	382.2	100%	133.5	7.8	525.5	3.9	XEL	184.9
ES	$75.91	26.5	$94.63	$70.54	80%	108%	0.3%	345.2	99%	130.9	4.0	318.5	2.4	AWK	169.4
ETR	$104.57	22.2	$126.82	$94.94	82%	110%	0.4%	211.2	100%	160.9	2.5	266.7	1.7	ED	166.7
FE	$39.78	22.8	$48.85	$35.32	81%	113%	0.1%	542.9	95%	151.6	9.7	392.9	2.6	ETR	160.9
NWE	$56.45	3.4	$63.06	$48.68	90%	116%	1.1%	59.0	99%	22.2	1.0	56.7	2.6	FTS	160.3
PCG	$16.10	32.0	$16.83	$9.64	96%	167%	0.1%	1797.5	90%	223.0	68.2	1,081.2	4.8	FE	151.6
SO	$67.90	73.9	$80.57	$58.85	84%	115%	0.2%	1077.0	99%	292.5	10.2	689.3	2.4	PEG	142.9
WEC	$94.25	29.7	$108.39	$80.82	87%	117%	0.2%	314.9	100%	121.6	4.2	390.2	3.2	DTE	133.7
XEL	$66.88	36.8	$77.66	$56.89	86%	118%	0.2%	548.4	100%	184.9	7.2	491.2	2.7	EIX	133.5
Diversifieds														ES	130.9
AES	$22.39	15.0	$29.89	$18.62	75%	120%	0.4%	655.0	98%	109.6	10.2	267.0	2.4	WEC	121.6
AGR	$39.55	15.3	$51.71	$37.64	76%	105%	0.0%	70.8	18%	25.3	4.7	194.6	7.7	AEE	120.3
CNP	$29.05	18.3	$33.50	$25.03	87%	116%	0.4%	626.7	100%	108.0	9.5	278.7	2.6	CMS	110.2
DTE	$107.04	22.1	$140.23	$100.64	76%	106%	0.7%	181.6	88%	133.7	1.9	211.4	1.6	AES	109.6
EXC	$42.14	41.9	$50.71	$35.19	83%	120%	0.2%	982.9	99%	285.1	10.9	456.5	1.6	CNP	108.0
NEE	$75.67	150.4	$91.35	$67.22	83%	113%	0.2%	1982.5	100%	691.4	18.1	1,388.0	2.0	NI	103.8
PEG	$58.53	29.2	$75.61	$52.51	77%	111%	0.2%	497.8	100%	142.9	5.4	327.8	2.3	EMA	94.4
SRE	$145.34	45.7	$176.47	$136.54	82%	106%	0.0%	314.5	100%	194.2	2.7	422.7	2.2	ATO	88.0
LDCs														AQN	83.1
ATO	$114.69	16.4	$122.96	$97.71	93%	117%	0.4%	142.7	100%	88.0	7.2	821.2	9.3	NEP	46.5
NJR	$52.11	5.0	$53.53	$38.07	97%	137%	0.6%	96.3	99%	25.4	3.5	179.3	7.0	SJW	36.5
NI	$27.47	11.3	$32.59	$23.78	84%	116%	0.5%	410.5	100%	103.8	6.3	172.4	1.7	SWX	31.8
SWX	$60.32	4.3	$95.62	$57.75	63%	104%	1.0%	68.8	96%	31.8	2.1	133.9	4.2	NJR	25.4
SR	$70.01	3.7	$79.24	$61.52	88%	114%	0.9%	51.0	97%	20.4	2.1	151.7	7.4	AGR	25.3
Canadians														NWE	22.2
AQN	$10.92	7.5	$20.19	$8.70	54%	126%	0.3%	681.3	100%	83.1	16.7	163.5	2.0	SR	20.4
EMA	$55.92	15.1	$65.24	$48.61	86%	115%	0.1%	269.8	100%	94.4	7.9	421.4	4.5	ALE	19.4
FTS	$57.91	27.9	$65.27	$48.45	89%	120%	0.1%	476.3	99%	160.3	5.9	322.8	2.0		
Water															
AWK	$141.81	27.6	$173.87	$122.77	82%	116%	0.2%	194.2	100%	169.4	3.7	545.1	3.2		
SJW	$75.70	2.3	$83.88	$55.74	90%	136%	1.2%	27.9	91%	36.5	1.8	137.7	3.8		
YieldCos															
NEP	$62.01	5.4	$86.06	$60.69	72%	102%	0.5%	86.1	100%	46.5	5.2	358.2	7.7		
Mean		**28.1**			**0.8**	**1.2**	**0.0**	**462.1**	**96%**	**149.8**	**8.0**	**409.1**	**3.5**		
Median		**22.3**			**84%**	**116%**	**0%**	**345.2**	**100%**	**130.9**	**5.8**	**338.3**	**2.7**		

Source: Bloomberg Finance L.P.

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Consensus EPS Estimate Revisions

Entity Name	Ticker	1Q23E	-1W	-1Mn	-3Mn	-6Mn	-1Yr	2023E	-1W	-1Mn	-3Mn	-6Mn	-1Yr	2024E	-1W	-1Mn	-3Mn	-6Mn	-1Yr	2025E	-1W	-1Mn	-3Mn	-6Mn	-1Yr
Regulated																									
Ameren Corporation	AEE	$0.99	-0.2%	-1.0%	-3.5%	-1.0%	-0.9%	$4.36	0.0%	0.0%	0.1%	0.1%	0.3%	$4.68	0.0%	-0.1%	0.2%	0.7%	0.8%	$5.01	0.1%	-0.1%	-0.1%	-0.1%	1.0%
American Electric Power	AEP	$1.31	-0.5%	-0.3%	-5.3%	-4.3%	0.2%	$5.28	0.0%	0.0%	-0.2%	0.0%	0.3%	$5.64	0.0%	0.1%	-0.3%	0.3%	0.0%	$5.98	0.0%	0.2%	-0.2%	-0.3%	-0.1%
Allete Inc.	ALE	$1.18	-1.5%	-3.0%	-4.5%	-0.9%	4.8%	$3.73	0.3%	-2.0%	-5.7%	-4.8%	-4.6%	$4.06	0.7%	1.0%	-2.3%	-1.5%	-1.0%	$4.33	-0.5%	-1.4%	-2.6%	-1.7%	1.6%
CMS Energy Corp.	CMS	$1.22	0.0%	-2.1%	3.5%	1.2%	2.9%	$3.10	0.0%	0.1%	-0.2%	-0.8%	-1.0%	$3.35	0.0%	0.1%	-0.9%	0.1%	-1.9%	$3.63	0.0%	0.2%	-0.2%	-0.9%	-1.3%
Dominion Energy Inc,	D	$1.10	-0.4%	1.4%	-5.9%	-8.8%	-13.0%	$3.95	0.1%	-1.9%	-6.5%	-9.8%	-10.0%	$3.85	2.1%	-2.5%	-13.2%	-16.4%	-17.4%	$4.04	1.5%	-3.7%	-13.6%	-19.2%	-18.5%
Duke Energy Corp.	DUK	$1.37	1.2%	1.3%	4.8%	1.3%	-0.9%	$5.64	-0.1%	-0.1%	-0.5%	-2.1%	-2.4%	$5.99	0.1%	0.0%	-0.3%	-1.9%	-2.6%	$6.34	0.0%	-0.2%	-0.5%	-2.2%	-3.1%
Consolidated Edison Inc.	ED	$1.60	0.0%	-3.7%	-3.5%	4.5%	8.7%	$4.87	0.0%	0.9%	1.2%	1.2%	2.4%	$5.21	0.0%	1.8%	2.5%	2.2%	4.4%	$5.47	0.0%	1.0%	2.4%	1.5%	5.8%
Edison International	EIX	$0.99	0.0%	10.7%	15.8%	0.4%	33.9%	$4.74	0.1%	-0.6%	-1.6%	-2.6%	-2.3%	$5.14	0.0%	0.3%	0.2%	-2.3%	-1.4%	$5.51	0.0%	-0.4%	0.6%	1.1%	0.4%
Eversource Energy	ES	$1.36	0.5%	0.4%	0.7%	0.9%	7.0%	$4.36	0.0%	-0.1%	-0.3%	-0.6%	0.1%	$4.68	0.0%	-0.1%	-0.4%	0.8%	0.8%	$5.01	0.4%	0.2%	-1.2%	0.0%	-1.1%
Entergy Corp.	ETR	$1.45	0.0%	-0.6%	-6.6%	-0.7%	-7.0%	$6.71	0.0%	-0.2%	-0.9%	-0.9%	-0.4%	$7.20	0.0%	0.0%	-1.1%	-0.8%	1.1%	$7.73	0.0%	0.0%	0.1%	0.4%	2.9%
FirstEnergy Corp.	FE	$0.65	0.2%	6.4%	4.8%	0.9%	4.5%	$2.51	0.0%	0.1%	1.0%	-0.8%	-2.0%	$2.67	0.0%	-0.4%	-0.3%	-2.6%	-2.6%	$2.86	0.0%	-0.7%	-0.7%	-0.2%	-2.1%
NorthWestern Corp.	NWE	$1.12	0.0%	1.6%	-0.5%	-1.1%	-9.0%	$3.46	0.0%	-0.6%	-1.3%	-1.8%	-1.4%	$3.60	0.0%	-0.8%	-1.5%	0.1%	-2.0%	$3.77	0.0%	-1.3%	-2.6%	-4.8%	-2.9%
PG&E Corp.	PCG	$0.29	0.0%	13.1%	12.7%	14.9%	3.5%	$1.22	-0.1%	0.0%	-0.3%	-1.0%	-0.3%	$1.35	-0.1%	0.1%	-0.3%	1.0%	-0.2%	$1.47	-0.1%	0.9%	1.7%	2.4%	-0.3%
The Southern Company	SO	$0.82	-0.1%	-2.6%	-11.1%	-13.5%	-16.7%	$3.61	0.0%	-0.6%	-3.7%	-5.1%	-4.6%	$4.02	0.0%	-0.2%	-1.5%	-2.5%	-1.3%	$4.30	0.0%	-0.1%	-1.1%	-2.4%	0.5%
WEC Energy Group Inc.	WEC	$1.74	-2.3%	-2.3%	13.4%	1.8%	4.6%	$4.61	0.0%	-0.1%	0.0%	-0.1%	0.6%	$4.90	0.1%	-0.1%	-0.3%	0.0%	0.4%	$5.26	0.0%	0.1%	-0.1%	0.7%	0.6%
Xcel Energy Inc.	XEL	$0.73	2.7%	2.7%	3.2%	4.7%	-4.4%	$3.38	0.0%	-0.1%	0.0%	-0.4%	-0.7%	$3.60	0.0%	-0.1%	0.1%	-0.1%	-0.6%	$3.83	-0.2%	-0.1%	0.3%	0.4%	0.0%
Diversifieds																									
AES Corp.	AES	$0.31	-1.3%	-12.1%	-11.1%	1.6%	2.0%	$1.71	0.1%	-1.0%	-2.1%	-2.9%	-2.9%	$1.93	0.4%	0.7%	1.2%	0.8%	-0.3%	$2.09	0.2%	1.3%	1.4%	1.0%	-0.5%
Avangrid Inc.	AGR	$0.76	-0.1%	-0.5%	-7.2%	-7.2%	-24.4%	$2.21	0.0%	0.0%	-2.7%	-2.3%	0.6%	$2.33	-0.1%	-2.5%	-0.3%	-2.1%	-1.8%	$2.45	-0.6%	-3.0%	-4.4%	-0.9%	-3.5%
Centerpoint Energy Inc.	CNP	$0.48	0.0%	1.0%	-5.1%	6.1%	-7.6%	$1.49	0.0%	-0.1%	-0.2%	N/A	N/A	$1.62	0.0%	0.2%	-0.1%	1.5%	0.4%	$1.73	0.0%	0.2%	-0.4%	-0.5%	0.7%
DTE Energy Inc.	DTE	$1.99	0.0%	-2.8%	2.1%	-6.4%	-2.5%	$6.24	0.0%	0.0%	-0.3%	N/A	N/A	$6.70	0.0%	0.0%	0.0%	0.0%	0.1%	$7.17	0.0%	-0.2%	-0.4%	0.3%	-0.2%
Exelon Corp.	EXC	$0.66	0.0%	0.3%	2.5%	0.0%	-8.9%	$2.37	0.0%	-0.2%	-0.1%	-2.2%	-1.7%	$2.51	0.0%	-0.3%	-0.7%	-2.9%	-3.4%	$2.73	0.0%	-0.1%	-0.3%	-2.3%	-2.1%
NextEra Energy Inc.	NEE	$0.72	0.8%	5.1%	6.4%	-0.8%	8.1%	$3.11	0.2%	0.2%	0.3%	N/A	N/A	$3.39	0.1%	0.2%	0.1%	0.2%	4.8%	$3.67	-0.2%	0.1%	0.2%	0.6%	4.5%
Public Service Enterprise Group	PEG	$1.10	0.7%	-0.4%	-2.0%	14.2%	-1.3%	$3.44	-0.2%	-0.5%	-1.6%	-4.0%	-7.0%	$3.71	-0.2%	-0.2%	-2.7%	-6.5%	-5.6%	$4.06	-0.1%	-1.0%	-2.0%	-5.0%	-3.4%
Sempra Energy	SRE	$2.81	0.0%	0.1%	-9.1%	-1.4%	-3.2%	$9.00	0.1%	-0.1%	-0.2%	-0.4%	0.8%	$9.62	0.0%	-0.1%	0.1%	-0.5%	1.8%	$10.18	0.0%	-0.1%	0.2%	-0.1%	0.9%
LDCs																									
Atmos Energy Corp.	ATO	$1.93	1.4%	1.9%	-6.8%	-5.1%	-1.4%	$6.03	0.1%	0.2%	0.4%	1.3%	2.1%	$6.41	0.0%	0.0%	-0.5%	0.5%	1.4%	$6.88	0.0%	0.0%	-1.1%	0.7%	1.6%
New Jersey Resources	NJR	$0.72	-9.0%	-2.7%	-13.2%	-13.2%	-10.9%	$2.68	1.7%	0.9%	7.3%	8.8%	9.6%	$2.75	0.4%	0.4%	0.8%	0.8%	-1.7%	$2.93	0.1%	0.1%	-3.4%	3.4%	3.0%
NiSource Inc.	NI	$0.81	0.4%	-0.6%	-5.9%	-0.7%	-6.8%	$1.56	0.0%	0.7%	0.8%	0.4%	0.6%	$1.68	-0.1%	-0.4%	-0.8%	-4.3%	-4.1%	$1.81	0.0%	-1.4%	-2.2%	-4.7%	-2.5%
Southwest Gas Holdings Inc.	SWX	$1.64	-6.3%	-7.0%	3.3%	7.5%	-26.6%	$4.07	-5.6%	-3.3%	-3.7%	-16.2%	-14.3%	$4.25	-3.7%	-3.7%	-5.8%	-15.9%	-14.4%	$4.18	11.2%	8.9%	1.9%	-21.0%	-20.3%
Spire Inc.	SR	$1.17	1.5%	1.4%	4.8%	4.6%	-13.2%	$4.26	0.6%	0.9%	3.0%	-3.0%	-2.2%	$4.33	0.5%	0.5%	-0.3%	-6.1%	-4.7%	$4.60	0.3%	0.4%	0.1%	-5.6%	-3.8%
Canadians																									
Algonquin Power & Utilities	AQN	$0.17	-1.2%	-9.8%	0.0%	-30.7%	-43.1%	$0.59	-0.2%	-0.2%	-14.8%	-27.2%	-28.6%	$0.63	0.0%	-2.9%	-16.6%	-27.6%	-27.8%	$0.62	-0.3%	-0.3%	-23.5%	-31.3%	-33.8%
Emera Inc.	EMA	$0.98	0.5%	0.1%	3.2%	0.4%	3.4%	$3.21	0.1%	0.2%	0.0%	-1.2%	-1.0%	$3.34	-0.2%	-0.4%	-0.6%	-2.4%	-1.8%	$3.51	-0.4%	-0.8%	0.1%	0.0%	-2.1%
Fortis Inc.	FTS	$0.82	-0.7%	-0.7%	-0.4%	-4.0%	-5.6%	$2.95	0.2%	0.2%	-0.7%	-0.2%	-1.3%	$3.12	0.1%	0.2%	-0.4%	0.1%	-0.5%	$3.29	-0.1%	0.1%	0.0%	1.5%	0.6%
Water																									
American Water Works Co Inc.	AWK	$0.95	0.2%	2.6%	6.9%	7.4%	11.2%	$4.78	0.0%	-0.5%	-0.4%	-1.0%	-1.3%	$5.14	0.0%	-0.3%	-0.4%	-1.1%	-1.1%	$5.59	0.0%	-0.2%	-0.6%	-1.1%	-1.1%
SJW Group	SJW	$0.21	-11.0%	-44.0%	136.0%	288.9%	75.0%	$2.47	-0.2%	-0.9%	-2.6%	-2.0%	-5.5%	$2.70	-0.6%	-0.6%	-1.5%	-0.4%	-2.8%	$2.90	-2.2%	-2.3%	0.9%	1.5%	-0.2%
YieldCos																									
Nextera Energy Partners	NEP	$0.41	0.0%	-22.0%	-21.5%	-7.1%	-1.4%	$2.47	0.0%	-3.9%	-12.0%	-10.4%	12.3%	$2.93	-0.2%	-5.5%	-14.5%	2.2%	37.6%	$2.53	-2.1%	-15.1%	-26.9%	-27.9%	-25.2%

Source: Bloomberg Finance L.P.

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Companies Discussed in This Report (all prices in this report as of market close on 17 March 2023)
Atlantica Sustainable Infrastructure(AY/$27.05/N)

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IB clients**	65%	66%	55%

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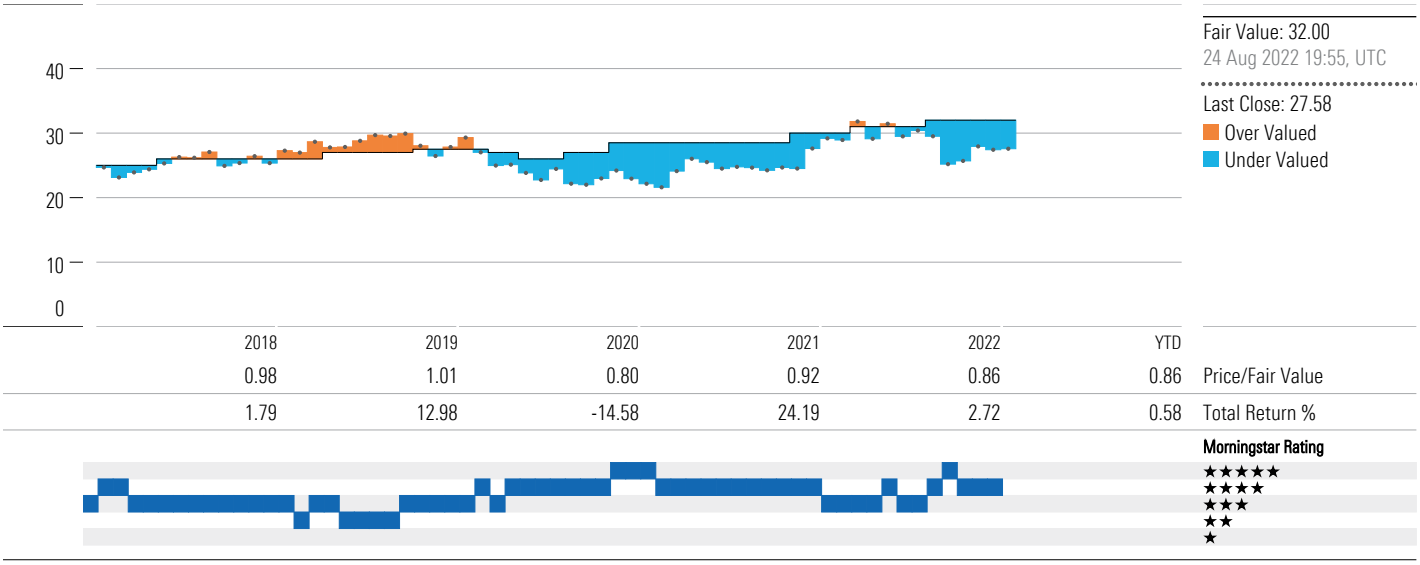
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NiSource Inc NI ★★★★ 25 Jan 2023 22:28, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
27.58 USD 25 Jan 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.86	11.20 USD Bil 25 Jan 2023	Narrow	Stable	Low	Standard	4 Jan 2023 06:00, UTC

Price vs. Fair Value



	2018	2019	2020	2021	2022	YTD
Price/Fair Value	0.98	1.01	0.80	0.92	0.86	0.86
Total Return %	1.79	12.98	-14.58	24.19	2.72	0.58

Total Return % as of 25 Jan 2023. Last Close as of 25 Jan 2023. 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's Long-Term Growth Focused on Clean Energy

Business Strategy & Outlook Travis Miller, Strategist, 26 Jan 2023

NiSource continues to transition away from its roots as a natural gas distribution and midstream company. An increasing focus on electric infrastructure and renewable energy will be a key growth driver in the coming years, creating a more even mix of earnings from its natural gas and electric businesses.

We expect about 70% of NiSource's operating income will come from its six natural gas distribution utilities and 30% from its electric utility in Indiana following the planned minority interest sale in its electric utility in 2023.

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 beyond 2025 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, enhancing NiSource's cash flow.

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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.

The business diversification started with its Columbia Pipeline Group separation in 2015. 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. 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 2023 to 2026.

Bulls Say Travis Miller, Strategist, 26 Jan 2023

- 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, 26 Jan 2023

- 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 since 2017, resulting in little EPS growth.

Economic Moat Travis Miller, Strategist, 26 Jan 2023

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.

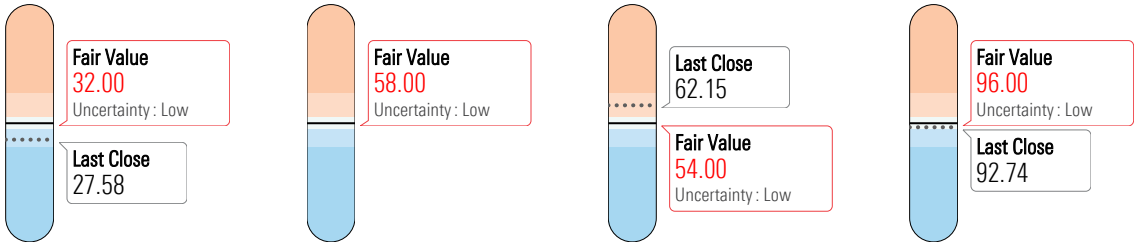
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Competitors



	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	58.00 8 Nov 2022 17:16, UTC	54.00 20 Dec 2022 19:23, UTC	96.00 5 Dec 2022 16:31, UTC
1-Star Price	40.00	72.50	67.50	120.00
5-Star Price	25.60	46.40	43.20	76.80
Assessment	Under Valued 25 Jan 2023	Under Valued 25 Jan 2023	Over Valued 25 Jan 2023	Fairly Valued 25 Jan 2023
Morningstar Rating	★★★★25 Jan 2023 22:28, UTC	★★★★25 Jan 2023 22:28, UTC	★★25 Jan 2023 22:28, UTC	★★★25 Jan 2023 22:28, UTC
Analyst	Travis Miller, Strategist	Andrew Bischof, Strategist	Travis Miller, Strategist	Andrew Bischof, Strategist
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	0.86	—	1.15	0.97
Price/Sales	2.17	3.35	2.16	3.17
Price/Book	1.98	2.18	2.70	2.58
Price/Earning	17.91	20.45	23.36	21.27
Dividend Yield	3.41%	3.14%	2.96%	3.14%
Market Cap	11.20 Bil	13.66 Bil	18.04 Bil	29.25 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

We estimate NiSource will derive roughly 70% of its operating earnings from its natural gas distribution utilities and 30% from its integrated electric business in Indiana following the planned sale of a minority interest share of its electric utility in 2023. 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, 26 Jan 2023

Our fair value estimate for NiSource is $32 per share.

We assume NiSource invests nearly $9 billion in 2023-25, including $2 billion of investment in renewable energy projects in Indiana to replace its coal-fired power generation fleet by 2028.

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We expect NiSource's safety-related gas distribution investments will 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 2026 when combining the planned electric and gas system investments. The key factor in our growth outlook is a favorable outcome in NiSource's 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 regulatory 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 like NiSource operating in states that have constructive regulatory frameworks.

Risk and Uncertainty Travis Miller, Strategist, 26 Jan 2023

We assign NiSource a Low Morningstar Uncertainty Rating. Regulatory risk remains the key uncertainty. However, NiSource's regulatory exposure is diversified with state-regulated gas and electric operations in six states and a federally regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned 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 environmental, social, and governance 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, 26 Jan 2023

We assign NiSource a Standard Morningstar Capital Allocation Rating primarily due to management's work with regulators and policymakers to build support for its investments in clean energy, infrastructure modernization, and safety.

The CEO transition from Joe Hamrock to Lloyd Yates in February 2022 appears as if it will bring no major changes. Yates has been a director at NiSource since 2020 and previously led Duke Energy's core

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NiSource Inc NI ★★★★ 25 Jan 2023 22:28, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
27.58 USD 25 Jan 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.86	11.20 USD Bil 25 Jan 2023	Narrow	Stable	Low	Standard	4 Jan 2023 06:00, UTC

Carolina operations, which are more than twice the size of NiSource.

Although there was some speculation when Yates took over that NiSource would divest one or more of its gas distribution utilities, the market collapse in 2022 nixed that as an immediate option. Instead, it appears NiSource will sell a small share of its Indiana electric utility to reduce NiSource's equity needs to fund its growth investments.

Current and former NiSource management made two key capital allocation decisions 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. CFO Donald Brown joined NiSource in April 2015 after stints at UGI Utilities and Constellation Energy.

Analyst Notes Archive

No Surprises at NiSource's Investor Day; Still an Attractive Long-Term Investment 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

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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, 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.

NiSource's Near-Term Growth Depends on Regulatory Outcomes in Ohio, Indiana 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 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

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Nov. 7. Gas utility divestures seem unlikely given the recent drop in utilities' valuations.

NiSource Initiates Critical Electric Rate Review in Indiana 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.

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.

Raising U.S. Electricity Demand Growth Outlook, Reaffirming Utilities Fair Value Estimates 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

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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.

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.

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.

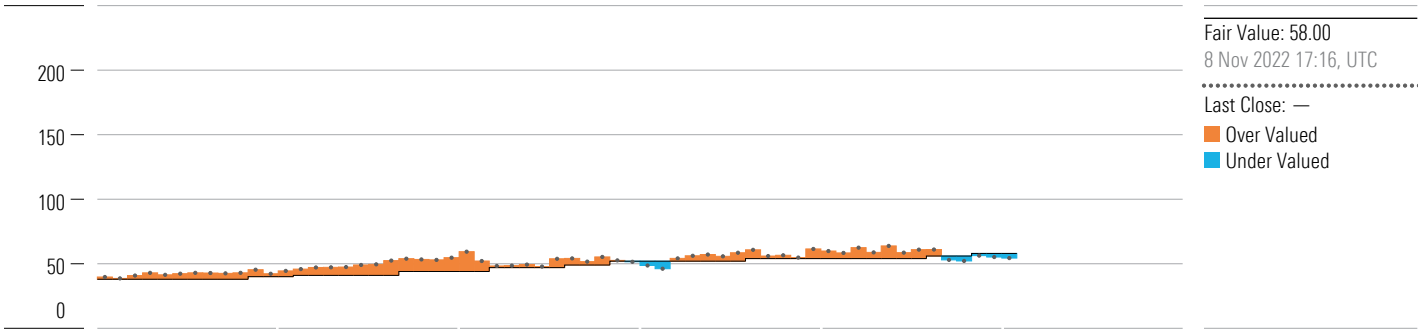
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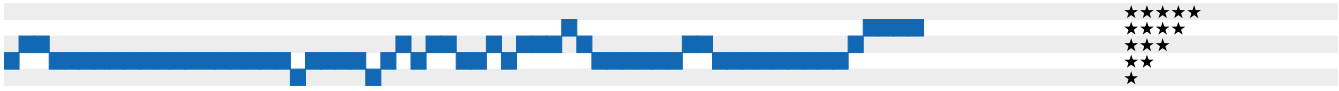
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Competitors Price vs. Fair Value

Alliant Energy Corp LNT

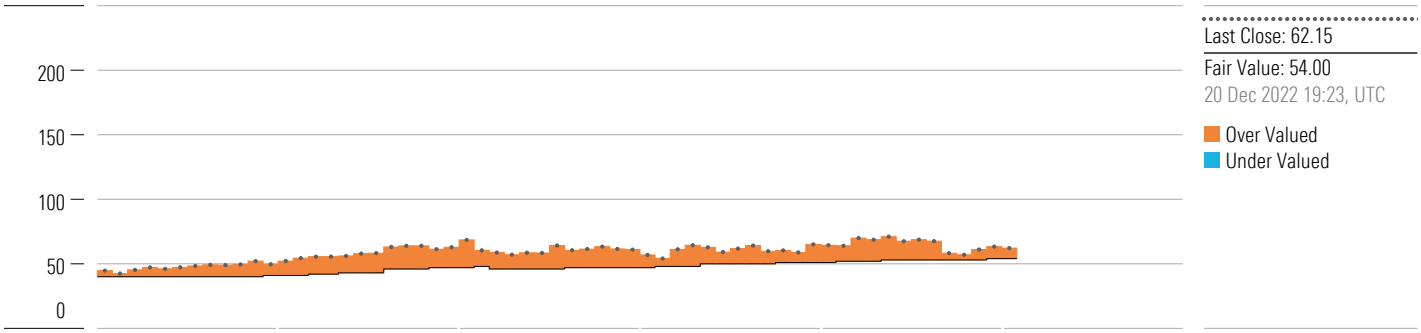


	2018	2019	2020	2021	2022	YTD	
	1.06	1.24	0.99	1.14	0.95	—	Price/Fair Value
	2.30	32.88	-3.05	22.41	-7.40	-1.45	Total Return %



Total Return % as of 25 Jan 2023. Last Close as of —. Fair Value as of 8 Nov 2022 17:16, UTC.

CMS Energy Corp CMS



	2018	2019	2020	2021	2022	YTD	
	1.21	1.34	1.30	1.28	1.17	1.15	Price/Fair Value
	7.99	29.65	-0.32	9.47	0.18	-1.86	Total Return %



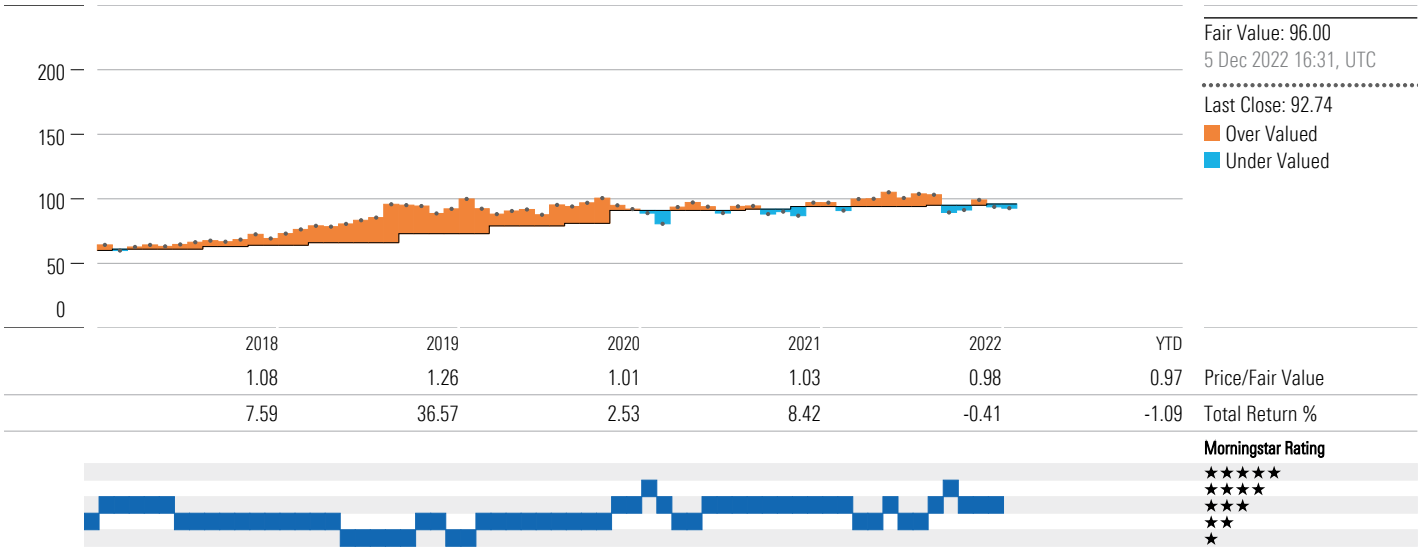
Total Return % as of 25 Jan 2023. Last Close as of 25 Jan 2023. Fair Value as of 20 Dec 2022 19:23, UTC.

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WEC Energy Group Inc WEC



	2018	2019	2020	2021	2022	YTD	
	1.08	1.26	1.01	1.03	0.98	0.97	Price/Fair Value
	7.59	36.57	2.53	8.42	-0.41	-1.09	Total Return %

Total Return % as of 25 Jan 2023. Last Close as of 25 Jan 2023. Fair Value as of 5 Dec 2022 16:31, UTC.

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25 Jan 2023	24 Aug 2022 19:55, UTC		25 Jan 2023					4 Jan 2023 06:00, UTC

Morningstar Historical Summary

Financials as of 30 Sep 2022

Fiscal Year, ends 31 Dec	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	TTM
Revenue (USD K)	4,625,400	5,272,400	4,651,800	4,492,500	4,874,600	5,114,500	5,208,900	4,681,700	4,899,600	—	4,146,000	5,554,600
Revenue Growth %	-8.1	14.0	-11.8	-3.4	8.5	4.9	1.8	-10.1	4.7	—	18.8	18.1
EBITDA (USD K)	1,161,000	1,278,400	1,238,600	1,416,600	1,376,800	733,900	1,595,000	1,056,500	1,787,400	—	1,534,900	2,002,400
EBITDA Margin %	25.1	24.3	26.6	31.5	28.2	14.4	30.6	22.6	36.5	—	37.0	36.1
Operating Income (USD K)	699,200	792,100	801,500	865,100	926,700	125,900	1,305,200	961,400	1,014,600	—	795,000	1,080,200
Operating Margin %	15.1	15.0	17.2	19.3	19.0	2.5	25.1	20.5	20.7	—	19.2	19.5
Net Income (USD K)	532,100	530,000	286,500	331,500	128,500	-50,600	383,100	-17,600	584,900	—	559,600	725,500
Net Margin %	11.5	10.1	6.2	7.4	2.6	-1.3	6.3	-1.6	10.8	—	12.5	12.1
Diluted Shares Outstanding (K)	313,600	316,600	319,800	323,500	330,800	356,500	376,000	384,300	417,300	—	441,700	436,725
Diluted Earnings Per Share (USD)	1.70	1.67	0.90	1.02	0.39	-0.18	0.87	-0.19	1.27	—	1.18	1.54
Dividends Per Share (USD)	0.98	1.02	0.83	0.64	0.70	0.78	0.80	0.84	0.88	—	0.71	0.93

Valuation as of 30 Dec 2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Recent Qtr	TTM
Price/Sales	1.9	2.1	1.0	1.7	1.7	1.8	2.0	1.8	2.4	2.2	2.2	2.2
Price/Earnings	21.6	25.3	12.8	23.3	31.3	-87.7	22.6	-29.4	25.3	17.8	17.8	17.8
Price/Cash Flow	7.3	10.8	3.8	9.0	10.5	7.8	12.3	7.2	9.5	9.1	9.1	9.1
Dividend Yield %	2.98	2.4	4.25	2.89	2.73	3.08	2.87	3.66	3.19	3.43	3.43	3.43
Price/Book	1.8	2.2	1.6	1.9	2.0	2.0	2.1	2.0	2.3	2.0	2.0	2.0
EV/EBITDA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Operating Performance / Profitability as of 30 Sep 2022

Fiscal Year, ends 31 Dec	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	TTM
ROA %	2.4	2.2	1.4	1.8	0.7	-0.3	1.5	-0.3	2.3	—	—	2.8
ROE %	9.3	8.8	5.7	8.4	3.1	-1.4	6.6	-1.5	10.3	—	—	12.9
ROIC %	5.4	4.9	3.8	4.9	2.7	1.4	4.2	1.3	5.4	—	—	6.1
Asset Turnover	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	—	—	0.2

Financial Leverage

Fiscal Year, ends 31 Dec	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Recent Qtr	TTM
Debt/Capital %	56.3	56.9	60.8	59.8	63.5	55.3	56.8	61.6	56.9	—	57.0	—
Equity/Assets %	26.0	25.1	22.0	21.8	21.6	22.3	22.5	22.1	22.4	—	22.1	—
Total Debt/EBITDA	7.6	7.8	5.6	5.6	6.5	14.7	7.1	10.9	7.1	—	9.0	—
EBITDA/Interest Expense	3.2	3.5	3.3	4.0	3.8	2.0	4.3	2.9	5.4	Infinite	5.9	5.9

Morningstar Analyst Historical/Forecast Summary as of 30 Sep 2022

Financials

Fiscal Year, ends 12-31-2021	2021	2022	Estimates 2023	2024	2025
Revenue (USD Mil)	4,682	4,900	5,180	5,429	5,747
Revenue Growth %	-10.1	4.7	5.7	4.8	5.9
EBITDA (USD Mil)	1,277	1,755	1,959	2,173	2,460
EBITDA Margin %	27.3	35.8	37.8	40.0	42.8
Operating Income (USD Mil)	551	1,007	1,169	1,333	1,560
Operating Margin %	11.8	20.5	22.6	24.6	27.2
Net Income (USD Mil)	507	572	633	693	810
Net Margin %	10.8	11.7	12.2	12.8	14.1
Diluted Shares Outstanding (Mil)	384	417	434	442	446
Diluted Earnings Per Share(USD)	1.32	1.37	1.46	1.57	1.82
Dividends Per Share(USD)	0.84	0.83	0.94	1.00	1.06

Forward Valuation

	2021	2022	Estimates 2023	2024	2025
Price/Sales	1.9	2.3	2.2	2.1	1.9
Price/Earnings	17.4	20.2	18.9	17.6	15.2
Price/Cash Flow	-13.7	-18.0	-9.4	-6.8	-18.6
Dividend Yield %	3.7	3.0	3.4	3.6	3.8
Price/Book	1.5	1.7	1.6	1.4	1.3
EV/EBITDA	16.0	12.8	12.0	10.8	9.6

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Appendix

Historical Morningstar Rating

NiSource Inc NI 25 Jan 2023 22:28, UTC

Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
—	—	—	—	—	—	—	—	—	—	—	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★★	★★★★	★★★	★★★	★★★★	★★★	★★★	★★★	★★★	★★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★★	★★★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★★	★★★	★★★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★★	★★★	★★★	★★	★★	★★	★★	★★★	★★★	★★	★★★	★★★
Dec 2018	Nov 2018	Oct 2018	Sep 2018	Aug 2018	Jul 2018	Jun 2018	May 2018	Apr 2018	Mar 2018	Feb 2018	Jan 2018
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★

Alliant Energy Corp LNT 25 Jan 2023 22:28, UTC

Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
—	—	—	—	—	—	—	—	—	—	—	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★★	★★★★	★★★	★★	★★	★★	★★	★★	★★	★★	★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★	★★★	★★★	★★	★★	★★	★★	★★	★★	★★★	★★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★★	★★	★★★	★★	★★	★★★	★★★	★★	★★★	★★	★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★	★★	★★	★★	★	★★	★★	★★	★★	★★	★★	★★
Dec 2018	Nov 2018	Oct 2018	Sep 2018	Aug 2018	Jul 2018	Jun 2018	May 2018	Apr 2018	Mar 2018	Feb 2018	Jan 2018
★★	★★	★★	★★	★★	★★	★★	★★	★★	★★★	★★★	★★

CMS Energy Corp CMS 25 Jan 2023 22:28, UTC

Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
—	—	—	—	—	—	—	—	—	—	—	★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★	★★	★★	★★	★	★	★★	★	★	★	★★	★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★	★★	★★	★★	★	★★	★★	★	★	★	★★	★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★	★	★	★	★	★	★	★★	★	★	★	★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★	★	★	★	★	★	★	★	★	★	★	★★
Dec 2018	Nov 2018	Oct 2018	Sep 2018	Aug 2018	Jul 2018	Jun 2018	May 2018	Apr 2018	Mar 2018	Feb 2018	Jan 2018
★★	★	★	★★	★★	★★	★★	★★	★★	★★	★★	★★

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WEC Energy Group Inc WEC 25 Jan 2023 22:28, UTC

Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
—	—	—	—	—	—	—	—	—	—	—	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★★	★★★★	★★★	★★	★★	★★★	★★	★★	★★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★	★★	★★★	★★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★	★
Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
★★	★★	★	★	★	★	★	★★	★★	★★	★★	★★
Dec 2018	Nov 2018	Oct 2018	Sep 2018	Aug 2018	Jul 2018	Jun 2018	May 2018	Apr 2018	Mar 2018	Feb 2018	Jan 2018
★★	★★	★★	★★	★★	★★	★★★	★★★	★★★	★★★	★★★	★★

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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

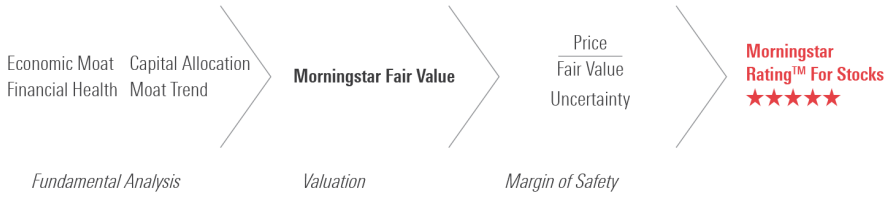
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with 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—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, 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 are: Low, Medium, High, Very High, and Extreme.

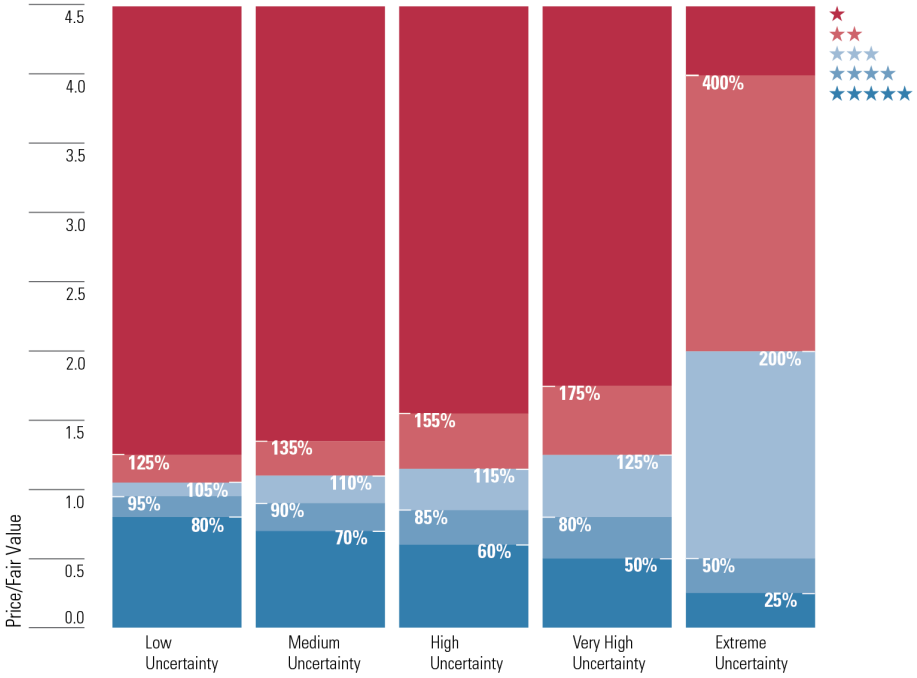
	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

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.

Morningstar Equity Research Star Rating Methodology



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 thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

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

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

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

The Morningstar Star Ratings for stocks are defined below:

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

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

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

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

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

Other Definitions

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

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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.

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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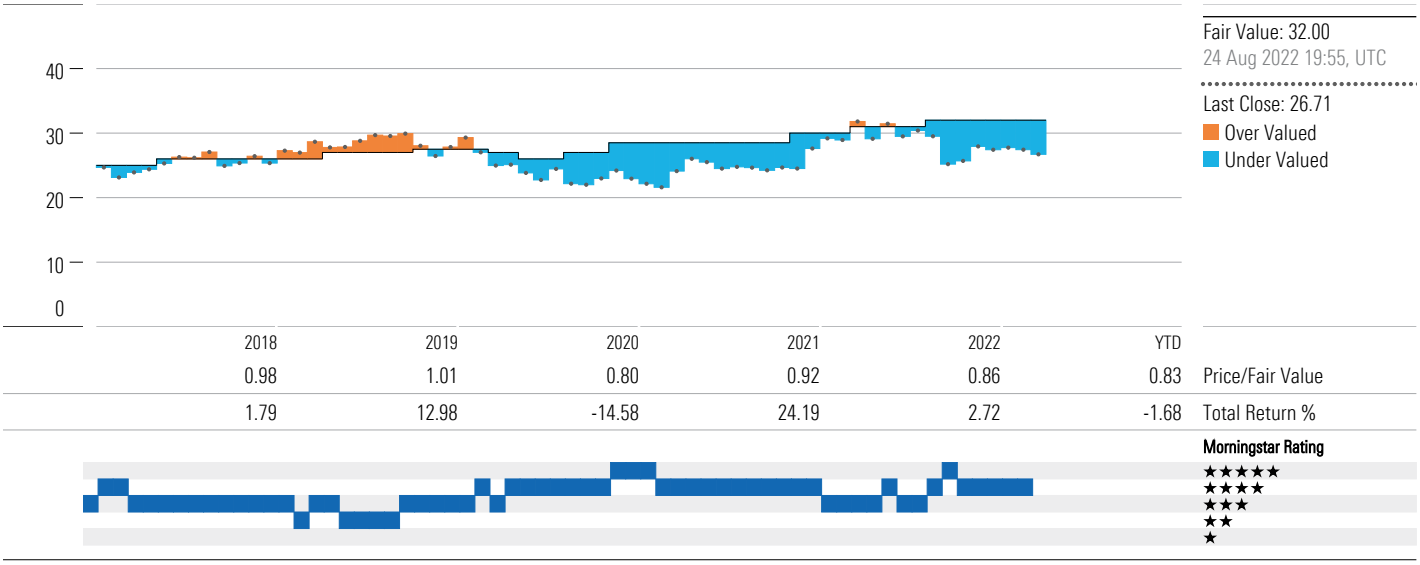
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NiSource Inc NI ★★★★ 10 Mar 2023 22:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
26.71 USD 10 Mar 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.83	11.02 USD Bil 10 Mar 2023	Narrow	Stable	Low	Standard	1 Mar 2023 06:00, UTC

Price vs. Fair Value



Total Return % as of 10 Mar 2023. Last Close as of 10 Mar 2023. 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 Reaches Landmark Settlement in Indiana; Deserves Premium Valuation

Analyst Note Travis Miller, Strategist, 13 Mar 2023

We are reaffirming our $32 fair value estimate for NiSource after the company announced it reached a settlement in its Indiana electric rate review case, one of the largest in recent years. We are also reaffirming our narrow moat and stable moat trend ratings.

NiSource trades at a 17% discount to our fair value estimate, making it one of the most undervalued utilities in our coverage as of March 13. Although its 17 times price/earnings ratio and 3.7% dividend yield are near the sector median, we think NiSource deserves a premium valuation, given its highly constructive regulation and growth opportunities, both of which the Indiana decision supports. We rank NiSource in the top five of all U.S. utilities for most constructive regulation.

The settlement would result in a $291.8 million annualized rate increase, below the $395 million request but in line with our expectations. We consider this a constructive outcome that keeps NiSource on track to deliver at least 7% earnings growth for the next three years.

We expect NiSource to hit the top end of management's $1.54-$1.60 earnings per share guidance range for 2023, implying a second consecutive year of 7% earnings growth. The new Indiana rates will begin in September and support what we expect will be another year of 7% earnings growth in 2024. We assume regulators approve the settlement.

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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 3.2 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.

The Indiana settlement also should make it easier for NiSource to complete its planned sale of a minority interest in the Indiana utility at a higher valuation than NiSource's common stock. This should be a positive for shareholders by providing low-cost capital to support what we estimate will be an average $3 billion of capital investment annually for at least the next five years, much of which will go to clean energy projects in Indiana.

Ongoing constructive regulation and the minority interest sale should help management maintain a 60%-70% dividend payout ratio, higher than most utilities and supporting 6% dividend growth.

Business Strategy & Outlook Travis Miller, Strategist, 26 Jan 2023

NiSource continues to transition away from its roots as a natural gas distribution and midstream company. An increasing focus on electric infrastructure and renewable energy will be a key growth driver in the coming years, creating a more even mix of earnings from its natural gas and electric businesses.

We expect about 70% of NiSource's operating income will come from its six natural gas distribution utilities and 30% from its electric utility in Indiana following the planned minority interest sale in its electric utility in 2023.

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 beyond 2025 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, enhancing NiSource's cash flow.

The business diversification started with its Columbia Pipeline Group separation in 2015. 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. 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%

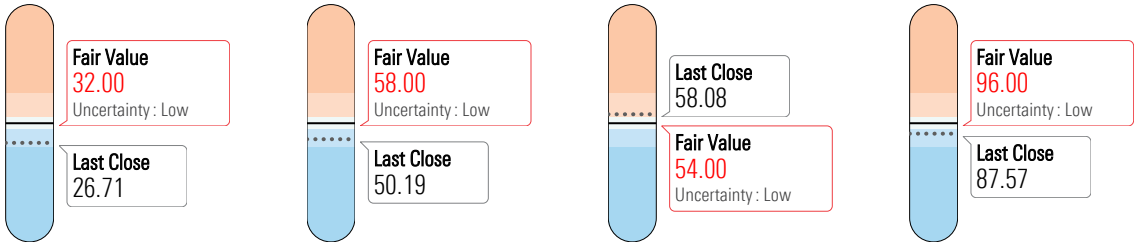
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Competitors



	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	58.00 8 Nov 2022 17:16, UTC	54.00 20 Dec 2022 19:23, UTC	96.00 5 Dec 2022 16:31, UTC
1-Star Price	40.00	72.50	67.50	120.00
5-Star Price	25.60	46.40	43.20	76.80
Assessment	Under Valued 12 Mar 2023	Under Valued 12 Mar 2023	Over Valued 12 Mar 2023	Under Valued 12 Mar 2023
Morningstar Rating	★★★★ 10 Mar 2023 22:17, UTC	★★★★ 10 Mar 2023 22:17, UTC	★★ 10 Mar 2023 22:17, UTC	★★★★ 10 Mar 2023 22:17, UTC
Analyst	Travis Miller, Strategist	Andrew Bischof, Strategist	Travis Miller, Strategist	Andrew Bischof, Strategist
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	0.83	0.87	1.08	0.91
Price/Sales	2.02	3.00	1.96	2.88
Price/Book	1.83	2.01	2.49	2.43
Price/Earning	15.71	18.38	20.45	19.68
Dividend Yield	3.58%	3.46%	3.22%	3.38%
Market Cap	11.02 Bil	12.60 Bil	16.94 Bil	27.62 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

annual earnings growth and 6% annual dividend growth from 2023 to 2026.

Bulls Say Travis Miller, Strategist, 26 Jan 2023

- 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, 26 Jan 2023

- 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

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business if policymakers in states it serves aim to reduce retail gas use.

- NiSource has issued nearly $3 billion of equity and preferred stock since 2017, resulting in little EPS growth.

Economic Moat Travis Miller, Strategist, 26 Jan 2023

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.

We estimate NiSource will derive roughly 70% of its operating earnings from its natural gas distribution utilities and 30% from its integrated electric business in Indiana following the planned sale of a minority interest share of its electric utility in 2023. 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, 26 Jan 2023

Our fair value estimate for NiSource is $32 per share.

We assume NiSource invests nearly $9 billion in 2023-25, including $2 billion of investment in renewable energy projects in Indiana to replace its coal-fired power generation fleet by 2028.

We expect NiSource's safety-related gas distribution investments will 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 2026 when combining the planned electric and gas system investments. The key factor in our growth outlook is a favorable outcome in NiSource's 2023-24 electric rate case in Indiana.

Renewable energy and gas distribution infrastructure investments should support strong dividend

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growth, a better ESG profile, and lower regulatory 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 like NiSource operating in states that have constructive regulatory frameworks.

Risk and Uncertainty Travis Miller, Strategist, 26 Jan 2023

We assign NiSource a Low Morningstar Uncertainty Rating. Regulatory risk remains the key uncertainty. However, NiSource's regulatory exposure is diversified with state-regulated gas and electric operations in six states and a federally regulated electric transmission system. NiSource has reduced some of the regulatory uncertainty related to its planned 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 environmental, social, and governance 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, 26 Jan 2023

We assign NiSource a Standard Morningstar Capital Allocation Rating primarily due to management's work with regulators and policymakers to build support for its investments in clean energy, infrastructure modernization, and safety.

The CEO transition from Joe Hamrock to Lloyd Yates in February 2022 appears as if it will bring no major changes. 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.

Although there was some speculation when Yates took over that NiSource would divest one or more of its gas distribution utilities, the market collapse in 2022 nixed that as an immediate option. Instead, it appears NiSource will sell a small share of its Indiana electric utility to reduce NiSource's equity needs to fund its growth investments.

Current and former NiSource management made two key capital allocation decisions 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

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NiSource Inc NI ★★★★ 10 Mar 2023 22:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
26.71 USD 10 Mar 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.83	11.02 USD Bil 10 Mar 2023	Narrow	Stable	Low	Standard	1 Mar 2023 06:00, UTC

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. CFO Donald Brown joined NiSource in April 2015 after stints at UGI Utilities and Constellation Energy.

Analyst Notes Archive

NiSource Raises Outlook for 2023, Remains a Top Pick in Utilities Sector Travis Miller, Strategist, 22 Feb 2023

We are reaffirming our $32 fair value estimate for NiSource after the company announced $1.47 in operating earnings per share for 2022, up 7% from 2021. Results were in line with our expectations. We are reaffirming our narrow moat and stable moat trend ratings.

NiSource is the most undervalued utilities stock in our coverage, trading at a 16% discount to our fair value estimate as of Feb. 22. We think it has better regulation and more long-term investment opportunities than most other utilities relative to its size. The stock's 3.7% dividend yield and above-average growth relative to its peers suggests total returns should top most utilities' during the next five years.

Management reaffirmed its 6%-8% annual earnings growth rate target through 2027 and raised its 2023 EPS guidance range to $1.54-$1.60, implying another year of 7% earnings growth. This is now in line with our outlook. We already had been forecasting 2023 earnings at the high end of management's previous range.

Earnings growth is translating into dividend growth, as we expect. NiSource's board recently raised the dividend 6% to $1.00 per share annualized for 2023. We think NiSource has enough financial flexibility and constructive rate regulation to maintain a 60%-70% payout ratio, higher than other utilities. This enhances cash returns for shareholders.

NiSource's key growth factors remain the pace of renewable energy investments and the outcome of Indiana electric rate proceedings this year. We continue to assume NiSource invests $8 billion in 2023-25 with that pace accelerating beyond 2025.

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We think an electric rate case settlement will expedite NiSource's plan to sell 19.9% of its Indiana utility, NIPSCO, this year, as management announced in November.

Elliott Management, which has been active in the utilities sector during the last decade, made NiSource one of its top six new buys and the only utilities holding during the fourth quarter, according to recent fund filings.

No Surprises at NiSource's Investor Day; Still an Attractive Long-Term Investment 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, 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.

NiSource's Near-Term Growth Depends on Regulatory Outcomes in Ohio, Indiana 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

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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 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.

NiSource Initiates Critical Electric Rate Review in Indiana 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.

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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.

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.

Raising U.S. Electricity Demand Growth Outlook, Reaffirming Utilities Fair Value Estimates 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.

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.

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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.

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.

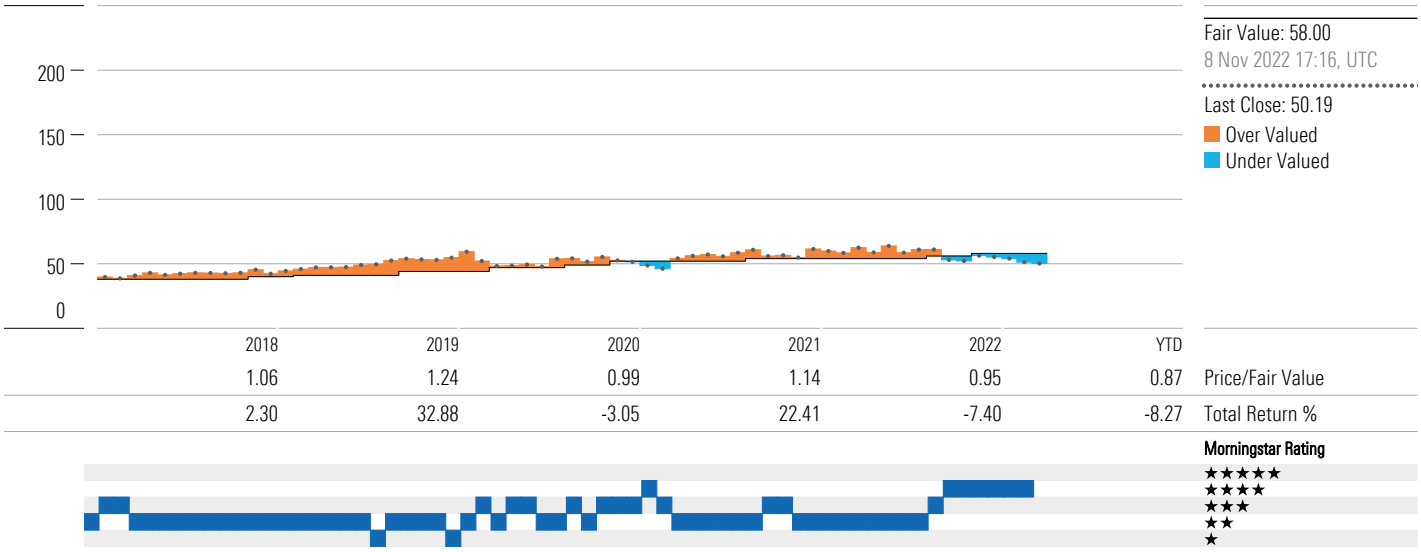
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Competitors Price vs. Fair Value

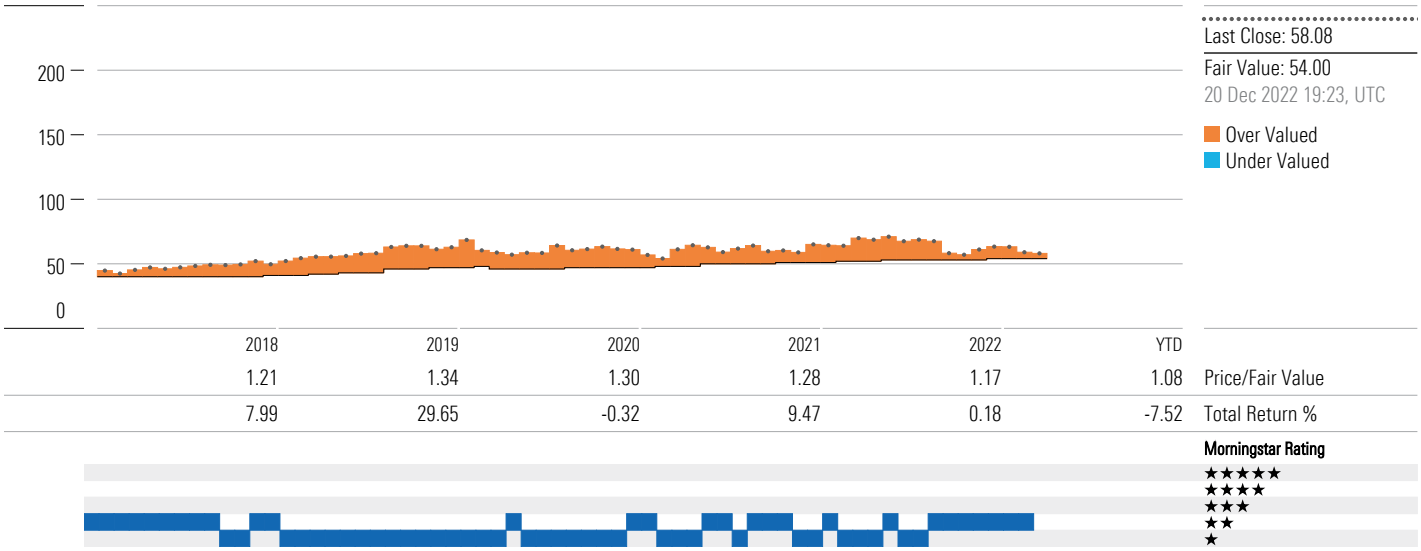
Alliant Energy Corp LNT



	2018	2019	2020	2021	2022	YTD	
	1.06	1.24	0.99	1.14	0.95	0.87	Price/Fair Value
	2.30	32.88	-3.05	22.41	-7.40	-8.27	Total Return %

Total Return % as of 10 Mar 2023. Last Close as of 10 Mar 2023. Fair Value as of 8 Nov 2022 17:16, UTC.

CMS Energy Corp CMS



	2018	2019	2020	2021	2022	YTD	
	1.21	1.34	1.30	1.28	1.17	1.08	Price/Fair Value
	7.99	29.65	-0.32	9.47	0.18	-7.52	Total Return %

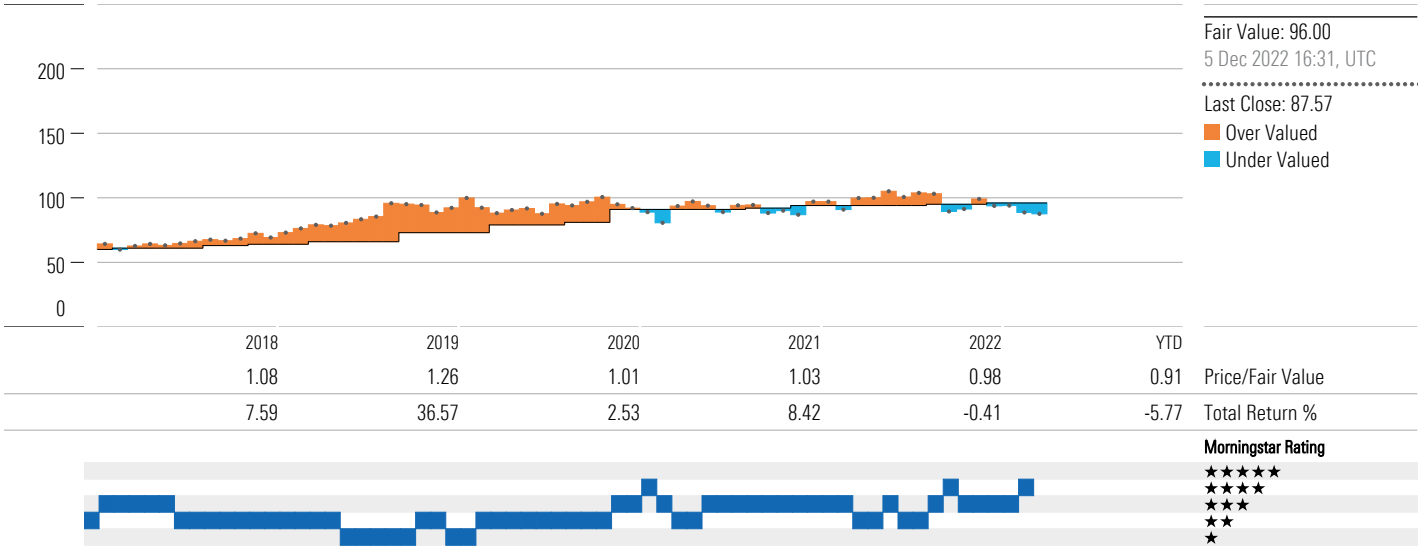
Total Return % as of 10 Mar 2023. Last Close as of 10 Mar 2023. Fair Value as of 20 Dec 2022 19:23, UTC.

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WEC Energy Group Inc WEC



	2018	2019	2020	2021	2022	YTD	
	1.08	1.26	1.01	1.03	0.98	0.91	Price/Fair Value
	7.59	36.57	2.53	8.42	-0.41	-5.77	Total Return %

Total Return % as of 10 Mar 2023. Last Close as of 10 Mar 2023. Fair Value as of 5 Dec 2022 16:31, UTC.

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10 Mar 2023	24 Aug 2022 19:55, UTC		10 Mar 2023					1 Mar 2023 06:00, UTC

Morningstar Historical Summary

Financials as of 31 Dec 2022

Fiscal Year, ends 31 Dec	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	TTM
Revenue (USD Mil)	4,625	5,272	4,652	4,493	4,875	5,115	5,209	4,682	4,900	5,851	5,851	5,851
Revenue Growth %	-8.1	14.0	-11.8	-3.4	8.5	4.9	1.8	-10.1	4.7	19.4	19.4	19.4
EBITDA (USD Mil)	1,161	1,278	1,239	1,417	1,377	734	1,595	1,057	1,787	2,138	2,138	2,138
EBITDA Margin %	25.1	24.3	26.6	31.5	28.2	14.4	30.6	22.6	36.5	36.5	36.5	36.5
Operating Income (USD Mil)	699	792	802	865	927	126	1,305	961	1,015	1,162	1,162	1,162
Operating Margin %	15.1	15.0	17.2	19.3	19.0	2.5	25.1	20.5	20.7	19.9	19.9	19.9
Net Income (USD Mil)	532	530	287	332	129	-51	383	-18	585	804	804	804
Net Margin %	11.5	10.1	6.2	7.4	2.6	-1.3	6.3	-1.6	10.8	12.8	12.8	12.8
Diluted Shares Outstanding (Mil)	314	317	320	324	331	357	376	384	417	443	443	443
Diluted Earnings Per Share (USD)	1.70	1.67	0.90	1.02	0.39	-0.18	0.87	-0.19	1.27	1.70	1.70	1.70
Dividends Per Share (USD)	0.98	1.02	0.83	0.64	0.70	0.78	0.80	0.84	0.88	0.94	0.94	0.94

Valuation as of 28 Feb 2023

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Recent Qtr	TTM
Price/Sales	1.9	2.1	1.0	1.7	1.7	1.8	2.0	1.8	2.4	2.2	2.2	2.1
Price/Earnings	21.6	25.3	12.8	23.3	31.3	-87.7	22.6	-29.4	25.3	17.8	17.8	16.1
Price/Cash Flow	7.3	10.8	3.8	9.0	10.5	7.8	12.3	7.2	9.5	9.1	9.1	8.6
Dividend Yield %	2.98	2.4	4.25	2.89	2.73	3.08	2.87	3.66	3.19	3.43	3.43	3.48
Price/Book	1.8	2.2	1.6	1.9	2.0	2.0	2.1	2.0	2.3	2.0	2.0	1.9
EV/EBITDA	16.1	18.1	10.4	10.5	12.5	25.3	13.1	19.3	12.6	11.0	0.0	0.0

Operating Performance / Profitability as of 31 Dec 2022

Fiscal Year, ends 31 Dec	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	YTD	TTM
ROA %	2.4	2.2	1.4	1.8	0.7	-0.3	1.5	-0.3	2.3	2.9	2.9	2.9
ROE %	9.3	8.8	5.7	8.4	3.1	-1.4	6.6	-1.5	10.3	13.1	13.1	13.1
ROIC %	5.4	4.9	3.8	4.9	2.7	1.4	4.2	1.3	5.4	6.4	6.4	6.4
Asset Turnover	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2

Financial Leverage

Fiscal Year, ends 31 Dec	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Recent Qtr	TTM
Debt/Capital %	56.3	56.9	60.8	59.8	63.5	55.3	56.8	61.6	56.9	55.7	55.7	—
Equity/Assets %	26.0	25.1	22.0	21.8	21.6	22.3	22.5	22.1	22.4	22.5	22.5	—
Total Debt/EBITDA	7.6	7.8	5.6	5.6	6.5	14.7	7.1	10.9	7.1	6.9	6.9	—
EBITDA/Interest Expense	3.2	3.5	3.3	4.0	3.8	2.0	4.3	2.9	5.4	5.9	5.9	5.9

Morningstar Analyst Historical/Forecast Summary as of 22 Feb 2023

Financials			Estimates		
Fiscal Year, ends 12-31-2021	2021	2022	2023	2024	2025
Revenue (USD Mil)	4,900	5,185	5,443	5,696	5,919
Revenue Growth %	4.7	5.8	5.0	4.6	3.9
EBITDA (USD Mil)	1,755	1,964	2,186	2,406	2,597
EBITDA Margin %	35.8	37.9	40.2	42.2	43.9
Operating Income (USD Mil)	1,007	1,174	1,346	1,506	1,627
Operating Margin %	20.5	22.7	24.7	26.4	27.5
Net Income (USD Mil)	572	637	694	749	803
Net Margin %	11.7	12.3	12.8	13.2	13.6
Diluted Shares Outstanding (Mil)	417	434	440	441	442
Diluted Earnings Per Share(USD)	1.37	1.47	1.58	1.70	1.82
Dividends Per Share(USD)	0.83	0.94	1.00	1.06	1.14

Forward Valuation			Estimates		
	2021	2022	2023	2024	2025
Price/Sales	2.3	2.1	2.0	1.9	1.9
Price/Earnings	20.2	18.2	16.9	15.7	14.7
Price/Cash Flow	-18.0	-10.2	-7.0	-13.0	-16.2
Dividend Yield %	3.0	3.5	3.7	4.0	4.3
Price/Book	1.7	1.5	1.3	1.3	1.2
EV/EBITDA	13.4	12.3	11.1	10.1	9.3

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Appendix

Historical Morningstar Rating

NiSource Inc NI 10 Mar 2023 22:17, UTC

Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
—	—	—	—	—	—	—	—	—	★★★★	★★★★	★★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
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Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
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★★★	★★★	★★★	★★	★★	★★	★★	★★★	★★★	★★	★★★	★★★
Dec 2018	Nov 2018	Oct 2018	Sep 2018	Aug 2018	Jul 2018	Jun 2018	May 2018	Apr 2018	Mar 2018	Feb 2018	Jan 2018
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Alliant Energy Corp LNT 10 Mar 2023 22:17, UTC

Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
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CMS Energy Corp CMS 10 Mar 2023 22:17, UTC

Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
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Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
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Dec 2019	Nov 2019	Oct 2019	Sep 2019	Aug 2019	Jul 2019	Jun 2019	May 2019	Apr 2019	Mar 2019	Feb 2019	Jan 2019
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Dec 2018	Nov 2018	Oct 2018	Sep 2018	Aug 2018	Jul 2018	Jun 2018	May 2018	Apr 2018	Mar 2018	Feb 2018	Jan 2018
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WEC Energy Group Inc WEC 10 Mar 2023 22:17, UTC

Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
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Dec 2018	Nov 2018	Oct 2018	Sep 2018	Aug 2018	Jul 2018	Jun 2018	May 2018	Apr 2018	Mar 2018	Feb 2018	Jan 2018
★★	★★	★★	★★	★★	★★	★★★	★★★	★★★	★★★	★★★	★★

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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

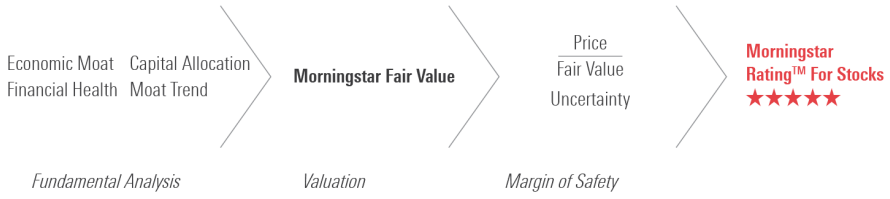
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with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

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—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, 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 are: Low, Medium, High, Very High, and Extreme.

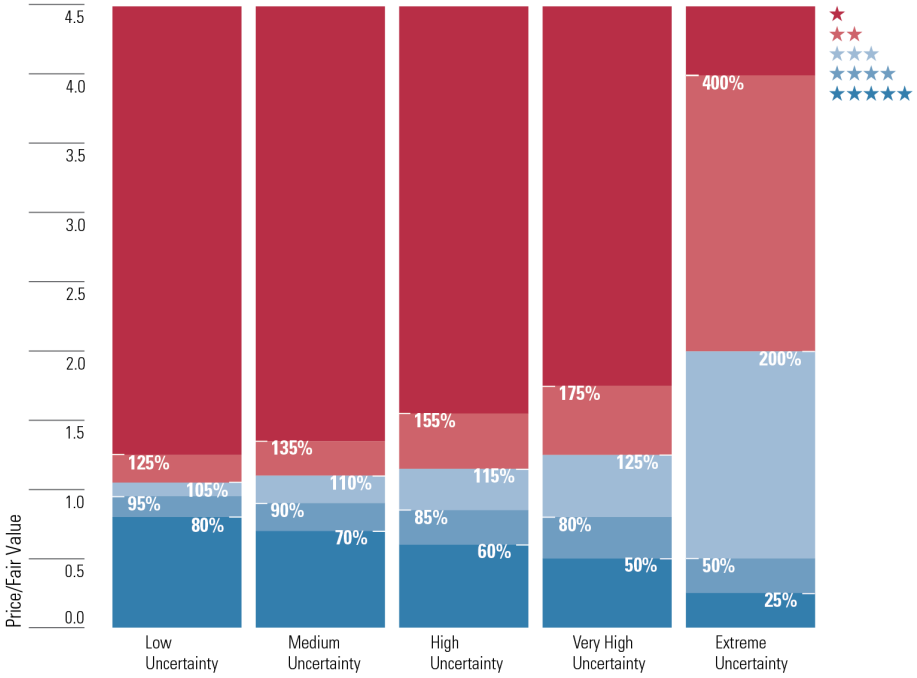
	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

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.

Morningstar Equity Research Star Rating Methodology



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 thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

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

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

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

The Morningstar Star Ratings for stocks are defined below:

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

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

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

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

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

Other Definitions

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

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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.

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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MORNINGSTAR®

UBS

First Read

NiSource Inc.

Beat and Raise

Q: How did the results compare vs expectations?

A: NiSource reported adjusted Q4'22 EPS of $0.50 vs. consensus/UBS for the quarter of $0.48 and $0.49. The company reported $0.39 in Q4'21. For the full year, adjusted EPS was $1.47 vs. consensus and UBS of $1.45.

Q: What were the most noteworthy areas in the results?

A: The year over year improvement was due to higher rates at the gas segment +11c, higher PPA revenues at the electric segment +2c, partially offset by higher D&A at -4c; Lower untracked O&M was a +4c benefit in the quarter. Share dilution was a -2c drag.

Q: Has the company's outlook/guidance changed?

A: Yes. The company increased its 2023 guidance to $1.54-$1.60 per share from $1.50-$1.57. This compares to UBS/consensus of $1.54. The long term growth rate remains 6-8% through 2027 off a 2021 base of $1.37. The five year capex outlook through 2027 remains unchanged at $15.0. Rate base growth over that time is also unchanged at 8-10%. The company said it is actively working with stakeholders on a settlement in the pending NIPSCO rate case. NI also announced it has officially launched its sale process for the minority interest in NIPSCO that was previously announced in November.

Q: How would we expect investors to react?

A: Positive. The beat on results and raise on '23 guidance should be viewed as a modest positive surprise by investors. There was some concern back at the November investor day that the '23 guide was below the 6-8% LT growth range, but this update puts the trajectory of annual 6-8% growth on track. We expect questions to focus on the NIPSCO sale process, settlement efforts in the rate case, and ongoing cost mitigation efforts.

Equities

Americas

Electric Utilities

12-month rating	**Neutral**
12m price target	**US$31.00**
Price (21 Feb 2023)	**US$26.95**

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

Trading data and key metrics

52-wk range	US$32.46-24.15
Market cap.	US$11.9b
Shares o/s	443m (COM)
Free float	99%
Avg. daily volume ('000)	1,250
Avg. daily value (m)	US$34.3
Common s/h equity (12/22E)	US$5.95b
P/BV (12/22E)	2.0x
Net debt to EBITDA (12/22E)	6.2x

EPS (UBS, diluted) (US$)

	12/22E	
	UBS	Cons.
Q1	0.75	0.75
Q2	0.12	0.12
Q3	0.10	0.10
Q4E	0.49	0.48
12/22E	1.45	1.46
12/23E	1.54	1.54
12/24E	1.66	1.68

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Highlights (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Revenues	5,184	4,697	4,900	5,208	5,448	5,644	5,813	5,980
EBIT (UBS)	1,047	1,031	1,046	1,181	1,276	1,402	1,497	1,591
Net earnings (UBS)	495	507	573	642	677	734	782	833
EPS (UBS, diluted) (US$)	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)	(12,369)	(14,567)	(15,163)	(15,668)	(16,080)
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	22.7	23.4	24.8	25.8	26.6
ROIC (EBIT) %	7.9	7.5	7.4	7.7	7.2	7.3	7.4	7.6
EV/EBITDA (UBS core) x	10.6	9.9	10.4	10.8	10.5	10.2	9.7	9.3
P/E (UBS, diluted) x	21.2	18.6	17.9	18.6	17.5	16.3	15.4	14.6
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(8.4)	(15.5)	(1.8)	(0.8)	0.2
Dividend yield (net) %	3.0	3.6	3.6	3.6	3.8	4.0	4.2	4.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$ 26.95 on 21-Feb-2023

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Key Metrics ()

	Consensus estimates	UBS estimates	Actual	% diff vs. UBS
Adjusted Q4 EPS	$0.48	$0.49	$0.50	2.0%

Source: FactSet, Company Reports & UBS Estimates

Forecast returns

Forecast price appreciation	+15.0%
Forecast dividend yield	3.8%
Forecast stock return	+18.8%
Market return assumption	9.6%
Forecast excess return	+9.2%

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 $31 price target is an 8% premium to the Regulated Utility average multiple or 18.7x 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.

Date	Stock Price (US$)	Price Target (US$)	Rating
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
2022-11-11	25.81	29.00	Neutral
2022-12-02	27.57	30.00	Neutral
2022-12-09	27.39	31.00	Neutral

Source: UBS;as of 21-Feb-2023. All prices as of local market close. Ratings as of date shown.

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Research Bulletin

NiSource (NI.N)

Initial Thoughts on FY22 Results: Positive on FY23 Guide; Continued Line of Sight to Top Quartile Growth

- Initial Thoughts on NI's AM Print which we view as positive.

- **Headlines Positive: Watching NIPSCO & Reg Execution:** NI delivered FY22 EPS of $1.47 and raised its FY23 EPS guidance range +3.5c at the midpoint to $1.54-1.60 which compares to BBG / CSe of $1.54 / $1.53. Importantly, NI's new LT EPS range (6-8%) is based off the new 2023 guidance range. At the midpoint, this implies +2c to BBG / CSe for 2024. The increase in FY23 guidance is due to better performance realized through 2022 (usage, O&M, reg outcomes) vs. the plan outlined at the Fall Analyst Day. The capital program was reaffirmed at $15Bn over 5yrs with some shifting of 2024 capital (~$500Mn) pulled into 2023 and the overall financing plan remains unchanged from the investor day. On renewable investment programs in Indiana, the timeline for projects also remains unchanged outside of $150Mn transmission projects (now 2Q23 from '21-'22 estimated ISD). On the current NIPSCO Min Interest sale, mgmt commentary suggest they remain on track with current schedule, and we look for more commentary the investor call today. Other conference call items include: Ability to settle NIPSCO rate review post intervenor testimony; Gas price declines relative to the current plan; Current RFP outlook with bid evaluations underway. NI mgmt is demonstrating they're moving back to a simple beat and raise story with line of sight to top quartile growth. We believe this is underappreciated in the stock's current multiple at an -11% / -8% discount to gas / electrics on 2025E P/E. Maintain Outperform.

Company Code	NI.N
Rating	OUTPERFORM
Price (21-Feb-23, US$)	26.95
Target price (US$)	30.00
52-week price range (US$)	32.46 - 24.15
Market cap(US$ m)	10,945
Enterprise value (US$ m)	22,730

Target price is for 12 months.

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Credit Suisse Report Tracking

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NiSource Inc.

4Q Beat & 2023 Guidance Raise; Regulatory Progress Stands Out; NIPSCO Process Formally Launched

Overweight

NI, NI US
Price (21 Feb 23):$26.95

North American Utilities

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- **4Q22 beats estimates…** NI reported 4Q22 adj EPS of $0.50, ahead of the $0.49/$0.48 JPM/Street median estimates. 2022 results of $1.47 topped NI's $1.44-1.46 guidance range (narrowed on 3Q; results consistent with prior $1.42-1.48 outlook). Lower O&M benefited the quarter, contributing to a strong finish to the company's year.
- **...and 2023 guidance raised.** Continuing this momentum, NI raised its 2023 guidance to $1.54-1.60 (JPMe/Street median $1.54), marking a +2% increase at the midpoint from the company's initial $1.50-1.57 range (6-8% annual EPS growth rate reaffirmed). We see the upward revision as indicative of continued execution on and de-risking of NI's plan, including gas rate case settlement approvals in OH/PA/MD and settlement filing in VA. The release also notes active settlement discussions in the company's IN electric rate case, screening as the final hurdle to achieving a clean 2023 regulatory outlook. Here, we continue to expect NI to benefit from strong stakeholder relationships to reach a constructive outcome. Separately, we note modest capex revisions to pull ~ $400mm of 2024 investment into 2023 and look to management's color on the call summarizing these changes and the associated impacts to 2023-2024 earnings.
- **NIPSCO transaction formally launched.** The company's NIPSCO minority stake sale process is now active, and high level disclosures imply this plan continues to track completion within 2023. While valuation scrutiny of deals across the space appears to be increasing, our recent conversations with investors indicate general comfort with the prospects of NI receiving a favorable outcome given NIPSCO's attractive growth and ratemaking qualities.
- **Conference call details.** NI will host a webcast to discuss 4Q22 results on Wednesday, February 22 at 11 AM ET.

Table 1: NI 4Q22 Results

Income Statement:	Actual 4Q21	Actual 4Q22	JPM 4Q22E	% Chg Y/Y	% Chg vs JPMe	YoY Drivers
Operating Earnings	304	362	404	19%	-10%	New base and infra replacement program rates, customer growth/usage, lower O&M, higher D&A
Net Income	167	221	218	33%	1%	Higher effective tax rate
Share Count	429	446	448	4%	-1%	
Operating EPS	**$0.39**	**$0.50**	**$0.49**	**28%**	**2%**	

Source: Company reports and J.P. Morgan estimates.

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NiSource Inc. (NI, NI US) Price Chart



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

Date	Rating	Price ($)	Price Target ($)
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
09-Dec-22	OW	27.77	31

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JPMS Equity Research Coverage*	47%	40%	13%
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Equity Valuation and Risks: For valuation methodology and risks associated with covered companies or price targets for covered companies, please see the most recent company-specific research report at http://www.jpmorganmarkets.com, contact the primary analyst or your J.P. Morgan representative, or email research.disclosure.inquiries@jpmorgan.com. For material information about the proprietary models used, please see the Summary of Financials in company-specific research reports and the Company Tearsheets, which are available to download on the company pages of our client website, http://www.jpmorganmarkets.com. This report also sets out within it the material underlying assumptions used.

This report is prepared solely for the use of Michael Weisenburger

EVERCORE ISI

Flash Note | **Energy | Power & Utilities**

February 22, 2023

NiSource Inc

NI | $26.95

Outperform | Target Price/Base Case: $31.00

Company Update

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First Crack at 4Q22

We believe NiSource's 4Q22 earnings release has positive implications for the stock. Q4 EPS beat consensus and 2023 earnings guidance raised.

Key Takes:

- NI reported Q4 adjusted diluted Net operating EPS (NOEPS) of $0.50 vs. our estimate/street consensus of $0.48.
  - 2022 EPS of $1.47 is slightly above the higher end of guidance range of $1.44-$1.46, +7.3% growth vs $1.37 in 2021
- Increased 2023 non-GAAP NOEPS guidance range to $1.54-$1.60 from $1.50-$1.57, $0.03 or 2% higher at the mid-pt.
  - Midpoint of $1.57 represents 6.8% growth off 2022 NOEPS. Consensus is at $1.54.
- Reaffirmed annual non-GAAP NOEPS growth of 6-8% through 2027.
  - Off the 2023 earnings forecast range of $1.54-$1.60.
  - Implied 2024 EPS at the mid-pt of $1.68 vs our estimate/consensus of $1.65/$1.66 respectively
  - Implied 2025 EPS at the mid-pt of $1.80 in line with our estimate/consensus of $1.80
- Reaffirmed $15B 2023-2027 capex plan with ~75% of investments beginning earning in less than 18 months
  - Still project 8%-10% annual utility rate base growth
- Northern Indiana Public Service Company (NIPSCO) minority sale process launched and on track for 2023
- NIPSCO is actively working with stakeholders toward a settlement in the electric rate case filed on September 19

NI will host a conference call at 11am ET. Dial-in: 1 (888) 330-2391. Passcode: 28323. We will follow the call with a detailed note.

Additional Details:

- **Minority Interest sale**: In Nov, 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. The company has initiated the sale process, and we expect an announcement by mid-year and close by year-end. We estimate $1.5-$2B in cash proceeds.
- **NIPSCO Electric rate case:** On Sep 18th, NIPSCO Electric rate case was filed in Indiana, requesting rate increase of $292M net of infrastructure trackers with a 10.4% ROE and 58.5% equity ratio on a rate base of $5.95B. The company is actively working with stakeholders toward a settlement and expects to receive a final order in 3Q2023. Rates will go into effect in the fall of 2023 and the second tranche in spring of 2024.
- **OH gas rate case**: On Oct 31st, 2022, Columbia Gas of Ohio filed a settlement representing a $68.2M revenue increase with 9.6% ROE and 50.6% equity layer. 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 were held on Nov. 16, 2022, and the commission approved the settlement in January 2023 for new rates that will go into effect in March.
- **Virginia gas rate case**: On Dec 9th, Columbia Gas of Virginia reached a settlement with $25.8 million rate increase, inclusive of SAVE (Steps to Advance Virginia's Energy Plan) infrastructure tracker ($14.5MM), representing a settlement as to a specific revenue number but not as to a specific ROE. Recall that NiSource requested $40.6MM revenue increase 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. A final order is expected in 1Q23.

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- **O&M management:** NI projects O&M to be flat from 2023 to 2027, which supports average annual customer rate increases of <3% annually and provides bill headroom for customer and reliability related investments. They also plan to invest ~$1B in IT systems to support field and customer service enhancements and productivity.
- **2023-2027 financing plan unchanged**
    - Dividends and capital investments funded through cash from operations, minority interest sale, $4.5-$5.5B new debt and ATM in 2025+.

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VALUATION METHODOLOGY

We use a SOTP analysis to arrive at our price target

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

From: Steve Fleishman
To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 2/22/23 - NI, AGR, D, NRG, PPL, PJM Auction, Bi-Weekly Mark, PEG, TRGP, EPD, WMB, ETRN
Date: Wednesday, February 22, 2023 8:58:12 AM

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Wolfe banner





February 22, 2023

THE FLEISHMAN DAILY 2/22/23

NI, AGR, D, NRG, PPL, PJM Auction, Bi-Weekly Mark, PEG, TRGP, EPD, WMB, ETRN

The Fleishman Daily 2/22/23
Utilities: NI, AGR, D, NRG, PPL, PJM Auction, Bi-Weekly Mark, PEG
Midstream: TRGP, EPD, WMB, ETRN

Utilities

NI – FY22 beats; 2023 raised, reaffirms 6-8% annual EPS growth off higher base; positive
AGR – 2022 EPS beats, 2023 guidance in-line; NECEC cost up $200M and timeline slips to 2025
D – OSW bill passes in the House with minor amendments; still waiting on conferees for regulatory bill
NRG – Statement on adverse Vivint court decision is interesting; Monitoring near-term deal closing
PPL – Prices $900M exchangeable note at 2.875%, sets conversion price at 23% premium to close; complex debt issuance, not equity-like; stock hit overdone
PJM Auction – FERC accepts proposal to revise small DPL South zone results
The Bi-Weekly Mark – The New New Jersey energy plan
PEG – The New New Jersey energy plan

Midstream

TRGP – Strong 2023 EBITDA outlook on robust volumes and despite weaker commodities;

Capex a little high; Larger dividend boost; Positive
EPD – Phantom unit grants to management and EPCO Board members
WMB – Making the case for gas
ETRN – Hoping to go 4 for 4 at the 4th Circuit

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, Clean Energy Stock Charts, Valuation Charts, Models

Utilities

NI – FY22 beats; 2023 raised, reaffirms 6-8% annual EPS growth off higher base; positive

- **FY22 beats.** 2022 EPS of $1.47 – ahead of us/consensus at $1.45 and above the top end of the $1.44-1.46 guidance range
- **2023 guidance raised.** Now sees range of $1.54-1.60 vs $1.50-1.57 prior; current consensus is at $1.54 (WRe $1.54)
- **Reaffirms 6-8% annual EPS growth off higher 2023.** Implies the following EPS (assuming 7% growth) –
  - 2024 EPS of $1.68 vs current consensus $1.66 (WRe $1.67)
  - 2025 EPS of $1.80 vs current consensus $1.80 (WRe $1.81)
- **5-yr capex plan unchanged, some shifting into 2023 from 2024.** The $15B investment plan over 2023-27 was unchanged; 2023 capex now expected to be $3.3-3.6B (was $2.8-3.1B), 2024 now $2.6-2.9B (was $3.0-3.3B)
  - Estimated CODs for renewable projects better defined now in slide presentation
  - NI's financing plan was unchanged
- **Actively working toward settlement in NIPSCO electric case.**
- **NIPSCO minority sale underway.** We assume a 19.9% stake is sold for 2x book equity (in-line w/ DUK's sale)

A positive update across the board – 2022 EPS came in above guidance and the 2023 guidance provided at Analyst Day in November was already raised. NI is now pointing 6-8% annual EPS growth off the higher 2023 guidance, which implies a 2024 slightly ahead of consensus and an in-line 2025. At EEI NI was messaging the 6-8% as a CAGR, thus we end up in a similar place but the linear growth is better to see. The capex/financing plan was unchanged, though there was some shifting of capex into 2023 from 2024 (unclear if from renewable project timing or base capex). Separately, it is nice to see that NI is in active talks to settle its NIPSCO electric case. The NIPSCO minority sale is now officially underway; we expect some questions here on the call and continue to believe NI will receive a good price.

AGR – 2022 EPS beats, 2023 guidance in-line; NECEC cost up $200M and timeline slips to 2025

Reports 2022 adjusted EPS of $2.33 vs. $2.18 last year – beats consensus $2.28, but in-line with our $2.32 estimate; also in-line with $2.20-2.38 guidance
  - Networks -$0.22 YoY – rate relief in NY/ME; offset by higher depreciation, business expense, and finance costs
  - Renewables +$0.57 YoY – primarily on offshore wind restructuring gain of $0.47; also pricing/production party offset by absence of Storm Uri gain in 2021
    - Wind capacity factor = ~28.5% vs. ~30% normal and 28.1% last year
  - Corporate -$0.20 YoY
  - Includes $0.06 non-GAAP add-back for offshore contract provision
- **Issues 2023 guidance at $2.20-2.35** – **in-line** with consensus $2.27, but light of our pro forma PNM estimate (half-year) at $2.41; our estimate ex-PNM is $2.13
  - AGR previously implied a similar range in 2023 to 2022 (~$2.20-2.40)
  - Assumes PNM closes by mid-year ($0.30/sh), NECEC resumes construction in mid-2023, partial sale of Kitty Hawk offshore wind, and potential partnership structure in onshore projects – all disclosed at Analyst Day
  - Includes non-GAAP add-backs of $0.24 in merger costs and $0.00-0.08 of contract reserves
- **Reaffirms 6-7% EPS CAGR over 2022-2025 (w/ PNM) as of September Analyst Day**
- **NECEC.** Cost up to $1.4B (from $1.2B). Evaluating construction schedule for COD August 2025 (from YE24 previously). Slides note working on multiple fronts to ensure economic viability.
  - Positive recent legal outcomes, but construction restart still pending April trial at Maine local court
- **Renewables.** 395 MWs COD in 2022, 480/106 MWs solar/wind in 2023 (all unchanged)
  - Notes successful PPA negotiations on 780 MWs of existing projects
  - Onshore pipeline unchanged at 19.7 GWs
  - No new PPAs signed for sixth consecutive quarter
- **Offshore Wind.** Vineyard Wind timeline unchanged – 2H23 generating power and 2024 COD
  - Vineyard Wind capex unchanged, offshore export cable started
  - Committed to bid in upcoming MA solicitation w/ Commonwealth Wind

The 2023 earnings guidance is the main focus and this matched consensus (unclear if including PNM or not) and what AGR had implied back at its Analyst Day. We had estimated slightly higher, but our ~$0.30 PNM swing factor matches AGR's expectations. However, the incremental NECEC cost increase and delay despite successful recent legal outcomes is a bit disappointing. On the call we expect questions on rate case settlement discussions (mainly NY), Vineyard Wind construction progress, Commonwealth Wind PPA negotiation updates, as well as the latest on NECEC and PNM proceedings. There is a lot for AGR to execute on over the next 12 months.

<u>D – OSW bill passes in the House with minor amendments; still waiting on conferees for regulatory bill</u>

- Yesterday, the VA House of Delegates passed SB 1477 (OSW bill) by a vote of 87-12
- The House adopted minor amendments, none of which change the substance of the

bill
    - Given the amendments, the bill will need to be approved by the Senate again
- Separately, as it relates to SB 1265 and HB 1770 (regulatory bills), conferees have yet to be named
- Virginia's legislative session is due to adjourn on Saturday (2/25)

Not a surprise to see the OSW bill pass given the amount of support it has received thus far. We would expect the Senate to approve the amended version today or later this week ahead of the 2/25 deadline. As a reminder, the bill would give the SCC full discretion in potentially allowing D to bring on a noncontrolling equity investor for CVOW. This would help reduce D's project risk and also decrease the cash drag while building the project. As it relates to the regulatory bill, we would expect conferees to be named today given that there are only a few days left in the session. Conferees typically include, but are not limited to, leadership from both the Senate (Saslaw) and House (Kilgore) as well as chief patrons of the bill (Saslaw and Kilgore).

NRG – Statement on adverse Vivint court decision is interesting; Monitoring near-term deal closing

- Yesterday, VVNT issued an 8-K indicating that a U.S. District Court ordered Vivint to pay CPI Security Systems $50M of compensatory damages and an additional $140M of punitive damages from a 2020 lawsuit related to VVNT sales practices
- NRG's public statement acknowledged the court decision and stated they "are continuing to evaluate the decision and our options. As we shared during our recent earnings announcement, NRG's acquisition of Vivint is pending and has not yet closed."

We found NRG's statement to be interesting as one could read it to imply that the company could consider seeking some remedy for the court decision. It's unclear to us if NRG could claim this is a material adverse event and use it to renegotiate the merger terms modestly. On the other hand, the statement could simply be highlighting that NRG could seek to appeal the decision in the future. It is of interest, however, particularly given investor reaction to the deal and the negative impact it has had on NRG's stock price.

PPL – Prices $900M exchangeable note at 2.875%, sets conversion price at 23% premium to close; complex debt issuance, not equity-like; stock hit overdone

- After close 2/21, PPL said it priced $900M exchangeable notes due 3/15/28, with an option for $100M shoe, at 2.875%. The net proceeds are $882M (before the shoe).
    - The aggregate principal amount will be paid in cash.
- Notes will be exchangeable at rate of 29.3432 shares per $1,000 principal amount; that is equivalent to an initial exchange price of $34.08 per share of common stock, which represents an exchange premium of ~22.5% to the last reported sale price of $27.82.
    - If the share price exceeds, the exchange price, the excess value is paid by PPL to exchangeable noteholders in stock, cash or a combination of the two.
- Prior to 12/15/27, notes are exchangeable at option of noteholder only if specified

conditions are met; on or after 12/15/27, notes are exchangeable at any time.
- The note is callable after 3 years (3/15/26).

This offering was a complex debt issuance that included a stock option to the buyer that led to a lower interest rate. This was a way to get cheaper debt, not an equity-like issuance. But it still caused convert arb shorting. The 2.875% is lower than both the UST 5Y bond (4.1%) and pricing for recent 5Y bond issuances for similarly rated utilities (115bp spread for CNP). Every 100bp on $1B of debt is $0.01/sh in 2025. If PPL stock price exceeds $34.08, PPL pays just that excess times 29.3432 shares per $1,000 principal note. But PPL can elect to pay that in the form of equity, cash or a combination of the two. The stock lagged the UTY by ~150bp, likely on the announcement of the notes. The stock move seems overdone. The noteholder effectively has an option on the stock if price appreciates by at least 23% (though payable in cash/stock/both) in exchange for a lower interest rate to PPL.

PJM Auction – FERC accepts proposal to revise small DPL South zone results

- Yesterday, FERC issued an order accepting PJM's proposal to resolve the small DPL South zone issue that resulted in a price spike due to a supply/demand mismatch in the recently held 2024-2025 capacity auction (**link**)
    - Specifically it would "exclude planned generation capacity resources from the calculation of locational deliverability area (LDA) reliability requirement if the addition of such resources materially increases the reliability requirement and such resources do no participate in the capacity auction"
- Recall that PJM made a 205 FERC filing in late-December after the results of the auction were realized, but not yet public
- Commissioner Danly dissented, finding PJM's attempt to retroactively apply a rate proposal to an already-run auction as illegal, and calling for a section 206 proceeding to investigate whether the existing PJM construct is just/reasonable
- Commissioner Christie concurred and found the DPL South zone results were blatantly unjust/unreasonable, but also again called for a comprehensive review of the PJM capacity market

It appears PJM now has its answer and should be able sssto release results, as the effective date is retroactive to 12/24/22. We're not sure on the precedent this sets, as it effectively changes the rules after-the-fact, but perhaps isn't surprising given the pro-consumer bent of the current FERC. VST, CEG, NRG and PEG have modest exposure to the PJM auction (and no one is materially exposed to the DPL South Zone). Please see our original preview note for company sensitivities and exposures by zone – **link**

The Bi-Weekly Mark – The New New Jersey energy plan
Click here to view our complete note
CEG finishes 2022 strong, NRG not so much; PEG less eventful. Last week started earnings season for power names – CEG led off with a net positive update. 2022 EBITDA beat, 2023 guidance was in-line, and implied 2024 EBITDA was above us/consensus. The capital allocation plan has a little a bit of everything and left $2B of unallocated FCF. CEG's nuke fuel also rose $500M/year as it builds more inventory to ween off Russia, which was viewed

less favorably (PEG saw as a non-issue). NRG on the other hand limped to the finish line in 2022 – missing the low-end of a guidance range that had already been lowered by $200M (and original guidance by 16%!). NRG's reaffirmed 2023 guidance implies a big YoY step-up as some risk management issues in 2022 abate, but the burden of proof is now on the company after 2 straight disappointing years. Vivint still has doubters and a $190M court ruling against it last Friday adds some uncertainty. PEG's report this morning was less eventful. Key questions remain more strategic – what does it do with nuclear and how much is its yet to be exited offshore wind worth?

PEG – The New New Jersey energy plan
Click here to view our complete note
2022 EPS in-line. PEG posted operating earnings of $3.47, which matched consensus/us and was within PEG's $3.40-3.50 guidance. The year was down from $3.65 in 2021, as utility rate base growth of 8% was more than offset by fossil asset sale timing items.

Midstream

TRGP – Strong 2023 EBITDA outlook on robust volumes and despite weaker commodities; Capex a little high; Larger dividend boost; Positive

- **Q4 results.** EBITDA of $840M beat consensus by 2% with FY 2022 EBITDA landing right at the midpoint of guidance despite commodity weakness.
    - G&P EBITDA missed big and was down $21M QoQ despite volumes that were right in line with our forecast and good realized gas prices. The quarter was negatively impacted by winter storm Elliott.
    - L&T EBITDA beat big. This appears to be partially due to strong marketing margins and lower costs. NGL pipeline and fractionation volumes were flattish QoQ and below our forecast possibly due to Elliott effects.
- **Strong initial 2023 guidance.** 2023 EBITDA guidance of $3.5B – $3.7B is better than our $3.5B estimate and further above $3.44B consensus
    - TRGP expects average FY 2023 Permian G&P volumes to be 10% above 4Q22 volumes – this is better than our forecast
    - Guidance assumes commodity prices of $0.70/gallon NGLs, $2.25/MMBtu Waha gas, and $75/bbl WTI crude. NGLs and crude are close to forward curves, although Waha gas is now lower than this. TRGP only sees a $60-100M impact on 2023 EBITDA for a 30% change in commodity prices.
- **Capex a little above already elevated expectations.** 2023 growth capex of $1.8B - $1.9B is modestly ahead of our $1.7B forecast and our view of investor expectations.
    - TRGP announced plans to transfer an existing 230 mmcf/d South Texas plant recently acquired to its Delaware basin system with COD in 2Q24
- **Larger than expected dividend boost.** TRGP will raise the dividend by 43% effective next quarter to $2/share (2.7% yield)
    - Buybacks will remain opportunistic. TRGP repurchased $225M of stock for FY 2022 which implies only about $28M of purchases in Q4.

This is a positive update for Targa and continues a trend of better than expected 2023

EBITDA outlooks, as well as higher capex, across the midstream space. The strong 2023 outlook appears to be driven by robust volume growth as TRGP is using close to current forward commodity prices which have weakened considerably over the past couple of months. 2023 growth capex came in even a little above already heightened expectations. The 43% dividend hike is a positive – while TRGP will still yield well below peers, it is a notable step change while the company will still retain considerable financial flexibility for buybacks. Lastly, on the quarter results beat nicely with help from strong marketing results and despite some winter storm Elliott impacts on volumes.

EPD – Phantom unit grants to management and EPCO Board members

- EPD filed a series of form 4s yesterday with typical annual grants and vesting of phantom units awarded to senior executives
- Of note, our reading of the filing is that Chair Randa Duncan Williams received a 535,000 unit grant of phantom units (worth $14M at the current stock price) with vesting in February 2027. 370,000 previously granted phantom units vested this year.
- Separately, Director Richard Bachmann was awarded 375,000 phantom units ($10M) that also vest in 2027
- Co-CEOs Jim Teague and Randy Fowler each received 300,000 phantom units ($8M) that vest in equal increments over 4 years starting in February 2024

We wouldn't typically highlight annual normal course filings of phantom unit grants as all companies have some element of long-term stock-based compensation and EPD's CEO compensation in our most recent proxy report was consistent with peers. However, once again this year it caught our attention that Directors Randa Duncan Williams and Richard Bachmann received a greater number of phantom units than the co-CEOs of the company, which is very different than other companies we are aware of.

WMB – Making the case for gas

Click here to view our complete note

Investor meeting makes the gas for natural gas. Williams held its annual investor day on Tuesday. The tone of the meeting was upbeat, underscoring confidence in the long-term demand for natural gas globally combined with its broad footprint to serve that demand. Overall we see WMB as very well positioned for long term natural gas growth and its execution on operations, growth and on the balance sheet has been good. We remain Peer Perform on WMB but we believe it remains a high-quality gas play.

ETRN – Hoping to go 4 for 4 at the 4th Circuit

Click here to view our complete note

Solid 2022 results undermined by MVP uncertainty and high capex. Shares of ETRN underperformed by about 400 bps after higher than expected 2023 capex guidance and lack of clarity on the no-MVP '23 EBITDA picture. The market continues to react against higher than expected capex across the sector. We see the stock as fairly valued at current levels after taking into account the higher capex and remain Peer Perform. While we remain skeptical of a 2023 MVP completion we note that if the pipeline is completed ETRN could have significant upside.

Wolfe Events

February 21-22: EXC non-deal roadshow in Australia (Virtual)
March 15: Moody's lunch in New York
March 20-24: CEG non-deal roadshow in Europe
March 23-24: ES non-deal roadshow in London
March 27-31: PCG non-deal roadshow in Europe

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Wolfe Utilities Primer
Wolfe Midstream Primer

Calendar

PJM Capacity Auction results February 27th

PJM indicated that it will post the long-delayed results of the 2024/2025 base residual auction (RA) after 4PM ET on Monday February 27th. FERC ruled on February 21st providing clarity (ER23-729-000). See our expectations and background here: PJM Delay.

NI: FY22 beat and FY23 guide up

NiSource (NI) reported $1.47 adjusted EPS a beat vs $1.45 BofA/Consensus and above the $1.44-$1.46 narrowed guidance range. NI increased its 2023 guidance to $1.54-$1.60 vs $1.55 BofA/Consensus, a favorable change from the recently initiated $1.50-$1.57. NI reaffirmed its 6-8% annual adjusted EPS with a new slide indicating that there is annual 6-8% growth every year from 2024-2027.

Mgmt appears clearly confident on NIPSCO electric rate case outcome heading into March hearings: could see status update by late Feb for progress. Watch cost cut provisions and coal closure recovery as key subjects ahead still. Overall perceive clear-derisking thru 1H23. Minority interest sale process also key and continuing as intended: key catalyst to drive a positive re-rating. *We continue to view NI as one of the most attractive regulated utility opportunities given the discounted valuation and above-average growth prospects with near-term risking. Reit Buy.* See our latest: NiSource Inc: Painting Path for a Constructive Indiana Rate Case Outcome: Minority Sale Too 01 February 2023

AVA: 4Q/FY22 beats on biotech investment MtM

Avista Corp (AVA) reported $2.12 FY22 EPS, well above $1.92 BofA/$1.89 Consensus and above the high-end of the $1.88-$2.08 guidance range (at the high-end of the prior $1.93-$2.13 range). Avista utilities $1.61 was below the $1.66-$1.82 guidance, Alaska $0.10 was at the top-end ($0.08-$0.10), and Other was materially higher than the $0.14-$0.16 range. AVA reported $22Mn Other net income in 4Q22 ($0.30) and $30Mn FY22 ($0.41). Avista has an investment in a biotechnology company with a patented biologic. AVA described its FY22 earnings as better than expected due to "significant increases in the fair value of certain non-regulated investments". AVA has $54Mn of Level 3 investments which was identified as a critical audit matter by its external auditor. Deloitte stated that the Avista elected the "fair value option for the measurement of certain investments in equity securities without a readily determinable fair value."

Avista has a history of material unregulated investments including energy management company Ecova that was sold to GDF Suez for $335Mn in 2014 with $136Mn net cash to Avista ($62Mn gain).

We view the 4Q22 earnings update cautiously as Avista missed its 2022 Utilities EPS and capex guidance. FY22 EPS beat expectations entirely to the biotechnology investment mark-to-market which is non-core and not indicative of future value: that said still a positive update on these peripheral investments. The balance sheet metrics continue to erode which could lead to additional future equity.

Please see full report for more on AVA, Missouri regulation, and PEG.

22 February 2023

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Utilities

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PJM: PJM Interconnection
MtM: Mark-to-market
O&M: Operating and maintenance
NIPSCO: Northern Indiana Public Service Company
ERM: Energy Recovery Mechanism
TOU: Time of Use

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AVA: Capex and balance sheet in focus (Cont.)

The $475Mn annual capex in 2023-2024 was reaffirmed and 2025 was introduced also at $475Mn. In 2025 natural gas spending is declining YoY and is replaced by electric transmission & distribution spending. 2022 Avista utilities capex was $443Mn, -7% below the $475Mn guidance. FY23 guidance was reaffirmed at $2.27-$2.47 which excludes the ERM where management expects +$0.03

The equity ratio declined QoQ to 44% from 45% and is likely higher today due to the short-term borrowing increase announced in early 2023. The company indicated plans to reduce short-term debt throughout the year but also increase its credit facility capacity +$100Mn in 2Q23. AVA now expects to issue $200Mn long-term debt in 2023, up from $140Mn previously, and an unchanged $120Mn equity. Maintain Underperform rating

MO Regulatory stakeholder check-in

We caught up with stakeholders on the regulatory situation for Missouri utilities, a timely update given the recent transition of former Chair Ryan Silvey and a number of regulatory efforts in progress and recently completed. On balance, most utilities enjoy a constructive regulatory relationship. Directionally the most positive feedback was on Spire (SR), where stakeholders indicated that the challenges experienced in the prior two rate cases were isolated events, and that negative sentiment is not expected to hold over. We continue to see Ameren (AEE) as the best-positioned in terms of regulatory perception, where stakeholder note particularly successful efforts in communicating with regulatory counterparts at the commission. *Separately we have heard that Ameren stakeholder relations in Illinois has improved as well.* Evergy (EVRG) also has a generally positive perception, despite late-stage consternation during last year's Missouri electric cases where the commission and staff experienced frustration over the failure to implement time of use (TOU) rates – we see this as more of a communications-related isolated instance than a policy viewpoint.

As had been previously articulated by management teams and others active in the state, expectations remain low for any substantial energy legislation this session. Policymakers have passed substantial energy bills in recent years including securitization, the original plant in service accounting (PISA), and last year's PISA modifications. We perceive legislative attention will be directed elsewhere in this session and likely next year's. Note this is the case for transformative and complex legislation, though we still see as possible incremental items such as right of first refusal (ROFR) legislation which may benefit incumbent transmission operators including Ameren. Generally speaking, we do not see significant barriers to future rate case settlements with stakeholders viewing the outcomes as generally constructive.

There could be a shift away from 'black box' outcomes given opacity which have been common in Missouri. We also do not expect that MO commissioners will take aggressive positions on authorized ROEs as seen previously in states including WI, rather letting staff and other intervener positions on the record dictate the direction of rates.

PEG Follow-up: Taking the Long-Term View at Analyst Day

Look for management to take a focus on 2027 & beyond at its March Analyst Day, focusing on the Governor's latest electrification plans. We note few details were provided in reaction to Gov Phil Murphy's latest efforts to accelerate the RPS to 100% by 2035 - but anticipate a particular focus on meshing electrification into utility operations. While we perceive this could add modestly to the tail end (2027) of the existing 5-year plan (and some on EV chargers potentially in the interim too) - we look for a bigger 10-year view of spending plans offering up an improving core regulated utility background. Related, we also look for PSEG (PEG) to articulate perhaps for the first time its inaugural efforts to maximize its nuclear portfolio with a focus on uprates, subsequent license extension and finally some articulation of a Hydrogen plan. This last bit is likely understated within expectations. While pension nuances are likely to persist a delayed timeline on the lift out of its Power pension makes this less likely of a relevant

detail. We reiterate our existing EPS CAGR of ~5.5% and continue to see a positive risk-adjusted return outlook for shares. *Don't expect a meaningful step in ratebase growth with the Analyst Day despite the improving regulatory backdrop. Remains among our favorite utility picks of the wider universe.*

See our first takes on PEG earnings here: US Utilities: PowerPoints: PEG Earnings, 21 February 2023

Exhibit 1: 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	D US	Dominion Energy	US$ 58.25	A-3-7
AVA	PPL US	PPL Corp.	US$ 28.68	B-1-7
PEG	ETR US	Entergy Corp.	US$ 107.55	B-2-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Southern Company: Latest Vogtle delays priced in, with a focus on run rate post in-servicing	Julien Dumoulin-Smith	22 February 2023
Avangrid: 4Q22: Pro-forma 2023 guide underwhelms. EPS CAGR reaffirmed as of Sept 2022	Paul Zimbardo	22 February 2023
Constellation Energy Corp: PTC Protection Only Part of the Equation: Downgrade to Neutral After Strong Run	Paul Zimbardo	21 February 2023
US Utilities & IPPs: PowerPoints: PEG Earnings, Power/CEG, Utilities Strategy, AY Review, LNG, & IDA	Julien Dumoulin-Smith	21 February 2023
Vistra Energy: Hold The Guide: MtM Largely Intact Despite Gas Balloon Deflating. Buy	Julien Dumoulin-Smith	21 February 2023
NRG Energy: Improved visibility to FCF outlook, now it's time to deliver – Neutral; PO raised to $35	Julien Dumoulin-Smith	21 February 2023
Consolidated Edison: Regulatory risks lifted with latest settlement, but outcome priced in	Julien Dumoulin-Smith	21 February 2023

Price objective basis & risk

Ameren Corporation (AEE;A-1-7;$86.04)
Our $96 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2025E ratebase weighted peer multiple of 16.0x for electric and 16.1x for gas. 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. At Ameren Transmission, we apply a 4.0x premium to peers to reflect the FERC ROEs and robust growth outlook. 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 2023 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.

Avista (AVA)
Our $36 PO is based on our 2025E sum-of-the-parts (SOTP) analysis, based on the large cap electric group multiple of 15.2x for electric and 15x for gas. Both electric and gas

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Allete Inc	ALE	ALE 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
	Array Technologies	ARRY	ARRY 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
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	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
	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
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN 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				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY 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
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM 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

From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: PEG, NI, AVA, NRG, PCG, D/VA, PPL, PJM - Guggenheim Securities, LLC
Date: Wednesday, February 22, 2023 9:22:29 AM

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The Guggenheim Daily Transmission: PEG, NI, AVA, NRG, PCG, D/VA, PPL, PJM

Power & Utilities February 22, 2023

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Access This Report

For our AGA conference (May 20-23) meeting schedule, please scroll down…

For details on our Guggenheim-hosted client Utility events including our AZ Commissioners call, DUK NDR, NEE NDR, AEE NDR, EXC NDR, ETR NDR, DTE NDR, PCG NDR, ES NDR, PNW NDR, CMS NDR, POR NDR, and other events, scroll down…

PEG – 4Q EPS Beat; 2023 EPS Guidance Narrowed, LT Value Remains With Execution and Rate Case Reset (see our note HERE)

NI – 2022 beat and 2023 guidance raise; reiterates and further clarifies 6%-8% annual EPS trajectory

AVA – 2022 beat on non-utility "Other" segment; reiterates 2023 guidance

NRG – Vivint lawsuit damages continue to raise investor questions over deal

PCG – PG&E files comments on PG&E GRC process and Track 2 settlement

D/VA – Bills SB1321, SB1265, SB1477, and HB1604 advance following chamber votes

PPL – PPL prices exchangeable senior notes

PCG – PG&E prepares for potential storm outages

PJM – RTO Board approves additional RTEP project updates

NI reports 2022 net operating EPS of $1.47 vs Gugg/consensus at $1.45/$1.45; raises 2023 guidance to $1.54-$1.60 ($1.57 midpoint) vs prior guidance of $1.50-$1.57 ($1.54 midpoint) and Gugg/consensus at $1.54/$1.55

- **NIPSCO minority stake:** sale process launched, and 2023 close continues to be expected
- **EPS CAGR:** reiterates 6%-8% annual EPS growth through 2027 (slide 6)
- **Capex:** shifted capex (primarily generation) from 2024 into 2023
  - **2023:** now **$3.3bn-$3.6bn** vs $2.8bn-$3.1bn previously
  - **2024:** now **$2.6bn-$2.9bn** vs $3.0bn-$3.3bn previously
- **Rate Base:** reiterated 8%-10% annual rate base growth… **sees potential upside through 2027 from:**
  - New gas system modernization programs focused on replacing legacy plastic mains and services installed prior to 1985
  - Gas transmission programs focused on inspection retrofits and reconfirmations to comply with PHMSA regulations
  - New programs to deploy advanced metering infrastructure (AMI) for gas systems
  - Increased ownership of electric generation investments utilizing the IRA's tax transferability provision
- **Electric Generation:** New request for proposals (RFP) for generation resources closed in September; bid evaluation underway
- **Financing:** maintains 2023–2027 financing plan
  - Includes remarketed equity units ($863m)
  - ATM equity in 2025+ to support current investment grade credit ratings; may also be used to redeem outstanding preferred stock ($900m)
- **Credit:** continuing to target 14%-16% FFO/debt post-sale of NIPSCO minority interest
- **Dividends:** continuing to target 9%-11% total shareholder return
- Call is at **11:00am at 1-888-330-2391... Passcode: 28323**

AVA reports 2022 EPS beat of $2.12 vs guidance of $1.88-$2.08 ($1.98 midpoint) and Gugg/consensus at $1.89/$1.89; reiterates 2023 EPS guidance of $2.27-$2.47 ($2.37 midpoint) vs Gugg/consensus at $2.28/$2.31

- **2022 EPS beat:** "Other" segment produced **$0.41 of EPS in 2022, vs 2022 guidance of $0.14-$0.16** for the segment, and $0.21 in 2021
  - **4Q22 release:** "*Earnings attributable to our other businesses increased primarily due to an increase in the fair value of our investment in a biotechnology company, which stems from an investment that was originally focused on the development of biofuels. Their patented biologic drug platform accelerates time to market for orally delivered antibody drugs and has advanced through testing stages, increasing the value of our investment.*"

> "*Our 2022 consolidated earnings were better than our expectations,* ***due to significant increases in the fair value of certain non-regulated investments***," said Avista President and CEO Dennis Vermillion.

- **2023 "Other" guidance: $0.04 to $0.06** per diluted share
- **Capex:** reiterated capex of $475m per year at Avista Utilities through 2025, plus ~$15m/yr at AEL&P
- **Pension:** contributed $42m to the pension plan in 2022; AVA expects to contribute a total of $50m during 2023-2027 ($10m/yr)
- **2023 Financing:** AVA expects to issue up to **$200m of long-term debt** (*vs $140m previously*), and **reiterated plans to issue up to $120m of common stock** to fund planned capital expenditures and decrease short-term borrowings; also planning to increase the capacity of its $400m credit facility to $500m in 2Q23.
- **2022 Financing:** issued $400m of long-term debt and $138m of common stock.
- Call is at **10:30am at 1-844-543-045… Passcode: 327211**

NRG – Vivint lawsuit damages continue to raise investor questions over deal

- Friday's $189M award included ~$140M of punitive damages and $49.7M of compensatory damages
- See our prior note HERE [NYSE:VVNT]

Guggenheim takeaway: *We caught up with the company, and we continued to field questions on this issue throughout the day yesterday following our AM flag of the ruling in the Daily. In our understanding, the case in question stems from a prior period in the company before its 2021 settlement with FTC on past sales practices.* ***In our view the development may give NRG the option to reprice or walk away from the deal*** *depending on the boundaries of any material adverse change (MAC) clause in the purchase agreement, however we emphasize that it is difficult to make any specific calls here without a clearer picture of the deal's legal landscape. NRG continues to provide limited and narrow commentary on this latest legal development (not the first – see HERE), and it remains unclear if a repricing process would trigger a further delay to the closing process, which we had expected with the completion of the underlying finances by mid-March (reg approvals in place). For example, it remains unclear if any repricing would include a need to wait for any adjustments to the award on appeals. While our conversations indicated opinions of the overall deal remain mixed, we would not be surprised to see a positive reaction to a deal break given how shares traded yesterday and investor sentiment coming off the call. The share price reaction yesterday with VVNT down 5.4% (vs. S&P 500 down 2%) shows that investors may assume that NRG will in some form or another change the deal either by walking or recutting the price. Regarding the actual deal, as we highlighted in past research, we are sympathetic as to why some investors may not want this deal to happen – See our thoughts HERE and HERE.*

PCG – PG&E files comments on PG&E GRC process and Track 2 settlement

- PG&E filed comments in support of Track 2 settlement approval (unopposed settlement) and requesting to maintain Track 1 proceedings on schedule.
- Track 1 is the main proceeding addressing O&M and capital cost recovery.
- PG&E previously filed updated testimony in the 2023 General Rate Case which incorporates updated cost escalation on O&M and capital, as well as tax law changes which impact revenue requirements.
- The updated testimony results in a 2023 base year revenue requirement increase of $835M (the bulk of the contribution from expense escalation, $641M).

- Escalation for 2024-2026 results in revenue requirement increases of $31M, $105M and $119M in the respective attrition years.
- Capital cost escalation also results in increased to rate base, with a 2023 base year step up to $50.9B (+$1.7B vs prior request) and up to $68B by 2026 (+$5.4B vs. prior request)
- Docket: A2106021

Guggenheim takeaway:*FYI. Intervenors have previously been focused on specific revenue reductions, including alternative insurance proposals, reduction in operating costs, reduction in capital programs including undergrounding, etc. 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. Ultimately, we still see an upside to the base capex for PCG even among the bid-ask as system needs are not going away. More on our thesis here.*

D/VA — Bills SB1321, SB1265, SB1477, and HB1604 advance following chamber votes

- SB1477 also passed the House on an 87-12 vote
- HB1604 HERE, SB1321 HERE
- Commentary on SB1265 and HB1770 HERE

Guggenheim takeaway: *Several procedural steps for your awareness as the session enters its final days – as noted by lawmakers and media, the more detailed Saslaw package continues as well (the original SB1265). As a reminder, that package contains the language of McClellan's original SB1321, alongside key focus areas like fuel securitization and the ROE/equity layer language. Anything passed would have to head to governor, who has also opened the door to a potential special session (narrowly focused on the budget for now).*

PPL — PPL prices exchangeable senior notes

- PPL announced pricing and the initial exchange rate on its $900M of senior notes at 2.875%, with an initial exchange price of $34.08
- "Upon exchange of the notes, PPL Capital Funding will pay cash up to the aggregate principal amount of the notes to be exchanged and pay or deliver (or cause to be delivered), as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at PPL Capital Funding's election, in respect of the remainder, if any, of its exchange obligation in excess of the aggregate principal amount of the notes being exchanged." - PPL
- More HERE

Guggenheim takeaway: *Flagged for your awareness as the exchangeability generated some questions yesterday. This remains debt for all intents and purposes – the principal is not converting to equity upon 12/15/27 or maturation, but rather the company has the ability to use equity for the premium on shares to the conversion price at that time. If shares are below $34.08 the company only owes the $900M. The premium generally comes with very modest dilution (~$0.01) in the event shares were to rise to the $40s. Based on our conversations yesterday's reaction may have been in part investors hedging their share price exposure as a part of the offering.*

PCG – PG&E prepares for potential storm outages

- PG&E issued a notice of high winds and rain that could impact electric service.
- The incoming adverse weather could result in trees, limbs and other debris falling into powerlines.

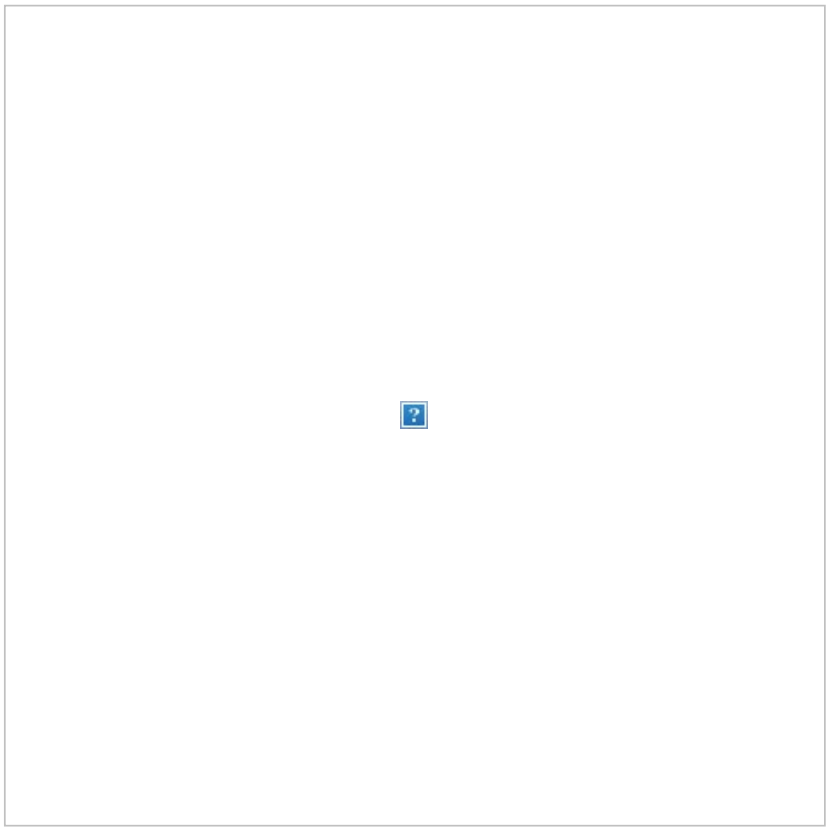
- Weather forecasts anticipate potential snowfall even at low elevations
- PR here.

Guggenheim takeaway: *FYI.*

PJM – RTO Board approves additional RTEP project updates

- "Since then, PJM has identified new baseline reliability criteria violations, and the transmission system enhancements needed to solve them, at an estimated cost of $634.14 million. PJM is also recommending the approval of one new PJM-MISO Interregional Targeted Market Efficiency Project (TMEP) at a cost of $0.20 million. Scope changes to an existing project will result in a net increase of $10.64 million. This yields an overall RTEP net increase of $644.34 million, for which PJM is recommending Board approval. Additionally, PJM is recommending the cancellation of $0.26 million in previously identified baseline upgrades as a result of updates to analysis performed. Altogether, the changes result in an overall RTEP net increase of approximately $644.72 million." - PJM
- More HERE

Guggenheim takeaway: *Minor FYI.*



NiSource Inc NI ★★★★ 21 Feb 2023 22:20, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
26.95 USD 21 Feb 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.84	10.95 USD Bil 21 Feb 2023	Narrow	Stable	Low	Standard	1 Feb 2023 06:00, UTC

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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.

NiSource Raises Outlook for 2023, Remains a Top Pick in Utilities Sector

Analyst Note Travis Miller, Strategist, 22 Feb 2023

We are reaffirming our $32 fair value estimate for NiSource after the company announced $1.47 in operating earnings per share for 2022, up 7% from 2021. Results were in line with our expectations. We are reaffirming our narrow moat and stable moat trend ratings.

NiSource is the most undervalued utilities stock in our coverage, trading at a 16% discount to our fair value estimate as of Feb. 22. We think it has better regulation and more long-term investment opportunities than most other utilities relative to its size. The stock's 3.7% dividend yield and above-average growth relative to its peers suggests total returns should top most utilities' during the next five years.

Management reaffirmed its 6%-8% annual earnings growth rate target through 2027 and raised its 2023 EPS guidance range to $1.54-$1.60, implying another year of 7% earnings growth. This is now in line with our outlook. We already had been forecasting 2023 earnings at the high end of management's previous range.

Earnings growth is translating into dividend growth, as we expect. NiSource's board recently raised the dividend 6% to $1.00 per share annualized for 2023. We think NiSource has enough financial flexibility and constructive rate regulation to maintain a 60%-70% payout ratio, higher than other utilities. This enhances cash returns for shareholders.

NiSource's key growth factors remain the pace of renewable energy investments and the outcome of Indiana electric rate proceedings this year. We continue to assume NiSource invests $8 billion in 2023-25 with that pace

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	18.5	17.2
Price/Book	1.5	1.7	1.5	1.3
EV/EBITDA	16.0	12.8	11.9	10.7
Free Cash Flow Yield %	-7.3	-5.5	-10.9	-9.6

Source: Morningstar Valuation Model. Data as of 25 Jan 2023.

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MORNINGSTAR®

NiSource Inc NI ★★★★ 21 Feb 2023 22:20, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
26.95 USD 21 Feb 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.84	10.95 USD Bil 21 Feb 2023	Narrow	Stable	Low	Standard	1 Feb 2023 06:00, UTC

Sector

Utilities

Industry

Utilities - Regulated Gas

Business Description

NiSource is one of the nation's largest natural gas distribution companies with approximately 3.2 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.

accelerating beyond 2025.

We think an electric rate case settlement will expedite NiSource's plan to sell 19.9% of its Indiana utility, NIPSCO, this year, as management announced in November.

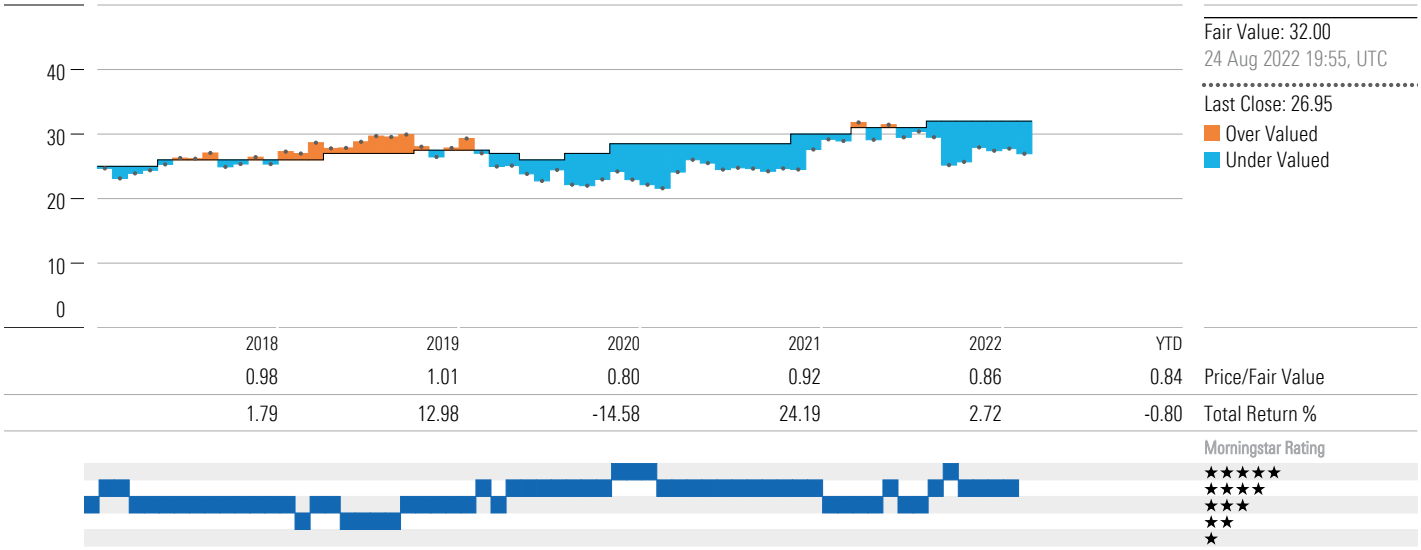
Elliott Management, which has been active in the utilities sector during the last decade, made NiSource one of its top six new buys and the only utilities holding during the fourth quarter, according to recent fund filings.

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Price vs. Fair Value



	2018	2019	2020	2021	2022	YTD	
	0.98	1.01	0.80	0.92	0.86	0.84	Price/Fair Value
	1.79	12.98	-14.58	24.19	2.72	-0.80	Total Return %

Competitors

	NiSource Inc NI	Alliant Energy Corp LNT	CMS Energy Corp CMS	WEC Energy Group Inc WEC
	Fair Value 32.00, Uncertainty: Low; Last Close 26.95	Fair Value 58.00, Uncertainty: Low; Last Close 53.34	Last Close 61.16; Fair Value 54.00, Uncertainty: Low	Fair Value 96.00, Uncertainty: Low; Last Close 91.49
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	58.00 8 Nov 2022 17:16, UTC	54.00 20 Dec 2022 19:23, UTC	96.00 5 Dec 2022 16:31, UTC
1-Star Price	40.00	72.50	67.50	120.00
5-Star Price	25.60	46.40	43.20	76.80
Assessment	Under Valued 21 Feb 2023	Under Valued 21 Feb 2023	Over Valued 21 Feb 2023	Fairly Valued 21 Feb 2023
Morningstar Rating	★★★★21 Feb 2023 22:20, UTC	★★★★21 Feb 2023 22:20, UTC	★★21 Feb 2023 22:20, UTC	★★★21 Feb 2023 22:20, UTC
Analyst	Travis Miller, Strategist	Andrew Bischof, Strategist	Travis Miller, Strategist	Andrew Bischof, Strategist
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	0.84	0.92	1.13	0.95
Price/Sales	2.12	3.29	2.06	3.01
Price/Book	1.94	2.14	2.62	2.54
Price/Earnings	17.50	20.05	21.54	20.56
Dividend Yield	3.54%	3.25%	3.05%	3.24%
Market Cap	10.95 Bil	13.39 Bil	17.81 Bil	28.86 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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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
26.95 USD	32.00 USD	0.84	10.95 USD Bil	Narrow	Stable	Low	Standard	
21 Feb 2023	24 Aug 2022 19:55, UTC		21 Feb 2023					1 Feb 2023 06:00, UTC

Morningstar Valuation Model Summary

Financials as of 25 Jan 2023	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	1,789
EBITDA (USD Mil)	1,311	978	1,755	1,959	2,173	2,460	2,675	2,789
Adjusted EBITDA (USD Mil)	1,608	1,277	1,755	1,959	2,173	2,460	2,675	2,789
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	-736	-885	493	759
Weighted Average Diluted Shares Outstanding (Mil)	376	384	417	434	442	448	452	453
Earnings Per Share (Diluted) (USD)	0.08	-0.97	1.27	1.46	1.57	1.81	2.00	2.12
Adjusted Earnings Per Share (Diluted) (USD)	1.32	1.32	1.37	1.46	1.57	1.81	2.00	2.12
Dividends Per Share (USD)	0.79	0.84	0.83	0.94	1.00	1.06	1.14	1.22

Margins & Returns as of 25 Jan 2023		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	-13.6	-15.4	8.2	12.4	-2.8

Growth & Ratios as of 25 Jan 2023		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	—	—	—	—	—	—	—	—	9.1
Adjusted Earnings Per Share Growth %	1.8	1.2	0.3	3.8	6.5	7.5	15.3	10.8	6.0	9.1

Valuation as of 25 Jan 2023	Actual			Forecast				
	2019	2020	2021	2022	2023	2024	2025	2026
Price/Earnings	—	17.4	20.2	18.5	17.2	14.9	13.5	12.7
Price/Sales	—	1.9	2.3	2.1	2.0	1.9	1.8	1.8
Price/Book	—	1.5	1.7	1.5	1.3	1.3	1.2	1.2
Price/Cash Flow	—	-13.7	-18.0	-9.2	-10.5	-8.7	109.9	31.1
EV/EBITDA	—	16.0	12.8	11.9	10.7	9.5	8.7	8.3
EV/EBIT	—	37.1	22.3	19.9	17.5	14.9	13.7	13.0
Dividend Yield %	—	3.7	3.0	3.5	3.7	3.9	4.2	4.5
Dividend Payout %	956.7	-86.5	65.2	64.5	63.8	58.7	57.0	57.5
Free Cash Flow Yield %	—	-7.3	-5.5	-10.9	-9.6	-11.4	0.9	3.2

Operating Performance / Profitability as of 25 Jan 2023	Actual			Forecast				
Fiscal Year, ends 31 Dec	2019	2020	2021	2022	2023	2024	2025	2026
ROA %	-1.7	2.3	2.6	2.6	2.8	3.0	3.1	-0.3
ROE %	-7.4	10.3	11.1	11.1	12.0	12.4	12.4	-1.4
ROIC %	2.1	4.6	4.9	5.2	5.5	5.4	5.3	6.0

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
26.95 USD 21 Feb 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.84	10.95 USD Bil 21 Feb 2023	Narrow	Stable	Low	Standard	1 Feb 2023 06:00, UTC

Financial Leverage (Reporting Currency)

	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Debt/Capital %	62.9	58.5	58.6	57.0	57.7	57.5	56.9	58.5
Assets/Equity	3.8	3.5	3.4	3.2	3.2	3.1	3.1	3.1
Net Debt/EBITDA	9.8	5.5	5.4	5.1	5.2	4.9	4.8	12.4
Total Debt/EBITDA	7.6	5.6	5.5	5.4	5.2	5.0	4.9	13.7
EBITDA/ Net Interest Expense	3.4	5.1	5.2	5.2	5.1	5.2	5.3	—

Forecast Revisions as of 26 Jan 2023

	2022		2023		2024	
Prior data as of 30 Sep 2022	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	32.00	32.00	—	—	—	—
Revenue (USD Mil)	5,429	5,180	5,747	5,429	5,993	5,747
Operating Income (USD Mil)	1,333	1,169	1,560	1,333	1,705	1,560
EBITDA (USD Mil)	2,173	1,959	2,460	2,173	2,675	2,460
Net Income (USD Mil)	693	633	810	693	904	810
Earnings Per Share (Diluted) (USD)	1.57	1.46	1.81	1.57	2.00	1.82
Adjusted Earnings Per Share (Diluted) (USD)	1.57	1.46	1.81	1.57	2.00	1.82
Dividends Per Share (USD)	1.00	0.94	1.06	1.00	1.14	1.06

Key Valuation Drivers as of 25 Jan 2023

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 25 Jan 2023

	USD Mil
Present Value Stage I	-707
Present Value Stage II	4,339
Present Value Stage III	20,221
Total Firm Value	**23,852**
Cash and Equivalents	95
Debt	-9,802
Other Adjustments	897
Equity Value	**13,496**
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	4,666
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	1,789
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	1,789
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	448	452	453
Diluted Earnings Per Share	0.08	-0.97	1.27	1.46	1.57	1.81	2.00	2.12
Diluted Adjusted Earnings Per Share	1.32	1.32	1.37	1.46	1.57	1.81	2.00	2.12
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	2,789
Adjusted EBITDA (Mil)	1,608	1,277	1,755	1,959	2,173	2,460	2,675	2,789

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Key Cash Flow Items (USD)	**Actual**			**Forecast** as of 25 Jan				
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	-35,535	-20,342
(Capital Expenditures) (K)	-1,802,400	-1,758,100	-1,838,000	-2,620,000	-2,920,000	-3,270,000	-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**	**-2,022,112**	**-2,371,691**	**-1,085,535**	**-840,342**
(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**	**-2,022,112**	**-2,371,691**	**-1,085,535**	**-840,342**
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**	**-736,032**	**-885,021**	**493,070**	**758,936**

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	676	143	171	213
Inventory (Mil)	—	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	21,792	24,162	25,212	26,032
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**	**29,864**	**30,983**	**31,872**
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**	**9,447**	**9,910**	**10,393**
Minority Interest (Mil)	0	86	326	80	80	80	80	80
Total Equity (Mil)	**5,987**	**5,838**	**7,273**	**7,632**	**8,969**	**9,527**	**9,990**	**10,473**

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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

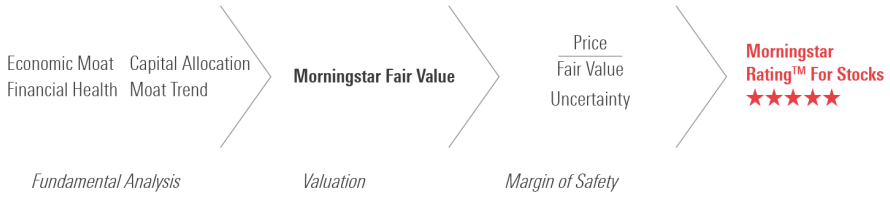
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with 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—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, 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 are: Low, Medium, High, Very High, and Extreme.

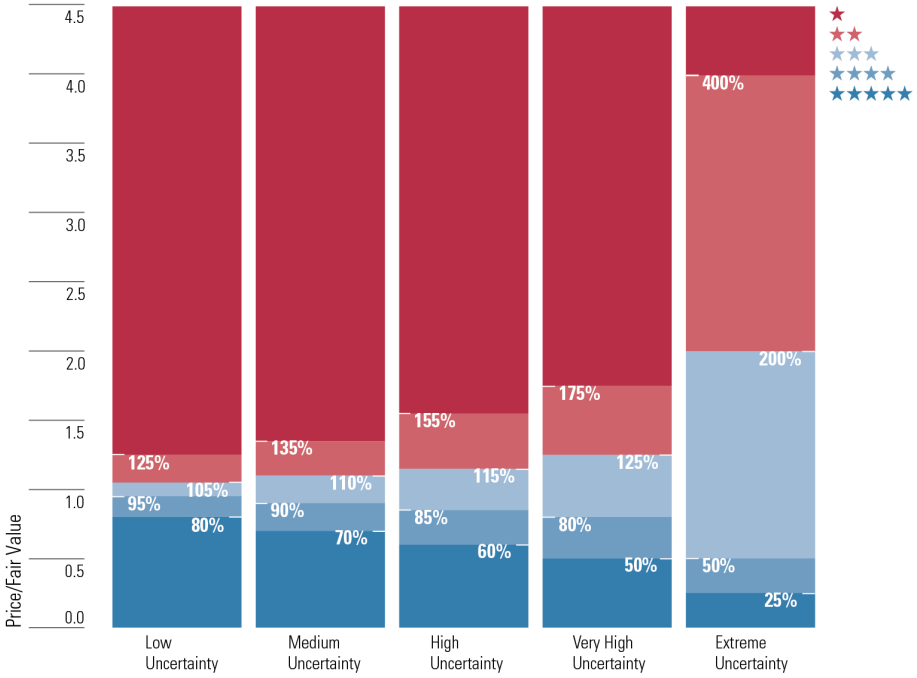
	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

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.

Morningstar Equity Research Star Rating Methodology



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 thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

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

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

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

The Morningstar Star Ratings for stocks are defined below:

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

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

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

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

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

Other Definitions

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

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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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WELLS FARGO

Price Target Change — February 22, 2023

Natural Gas LDCs

NiSource Inc. (NI)

NI: Rebuilding the Track Record—Reiterate Overweight

Our Call

Amidst various sector headwinds, we are encouraged by NI's solid 2022 results and 2% increase in '23 guidance. We view continued strong execution as key to positive re-rating in NI's P/E multiple.

Positive YE Update. Our Overweight rating is based on NI achieving a modest P/E premium to peers over the next 12-18 months driven primarily by execution on the 6-8% EPS growth plan. Considering sector headwinds tied to inflation/interest rates, we view the YE'22 update as a positive step as '22A EPS of $1.47 was a penny above the range and NI raised '23 guidance to $1.54-1.60 from $1.50-1.57. We look to the NIPSCO electric rate case and equity stake sale as the next two pieces to the puzzle.

NIPSCO Electric Rate Case. The company is engaged with key parties on settlement talks tied to the $279mm rate request (new rates September '23 with an incremental step-up in '24). The likely timeline for an agreement is late February though there could also be extensions to the March 13th hearing date, if needed. We would view the settlement path favorably, particularly considering a more challenging regulatory backdrop due to recent customer bill pressure (commodity prices).

Equity Stake Sale. NI launched the sale process for a minority interest in NIPSCO. It remains early and mgmt. is understandably tight-lipped but noted a broad range of qualified partners. While BKH's process to explore an equity stake was terminated, we note that BKH mgmt. indicated that pricing actually held up fairly well amidst rising interest rates and BKH was offering an interest in all gas utility operations vs. NI's interest in NIPSCO (electric-heavy single subsidiary, single state).

EPS Outlook & PT. We have adjusted our model based on the slightly higher '22A base and updated regulatory/capex disclosures – our new/old '23-26E EPS are $1.57/1.55, $1.70/1.72, $1.82/1.82 & $1.94/1.90 and we introduce '27E of $2.06. We raise our forward price target to $32/sh (18.5-19X our '24E EPS reflecting a 3-5% premium to peers) from $31/sh.

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Rating	Overweight
Ticker	**NI**
Price Target/Prior:	**$32.00/$31.00**
Upside/(Downside) to Target	**18.7%**
Price (02/21/2023)	**$26.95**
52 Week Range	$23.78 - 32.58
Shares Outstanding	406,134,342
Market Cap (MM)	$10,945
Enterprise Value (MM)	$20,566
Average Daily Volume	4,805,884
Average Daily Value (MM)	$130
Dividend (NTM)	$1.00
Dividend Yield	3.7%
Net Debt (MM) - last reported	$9,621
ROIC - Current year est.	10%
3 Yr EPS CAGR from current year (unless otherwise noted)	7%

$ EPS	2021A	2022A Curr.	2022A Prior	2023E Curr.	2023E Prior
Q1 (Mar)	0.77 A	0.75 A	NC	0.78 E	NE
Q2 (Jun)	0.13 A	0.12 A	NC	0.13 E	NE
Q3 (Sep)	0.11 A	0.10 A	NC	0.12 E	NE
Q4 (Dec)	0.39 A	0.50 A	0.48E	0.54 E	NE
FY	1.37 A	1.47 A	1.45E	1.57 E	1.55E
P/E	19.7x	18.3x		17.2x	

Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

All estimates/forecasts are as of 2/22/2023 unless otherwise stated. 2/22/2023 12:48:19EST. Please see page 4 for rating definitions, important disclosures and required analyst certifications.
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Financials

NI Earnings Model ($ millions except per share data)	2022E	2023E	2024E	2025E	2026E	2027E
Revenues	**$5,169**	**$5,451**	**$5,758**	**$6,102**	**$6,375**	**$6,625**
Expenses						
Cost of Gas, Purchased Power & Fuel	1,402	1,407	1,416	1,425	1,433	1,442
O&M	1,416	1,469	1,454	1,454	1,454	1,454
Depreciation & Amortization	810	886	972	1,056	1,140	1,213
Other	292	296	300	304	309	313
Total Expenses	**$3,920**	**$4,058**	**$4,142**	**$4,238**	**$4,336**	**$4,423**
EBIT	**$1,250**	**$1,393**	**$1,616**	**$1,863**	**$2,039**	**$2,202**
EBITDA	**$2,059**	**$2,279**	**$2,589**	**$2,919**	**$3,179**	**$3,415**
Other Income	41	41	41	41	41	41
Interest Expense	374	428	476	600	655	707
Income Taxes	206	226	266	293	321	346
Tax Rate	*23%*	*23%*	*23%*	*23%*	*23%*	*23%*
Earnings						
Net Operating Earnings	$710	$780	$916	$1,011	$1,105	$1,190
Preferred Dividends	55	28	0	0	0	0
Noncontrolling Interest	4	39	94	100	107	111
Income from Continuing Operations	**$651**	**$713**	**$822**	**$910**	**$998**	**$1,079**
Avg. Diluted Shares Outstanding	442	455	484	502	513	524
Ongoing EPS	**$1.47**	**$1.57**	**$1.70**	**$1.82**	**$1.94**	**$2.06**
Q1 EPS	0.75A	0.78				
Q2 EPS	0.12A	0.13				
Q3 EPS	0.10A	0.12				
Q4 EPS	0.50A	0.54				

NI Supplemental Information	2022E	2023E	2024E	2025E	2026E	2027E
Dividend Information						
Dividends Per Share - YE Rate	$0.94	$1.00	$1.07	$1.15	$1.23	$1.31
Dividends Paid Per Share	0.94	1.00	1.07	1.15	1.23	1.31
Payout Ratio	64%	64%	63%	63%	63%	64%
Cash Flow & Balance Sheet Items						
Capital Expenditures (millions)	$2,538	$3,335	$2,713	$3,293	$2,868	$2,868
Book ROE	10.1%	9.8%	10.2%	10.7%	10.8%	10.7%
FFO/Debt	14%	15%	16%	15%	15%	16%
Debt/EBITDA	5.5x	4.9x	4.7x	4.7x	4.6x	4.5x
Common Equity as % of Total Capitalization	38%	39%	38%	38%	38%	39%

Note: 2022 line items remain estimates pending a full 10-K update
Source: Wells Fargo Securities, LLC estimates and company filings

Investment Thesis, Valuation and Risks

NiSource Inc. (NI)

Investment Thesis

We rate shares Overweight, as we do not think NI's robust long-term infrastructure growth opportunities and supportive regulatory treatment are properly reflected in the current share price.

Target Price Valuation for NI: $32.00 from $31.00

Our $32/sh price target is based on a P/E multiple analysis (18.5-19X, a 3-5% premium to the 2023 blended gas/electric peer group multiple of 18X, on our '24E EPS).

Risks to Our Price Target and Rating for NI

Risks include lower-than-expected sales growth, unfavorable regulatory developments, unexpected cost pressures, and incidents on the gas system, which could result in shareholder liabilities.

From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: NI: 2022 Beat and 2023 Raise; 6%-8% "Annual" EPS Growth Rate Reinforced, Again; Continued Execution on All Fronts - Guggenheim Securities, LLC
Date: Wednesday, February 22, 2023 5:57:58 PM

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NISOURCE INC.
BUY

NI: 2022 Beat and 2023 Raise; 6%-8% "Annual" EPS Growth Rate Reinforced, Again; Continued Execution on All Fronts

Power & Utilities February 22, 2023

Shahriar Pourreza, CFA 212 518 5862
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Guggenheim Utilities Research Team

Access This Report

Key Message: NI delivered a small beat vs. our/consensus expectations and raised its 2023 guidance. Now, 2023 is no longer a "divot" in the 5-year growth plan but rather another year of 6%-8% growth in the company's consistent trajectory from its $1.37 base in 2021 through 2027. In our view, the guidance raise solidifies that mgmt. remains confident that a combination of capex and O&M levers will allow NI to mitigate near-term macroeconomic headwinds in 2023/2024. The NIPSCO minority interest sale process launched in 1Q23 as planned, and, despite few details currently available, we expect more updates in the months ahead. NIPSCO Electric's rate case could reach a settlement by the end of February or the following week, ahead of the start of hearings on March 13th. We remain skeptical that the variable cost tracker for

coal-fired generation costs will make it in to any stipulation, although we note that mgmt. remains optimistic – either way, we believe a settlement would be a sound win. NI's 4Q22 call offered investors a clarified LT EPS growth trajectory, examples of potential incremental capex vs. the current plan, and, in our view, demonstrated continued regulatory and strategic execution. **We reiterate BUY and our $31 PT.**

NI reported 2022 net operating EPS of $1.47 vs. Gugg/consensus at $1.45/$1.45 and '22 guidance of $1.42-$1.46 ($1.44 midpoint). The company raised 2023 guidance to $1.54-$1.60 ($1.57 midpoint) vs. prior guidance of $1.50-$1.57 ($1.54 midpoint) and previous Gugg/consensus at $1.54/$1.55. Raising 2023 guidance brought it in line with the company's 6%-8% annual growth trajectory through 2027 off of a base of $1.37 in 2021. Previously, 2023 had represented a divot, which had confused many investors we spoke with, who were unsure whether to grow ***annually*** off of 2023's previously lower numbers ***or as a CAGR off of 2021***. We now consider this issue to have been put to rest. For more, see the company's **4Q22 presentation, slide 6 HERE.** Along with LT EPS growth, NI reiterated its **8%-10% annual rate base growth rate** and **9%-11% total shareholder return target**. Mgmt. also reaffirmed the existing financing plan, including striking a NIPSCO minority interest deal in the near term and closing it in 2023, which will support the balance sheet without the need for block or ATM equity in 2023/2024. In 2025 and beyond, mgmt. expects to use NI's ATM to support the company's current investment grade credit ratings and may also use it to redeem outstanding preferred stock of $900m. Mgmt. also **maintained the company's existing 14%-16% FFO/debt target.** We are revising our 2023 EPS forecast upwards by $0.03 (to $1.57 from $1.54 previously) to reflect mgmt.'s revised outlook for the utility's 2023 earnings power. **Our EPS estimates for 2024 and beyond already reflected NI's 6%-8% growth trajectory from 2021-2027 and remain unchanged. We reiterate BUY.**

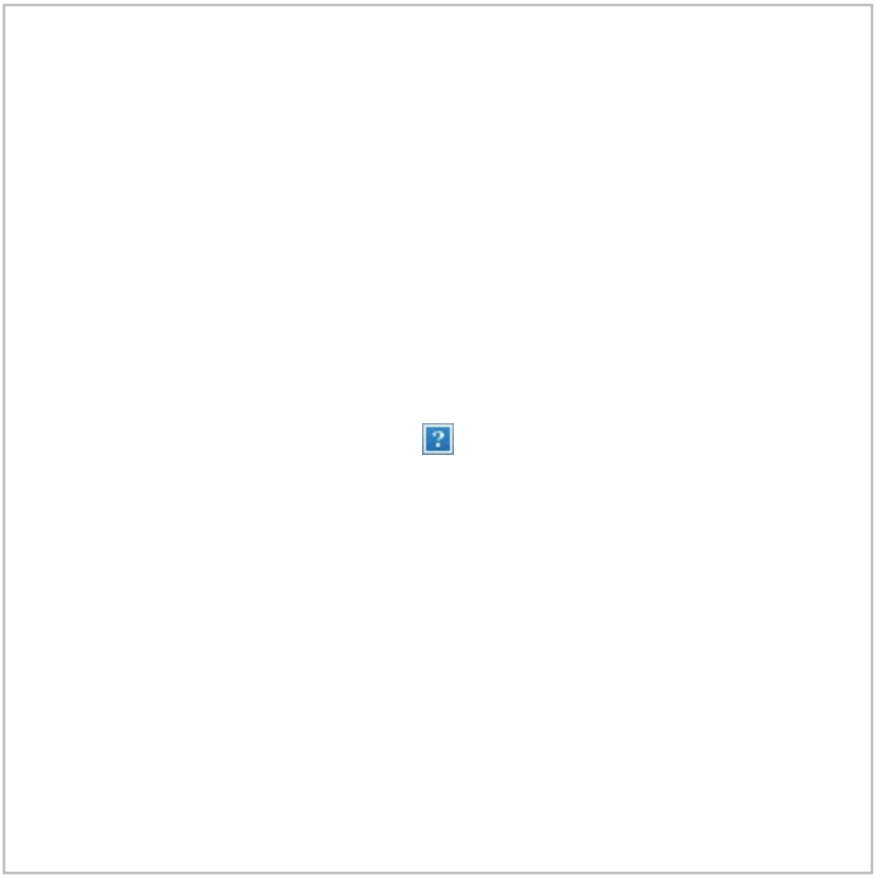
NIPSCO has already begun settlement discussions with the other parties in its Electric's general rate case in Indiana after the utility filed its rebuttal testimony on February 16th. While the official deadline to file a settlement is February 27th, mgmt. stated on today's earnings call that if discussions are progressing well, then it would not be unusual to see the timeline for a settlement extended by another week. The utility's proposed "variable cost tracker" for its coal-fired generation plants remains a point of contention with the Indiana OUCC and could prove difficult to include in a settlement, we believe, although **mgmt. remains optimistic on finding common ground**. For background on this case, investors should recall that NIPSCO Electric filed its current rate case in September 2022 with the utility seeking an aggregate $291.8m base rate

increase that would be implemented in FY23 and FY24. The first step rate change in the multiyear rate plan would be a $234.6m increase based on a 10.40% ROE vs. 9.75% currently authorized **and our modeled assumption of a 9.00% earned ROE**. NIPSCO is also asking for a 51.41% equity layer vs. 47.86% in the utility's last rate case. This would result in a 7.07% return on a $5.642bn rate base. Rates would take effect shortly after the Indiana Utility Regulatory Commission (IURC) issues its final order, which we would expect to occur around September 1, 2023. The second rate increase of ~$57.1m is also based on a 10.40% ROE ask **(compared to our 2024 earned ROE assumption of 9.1%)** as well as a 51.63% equity layer, resulting in a 7.10% return on a $5.946bn rate base (forecasted as of December 31, 2023), and would be implemented March 1, 2024. Should the company's requested "variable cost tracker" for its coal-fired generation plants end up being approved, an additional increase would apply in July 2024. However, if the variable cost tracker is rejected, NIPSCO would instead support a $395m rate increase.

Capex (primarily electric generation investment) is being pulled forward from 2024 into 2023, as below. NI now expects to invest $3.3bn-$3.6bn in 2023 (vs. $2.8bn-$3.1bn previously) and $2.6bn-$2.9bn in 2024 (vs. $3.0bn-$3.3bn); 2025-2027 capex guidance remains unchanged. Mgmt. clarified that there had not been any increase to the capex plan at this point, suggesting that the slight uptick in aggregate spending is likely due to rounding. Looking out through its current 5-year planning horizon, NI does in fact see potential for incremental capex and laid out the following near-term investment opportunities that it believes can enhance its current investment plan:

- New gas system modernization programs focused on replacing **legacy plastic mains** and services installed prior to 1985
- Gas transmission programs focused on **inspection retrofits and reconfirmations to comply with PHMSA regulations**
- New programs to deploy **advanced metering infrastructure (AMI)** for gas systems
- **Increased ownership of electric generation** investments utilizing the IRA's tax transferability provision

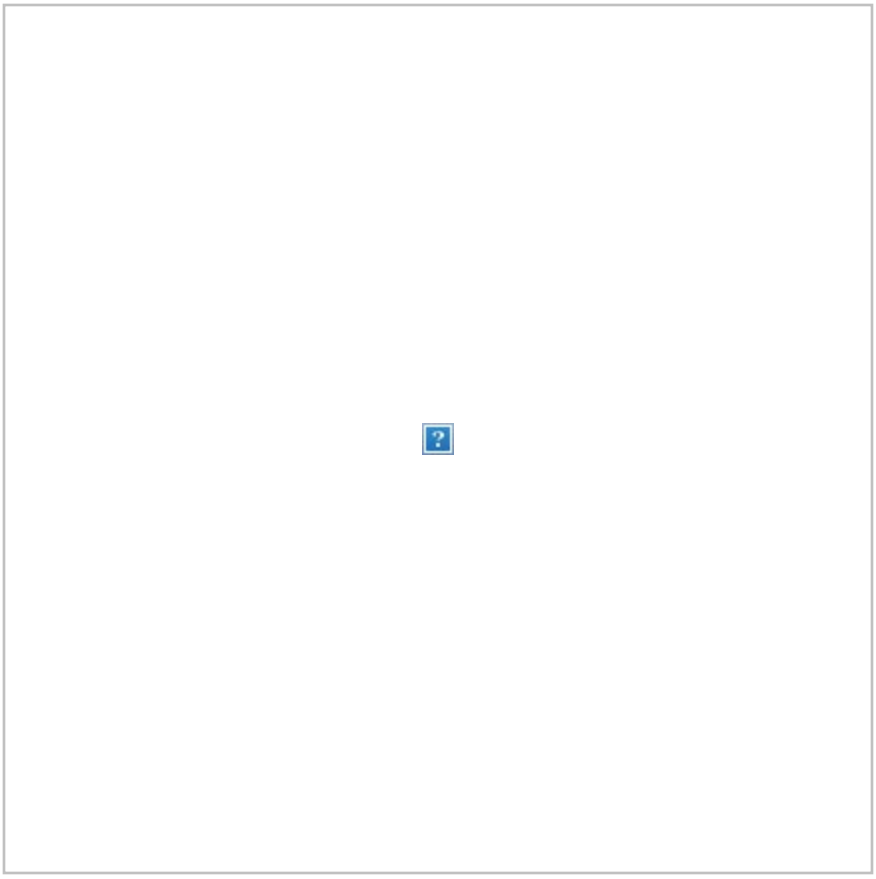
NI 2023–2027 capex plan changes



Source: Company materials, Guggenheim Securities, LLC analysis.

Mgmt. confirmed that the NIPSCO minority stake sale process kicked off in 1Q23 as planned but had fewer details to share at this point regarding buyer interest and whether the targeted 2H23 closing date could potentially shift. Investors should recall that this sale is unique in that: **1)** it does not require any regulatory approvals, **2)** management has expressed an expectation of having minimal tax leakage at the 19.9% stake level, and **3)** it has a successful recent precedent for the company to point to in the form of **DUK**'s transaction, where it sold a similar 19.9% stake of its Duke Energy Indiana (DEI) utility subsidiary to Singapore-based GIC. **We continue to believe a deal is worth in the range of $2.6bn-$3.1bn (see our note HERE for more)** with equity values of 50% of those figures, as per the company's methodology of reporting rate base for Indiana due to its treatment of deferred taxes. We await further updates from the company on how the transaction is progressing.

NI EPS: Guggenheim and consensus forecasts



Source: Company reports, Bloomberg, and Guggenheim Securities, LLC estimates.

Valuation

We value NI as a regulated utility, arriving at our $31 price target using our regulated group multiple of 17x, with a premium applied to the electric business to reflect top-quartile rate base growth through the forecast period as well as incremental growth opportunities and strategic initiatives that aren't currently being captured in our estimates and applying those multiples to 2025 fundamentals. We value the company via SOTP and (1) attribute a 2.0x premium on NIPSCO Electric, reflecting strong renewable-driven rate base growth, and (2) do not apply a discount to the gas business due to NI's guidance of zero O&M increases from 2022-2027 despite ongoing inflation. Applied together to our 2025 $1.82 EPS estimate and discounted back by 1 year, we arrive at our 12-month $31 PT.

Risks

Primary risks to our thesis include an underwhelming valuation for NIPSCO's minority stake sale or no sale at all as well as traditional risk factors inherent with all regulated utilities, including: (1) rate case risk, (2) potential for a lower capex outlook, and (3)

interest rate changes above/below what we account for in our regression model.

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From: Steve Fleishman
To: Weisenburger \ Michael \ V
Subject: NI: The old beat and raise is back
Date: Wednesday, February 22, 2023 4:35:09 PM

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February 22, 2023

NISOURCE (NI)

NI: The old beat and raise is back

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View NI Model

Rating:	Price:
Outperform	$26.95
Price Target:	**% Upside:**
$30.00	11.3%
Prior: $28.00	

The Wolfe Byte

2022 EPS came in above the top end of guidance and NI raised its 2023 outlook to $1.54-1.60 from $1.50-1.57. NI reaffirmed its annual 6-8% EPS growth target off the higher 2023 guide. Mgmt sounded upbeat on possibly settling its key Indiana electric rate case.

2022 beats and 2023 guidance raised. NI reported 2022 EPS of $1.47 — ahead of us/cons at $1.45 and above its $1.44-1.46 range. The strong performance was aided by continued execution in the regulatory arena as well as a focus on O&M. NI raised its 2023 guidance to $1.54-1.60 from $1.50-1.57, which was ahead of prior cons $1.54. NI's 6-8% annual EPS growth target through 2027 was reaffirmed off the higher 2023 guide, suggesting 2024 EPS of $1.68 vs prior cons $1.66. Separately, NI's renewable projects remain on schedule and the recent decline in nat gas is expected to drive 20-25% bill savings in 2023 vs 2022. NI O/P the UTY by 300bps on the update.

Active settlement talks in NIPSCO case. NI mentioned that it was in active settlement discussions with intervenors in NIPSCO's rate case. Evidentiary hearings are due to start on 3/13 and mgmt was optimistic that it could file a settlement or request to delay hearings to further talks in the coming weeks. Key items being hashed out include O&M, ROE and NI's

proposed variable non-labor coal expense rider; there is effectively no debate on rate base additions.

NIPSCO minority sale underway; we expect a good price. NI formally kicked off the process in Q1 and noted a broad level of interest thus far. It is possible there could be an announcement around midyear and NI expects to close the transaction by YE. We currently assume a 19.9% stake is sold for 2.2x book equity, yielding ~$2.2B in tax-free proceeds. This is in-line with what DUK got for its IN stake sale, though we think NIPSCO could ultimately fetch a better price.

PT up to $30. We are raising our 2023E to $1.58 from $1.54 and our 2024E to $1.68 from $1.67 following today's update; our 2025E is unchanged. Our PT moves up to $30 from $28 after rolling forward our valuation year to 2025 and due to the rise in gas LDC multiples (now slight premium vs electrics). We target group averages for NI and see good value in the stock at this level — reiterate Outperform.

Company Information	
52-Week Range	$24 - $32
Market Cap. (MM)	$10,945
Enterprise Value (MM)	$24,553
Shares Out. (MM)	406.1
Avg. Value Traded (MM)	$102.35
Adj. Debt to Cap	63.8%
SI% of Float	1.7%

EPS ($)	Dec FYE
	FY*
2022E	1.47 E
Prior	1.45 E
Consensus	1.47 E
2023E	1.58 E
Prior	1.54 E
Consensus	1.54 E
2024E	1.68 E
Prior	1.67 E
Consensus	1.66 E
2025E	1.81 E
Consensus	1.80 E

*Numbers may not add up due to rounding
Source: Company Documents, Wolfe Research, FactSet

View Full Report

View NI Model

View Comp Table

View Steve's Research

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EVERCORE ISI

Energy | Power & Utilities

February 22, 2023

NiSource Inc

NI | $26.95

Outperform | Target Price/Base Case: $31.00

Company Update

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Company Statistics

Market Capitalization (M)	$11,810
Shares Outstanding (M)	406
Dividend	0.94
Dividend Yield	3.2%
Payout Ratio	59.9%
Expected Total Return	9.8%
Fiscal Year End	Dec

Earnings Summary

	2023E	2024E	2025E
EPS	**$1.57**	**$1.69**	**$1.80**
P/E	**18.5**	**17.2**	**16.1**
EPS vs Consensus	**1.8%**	**1.6%**	**0.4%**
Consensus EPS	**$1.54**	**$1.66**	**$1.80**
Consensus P/E	**18.9**	**17.5**	**16.2**

1 Year Price History



Source: FactSet

Onward and Upward

Key 4Q22 Takes:

- NI reported Q4 adjusted diluted Net Operating EPS (NOEPS) of $0.50 vs. our estimate/street consensus of $0.48.
    - 2022 EPS of $1.47 is slightly above the high end of $1.44-$1.46 guidance range, +7.3% growth vs $1.37 in 2021
- Increased 2023 NOEPS guidance range to $1.54-$1.60 from $1.50-$1.57, $0.03 or 2% higher at the mid-pt.
    - Midpoint of $1.57 represents 6.8% growth off 2022 NOEPS. Consensus is at $1.54.
- Reaffirmed annual NOEPS growth of 6-8% through 2027.
    - Off the 2023 earnings forecast range of $1.54-$1.60.
    - Implied 2024 EPS at the mid-pt of $1.68 vs our estimate/consensus (going into the print) of $1.65/$1.66 respectively
    - Implied 2025 EPS at the mid-pt of $1.80 in line with our estimate/consensus of $1.80
- Reaffirmed $15B 2023-2027 capex plan with ~75% of investments beginning earning in less than 18 months.
    - Still project 8%-10% annual utility rate base growth through the forecast period
- Northern Indiana Public Service Company (NIPSCO) minority sale process launched and on track for 2023.
- NIPSCO is actively working with stakeholders toward a settlement in the electric rate case filed on September 19.
- Lower gas prices are projected to reduce customer bills by 20-25% in 2023 vs 2022.

Maintaining our Outperform rating and $31TP (details within)

Additional Details:

- **Minority Interest sale:** In Nov, 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. The company has initiated the sale process, and we expect an announcement by mid-year and close by year-end. We estimate $1.5-$2B in cash proceeds.

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- **NIPSCO Electric rate case:** On Sep 18th, NIPSCO Electric rate case was filed in Indiana, requesting rate increase of $292M net of infrastructure trackers with a 10.4% ROE and 58.5% equity ratio on a rate base of $5.95B. Company filed rebuttal testimony on February 16th. The company is actively working with stakeholders toward a settlement and expects to receive a final order in 3Q2023. Rates will go into effect in the fall of 2023 and the second tranche will become effective in spring of 2024.
- **OH gas rate case**: On Oct 31st, 2022, Columbia Gas of Ohio filed a settlement representing a $68.2M revenue increase with 9.6% ROE and 50.6% equity layer. 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 were held on Nov. 16, 2022, and the commission approved the settlement in January 2023 for new rates that will go into effect in March.
- **Virginia gas rate case**: On Dec 9th, Columbia Gas of Virginia reached a settlement with $25.8 million rate increase, inclusive of SAVE (Steps to Advance Virginia's Energy Plan) infrastructure tracker ($14.5MM), representing a settlement as to a specific revenue number but not as to a specific ROE. Recall that NiSource requested $40.6MM revenue increase 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. A final order is expected in 1Q23.
- **2023-2027 financing plan unchanged:** Dividends and capital investments funded through cash from operations, minority interest sale, $4.5-$5.5B new debt and ATM in 2025+.
- **Target Price**: Maintaining our Outperform rating and our target price of $31/share. We are updating our 2023/2024/2025 EPS estimates to $1.57/$1.69/$1.80. See our base case SOTP valuation of $31 on Exhibit 1. We apply a conservative 5% premium to our peer target 17x multiple 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 16.8x 2025 EPS as we mark to market comparable trading multiples. Our bear case in Exhibit 1 below derives $26/share valuation assuming NI can grow EPS at 6% using low end of 2023 guidance range of $1.54, while our bull case is $33/share assuming the company can grow at 8% using high end of 2023 guide of $1.60.

Exhibit 1: NiSource SOTP Valuation

Base

Base Case	'25 EPS	P/E	Val/Shr
Gas EPS	$1.35	16.8x	$22.73
Electric EPS	$0.75	17.9x	$13.39
Parent/Other	($0.30)	17.2x	($5.17)
Consolidated 2025 EPS	**$1.80**	17.2x	**$31.00**
ETR (including dividend)			19%

Bull 1.86

Bull Case	'25 EPS	P/E	Val/Shr
Gas EPS	$1.39	16.8x	$23.40
Electric EPS	$0.77	19.6x	$15.12
Parent/Other	($0.30)	17.7x	($5.32)
Consolidated 2025 EPS	**$1.86**	17.7x	**$33.00**
ETR (including dividend)			26%

Bear 1.73

Bear Case	'25 EPS	P/E	Val/Shr
Gas EPS	$1.30	15.2x	$19.75
Electric EPS	$0.73	15.3x	$11.12
Parent/Other	($0.30)	15.0x	($4.51)
Consolidated 2025 EPS	**$1.73**	15.0x	**$26.00**
ETR (including dividend)			0%

Source: Evercore ISI, Note: ETR based on closing price as of 2/22/23

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VALUATION METHODOLOGY

We use a SOTP analysis to arrive at our price target

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 (2023-22-02)	Evercore ISI Target
AEE	Ameren Corp.	Outperform	$86.04	$94.00
AEP	American Electric Power	In Line	$90.85	$102.00
AES	The AES Corporation	Outperform	$25.57	$31.00
AWK	American Water Works Company, Inc.	Outperform	$147.66	$160.00
AWR	American States Water Company	Underperform	$93.17	$70.00
CEG	Constellation Energy Corp	Outperform	$80.37	$93.00
CMS	CMS Energy Corp.	In Line	$61.16	$68.00
CNP	CenterPoint Energy, Inc.	Outperform	$28.91	$32.00
CWT	California Water Service Group	In Line	$59.64	$50.00
D	Dominion Energy, Inc	In Line	$58.10	$65.00
DTE	DTE Energy Co.	Outperform	$113.24	$126.00
DUK	Duke Energy Corp.	In Line	$97.68	$102.00
ED	Consolidated Edison Inc.	In Line	$92.73	$93.00
EIX	Edison International	In Line	$66.71	$70.00
ES	Eversource Energy	Outperform	$78.36	$92.00
ETR	Entergy Corp.	Outperform	$107.60	$118.00
EVRG	Evergy	In Line	$61.13	$62.00
EXC	Exelon Corp.	Outperform	$42.23	$46.00
NEE	NextEra Energy Inc	In Line	$73.66	$90.00
NI	NiSource Inc	Outperform	$26.95	$31.00
NRG	NRG Energy Inc.	In Line	$34.06	$40.00
OGE	OGE Energy Corp	In Line	$37.75	$39.00
PCG	PG&E Corp.	Rating Suspended	$15.45	
PEG	Public Service Enterprise Group	Outperform	$61.15	$68.00
PPL	PPL Corp.	Outperform	$27.82	$32.00
SJW	SJW Group	In Line	$76.92	$67.00
SO	Southern Co.	In Line	$65.55	$69.00
SRE	Sempra Energy	Outperform	$155.42	$175.00
VST	Vistra Energy Corp	Outperform	$22.57	$31.00
WEC	WEC Energy Group, Inc.	In Line	$91.49	$98.00
WTRG	Essential Utilities Inc.	Outperform	$45.39	$51.00
XEL	Xcel Energy Inc.	Outperform	$67.20	$75.00

NiSource Inc (NI.N) | Neutral

2023 Guidance Raise, Eyes on NIPSCO & Renewable Execution

22 Feb 2023 16:50:57 ET




ESG Matrix

Request Company Model

CITI'S TAKE

With M&A speculation premium out of the stock, NiSource continues to execute on renewable projects, NIPSCO rate case, and NIPSCO minority sale. We see NIPSCO transacting at 1.9x rate but are concerned that some of the renewable projects could slip again (although only modestly).

2023 Guidance Raise — 2023 EPS guidance was raised to $1.54 to $1.60 due to regulatory outlook, O&M and financing plans. We are conservatively assuming the low end of the range for 2023 given our business outlook view.

Indiana Renewable Delay Risk — NiSource management continue to expect COD of Crossroads Solar and Dunns Bridge Solar I in 1H23, but our view is that there remains some timeline risk given global supply chain (risk more that it slips into 2H23). We are less concerned about Indiana Crossroads II Wind, and Dunns Bridge II and Cavalry Solar (now reflected revised contracts details). The management team reaffirmed the timelines but noted that several supply agreements were amended (Nisource seeing 10-25% cost inflation for projects) and there remains some timeline execution risk given interconnections and supply chain challenges. Full details on the amended contract details weren't disclosed given the contracts confidential nature.

Indiana Minority Interest Sale Remains on Track — As NiSource starts to go to the market, we expect the valuation of this high growth asset will transact at ~1.8-1.9x YE2023 rate base as it is a higher growth business but is a non-control stake. As of November, data rooms hadn't been formed but it is not clear how much in any progress has been made. The company is formally saying the deal will close in 2023 but choppy deal market adds to investor concerns around process (might be good for stock if strategy were to evolve given market response to initial plan announcement).

Rate Case Update — Management is actively looking to settle the case as the remaining points of negotiation are O&M and ROE ahead of the scheduled start of hearings on March 13, 2023. The formal company request 10.4% ROE and 58.5% equity component and $291.8M revenue increase request. We don't expect the capex or 58.5% equity component to change much at this point. An order is expected in 3Q23 with rates proposed effective September 2023 if no settlement. This is the first GRC since 2018 and the company is actively engaging stakeholders. O&M outlook remains fluid as inflation expectations continue to evolve.

Neutral

Price(21 Feb 23 16:00)	US$26.95	Expected share price return	11.3%
Target price	US$30.00	Expected dividend yield	3.7%
Market Cap	US$10,945M	Expected total return	15.0%
	US$10,945M		

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2022A	0.75A	0.12A	0.10A	0.50A	1.47A	1.47A	1.56A
2023E	**0.73E**	**0.22E**	**0.28E**	**0.31E**	**1.54E**	**1.54E**	**1.54E**
Previous	0.73E	0.23E	0.30E	0.32E	1.58E	na	na
2024E	**0.76E**	**0.25E**	**0.32E**	**0.36E**	**1.69E**	**1.68E**	**1.65E**
Previous	0.76E	0.27E	0.35E	0.39E	1.76E	na	na
2025E	**na**	**na**	**na**	**na**	**1.80E**	**1.83E**	**1.78E**
Previous	na	na	na	na	na	na	na

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

Click here for Visible Alpha consensus data

NiSource Inc

Company description

across seven states through its two main business segments, including 1) Gas Distribution, which delivers natural gas in several states, and 2) Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO).





ESG Matrix

Request Company Model

Investment strategy

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

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $32. We value regulated assets at a multiple of 1.5x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $32 and $29, respectively.

Risks

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

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Disclosures

Appendix A-1

ANALYST CERTIFICATION

The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

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Citigroup Global Markets Inc. owns a position of 1 million USD or more in the debt securities of NiSource Inc.

From: Thalacker, James
To: Weisenburger \ Michael \ V
Subject: NiSource - De-risked Story With Solid 4Q22/FY22 and Raised FY23 Guidance (Comment)
Date: Wednesday, February 22, 2023 6:47:08 PM
Attachments: 5b269b1d-aecc-4c21-b081-e19818a51eb3@bluematrix.png
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BMO Capital Markets

NiSource

NI-NYSE	Rating	Price: Feb-22	Target ↑	Total Return
	Outperform	$27.61	$31.00	16%

IN Fact

De-risked Story With Solid 4Q22/FY22 and Raised FY23 Guidance

James M. Thalacker • Utilities, Power & Renewables
(212) 885-4007

Bottom Line:

With a solid quarter to wrap 2022 and 2023 guidance raised, we view the story as largely de-risked in the near term. This positive release and outlook were reflected in the ~290bps relative outperformance in its shares today. With the above-average growth prospects, balance sheet enhancement, and a relatively de-risked regulatory agenda with ongoing settlement discussions in the NIPSCO electric rate case, we believe the stock remains attractive at a ~3-4% discount to the group even after today's outperformance. We reiterate our Outperform rating and target price moves to $31.

Key Points

NiSource reported better-than-expected 4Q22 earnings with operating EPS of $0.50 which was above BMO and Street estimates of $0.48. Management raised its 2023 non-GAAP diluted net operating earnings per share (NOEPS) guidance to $1.54-1.60 (prior range of $1.50-1.57) with a midpoint of $1.57. The company reaffirmed its 2023-2027 capital program at ~$15bn level that drives 8-10% rate base growth, and it continues to expect annual NOEPS of 6-8% through 2027.

NiSource finished the year with FFO/debt at 13.5% vs. the 13% downgrade threshold.

However, we note that deferred fuel balance was weighing on the metrics to the tune of 54bps (albeit down from 76bps in the year prior). On a normalized basis, the FFO/debt ratio was closer to 14% and management expects that metrics will continue to improve into the 14-16% range with metrics at the top end of the range after the company executes the NIPSCO minority interest sale. We view the balance sheet strength represented by the ~300bps cushion above the downgrade threshold expected to be generated in the near term as a significant positive differentiator to peers in the current environment.

We view the various regulatory developments on the electric and gas side as positive de-risking events for the company, particularly the NIPSCO electric rate case settlement talks and OH gas rate case order. Additionally, with natural gas prices declining, management noted that it expects customer bills to be down 20-25% in 2023 due to favorable natural gas prices, which should provide additional bill headroom to support the company's capital programs.

We maintain our Outperform rating given the company's current discount to the peer group as we believe valuation does not adequately reflect the de-risked regulatory environment, 6-8% EPS growth rate, or the balance sheet strength. Our 2023-2025 estimates remain unchanged at $1.54, $1.67, and $1.78, respectively.

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From: Steve Fleishman
To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 1/27/23 - NI, AEE, XEL, LNG Sector, Solar Trade Tensions, NY Offshore Wind, New Homes Sales
Date: Friday, January 27, 2023 9:03:22 AM

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January 27, 2023

THE FLEISHMAN DAILY 1/27/23

NI, AEE, XEL, LNG Sector, Solar Trade Tensions, NY Offshore Wind, New Homes Sales

The Fleishman Daily 1/27/23
Utilities: NI, AEE, XEL
Midstream: LNG Sector
Clean Energy: Solar Trade Tensions, NY Offshore Wind, New Homes Sales
WEBCAST: Fleish on Fridays, TODAY at 11:00am ET; register here; NEE meetings slides here

Utilities

NI – PUCO approves rate case settlement; $68.2M base rate increase, 9.6% ROE and 50.6% equity ratio
AEE – Staff raises recommended rate increase by $52M in MO rate case, helpful to see bid/ask narrow ahead of settlement talks
XEL – A track record that is now military eligible

Midstream

LNG Sector - Freeport cooldown approved by FERC; could see restart in coming weeks

Clean Energy

Solar trade tensions – U.S. resolution seeks to reverse Biden 2-year AD/CVD pause; China seeking comment on ban on exporting wafer technologies; positive FSLR
NY offshore wind – At least five bidders into state's third RFP; Ørsted/ES JV bid but shouldn't impact ES' sale
New homes sales – December sales +2.3% MoM but -26.6% YoY; key West region particularly weak

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 – PUCO approves rate case settlement; $68.2M base rate increase, 9.6% ROE and 50.6% equity ratio

- Yesterday, the Public Utilities Commission of Ohio (PUCO) approved NI's settlement agreement for its gas rate case in the state
  - Signatories included PUCO Staff, Consumer Counsel, industrial groups, and others
- PUCO approved the proposed $68.2M base rate increase net of trackers (+7.38%) using a 9.60% ROE, 50.6% equity ratio and 3,505M rate base
- Also, NI's Infrastructure Replacement (IRP) and Capital Expenditure Program (CEP) riders will continue for capital placed in service through 2026, where the expectation is that it would file its next rate case in OH on or before 9/1/27
- New rates will become effective immediately

It is nice to see the case finally get wrapped up as it was quite drawn out, taking 18 months in total to complete. The outcome here was already baked into the plan that NI unveiled at its Analyst Day in November.

AEE – Staff raises recommended rate increase by $52M in MO rate case, helpful to see bid/ask narrow ahead of settlement talks

- Earlier this week, the MoPSC Staff, a key intervenor, raised its recommended increase in AEE's MO electric rate case to $199M from $147M earlier this month, based on revised fuel/purchased power costs, fuel adjustment clause expenses, Rush Island coal plant availability, build transfer expenses, capacity sale/expenses and income taxes.
- Both the updated and initial recommendations include a $128M true-up allowance, 9.34-9.84% ROE, and 51.8% equity ratio; the updated recommendation added ~$50M to rate base ($10.5B from $10.4B, as of 6/30/22).
- AEE's request of $316M is based on 10.2% ROE, 51.9% equity ratio and $11.6B rate base, all estimated for 12/31/22.
- The procedural schedule includes a settlement conference starting 3/6 and evidentiary hearings starting 4/3.

- In Dec 2021, the MoPSC approved a black box settlement in Ameren MO's last electric case, which included a $220M rate increase on a $10.2B rate base but did not specify an ROE range.

Staff's updated testimony continues to include a true-up allowance, which is intended to estimate what the recommended increase will be when Staff updates for 12/31/22. We think the narrowing bid/ask spread helps ahead of settlement talks in early March; AEE has settled the past three MO rate cases, generally ahead of evidentiary hearings.

XEL – A track record that is now military eligible
Click here to view our complete note
FY22 in-line, execution streak continues; 2023 guide reaffirmed. XEL posted FY22 EPS of $3.17 which was in-line with us/cons and marked its 18 consecutive year of meeting/beating guidance (14th at/above the midpoint). 2023 guidance of $3.30-3.40 was reaffirmed, though some drivers were updated. Notably, O&M is now expected to be down 2% vs flattish before. Most of this is just a function of where 2022 ended as there some pull forward due to favorable weather. We are at $3.36 for 2023 vs consensus at $3.38.

Midstream

LNG Sector - Freeport cooldown approved by FERC; could see restart in coming weeks

- Yesterday FERC approved Freeport LNG's request to start the cooldown of the trains, a key step in restarting the facility
- Freeport had made the request earlier in the week
- Initial gas flow to facilitate the cooldown have commenced

Freeport will still need formal PHMSA and FERC approval for a restart but the cooldown is a good sign that Freeport could restart in the coming weeks. The news didn't appear to have a meaningful impact on gas prices but there have been a lot of stops and starts in the Freeport process; once it is up and running we estimate the facility would represent about 2 Bcf/d of demand.

Clean Energy

Solar trade tensions – U.S. resolution seeks to reverse Biden 2-year AD/CVD pause; China seeking comment on ban on exporting wafer technologies

- Several Congressmen yesterday from both parties introduced a resolution under the Congressional Review Act to reverse the Biden's administrative 2-year pause on new tariffs on China related to solar imports from 4 Southeast Asian countries (AD-CVD)
    - Recall, back in December the Department of Commerce issued a preliminary determination that 4 of the 8 companies being investigated were circumventing tariffs on China by doing minor processing in the Southeast Asian countries
    - President Biden made a Presidential Proclamation that would pause any new

tariffs on this matter until June 2024 at the earliest

- Separately, Bloomberg reports that China's Ministry of Commerce and Ministry of Science and Technology are seeking public comment on adding some wafer manufacturing technologies to its list of technologies that are prohibited from export
    - Chine is said to account for 97% of the global output for solar wafers

Our initial take is that the resolution to reverse the Biden 2-year pause seems unlikely to pass given the disruption that would create to a sector that benefits both Democratic and Republican states, although our understanding is it only requires a simple majority to pass. On the China technology export review, there aren't many details at this point, but the consequences of a wafer technology export ban by China could be detrimental to the pace of solar additions globally. China is clearly looking to slow down the speed with which other countries can compete. This potential move is undoubtedly a response to the Inflation Reduction Act in the U.S., as well as new programs in India and proposals in the EU to incentivize domestic solar manufacturing. Bottom line, there continue to be trade tensions across solar manufacturing, and this is positive for FSLR as the only material domestic manufacturer in the U.S.

NY offshore wind – At least five bidders into state's third RFP; Ørsted/ES JV bid but shouldn't impact ES' sale

- Ørsted and ES, who have a 50/50 offshore wind JV, were among at least five bidders in NY state's third offshore wind RFP for at least 2 GW and up to 4.2 GW.
- The Ørsted/ES JV did not state the capacity. But like other bidders pointed to economic and job development, creation of supply chain hubs, and the like.
    - The JV has 1,758 MW of contracted offshore under construction and up to 175k of undeveloped lease acres open for additional offshore wind development.
- RWE and National Grid's Community Offshore Wind said their bid was 1.3 GW but was not specific on the potential investment, saying that it would deliver $3B to the NY economy. RWE/NatGrid won 126k of acres in last Feb's NY Bight auction, which has the potential for up to 3 GW.
- Equinor, which won all of the capacity in NY's second offshore wind RFP, also bid with their partner bp. Other bidders were industry newcomer Invenergy and CIP, who told *Recharge News* it bid through its Vineyard Offshore.
    - The avg all-in development cost for Equinor's Empire Wind 2 (1260 MW) and Beacon Wind 1 (1230 MW) projects in NY's second RFP in 2020 was $80.40/MWh.
- 1/26 was the last day to bid, and NYSERDA is expected to announce the winners by end of 1Q23 with contracts executed by end of 2Q23.
- NY targets at least 9 GW of offshore wind by 2035; five projects totaling over 4.3 GW are under development.

NY's third RFP could be the largest offshore wind solicitation in the US. Given the high NY Bight prices (~$9k/acre), supply chain/inflation, and cost of capital, the outcome will be interesting, as there still looks to be robust competition. Regarding ES' pending sale of its share in the Ørsted JV, we don't see the NY bid impacting the timing. We continue to believe

ES won't announce the buyers of its projects and undeveloped lease areas until later this quarter or possibly early next.

New homes sales – December sales +2.3% MoM but -26.6% YoY; key West region particularly weak

- Wolfe's Homebuilder Analyst Truman Patterson had a note out last night (**here**) on December's new home sales (NHS) data
- December NHS were up +2.3% from November but declined -26.6% on a YoY basis (seasonally adjusted)
- The NHS data showed negative sequential declines for two of the largest markets for rooftop solar – Northeast -19.4% and West -15.3% (not seasonally adjusted)

We highlight this data given the impact to the solar installers who rely on new homes sales for a percentage of their annual solar additions. Recall, within our coverage SPWR has the most New Homes exposure (~20%-25%) followed by NOVA (~10%-15%) and RUN (<5%). The -15.3% decrease in the West region is most troubling as it includes California where there is a mandate for solar installations on all new homes built and the state represents most of the New Homes exposure for the installers. The one positive is that December sales historically only account for ~7% annual NHS.

Wolfe Events

February 15: D non-deal roadshow in New York
February 20-22: EXC non-deal roadshow in Australia (Virtual)
March 15: Moody's lunch in New York
March 20-24: CEG non-deal roadshow in Europe
March 23-24: ES non-deal roadshow in London
March 27-31: PCG non-deal roadshow in Europe

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From: Steve Fleishman
To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 3/15/23 - NI, AWK, FERC Liquids Pipeline Index, ENLT, NOVA
Date: Wednesday, March 15, 2023 9:25:24 AM

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March 15, 2023

THE FLEISHMAN DAILY 3/15/23

NI, AWK, FERC Liquids Pipeline Index, ENLT, NOVA

The Fleishman Daily 3/15/23
Utilities: NI, AWK
Midstream: FERC Liquids Pipeline Index
Clean Energy: ENLT, NOVA

Utilities

NI – Announces leadership changes/additions; Shawn Anderson to move into the role of CFO
AWK – EPA proposes rules to limit PFAS chemicals in drinking water; worth monitoring

Midstream

FERC Liquids Pipeline Index – Preliminary February data is flat vs. January

Clean Energy

ENLT – 2023 EBITDA guidance beats net of acctng change, increase in near-term projects and total portfolio; large projects mostly on track
NOVA – Announces free battery offer in CA to counter NEM 3.0

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**, **Clean Energy Stock Charts**, **Valuation Charts**, **Models**

Utilities

NI – Announces leadership changes/additions; Shawn Anderson to move into the role of CFO

- This morning, NI announced that Michael Luhrs will join on 3/27 as the company's EVP of strategy & risk and Chief Commercial Officer.
    - Luhrs previously served as SVP of customer experience & strategy at LNT. Prior to that, he held numerous positions with DUK and has ~25 years of energy industry experience.
- Shawn Anderson, currently SVP of risk and Chief Strategy Officer, will assume the role of EVP and CFO.
- Donald Brown, NI's current CFO, will move into the role of EVP and Chief Innovation Officer, replacing Melody Birmingham.
- Melody Birmingham has been named as NI's EVP and Group President of Utilities.

We view this as part of normal management rotation and development. Shawn has been presenting to investors for several years so we think the transition to CFO will be smooth. CEO Lloyd Yates continues to bring in former colleagues from his time at DUK.

AWK – EPA proposes rules to limit PFAS chemicals in drinking water; worth monitoring

- Yesterday, the EPA issued proposed regulation that calls for a maximum contaminant level (MCL) for two PFAS – PFOS and PFOA – of 4 parts per trillion (ppt) each.
    - EPA is also proposing four additional PFAS – PFNA, PFHxS, PFBS, and GenX – to have a combined hazard index limit of 1.0.
- 10 states already have enforceable limits on some PFAS chemicals in drinking water; if finalized, the EPA's limits would supersede state regulations that had set less stringent thresholds.
    - For reference, PA and NJ (two of AWK's largest jurisdictions) have MCL standards for PFOA/PFOS in the mid-teens ppt range.
- The proposed regulation will now undergo a 60-day public comment period, after which EPA will either modify and recirculate it for additional comment or continue the adoption process.
    - The agency has indicated that it aims to finalize the regulation by the end of 2023.
- If adopted as is, water providers/utilities would need to comply with the final regulation within three years of the date of adoption (implying an end of 2026 timeframe at present).
- The EPA has estimated the annual cost of implementing the rule to be $772M for public water systems.
    - The American Water Works Association (industry group) has estimated that such limits for two chemicals would cost water systems $40B (over time) to comply with the rule.

While setting a national standard for PFAS provides clarity, there remain questions over who will bear the costs of treatment and ultimate impact to customer bills. Several water utilities, states, and local communities have already filed lawsuits against companies that manufactured/used PFAS, seeking to recover costs for cleanups and filtrations. The EPA is also initiating the distribution of $10B in funding to address emerging contaminants under the Bipartisan Infrastructure Law. While this creates some uncertainty but it also presents opportunity. Rate base investments to comply with PFAS regulation would be recoverable in rates and this rulemaking could potentially accelerate tuck-in acquisitions if municipal systems are unable to make investments to meet federal limits. We will be looking for mgmt. commentary on this proposed regulation on AWK's Q1 earnings call and curious to know how it would affect the capital plan, if adopted as is.

Midstream

FERC Liquids Pipeline Index – Preliminary February data is flat vs. January

- This morning, the U.S. Bureau of Labor Statistics released its preliminary February PPI data
- The February 2023 Final Demand-Finished Goods PPI reading of 254.187 was flat from January and a 6.4% increase from February 2022
    - Note, PPI-FG (used for the pipeline index) is a different measure than headline "PPI" often reported in the press
- As a reminder, midstream liquids pipelines often have a natural hedge to inflation via their regulated rate structures – the FERC liquids pipeline index applies an "annual changes in PPI-FG + adder" methodology
    - The FERC ceiling rates will increase by 13.3% in July 1, 2023 based on changes in 2022 PPI
    - Looking forward, the annual increase in 2023 PPI - 0.21% will be added to regulated liquids pipeline ceiling rates for the July 1, 2024 to June 30, 2025 period

Inflation has been a good story for midstream and we see MMP, PAA, and TRGP as the most clear net beneficiaries to date. Looking forward, PPI-FG has now been pretty flat since mid-2022. If this trend continues through yearend, then FERC ceiling rates should see much smaller increases in mid-2024.

Clean Energy

ENLT – 2023 EBITDA guidance beats net of acctng change, increase in near-term projects and total portfolio; large projects mostly on track

- **2022 EBITDA beats.** $130M vs $123M consensus, $126M WRe (results exclude $18M from projects treated as financial assets; WRe is $144M with the $18M).
- **2023 EBITDA guidance beats.** $188-198M (excludes $15M from financial assets) vs $172M consensus, $186M WRe (WRe is $204M when including $18M for financial

assets).

- **Increase in Mature Portfolio.** 4.5 GW capacity and 2.7 GWh of storage vs 4.0 GW and 2.1 GWh previously; Mature Projects are those operational, under construction or expected to begin construction within 12 months.
- **Increase in Adv Dev Portfolio.** ENLT now includes 4.2 GW capacity and 10.0 GWh of storage in its Advanced Development portfolio vs 3.8 GW and 7.3 GWh previously; Adv Dev projects are those expected to begin construction in the next 13-24 months.
- **Total Portfolio, including Mature Projects and entire backlog, rises.** 18.9 GW capacity and 20.6 GWh vs 18.6 GW and 19.4 GWh previously. 8.4 GW have completed system impact studies in the US for interconnections (60% of US portfolio)
- **885 MW of additional PPA amendments under negotiation.** ENLT amended PPAs for 988 MW of capacity and 1.2 GWh of storage in 2022, with price changes of 17-25%.
- **Large projects mostly on track; Co Bar project increased, expected COD in 2025.** Atrisco (360 MW, 1.2 GWh) in NM still expected to COD in 1H24, with financial closing 2Q23. Gecama solar and storage addition in Spain still expected COD by YE24. CoBar cluster in AZ increased in size to 1.2 GW capacity and 824 MWh of storage from 580 MW of capacity previously, after last year's acquisition; COD for entire cluster is 2025.

Net of the accounting change, the results were better than expected and it was good to see an increase in the near-term, highly-visible projects, which should be COD by 2025. ENLT said the Mature Projects are on track and potential PPA amendments under negotiations are expected to result in 20-25% price increases. We recently initiated on ENLT's US listing; see **note**.

NOVA – Announces free battery offer in CA to counter NEM 3.0

- This morning, NOVA announced that the company will be providing a free battery, valued at $8k, to new CA customers who sign a solar+storage lease agreement.
- The offer is in response to NEM 3.0 implementation, which takes effect on April 15th, and will help customers maximize their solar investment.
- The free battery offer is only available to new customers who sign up for a residential solar+storage lease agreement under the Sunnova Easy Plan and does not include the cost of installation, the solar system, or the 25-year Sunnova Protect.

NOVA's battery giveaway is an interesting development in the race to position for NEM 3.0. We expect that incremental servicing revenue could offset much of the $8,000 battery cost. Recall that RUN announced a new NEM 3.0 optimized storage offering on their 4Q call which, to us, implied a scaled down storage system but not necessarily one with embedded discounts.

Wolfe Events

March 20: ENPH Virtual Fireside Chat with CEO
March 20-24: CEG non-deal roadshow in Europe

March 23-24: ES non-deal roadshow in London
March 27-31: PCG non-deal roadshow in Europe
March 29-31: NEE non-deal roadshow in Europe
April 4: DTE non-deal roadshow in New York
April 4: ED non-deal roadshow in New York
May 16-17: DUK non-deal roadshow in Midwest and Canada
June 19-20: EVRG non-deal roadshow in New York/Boston

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March 23, 2023

THE FLEISHMAN DAILY 3/23/23

NI/CNP/DUK, AEP, ED, SRE, Solar

The Fleishman Daily 3/23/23
Utilities: NI/CNP/DUK, AEP, ED, SRE
Clean Energy: Solar

Utilities

NI/CNP/DUK – Electric service reliability bill passed in Indiana's house; plant retirement-related provisions not expected to impact fleet transition plans away from coal
AEP – OH state lawmakers propose repeal of OVEC subsidies
ED – Moody's affirms credit rating and revises outlook to positive from stable; expects improvement in FFO/D to 17% from ~14% in 2022 if CECONY's settlement is approved; good to see
SRE - S&P reaffirms BBB+ rating and revises outlook to stable from negative following Port Arthur announcement

Clean Energy

Solar – Industry fighting against legislature push to undo tariff pause, waiting on domestic content details

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**, **Clean Energy Stock Charts**, **Models**

Utilities

NI/CNP/DUK – Electric service reliability bill passed in Indiana's house; plant retirement-related provisions not expected to impact fleet transition plans away from coal

- Yesterday, IN's House of Representatives passed **SB 9**, which deals with electric utility reliability.
- This bill would require a public utility, through 7/1/26, to provide the IURC will at least 6 months of notice if it plans to retire, sell, or transfer a generating facility of at least 80 MW capacity if:
    - A) That plant retirement isn't outlined in its most recent IRP; or
    - B) If the utility intends to accelerate that plant retirement vs. the date set forth in its latest IRP.
- The IURC would be authorized to consider plant retirements under the aforementioned conditions, whilst not being mandated to investigate.
- This legislation would also require the IURC to prohibit granting accelerated depreciation if a retirement/sale/transfer wasn't included or is set to take place earlier than specified in an IRP.
    - But the IURC may permit accelerated depreciation if it finds that such an adjustment is necessary for a utility to provide reliable service and unamended depreciation rates would cause an unjust/unreasonable impact on the utility & its ratepayers.
- SB 9 also amends the federal mandate statute to provide greater clarity for recovery of pre- and post-regulatory petition costs related to federally mandated projects.
    - This includes costs that a utility has incurred, or estimates that it will incur, in connection with a compliance project – coal ash clean-up costs, for example.

We **don't** anticipate this bill to have a major impact on fleet transition plans in Indiana, as in-state IOUs have indicated coal plant retirements in their IRPs. Recall, NI secured depreciation schedule approval for coal retirements in NIPSCO's previous rate case, with minor modifications made in the current rate case's settlement agreement that was recently filed; CNP chose to securitize its first tranche of coal retirements vs. requesting for accelerated depreciation. The provision related to recovery of federally mandated costs is more supportive to utilities vs. status quo and good to see. SB 9 has broad support in the state and is expected to be implemented.

AEP – OH state lawmakers propose repeal of OVEC subsidies

- This week, two Democratic state lawmakers in OH proposed legislation – HB 120 – that would repeal HB 6, which includes subsidies for OVEC.
- OVEC is OH Valley Electric Corporation and operates two coal plants. AEP, DUK, AES OH and others own OVEC. In 2018, PUCO approved subsidy requests from AEP, DUK and AES through a Legacy Generation Rider. For instance, AEP has OVEC recovery

through 2024.

- The two Dems were joined by other co-sponsors, including Rep Merrin (R), who almost became House speaker late last year but lost out to current Speaker Stephens (R). Rep Merrin told the media earlier this week: "I never supported the subsidies in HB6, I voted to remove the green energy mandates. But I'm all for getting rid of the subsidies...I think there's enough support between the House Republicans and the Democrats that are on the bill to push it through the house, whether [current Speaker Stephens] supports it or not."
- Gov. Mike DeWine (R) has said the coal subsidies should be repealed.
- The OH legislative session adjourns 12/31/23.

For AEP, the OVEC rider historically has brought in roughly $40M/yr (~$0.07/sh). If eliminated, that would be a modest headwind.

ED – Moody's affirms credit rating and revises outlook to positive from stable; expects improvement in FFO/D to 17% from ~14% in 2022 if CECONY's settlement is approved; good to see

- Yesterday, Moody's affirmed ED/CECONY's senior unsecured debt ratings at Baa2/Baa1 and changed its outlook to positive from stable.
    - Moody's cited the prospects for financial metric improvement following the filing of a joint settlement proposal in CECONY's electric/gas rate cases as its rationale.
- If the NY PSC were to approve rates similar to those in the joint proposal, Moody's estimates that ED/CECONY could generate CFO pre-WC to Debt ratios above 17%.
    - This represents a substantial improvement from ~14% that each produced in 2022, as per Moody's.
- Moody's views the joint proposal as evidence of ED's more cooperative stakeholder/customer relationships, improving regulatory/political relationships, and NY's recovery from COVID-19.
- Moody's also considers COVID-19 arrears recovery, which was initiated through the NY PSC's Phase 1/2 orders in Apr. 2022/Jan. 2023, as credit positive.
    - This recovery consists of state funds applied to a portion of customer arrears balances & surcharge mechanisms to address ~$780M of outstanding CECONY arrears over 10 yrs.
- Moody's noted that ~$1.25B of CEBs' sale proceeds used to retire parent-level debt will leave the HoldCo essentially unlevered – *"a unique and financially conservative position"*.

The revision to positive outlook at Baa2 is good to see and reflects the progress ED has made over the past year – reaching a constructive settlement agreement in CECONY's rate case, securing mechanisms for COVID-19 arrears reduction, announcing/closing CEBs' sale and using the proceeds for parent debt repayment and avoidance of equity needs in 2023-24.

SRE - S&P reaffirms BBB+ rating and revises outlook to stable from negative following Port Arthur announcement

- Last night S&P updated its views on Sempra after financing details of the Port Arthur LNG FID were released
- S&P reaffirmed its BBB+ rating on Sempra and took its outlook to stable from negative
- The agency cited the fixed-price EPC contract, Bechtel's track record in building LNG liquefaction units, and the selldown of significant equity to COP and KKR
- S&P also expects that FFO to debt for Sempra will remain above 15%

The move to stable at BBB+ is good to see and we think reflects the overall risk-minimization approach Sempra is taking on Port Arthur. We'll be looking for Moody's take on Port Arthur; note that Moody's has a Baa2 rating on Sempra.

Clean Energy

Solar – Industry fighting against legislature push to undo tariff pause, waiting on domestic content details

- The solar industry is set to defend President Biden's two year pause of tariffs that went into place last summer
- A resolution to undo the tariff pause is being put forth (via Congressional Review Act) by a bipartisan group from the House and Republicans in the Senate - the group has been pointing to the preliminary DoC outcome that found that tariff circumvention was actually occurring
- SEIA is saying this could result in the cancellation of 4 GWs of planned solar
- Separately, the WSJ is out this morning with an article with some industry quotes related to waiting on Treasury guidance regarding 10% domestic content ITC adders in the IRA
- AES is quoted as saying that once it has guidance it is ready to sign a $1B solar purchase after a manufacturer commits to building an onshore factory

These two topics are intertwined, as the industry is trying to bridge the gap from last year's significant uncertainty created by the DoC AD/CVD investigation, to the implementation of the highly supportive IRA. There are a lot of politics at play here too given the sensitivity to China. We are approaching the one year mark of the tariff pause, such that some of the re-domestication of solar manufacturing should already be in the initial stages. But clearly the removal of an additional year could reintroduce some choke points in the supply chain.

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WEBCAST: Wolfe Utilities & Midstream Earnings Preview Webcast, TODAY at 11:00am ET; register here
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Utilities sentiment meter – down to "4" from "5". Last week was discouraging as utilities underperformed even on down days for the market. The market is turning more offensive underneath the hood and the safety trades of 2022 – utilities, staples and health care – are suffering as a result. This could last a little while but utilities valuation is now back at a discount and we think the recent decline in rates and gas prices has actually de-risked the sector to some degree. Year end earnings kick off this week with NEE, please see our preview note below and hope you can join our call today at 11am.

Utilities

Utilities & Power: Q4 preview and outlooks – Utilities likely to lay low
NI – Consumer advocate recommends $245.7M rate increase, 9.20% ROE and 49.3% equity ratio in NIPSCO's electric case; decent starting point

NEE – FP&L announces plan to recover hurricane/fuel costs over 12/21 months; ~10% customer bill impact
AGR – Files appeal on DPU's approval of Commonwealth Wind contract; not surprising
AGR – Bloomberg reports weighing stake sale in renewables business
EMA – Three sections of Labrador Island Link transmission reportedly failed during Dec/Jan ice storms
CAL Watch – Weekly update of implied 2024 ROEs; utility bond yields flat for week but ROE still on track for at least a 50bp increase

Midstream

Midstream: Q4 Preview – Can 2023 guidance meet expectations
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Utilities

Utilities & Power: Q4 preview and outlooks – Utilities likely to lay low
Click here to view our complete note
Q4 preview and 2023 outlooks – utilities likely to lay low. Pressures from nat gas and interest rate spikes have moderated, but we expect utilities to be conservative on earnings updates – this is not a time to be aggressive from a political/regulatory standpoint. 13 of our 32 utilities will be guiding 2023 for the first time; we definitely see more misses than beats mainly on interest rate and pension pressures and regulatory timing (lag). Asset sale news will be key with announcements or updates likely from FE, AEP, DUK, NI, and ES. Renewables are likely a bright spot driven by strong demand, IRA, and better supply chain (like on UFLPA). We lowered estimates on EIX, ES, EVRG, POR, PNW; raised on ED and FE. We also adjusted our very low Wolfe power price deck close to market slightly boosting CEG, PEG and VST.

NI – Consumer advocate recommends $245.7M rate increase, 9.20% ROE and 49.3% equity ratio in NIPSCO's electric case; decent starting point

- On Friday, intervenor testimony was filed in NIPSCO's electric rate case
- The Office of the Utility Consumer Counselor (OUCC) recommended a $245.7M total

rate increase using a 9.20% ROE and 49.3% equity ratio
    - Recall, NIPSCO requested a total $291.7M base rate increase in two steps ($393.3M when including the VCT rider in base rates) using a 10.4% ROE and 51.6% equity ratio
        - First increase of $234.6M effective 9/1/23, based on rate base as of 6/30/23
        - Second increase of $57.1M effective 3/1/24, based on rate base as of 12/31/23
    - NIPSCO is currently allowed 9.75% ROE and 47.9% equity ratio
- The OUCC recommended that the IURC deny NIPSCO's request for a new semi-annual tracking mechanism to recover variable non-labor coal expenses (i.e., VCT rider)
    - The VCT rider covered $101.6M of O&M not reflected in NI's $291.7M base rate increase request given the request to move it into a separate tracking account
- The OUCC also recommended that the IURC deny NIPSCO's request to implement a pension/OPEB balancing account

This looks like a fairly decent starting point, coming in just over 60% of NIPSCO's ask. ROE being at 9.20% is low, but not surprising given that this is a consumer advocacy group (there is no Staff testimony in Indiana). There are very little discrepancies in rate base, which is good to see as the majority of the ask is to get 4 of NIPSCO's renewable projects put into rates. From what we can tell, most of the difference between NIPSCO and the OUCC is on O&M (~$80M) and cost of capital (~55M). We are hopeful that the IURC will side with NIPSCO on the VCT rider and pension/OPEB balancing account requests.

<u>NEE – FP&L announces plan to recover hurricane/fuel costs over 12/21 months; ~10% customer bill impact</u>

- This morning, NEE's FP&L filed its plan with the FL PSC to recover the costs of two hurricanes and higher natural gas prices from customer bills
    - FP&L will recover fuel bills from 2022 (already paid for by company) over 21 months – $2.1B in total
    - FP&L will recover costs for Hurricanes Ian and Nicole over 12 months – $1.3B in total
- The typical residential customer is expected to see a 10% bill increase in April 2023 (versus what rates would've otherwise been)
- The recent decline in natural gas prices is expected to provide a partial offset to the customer bill impact ($1.0B decreased in 2023 projected fuel factor for 9 months)

This filing was expected and NEE had been clear that it wouldn't spread cost recovery over too long of a period to avoid pancaking with future storms. We expect NEE to be found prudent on its hurricane spend (as it historically has) and fuel is a simple pass-through where the state doesn't allow hedging.

<u>AGR – Files appeal on DPU's approval of Commonwealth Wind contract; not surprising</u>

- Late last week, AGR filed an appeal to the Massachusetts DPU's approval of the

contracts for Commonwealth Wind
    - AGR wrote that the project cannot be financed and will not proceed under the PPA
- If unsuccessful AGR will have to post an additional $24M letter of credit (on top of original $24M)
- Recall that Commonwealth Wind had attempted to the renegotiate the PPA price – the 3 MA utility counterparties rejected this and the DPU said any renegotiations would require new filings
- AGR previously indicated that it intended to bid Commonwealth Wind into the next MA offshore wind competitive solicitation in April 2023
- AGR's Commonwealth Wind (1.2 GWs) was selected as the winner of the Massachusetts RFP in late-2021, with PPAs announced in May of this year
    - The originally filed PPAs were starting at $59.60/MWh nominal price ($47.68/MWh for energy and $11.92 for RECs, both of which escalate by 2.5% annually)
    - The total levelized all-in energy price for Commonwealth Wind is $72.17/MWh

This was expected and success on an appeal seems less likely. At worst, AGR would be on the hook for the $48M letter of credit, but a re-bid could open up the potential for a much higher PPA price, which could help the economic viability.

AGR – Bloomberg reports weighing stake sale in renewables business

- ***Bloomberg*** is reporting that Iberdrola is weighing the sale of a stake in its U.S. renewables business (AGR) – seeking a financial partner for existing projects (over 9 GWs operating)
    - No final decisions on timing or size have been made
- Recall that AGR's September Analyst Day plan featured $1.9B of common equity in 2024, a partnership for its onshore pipeline (60% of 1.7 GWs), and a partial sale of its Kitty Hawk offshore lease in NC

This isn't surprising, as AGR has been clear about its asset rotation strategy for some time. To the extent it sells more than the partnership in its plan, this could help alleviate some of the $1.9B of equity needs.

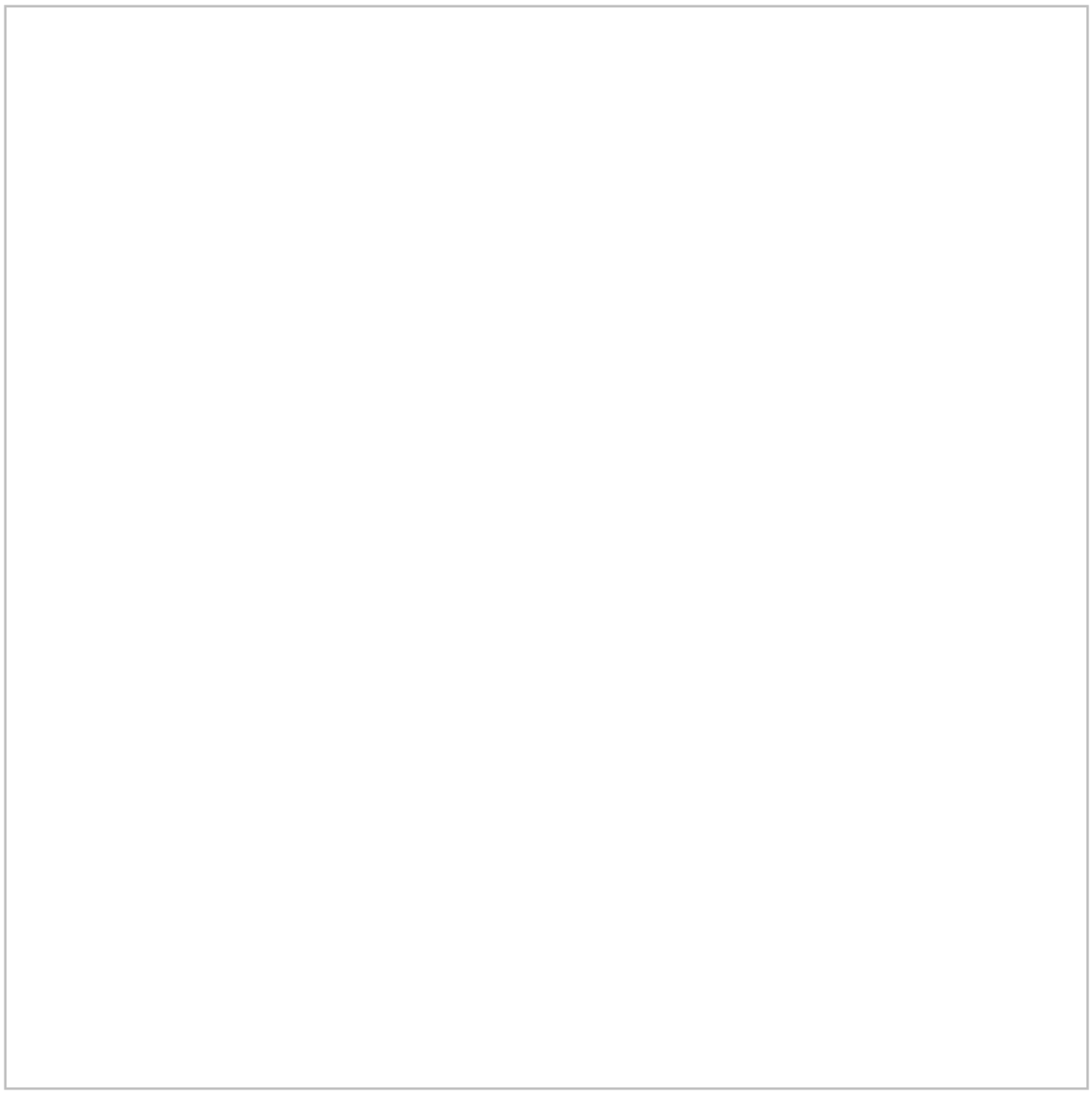
EMA – Three sections of Labrador Island Link transmission reportedly failed during Dec/Jan ice storms

- Last week, the ***Canadian Broadcasting Corp*** (CBC) reported that three sections of the Labrador Island Link transmission line have failed since early December
- ***CBC*** said that three sections of conductor wire have dropped to the ground after turnbuckles broke during a stretch of freezing rain in December and early January
- These line failures are in addition to a setback that occurred in November after the transmission line tripped during testing

Commissioning of the LIL transmission line and related issues with the Muskrat Falls hydro station (owned by Nalcor Energy) has been a pain point for EMA in recent years. EMA has an equity stake in the LIL line, having invested ~C$725M in the project. However, since the project has yet to be fully commissioned, EMA has only recorded AFUDC earnings. Starting to book actual cash earnings is an important piece to EMA hitting its 12% FFO/D target.

CAL Watch – Weekly update of implied 2024 ROEs; utility bond yields flat for week but ROE still on track for at least a 50bp increase

- This our weekly series on the utility bond yield index used for the Cost of Capital mechanism (CCM). The allowed ROEs in 2023 for CA utilities are 10.05% for EIX; 10.00% for PCG; and 9.95% for SRE's SDG&E and 9.85% for SRE's SoCal Gas. But 2024 ROEs depend on whether the CCM is triggered.
- CCM: On 9/30, if the difference between the 12-month average of the Moody's Bond Utility Baa Index and the benchmark value (currently 4.38%) exceeds 100bp, then the allowed ROE for the next calendar year is adjusted by one-half of the difference, and the current value of the index becomes the new benchmark value. (The index for SoCal Gas is Moody's Utility A Index).
    - If the difference is within 100bp, ROEs and the benchmark index value remain the same for the subsequent year.
- Below is a chart with the Index values from 10/1/22 through the last available date (light blue bar charts); the average over that period is 5.88% (solid orange line).
- The last Index value was 5.39%; if that were the average from now through 9/30/23, under the CoC mechanism, 2024 ROEs would be increased by 58bp [=(5.53-4.38)/2].
- It is still early, but the CCM is on track to be triggered, implying at least a 50bp increase in 2024 ROEs, if the Index from now through 9/30/23 averages at least 5.18%.



Source: Wolfe Utilities & Power Research, Bloomberg

Midstream

Midstream: Q4 Preview – Can 2023 guidance meet expectations

Click here to view our complete note

Midstream stocks have been resilient…but initial 2023 guides could pose a test. Midstream equities had a great 2022 and have started off well in 2023. However, investor sentiment has become more mixed heading into earnings as we transition from the beat and raise cycle of 2022 to initial 2023 outlooks that likely reflect moderating commodity prices and production growth as well as potential conservatism. We think capex in 2023 will be similar to 2022, but with a slight majority of companies raising capex in 2023 and a smaller number reducing spend - see Ex. 5. Overall, midstream financial positions remain quite strong with positive FCF and balance sheets in better shape than history, which we think makes the group more defensive in a downturn

Midstream of Consciousness - What's the bull case, MVP court hearing, and readthroughs from KMI

- In this week's Midstream of Consciousness, we assess the bull case for midstream by comparing dividend yields across income sectors, historical EV/EBITDA multiples, and the energy sector's weight in the S&P 500. We then provide thoughts on ETRN's Mountain Valley Pipeline court hearing this upcoming week. Lastly, we review KMI's volume data post-Q4 earnings.
- **Can midstream outperform 3 years in a row in 2023 – what's the bull case?** The bull case is the lack of an obvious valuation ceiling. Interestingly, if the stocks rose 20%, our coverage would then only trade in line with their 4-year average EV/EBITDA multiple with an average dividend yield still north of 5% which would still be well north of competing income alternatives. Additionally, energy's sector weight in the S&P 500 remains well below its historical level, and it does not seem crazy to us that energy's weighting in the S&P 500 could continue to move higher from here.
- **ETRN - MVP back in front of the 4th Circuit this week; the paths from here.** We refresh on key permits including VA and WV water permits, the Fish and Wildlife Service's biological opinion, and the National Forest crossing permit. The chances of permitting reform are not clear especially given the dynamics in the House and finding a compromise with Democrats in the Senate could be difficult. We continue to monitor as permitting reform can provide a $300M EBITDA uplift and incremental expansion opportunities.
- **KMI – solid quarterly results, but volumes continued to lag.** KMI reported solid Q4 results last week, but volumes remain weak. We look forward to this week's Investor Day where we are particularly focused on the detailed project backlog which has grown considerably since last year. See our Q4 recap note here (**link**).
- Please see the full report **here** for more.

Clean Energy

Wolfe GREEN Playbook – Inverter share in CA; PLUG preview; Off week for offshore; Corp. PPAs keep growing

- In yesterday's Wolfe GREEN Playbook, we review inverter market share in the CA resi solar market, preview PLUG's business update call, discuss Ørsted's Sunrise Wind impairment, and highlight the continued strong growth in the corporate PPA market.
- **Youngkin's Trojan-horse quote highlights political risks on China, IRA; relevant for panels and FSLR.** VA Gov Youngkin called a proposed Ford/CATL plant a "Trojan horse for China". This highlights a key theme for 2023 – will the US allow Chinese companies to build factories here and get IRA benefits? FSLR is surely noticing.
- **California NEM-Tracker: Zooming in on the Inverters.** The data shows ENPH's tremendous share gains, but also highlights the risk if the CA market really shifts from loans toward PPAs/leases.
- **PLUG update call Wednesday - it's all about execution.** The company has laid out significant growth potential, but now they are going to need to show they can execute on that growth and give confidence on when the earnings and cash flow picture flips to positive.

An off week for US offshore wind – Ørsted impairment, ES sale delay, PEG exiting, D introduces selldown option. Ørsted announced an impairment on Sunrise Wind; ES sees no impairment, but the sale is going slowly. PEG is exiting Ocean Wind 1, while D may seek an equity partner for Coastal Virginia Offshore Wind.

- **Corporate PPAs hit a new high in 2022.** ACPA's annual report shows nearly 20 GWs of clean energy were purchased by corporates last year – up 4 GWs vs. 2021. We're seeing increasing solar contracted announcements, while wind still appears to have peaked in 2018-2019. ACPA also notes that PPA prices were up 30%/37% on average for solar/wind in 2022.
- Please see the full report **here** for more.

Wolfe Events

February 15: D non-deal roadshow in New York
February 20-22: EXC non-deal roadshow in Australia (Virtual)
March 15: Moody's lunch in New York
March 20-24: CEG non-deal roadshow in Europe
March 23-24: ES non-deal roadshow in London
March 27-31: PCG non-deal roadshow in Europe

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Calendar

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Utilities & Power

January 22, 2023

Q4 preview and 2023 outlooks – utilities likely to lay low

The Wolfe Byte

More bad than good on YE updates. Interest rate and nat gas spikes have moderated, but we still expect some 2023 guides to be weak on rates, pensions, and regulatory. Renewables should be a bright spot. Asset sale updates are a key focus.

Q4 preview and 2023 outlooks – utilities likely to lay low. Pressures from nat gas and interest rate spikes have moderated, but we expect utilities to be conservative on earnings updates – this is not a time to be aggressive from a political/regulatory standpoint. 13 of our 32 utilities will be guiding 2023 for the first time; we definitely see more misses than beats mainly on interest rate and pension pressures and regulatory timing (lag). Asset sale news will be key with announcements or updates likely from FE, AEP, DUK, NI, and ES. Renewables are likely a bright spot driven by strong demand, IRA, and better supply chain (like on UFLPA). We lowered estimates on EIX, ES, EVRG, POR, PNW; raised on ED and FE. We also adjusted our very low Wolfe power price deck close to market slightly boosting CEG, PEG and VST.

Positives: **1) AES** – 2023 guide in line, calming investor fears; positive tone on renewables; **2) DTE** – offset MI rate order and reaffirm 2023, potential rehearing; **3) NEE** – internal investigation likely resolved with no adverse outcome, bullish on renewables growth; **4) SRE** – Port Arthur FID, better Oncor rate order, 2024 guide in line.

Negatives: **1) AGR** – pressure on 2023 w/o PNM; offshore wind risks; **2) EIX** – 2023 guide below consensus, tracking to low end of 5-7%; **3) EVRG** – 2023 below consensus, LT outlook reaffirm and we are buyers on weakness; **4) NRG** – miss on 2022, will re-highlight Vivint deal; **5) PNW** – miss on 2023 guide due to pension, lag; **6) POR** – miss on 2023 guide, takes a while to get to 5-7% growth; **7) SO** – miss on 2023 guide, lower 2024, Vogtle and mgmt. update, we buyers as long as Vogtle 3 on track for 1H.

Important: **1) AEP** – KY and renewables sale updates; **2) CEG** – Energy Harbor outcome, capital allocation plan, 23/24 margin and hedge guides; **3) DUK** – potential renewables sale news; **4) ED** – settlement update, 2023 and CAGR guide including asset sale, buybacks; **5) ES** – offshore wind sale update, higher capital plan but unlikely any change to 5-7% CAGR; **6) EXC** – 2023 guide, may rebase CAGR to 22-26, may give yr-by-yr guide, keep 6-8% or lower it?; **7) FE** – 2023 guide, capex update, outlook likely reaffirmed, asset sale and CEO updates.

Please see full report for company by company previews.

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WOLFE RESEARCH

January 22, 2023

COMPANY	TICKER	RATING	PT	% UPSIDE
Ameren Corp	AEE	OP	$94.00	8.4%
American Electric Power	AEP	PP	NA	
AES Corp.	AES	OP	$31.00	15.1%
Avangrid	AGR	UP	$41.00	(3.7)%
American Water Works	AWK	PP	NA	
Constellation Energy, Inc.	CEG	OP	$97.00	16.9%
CMS Energy	CMS	PP	NA	
CenterPoint Energy	CNP	OP	$31.00	3.0%
Dominion Energy	D	PP	NA	
DTE Energy	DTE	OP	$125.00	9.7%
Duke Energy	DUK	PP	NA	
Consolidated Edison	ED	PP	NA	
Edison International	EIX	OP	$69.00	3.4%
Emera, Inc.	EMA-CA	PP	NA	
Eversource Energy	ES	OP	$88.00	10.4%
Entergy Corp	ETR	OP	$123.00	14.5%
Evergy	EVRG	OP	$70.00	17.4%
Exelon Corp	EXC	OP	$44.00	3.9%
FirstEnergy	FE	OP	$42.00	(0.5)%
Fortis, Inc.	FTS	UP	$39.00	(6.6)%
Alliant Energy	LNT	PP	NA	
NextEra Energy	NEE	OP	$96.00	17.3%
NiSource	NI	OP	$28.00	2.9%
NRG Energy	NRG	PP	NA	
OGE Energy	OGE	PP	NA	
PG&E Corp	PCG	OP	$20.00	27.8%
PSEG	PEG	PP	NA	
Pinnacle West Capital	PNW	PP	NA	
Portland General	POR	PP	NA	
PPL Corp	PPL	OP	$34.00	16.0%
The Southern Company	SO	OP	$76.00	13.2%
Sempra Energy	SRE	OP	$174.00	10.1%
Vistra Corp.	VST	OP	$32.00	46.5%
WEC Energy Group	WEC	PP	NA	
Xcel Energy	XEL	OP	$71.00	3.6%

Source: Wolfe Research
OP=Outperform, PP=Peer Perform, UP=Underperform, NR=Not Rated
Priced as of 01/20/23

Investment Conclusion

Our Regulated Utilities sector rating is Market Outperform. Utilities relative P/E valuation vs. the market is now slightly below the L-T average. The sector has largely completed its simplification from non-regulated businesses and the regulated business has the strongest set of investment opportunities in years from renewables transition under IRA. However, the inflationary environment is creating challenges for utilities with higher interest rates and pension/fuel/O&M costs. With a fully regulated profile, we think utilities are as well positioned as they have ever been if a recession hits, especially if that same recession tames the inflationary pressures.

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WOLFE RESEARCH

January 22, 2023

Quarterly Estimates

Exhibit 1: Wolfe Research Earnings Estimates vs. Consensus

				Q4 2022E		Q4 2021	2022E		2023E		2024E		2025E	
Company Name	**Ticker**	**Price**	**Rating**	**WR**	**Cons**	**Actual**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
AES Corp.	AES	$26.93	OP	$0.47	$0.47	$0.45	$1.65	$1.64	$1.77	$1.75	$1.91	$1.91	$2.10	$2.06
Alliant Energy	LNT	53.89	PP	0.46	0.44	0.35	2.79	2.79	2.89	2.88	3.08	3.07	3.28	3.27
Ameren	AEE	86.68	OP	0.57	0.56	0.48	4.08	4.08	4.37	4.34	4.73	4.67	4.98	4.99
American Electric Power	AEP	92.17	PP	0.98	0.99	0.98	5.02	5.02	5.30	5.30	5.58	5.65	5.99	5.98
American Water	AWK	151.54	PP	0.85	0.77	0.85	4.49	4.45	4.78	4.77	5.15	5.15	5.64	5.60
Avangrid	AGR	42.57	UP	0.39	0.41	0.44	2.32	2.28	2.13	2.28	2.20	2.43	2.43	2.58
CMS Energy	CMS	62.01	PP	0.59	0.57	0.47	2.88	2.88	3.10	3.11	3.34	3.37	3.60	3.61
CenterPoint**	CNP	30.11	OP	0.28	0.30	0.27	1.38	1.38	1.49	1.49	1.62	1.61	1.76	1.72
Con Edison	ED	93.79	PP	0.81	0.83	1.00	4.55	4.54	4.79	4.82	5.20	5.11	5.44	5.33
Dominion	D	62.42	PP	1.05	1.05	0.90	4.11	4.11	3.79	4.31	3.75	4.62	4.05	4.22
DTE Energy	DTE	113.97	OP	1.22	1.24	1.05	6.01	6.01	6.26	6.25	6.68	6.70	7.17	7.23
Duke Energy	DUK	101.82	PP	1.02	1.04	0.94	5.24	5.29	5.62	5.67	5.96	6.02	6.33	6.37
Edison Int'l	EIX	66.73	OP	1.07	1.08	1.16	4.56	4.58	4.69	4.78	5.01	5.12	5.55	5.50
Emera*	EMA	54.22	PP	0.70	0.70	0.64	2.97	2.97	3.22	3.24	3.39	3.32	3.55	3.43
Entergy	ETR	107.44	OP	0.48	0.49	0.76	6.42	6.35	6.73	6.74	7.21	7.21	7.71	7.71
Evergy	EVRG	59.64	OP	0.17	0.18	0.16	3.62	3.58	3.63	3.69	4.01	3.97	4.26	4.25
Eversource Energy	ES	79.74	OP	0.98	0.94	0.91	4.10	4.10	4.39	4.38	4.77	4.69	5.11	5.07
Exelon**	EXC	42.34	OP	0.42	0.46	0.44	2.25	2.26	2.33	2.36	2.51	2.52	2.76	2.74
FirstEnergy	FE	42.20	OP	0.50	0.52	0.51	2.42	2.44	2.50	2.49	2.65	2.68	2.83	2.85
Fortis*	FTS	41.76	UP	0.69	0.72	0.63	2.75	2.76	2.96	2.98	3.10	3.11	3.21	3.22
NextEra Energy	NEE	81.82	OP	0.46	0.50	0.41	2.86	2.88	3.09	3.10	3.38	3.39	3.64	3.66
NiSource	NI	27.21	OP	0.48	0.48	0.39	1.45	1.45	1.54	1.54	1.67	1.67	1.81	1.78
OGE Energy	OGE	38.36	PP	0.15	0.18	0.27	2.20	2.09	2.03	2.05	2.16	2.18	2.29	2.31
PG&E	PCG	15.65	OP	0.25	0.26	0.28	1.09	1.10	1.20	1.22	1.33	1.35	1.46	1.47
Pinnacle West	PNW	75.36	PP	(0.19)	(0.19)	0.24	4.29	4.27	3.95	4.16	4.60	4.60	4.80	4.80
Portland General	POR	46.50	PP	0.58	0.69	0.73	2.76	2.82	2.64	2.73	3.02	3.02	3.17	3.22
PPL Corp.	PPL	29.32	OP	0.28	0.28	0.22	1.40	1.41	1.59	1.59	1.72	1.71	1.85	1.83
PSEG	PEG	60.43	PP	0.65	0.62	0.69	3.48	3.46	3.46	3.47	3.65	3.76	4.10	4.13
Sempra Energy	SRE	157.99	OP	2.16	2.01	2.16	9.02	8.82	8.94	9.00	9.58	9.62	10.18	10.16
Southern Company	SO	67.12	OP	0.24	0.25	0.36	3.59	3.58	3.61	3.71	4.05	4.08	4.32	4.38
WEC Energy Group	WEC	93.08	PP	0.74	0.75	0.71	4.40	4.40	4.61	4.61	4.91	4.92	5.25	5.25
Xcel Energy	XEL	68.55	OP	0.69	0.67	0.58	3.17	3.16	3.36	3.38	3.61	3.61	3.84	3.82

Source: Wolfe Research Utilities & Power Research, FactSet; Prices are as of 1/20/23
*Estimates in $CAD
**CNP and EXC 4Q21 actuals are utility-only

Exhibit 2: Wolfe Research EBITDA Estimates vs. Consensus

				Q4 2022E		Q4 2021	2022E		2023E		2024E		2025E	
Company Name	**Ticker**	**Price**	**Rating**	**WR**	**Cons**	**Actual**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
Constellation Energy Corp.	CEG	$83.00	OP	$477	$561	N/A	$2,538	$2,597	$3,034	$3,155	$3,532	$3,480	N/A	$3,766
Clearway Energy	CWEN	33.26	OP	262	267	250	1,210	1,355	1,177	1,188	1,161	1,172	N/A	1,259
NextEra Energy Partners	NEP	74.25	OP	401	422	322	1,775	1,747	1,907	1,953	2,036	2,082	2,172	2,278
NRG Energy	NRG	32.21	PP	430	651	433	1,749	1,916	3,090	2,766	3,110	2,795	N/A	2,851
Vistra Energy	VST	21.85	OP	768	808	1,165	3,113	3,101	3,605	3,626	3,636	3,597	N/A	3,671

Source: Wolfe Research Utilities & Power Research, FactSet; Prices are as of 1/20/23

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Issuing 2023 Guidance – Wolfe Estimates vs. Consensus

Exhibit 3: Issuing 2023 Guidance – Wolfe Estimates vs. Consensus

	2023 Estimate	
Ticker	WR	Cons
AEE	$4.37	$4.34
AES	$1.77	$1.75
AGR	$2.13	$2.28
ED	$4.79	$4.82
EIX	$4.69	$4.78
ES	$4.39	$4.38
EVRG	$3.63	$3.69
EXC	$2.33	$2.36
FE	$2.50	$2.49
OGE	$2.03	$2.05
PNW	$3.95	$4.16
POR	$2.64	$2.73
SO	$3.61	$3.71
CEG	$3,034	$3,155

Source: Wolfe Research Utilities & Power Research
CEG uses EBITDA

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Wolfe Research Estimate Revisions

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

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

		2022E		2023E		2024E		2025E	
Company Name	Ticker	New	Prior	New	Prior	New	Prior	New	Prior
Con Edison	ED	N/A	N/A	$4.79	$4.77	$5.20	$5.08	$5.44	$5.30
Edison Int'l	EIX	N/A	N/A	$4.69	$4.72	$5.01	$5.07	$5.55	$5.65
Evergy	EVRG	$3.62	$3.57	$3.63	$3.72	N/A	N/A	N/A	N/A
Eversource Energy	ES	N/A	N/A	N/A	N/A	$4.77	$4.87	$5.11	$5.17
FirstEnergy	FE	N/A	N/A	$2.50	$2.43	$2.65	$2.62	$2.83	$2.80
Pinnacle West	PNW	N/A	N/A	$3.95	$4.15	N/A	N/A	N/A	N/A
Portland General	POR	$2.76	$2.85	$2.64	$2.72	$3.02	$3.08	$3.17	$3.25
PSEG	PEG	N/A	N/A	$3.46	$3.47	$3.65	$3.57	$4.10	$3.99
Sempra Energy	SRE	$9.02	$8.84	N/A	N/A	N/A	N/A	N/A	N/A

Source: Wolfe Research Utilities & Power Research

Exhibit 5: Wolfe Research EBITDA Estimate Revisions – IPPs and YieldCos

		2022E		2023E		2024E	
Company Name	Ticker	New	Prior	New	Prior	New	Prior
Constellation Energy Corp.	CEG	N/A	N/A	$3,034	$3,109	$3,532	$3,323
NRG Energy	NRG	$1,749	$1,960	$3,090	$3,120	$3,110	$3,140
Vistra Energy	VST	N/A	N/A	$3,605	$3,581	$3,636	$3,454

Source: Wolfe Research Utilities & Power Research

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Average Spot Prices

In Exhibit 6 below, we highlight the year over year change in the average spot power price in different regions. Spot prices were up substantially in every region compared to 4Q21. Most notably, spot prices out West were up 127-168%, led by Mid-C. PJM spot prices were up 23-34%, New England spot prices were up ~30%, and ERCOT spot prices were up ~28%, on average. This was largely driven by the spike in natural gas prices as spot gas averaged $6.10/MMBtu (a 26% YoY increase).

Exhibit 6: Average 7x24 Spot Prices

Northeast	Q422	Q421	% Change
Mass Hub	$75.40	$59.31	27%
Connecticut	74.02	56.92	30%
SE Mass	75.74	60.22	26%
NY Zone A	44.18	39.51	12%
NY Zone G	70.95	50.77	40%
NY Zone - J	72.47	52.31	39%
PJM West	66.35	53.94	23%
Pepco Zone	62.43	46.52	34%
Midwest	**Q422**	**Q421**	**% Change**
Cinergy	$60.24	$54.76	10%
NI Hub	49.71	42.99	16%
AD Hub	62.36	51.40	21%
South Central	**Q422**	**Q421**	**% Change**
ERCOT North	$48.05	$39.61	21%
ERCOT South	48.43	38.17	27%
ERCOT West	44.52	31.50	41%
ERCOT Houston	50.31	41.46	21%
West	**Q422**	**Q421**	**% Change**
Palo Verde	$139.90	$53.25	163%
NP 15	142.25	62.54	127%
SP 15	134.30	58.12	131%
Mid-Columbia	143.76	53.54	168%
Natural Gas	**$6.10**	**$4.82**	**26%**

Source: Wolfe Utilities & Power Research, SNL

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WOLFE RESEARCH

January 22, 2023

Wolfe Research Prices vs. Market Prices

We've revised our power price deck to reflect the latest moves in forwards. This is our first update in several quarters. Our prior commodity assumptions had become above current market in 2023, but still below current market in 2024. So while commodities have rolled over hard in recent weeks, much of the pressure was on the front-end of the curve, where the companies are close to fully-hedged. Further out in time, we had been using conservative assumptions and now see upward estimate revisions. Our latest estimates for the generators now effectively reflect a mark-to-market as of early-January. Since then there has been more declines in pricing.

Exhibit 7: Wolfe 7x24 power price estimates

	2022	2023	2024
PJM West	$60.99	$50.51	$54.53
PJM East	$61.88	$48.51	$52.53
NEPOOL	$78.35	$71.49	$81.09
NY Zone A	$51.93	$33.71	$35.52
NY Zone G	$55.92	$59.47	$68.90
NY Zone J	$66.36	$63.44	$72.83
A/D Hub	$60.80	$48.07	$50.58
NI Hub	$54.62	$41.93	$43.86
Indiana Hub	$61.23	$51.10	$54.52
ERCOT (Houston)	$57.37	$50.67	$48.60
ERCOT (South)	$52.82	$43.97	$41.87
ERCOT (North)	$54.05	$45.86	$44.04
ERCOT (West)	$47.27	$38.98	$37.50
NP-15	$66.79	$99.60	$85.33
SP-15	$66.41	$96.38	$79.37
Mid-C	$54.97	$98.54	$94.22
Palo Verde	$73.61	$102.69	$88.89
Nymex Gas ($/Mcf)	$5.90	$3.76	$4.01
CAPP Coal ($/ton)	$90.00	$125.00	$125.00
PRB Coal ($/ton)	$16.00	$15.00	$15.00

Source: Platts, Wolfe Research Utilities & Power Research

Exhibit 8: Market 7x24 power price estimates

	2022	2023	2024
PJM West	$72.59	$49.33	$51.38
PJM East	$73.59	$47.33	$49.38
NEPOOL	$91.78	$66.75	$73.63
NY Zone A	$69.45	$33.07	$34.37
NY Zone G	$50.08	$56.04	$62.82
NY Zone J	$84.68	$60.05	$66.77
A/D Hub	$71.94	$47.20	$47.85
NI Hub	$66.20	$41.09	$41.63
Indiana Hub	$73.50	$49.85	$51.61
ERCOT (Houston)	$64.36	$52.04	$48.59
ERCOT (South)	$58.05	$45.30	$42.58
ERCOT (North)	$59.82	$47.19	$44.68
ERCOT (West)	$55.21	$40.47	$38.59
NP-15	$80.14	$105.90	$84.42
SP-15	$74.33	$103.80	$78.90
Mid-C	$55.92	$106.25	$92.98
Palo Verde	$78.75	$113.04	$91.04
Nymex Gas ($/Mcf)	$6.42	$3.68	$4.05
CAPP Coal ($/ton)	$90.00	$90.00	$90.00
PRB Coal ($/ton)	$16.00	$16.00	$16.00

Source: Platts, Wolfe Research Utilities & Power Research

Exhibit 9: Market 7x24 vs. Wolfe 7x24

	2022	2023	2024
PJM West	16.0%	(2.4%)	(6.1%)
PJM East	15.9%	(2.5%)	(6.4%)
NEPOOL	14.6%	(7.1%)	(10.1%)
NY Zone A	25.2%	(1.9%)	(3.4%)
NY Zone G	(11.7%)	(6.1%)	(9.7%)
NY Zone J	21.6%	(5.6%)	(9.1%)
A/D Hub	15.5%	(1.8%)	(5.7%)
NI Hub	17.5%	(2.1%)	(5.4%)
Indiana Hub	16.7%	(2.5%)	(5.6%)
ERCOT (Houston)	10.9%	2.6%	(0.0%)
ERCOT (South)	9.0%	2.9%	1.7%
ERCOT (North)	9.6%	2.8%	1.4%
ERCOT (West)	14.4%	3.7%	2.8%
NP-15	16.7%	6.0%	(1.1%)
SP-15	10.7%	7.1%	(0.6%)
Mid-C	1.7%	7.3%	(1.3%)
Palo Verde	6.5%	9.2%	2.4%
Nymex Gas ($/Mcf)	8.1%	(2.2%)	0.8%
CAPP Coal ($/ton)	0.0%	(38.9%)	(38.9%)
PRB Coal ($/ton)	0.0%	6.3%	6.3%

Source: Platts, Wolfe Research Utilities & Power Research

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WOLFE RESEARCH

January 22, 2023

Market Power Prices (09/30/22 vs. 12/31/22)

In Exhibits 10-12, we show market 7x24 power and commodity prices at September 30, 2022 and December 31, 2022. 2022/2023 contracts were down significantly in most regions, whereas 2024 contracts were more flattish vs. 9/30 marks. The West was a notable exception rising over 30-40%. For 2023, Midwest contracts were down 19-23%, PJM contracts were down 17-18%, ERCOT contracts were down 13-17%, and NY contracts were down 12-13%. Contracts out West were up over 40%. For 2024, ERCOT contracts were down 3-7% and PJM contracts were flattish, while contracts out West were up over 30%.

Exhibit 10: 09/30/22 Market 7x24

	2022	2023	2024
PJM West	$75.73	$75.61	$58.29
PJM East	$76.73	$76.61	$59.29
NEPOOL	$96.41	$115.22	$92.62
NY Zone A	$68.24	$47.74	$38.87
NY Zone G	$57.32	$88.36	$73.35
NY Zone J	$86.91	$92.84	$77.79
A/D Hub	$66.42	$72.09	$54.62
NI Hub	$64.06	$65.15	$48.09
Indiana Hub	$74.70	$75.24	$57.96
ERCOT (Houston)	$68.91	$66.51	$55.73
ERCOT (South)	$60.50	$55.59	$45.29
ERCOT (North)	$62.67	$59.25	$49.28
ERCOT (West)	$56.53	$51.34	$41.52
NP-15	$75.70	$82.15	$65.84
SP-15	$70.80	$78.35	$62.70
Mid-C	$52.14	$82.89	$70.08
Palo Verde	$73.38	$87.74	$71.28
Nymex Gas ($/Mcf)	$6.65	$5.41	$4.71
CAPP Coal ($/ton)	$204.95	$204.95	$204.95
PRB Coal ($/ton)	$16.25	$16.25	$16.25

Source: Wolfe Utilities & Power Research, Platts

Exhibit 11: 12/31/22 Market 7x24

	2022	2023	2024
PJM West	$72.59	$62.25	$58.49
PJM East	$73.59	$63.25	$59.49
NEPOOL	$91.78	$92.43	$88.90
NY Zone A	$69.45	$41.39	$38.94
NY Zone G	$50.08	$76.80	$75.61
NY Zone J	$84.68	$81.85	$79.59
A/D Hub	$71.94	$58.32	$54.19
NI Hub	$66.20	$50.32	$47.58
Indiana Hub	$73.50	$60.55	$58.12
ERCOT (Houston)	$64.36	$55.53	$51.82
ERCOT (South)	$58.05	$48.32	$43.84
ERCOT (North)	$59.82	$50.73	$46.40
ERCOT (West)	$55.21	$43.50	$39.04
NP-15	$80.14	$118.29	$86.95
SP-15	$74.33	$109.98	$81.26
Mid-C	$55.92	$119.48	$95.57
Palo Verde	$78.75	$124.06	$93.47
Nymex Gas ($/Mcf)	$6.42	$4.24	$4.26
CAPP Coal ($/ton)	$205.55	$205.55	$205.55
PRB Coal ($/ton)	$15.55	$15.55	$15.55

Source: Wolfe Utilities & Power Research, Platts

Exhibit 12: 09/30/22 vs. 12/31/22 Market 7x24

	2022	2023	2024
PJM West	(4.1%)	(17.7%)	0.3%
PJM East	(4.1%)	(17.4%)	0.3%
NEPOOL	(4.8%)	(19.8%)	(4.0%)
NY Zone A	1.8%	(13.3%)	0.2%
NY Zone G	(12.6%)	(13.1%)	3.1%
NY Zone J	(2.6%)	(11.8%)	2.3%
A/D Hub	8.3%	(19.1%)	(0.8%)
NI Hub	3.3%	(22.8%)	(1.1%)
Indiana Hub	(1.6%)	(19.5%)	0.3%
ERCOT (Houston)	(6.6%)	(16.5%)	(7.0%)
ERCOT (South)	(4.1%)	(13.1%)	(3.2%)
ERCOT (North)	(4.5%)	(14.4%)	(5.8%)
ERCOT (West)	(2.3%)	(15.3%)	(6.0%)
NP-15	5.9%	44.0%	32.1%
SP-15	5.0%	40.4%	29.6%
Mid-C	7.3%	44.1%	36.4%
Palo Verde	7.3%	41.4%	31.1%
Nymex Gas ($/Mcf)	(3.4%)	(21.6%)	(9.6%)
CAPP Coal ($/ton)	0.3%	0.3%	0.3%
PRB Coal ($/ton)	(4.3%)	(4.3%)	(4.3%)

Source: Wolfe Utilities & Power Research, Platts

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Earnings Call Calendar

Below, we have provided the 4th quarter 2022 earnings call calendar for companies in our coverage universe. Please note all times are in Eastern Daylight Time.

January 2023

Monday	Tuesday	Wednesday	Thursday	Friday
23 11:00am: Utilities & Midstream Q4 Earnings Preview Webcast	24	25 9am: NEE/NEP	26 10am: XEL	27
30	31			

February 2023

Monday	Tuesday	Wednesday	Thursday	Friday
		1	2 9:30am: CMS 2pm: WEC	3
6	7	8 10am: D	9 10am: DUK	10 8:30am: FTS
13	14 10am: EXC 11am: FE	15	16 9am: AWK (tent.) 10am: AEE 11am: ETR, POR 1pm: SO 4:30pm: ED* (tent.)	17 8am: CNP 11am: PPL (tent.)
20	21	22 10am: AGR	23 9am: AEP, DTE, OGE (tent.) 11am: PCG	24 8:30am: EMA 10am: LNT
27	28			

*No earnings call; **AES, CEG, CWEN, EIX, ES, EVRG, NI, NRG, PEG, PNW, SRE, VST have not announced its earnings call dates yet

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WOLFE RESEARCH

January 22, 2023

Highlights and Lowlights

AEE: Busy year on all fronts but expecting in line call

- We estimate 2022 EPS of $4.08, in line with consensus. We expect AEE to introduce 2023 guidance with a midpoint of ~$4.35 in line with consensus of $4.34 and our $4.37e.
- Other new disclosures that we expect are 2023-27 capital plan, financing plan and EPS growth. We also expect an update on AEE's pending regulatory proceedings: MO rate case, MO renewables CCNs, IL electric rate case, and IL gas rate case.
- We think AEE will extend its 6-8% EPS growth target off 2023 guidance through 2027, and like last year we anticipate it will exclude incremental MO renewables and potentially MISO transmission.
- Upside to capital plan: AEE tends to wait until large projects receive regulatory approval before including them in its capital plan; AEE was awarded $1.8B of MISO transmission projects for in-service late this decade, but even brownfield projects require regulatory approval. Another $700M up for competitive bids in AEE's region is likely to occur in stages and take about a year to determine the winners.
- MO rate case: It is in the middle innings, and AEE has settled the past three cases, mostly before hearings start (in this case 4/3). We will be watching for another settlement, particularly as the MoPSC has one vacancy (Chair Silvey left). We think a deal reduces the uncertainty around a fully litigated case with only four commissioners.
- MO renewables: Two announced new renewables projects are awaiting approvals, and more are expected. AEE has settled past CCNs for renewables projects, as it strived to meet state compliance. Starting with one of the pending projects (150 MW Boomtown), AEE's proposed renewables are expected to be for fleet transition as opposed to compliance. We will be watching for a settlement ahead of hearings next month, following Staff recommendation that the 150 MW project is not needed; other intervenors supported AEE.
- IL rate cases: AEE will be in its first 4-year electric rate case in IL this year; it's in the very early innings, with a decision expected in Dec for rates effective in 2024. And AEE filed a gas rate case in IL earlier this month. Collectively, IL elec and gas distribution make up ~25% of AEE.

AEP: Key updates on KY and Contracted Renewables sales

- We estimate 2022 EPS of $5.02, in line with consensus. We anticipate AEP reaffirm 2023 guidance of $5.19-5.39. Our 2023E is $5.30 is in line with consensus.
- We expect AEP to reaffirm its long-term EPS growth target of 6-7% and 5yr capital and financing plans.
- KY Power sale: AEP and Algonquin are expected to refile with FERC for approval to sell KY Power to AQN, after the regulator rejected the deal on 12/16 for not showing customer benefits. The parties reaffirmed their commitment to closing the deal earlier this month and will seek expedited treatment at FERC, which currently has four commissioners (two of whom suggested in Dec they would have conditionally approved the deal). The 18-month deal close deadline is 4/26, but that could be extended. AEP's financing plan has $1.2B of KY Power proceeds.
- Contracted Renewables sale: AEP has indicated it will announce a deal for its Contracted Renewables portfolio by the time of its call (2/23), with closing sometime in 2Q23. AEP previously said it was getting "great" interest on the portfolio, despite market volatility. The proceeds are not in AEP's financing plan and would help mitigate the loss of KY Power proceeds in the event that deal falls through.

AES: Solid 2023 outlook with increasing renewables PPAs/CODs

- We see 2022 EPS of $1.65 – in-line with consensus and at the top-end of $1.55-1.65 guidance, which is where AES is pointing. We expect Q4 to be driven by new renewable investments, the AES Andes buy-in, and in improvement in AES Next results (Fluence); partially offset by taxes and absence of a one-time gain at Alto Maipo.
- AES is expected to issue 2023 guidance on the call – our estimate is $1.77 and just above $1.75 consensus. Our estimate reflects a 7% CAGR off the 2020 base and thus is at the low-end of AES' 7-

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9% target. We expect 2023 to be driven by a big step-up in renewables commissioning (PTC/ITCs) and U.S. utility rate base growth; partially offset by coal asset sales, the absence of the Panama LNG sales which were a big tailwind in 2022 (AES doesn't assume this going forward), and equity convert dilution.

- There's been a lot of focus on AES' 7-9% long-term growth outlook that currently covers 2020-2025. This was last refreshed at the March 2021 Analyst Day. Our sense is AES could follow this practice again, rather than addressing it on the year-end call. We believe the 7-9% can ultimately be extended beyond 2025.
- We see AES as well on track to hit its renewable backlog target of 4.5-5.5 GW for 2022. As of Q3, this stood at 3.2 GWs, but we already know there was a publicly disclosed 1 GW PPA signing in Chile in Q4. AES continues to work through industry-wide supply chain challenges, with all panels secured for last year's renewables CODs. UFLPA has been a challenge too, but is being managed. We think AES will target *at least* 4.5-5.5 GWs of PPA signing annually going forward.
- Obviously the big news in December was AES' massive hydrogen announcement with Air Products. We'll be interested to learn more about this, as well as other potential hydrogen opportunities in the hopper (Chile, Brazil, U.S. hydrogen hub involvement).
- AES is also working through its asset sale process. Last year, AES announced sales in Vietnam (Mong Duong 2) and Jordan (Amman East & IPP4) that accounted for $350-400M of its $500M target. However, neither actually closed by YE, so we will be curious to get an update on the call. It is possible we could also get more details on the full coal exit, which AES has committed to by YE25.

AGR: Unclear how 2023 guide factors in PNM; offshore wind news flow remains messy

- We estimate 2022 EPS of $2.32 – slightly above consensus and the midpoint of $2.20-2.38 guidance. We see Q4 driven by rate relief in New York and new renewables resources online; offset by depreciation and absence of a $10M one-time benefit from Winter Storm Uri last year. We've yet to see wind performance data for Q4, but last year saw a 28.6% capacity factor versus 29.7% under normal conditions.
- We forecast 2023E at $2.13 ex-PNM and $2.41 w/ PNM. We expect AGR to issue 2023 guidance, after at the Fall Analyst Day it indicated the range should be similar to 2022 (~$2.20-2.40). Our understanding is that was given with several assumptions – half-year contribution from PNM (we estimate ~$0.27), a one-time gain on selling the Kitty Hawk offshore wind lease (we estimate ~$0.20), and new rates in effect across NY/ME/CT. The primary headwind is the absence of a $0.47 accounting gain that was booked in 1Q22.
- Speaking of PNM, we now have 3 Governor-appointed commissioners in place at the NM PRC. At the same time the case remains pending at the NM Supreme Court, with hearings expected to begin this month. Given support for the merger from both Governor Grisham and nearly all of the parties, we still think there is a more likely than not chance that this deal ultimately closes.
- On the regulatory side, AGR remains in pending rate cases across NY/ME/CT. Both ME/CT saw relatively reasonable Staff recommendations in December. Focus remains on New York though (50%+ of rate base), where AGR is in settlement discussions, though some parties have filed that an agreement was not imminent. On the flip side, we saw Staff testimony in NY as relatively reasonable.
- Offshore wind news flow, particularly in Massachusetts, has remained noisy. AGR was unable to renegotiate its contracts and was disappointed to see the DPU approve them as is. At worst, AGR is on the hook for $48M in letters of credit. The plan is to re-bid in an April RFP, as AGR is committed to the business. Meanwhile, others in the sector continue to exit (PEG, ES).

AWK: MO/CA rate cases pending, with a large equity issuance on the horizon

- We see FY22 EPS of $4.49 (excluding a $0.06 weather benefit in Q3), which is above consensus at $4.45 and at the top-end of AWK's $4.39-4.49 weather-normalized guidance range. We project YoY results in Q4 to be flat, as traditional rate relief/rider mechanisms and interest income from the seller's note/revenue share from HOS are offset by inflationary pressures/higher O&M, D&A, property taxes, interest expense as well as loss of earnings from the sales of HOS ($0.07) & the NY subsidiary ($0.02).

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- Our expectation is that AWK will re-affirm its 2023 guidance range of $4.72-4.82. Our 2023E of $4.78 is in-line with consensus at $4.77 and implies ~7.7% growth off weather-adjusted 2022 guidance midpoint of $4.44. We will be watching for mgmt.'s commentary on cost inflation/interest rates, which are expected to drive a $0.25-0.29 headwind in 2023, over 75% of which is expected to be mitigated by regulatory solutions – AWK has pension trackers in MO/CA, a 2-year deferral in NJ, and updated pension/OPEB, chemical & fuel/power cost estimates in PA/IL after the conclusion of recent rate cases.
- We do not expect any significant updates to the capital plan given that a complete refresh was provided at Q3. However, on equity needs, we will be curious to see if AWK discloses any specifics on size, form (whether a forward component is included or not), valuation/pricing, or timing. Mgmt. has pointed to >$1B of equity issuance around mid-year, likely as a block or single-issue, with incremental debt/equity financing being a $0.20-0.22 drag in 2023.
- AWK has rate cases pending in MO (3rd largest jurisdiction, ~13% of rate base) and CA (<5% of rate base, cost of capital is not in the scope). In Nov., MO PSC Staff recommended a reasonable ~$57M rate hike/9.73% ROE, but disappointing parent capital structure of ~41% equity. Rebuttal testimony was filed on Jan. 18th, with hearings to be held in Feb. and an outcome expected by the end of 2Q23. It is still early in the CA rate case, but it will be important to see if CalAm is able to renew decoupling for 2024-26 under the new water revenue adjustment mechanisms implemented by SB 1469.
- Other items we are monitoring include: (i) EPA's impending rulemaking on PFAS and potential water quality accountability/safety legislations in states across AWK's footprint; (ii) MSG's two outstanding bids, with one contract expected to be awarded in 2023; and (iii) CalAm's re-hearing request to recover infrastructure costs for Pure Water Monterey project expansion after the CPUC's recent decision to delay recovery of supporting investments and change capital structures for project development.

CEG: 2023 EBITDA, 2024 gross margins, PTC value

- We estimate 2022 EBITDA of $2,538M, below consensus of $2,597 but closer to the midpoint of CEG's revised $2,450-2,650M.
- We believe CEG will introduce FY23 EBITDA guidance with a midpoint of $3.10B using YE22 marks. That would be slightly below consensus of $3.16B but above our updated $3.03B; the latter is using our deck that is close to mid-Jan 2023 market prices, which are below prices at YE22. CEG was about 90% hedged for 2023, as of 9/30/22.
- 2024 disclosures: For 2024, CEG will not give EBITDA guidance but will roll-forward gross margins and hedges to 2024. CEG is also expected to update its O&M outlook through at least 2024, which likely will be higher than the flattish 2024 O&M disclosed last Jan. From those new disclosures, a rough 2024 EBITDA could be implied by adding the net of the YoY increase in gross margins and O&M for 2024. Our new 2024 EBITDA estimate is $3,532 (from $3,323), using our price deck, which is now about in line with current market compared to well-below market previously. It also includes our estimate of PTC value.
- PTC value: We anticipate CEG to provide an estimate of nuclear PTC value in 2024, despite the IRS guidelines yet to be issued. Based on YE22 marks and assuming 2024 hedge prices are consistent with 2023, we estimate ~$135M of PTC value (all from CEG's LaSalle nuclear in IL). Given declining power prices since YE22, we see that PTC value at ~$175M using latest mark-to-market. We will be watching for any sense of PTC "floor-price" EBITDA, though we do not anticipate a number.
- Capital allocation likely to be focused on 2022-23 free cash flow: CEG's capital allocation update was delayed on the potential for nuclear M&A. While a deal remains possible, our base case is CEG will announce its capital allocation for the 2022-23 free cash flow, which is likely more than the ~$2B targeted last Jan. We think CEG will do a mix of buybacks, higher dividend growth and investment in growth opportunities, namely hydrogen and uprates. We anticipate a commercial deal on hydrogen to be announced sometime in 1H23 but likely after the YE call.
- M&A: CEG has expressed interest in any existing nuclear assets up for sale, which at this point is now only Energy Harbor's nuclear portfolio. We believe the process is nearing an end, but CEG is not the only interested party. We discussed nuclear consolidation last fall (note). Notably, CEG has an IG B/S and is on positive outlook, with even S&P saying it would look past any temporary high leverage for M&A given CEG's long-term cash flow projections and business risk profile.

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- Below we show our estimates of CEG 2022-23 margins as of 12/31/22 vs those using 9/30/22 pricing (CEG only provides margins 2022-23). CEG is almost entirely hedged in 2022. For 2023, when CEG is ~10% open (ex CMCs), prices fell ~17-22% in NiHub/PJM 12/31 from 9/30.

Wolfe Projected CEG Total and Open Gross Margin		
	2022	2023
12/31/2022		
Total Gross Margin Est	7,350	8,150
Open Gross Margin Est	10,100	7,000
	-	-
9/30/2022		
Total Gross Margin	7,350	8,250
Open Gross Margin	9,750	8,500

CMS: Completing the settlement trifecta

- We forecast 2022 EPS at $2.88 – in-line with consensus and $2.87-2.89 guidance, where CMS pointed to the midpoint. We see Q4 driven by favorable weather, gas rate relief and the absence of storms; partially offset by cost pull-aheads and one-time bill credits booked as part of the electric rate settlement.
- We expect CMS to re-base its 6-8% EPS CAGR off 2022A, though if the year finishes at the midpoint that doesn't change much. CMS will likely reaffirm 2023 guidance of $3.05-3.11 or tweak it up a penny.
- CMS closed out a highly successful year on the regulatory front in 2022. It settled its Integrated Resource Plan, gas rate case, and electric rate case. The electric rate settlement was just approved last week, which was encouraging to see after in-state peer DTE's electric rate case was fully litigated and had an unfavorable outcome in November. CMS will be back in for electric and gas rate cases this year as well.
- As is typical, CMS will refresh its five-year capex plan. This will be moving up from the current $14.3B, as it will include the $800M Covert plant. This should support continued rate base growth of 7%
- We'll also get an updated view on cash flows and credit. We expect CMS to continue targeting FFO/Debt of 14-15%. CMS already did $493M in equity last year ($438M for Covert) via forward. There are no additional needs in 2023-2024, before equity returns to $250M/year in 2025-2026. We expect CMS to extend this out to 2027, where it could move up to $300-350M, commensurate with the capex plan. all of this should continue to be doable under the ATM program.

CNP: Texas regulatory and legislative session the focus early on

- We forecast FY22 EPS of $1.38, which is in-line with consensus and at the midpoint of CNP's 1.37-1.39 range. We think 2022 finished on track with some weather favorability in Q4 at CEHE.
- We expect CNP to reaffirm its 2023 guidance of $1.48-1.50. Our 2023E of $1.49 matches consensus. We don't expect CNP to make any material updates to its capex plan, which was just refreshed at Q3.
- It will be a busy year for CNP on the regulatory front. The rate case cadence will be as follows – TX gas, Indiana Electric and CEHE (though could be filed early 2024). Houston Electric is the overwhelming focus and we will be watching the outcome of Oncor's case closely for potential readthroughs. The next data point will be exceptions to the ALJ report due 1/24 and then case is tentatively scheduled be in front of the PUCT at the Feb 15-16 meeting. We note that CNP's outlook assumes ROE/equity ratio that were in-line with Staff's recommendation for Oncor.
- TX's 2023 legislative session will also be something to watch as CNP is likely to pursue two impactful bills 1) getting equity ratios that are set based on actual levels; and 2) the ability to file two distribution cost recovery factor (DCRF) applications each year (similar to TCOS). The DCRF legislation is expected to be less controversial given that the industrials aren't impacted by distro charges. TX's legislative session has already convened and runs through the end of May.

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- Other items that we will look for an update on include CNP's on-going CFO search and what is causing the hold up for getting TX securitization proceeds. On the former, it is possible a candidate could be identified by the Q4 call. On the latter, CNP was supposed to have the ~$1B of proceeds by YE22 but obviously that timeline slipped. However, we don't believe this to be any cause for concern.

CWEN: Should be uneventful quarter; Focused on next round of growth, CFO plans, and California energy margins

- **Expecting uneventful quarter.** We forecast 4Q22 EBITDA and CAFD of $262M and $22M, respectively, which is consistent with FY 2022 guidance although EBITDA would be modestly below consensus. We're not aware of any factors that would cause 2022 results to be materially off plan vs. the updated guidance in November.
- **Key topics.** It's possible CWEN has more details on the potential next $220M drop-down offer from the sponsors – we'd be curious if that is also done at the more constructive 9.5% CAFD yield that the most recent drop-down was offered at. We're still waiting on a new CFO announcement as the process has taken longer than initially expected. Lastly, California power prices and forwards have been very high and volatile alongside natural gas supply constraints. We're curious how this may impact CWEN's gas assets which transition this summer to having energy market exposure on top of the fixed capacity payments.

D: "No comment"

- Our FY22 estimate of $4.11 matches consensus and is just above the midpoint of D's range. We see Q4 finishing mostly in-line with D's plan. Positive drivers include the absence of a Millstone outage, rider investments and tax timing. Partial offsets include higher interest expense and share dilution.
- We do not expect D to provide 2023 guidance. This is due to its pending business review, the outcome of which, will have a material impact to the earnings power of the company in 2023 and onward. We don't expect D to comment on any pending legislation in Virginia. And without full clarity in Virginia, D won't be in a position to discuss any other strategic actions either. That said, we should have a decent idea of what the big regulatory bill looks like by the time of the earnings call on 2/8 (the day prior is the crossover date at the Virginia legislature).
- There is another piece of legislation pending would provide D with the option of pursuing an equity financing partner for the Costal Virginia Offshore Wind project. We don't expect to hear much from D on this either. But assuming it were to pass, we like the strategy as it helps address one of our key concerns for D's stock (large project risk) once it gets on the other side of its business review.
- A key variable of where D's earnings will shake out in 2025 is the extent of balance sheet repair that it will undertake following the Virginia giveback. In our talks with investors, expectations are all over the place – some think 14-15% FFO/D, others think 16%. Our $4.05E in 2025 targets 15.5%, so we think D will err on the side of having ample cushion above its 14% downgrade threshold to set itself up for the long term.

DTE: Managing through the rate case headwind

- We forecast 2022 EPS at $6.01 – in-line with consensus and the midpoint of $5.90-6.10 guidance. We expect Q4 to be driven by favorable weather, electric deferrals/refund absence, and less corporate drag; partially offset by the REF roll-off at Vantage and an unwind at Trading from some outsized timing benefits in Q1.
- DTE already issued 2023 guidance of $6.09-6.40 at EEI. This reflected 7.0% growth off original 2022 guidance, with our estimate and consensus being in-line. We don't see any changes here.
- The big investor focus will be how DTE manages through the year following a disappointing electric rate case outcome shortly after EEI. DTE was unable to settle and got a final rate hike that was less than 10% of its ask and below both Staff and the ALJ. A large portion of the delta came down to a dispute over post-COVID sales growth assumptions. DTE has since filed for rehearing, asking for the ALJ recommendation to be adopted, and committing to voluntary customer refunds for any incremental sales realized. DTE is not counting on a successful rehearing, but we expect an MI PSC decision before its

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earnings call. The good news is that we believe DTE has enough levers to pull in order to offset the headwind – pointing to its COVID cost cutting playbook. We were also encouraged by in-state peer CMS' electric rate case settlement that was just approved unanimously – helping to restore faith that Michigan remains a premium jurisdiction.

- The other pending item for DTE is its Integrated Resource Plan filing that was made back in November. The next data point will be Staff/Intervenor testimony on March 9. DTE is hoping to settle, with its plan featuring robust renewables additions and an acceleration in exiting coal.

DUK: Update on Comm Renewables sale, key NC rate cases

- We estimate 2022 EPS of $5.24, modestly below consensus. We expect DUK to affirm 2023 guidance of $5.55-5.75; our estimate is $5.62 vs consensus of $5.67. We think DUK will affirm its 5-7% EPS growth target.
- Other disclosures include detailed 5yr capital plan and rate base forecasts. But the over 5yr and 10yr capital plans were previously disclosed.
- CR sale: The key update will be on DUK's CR sale, with a buyer/price expected to be announced in 1Q23. DUK said CR's book value is ~$4B (including $1B of tax attributes). Proceeds are expected to reduce debt and avert equity needs through 2027, both of which are reflected in DUK's EPS growth outlook.
- Interest rates and O&M: Last fall, DUK pointed to interest rates and inflation when it upsized O&M cuts to $300M from $200M. We will be watching for an update on the O&M reduction program and interest rate sensitivity (100bp = $0.12 in 2022).
- NC rate cases, Carbon Plan and Holiday outages: The main focus this year will be on two NC rate cases – the first under a 2021 utility law that introduced multiyear plans and ROE bands; intervenor testimony in the first one (DEP) expected on 3/27. This will also be the first investor call since the NCUC issued an order on the Carbon Plan, which includes an update filing this Sep and will be revisited every two years. It also will be the first call since the Christmas Eve outages in NC, which the company told regulators was caused by faster than expected demand during extreme weather and unanticipated resource shortfalls.

ED: CECONY settlement close; more clarity on use of CEBs' sale proceeds & equity needs

- We project FY22 EPS of $4.55, which is in-line with consensus at $4.54 and at the midpoint of ED's $4.50-4.60 guidance that was raised in Q3. We see YoY results in Q4 down $0.19, driven by the reversal of a big one-time benefit from the recovery of late payment fees foregone due to COVID in 4Q21, higher property taxes, O&M, D&A, interest expense, storm-related costs, and share dilution. Partial offsets include rate relief, positive incentives/EAMs, and more favorable weather vs. 4Q21.
- ED will provide 2023 guidance along with its Q4/YE earnings release. We are raising our 2023E by $0.02 to $4.79, reflecting accretion from the use of proceeds net of earnings lost from CEBs' sale, which we assume closes by Q1-end (expected in 1H23). We use ~$1B for HoldCo debt repayment and ~$1.8B to implement a buyback at $100/sh. by mid-year. Our new 2023E is slightly below current consensus at $4.82. Our 2024-25E move higher by $0.12/$0.14 to $5.20/$5.44 after fully implementing use of proceeds and removing CEBs' earnings from our model vs. conducting net accretion/dilution analysis previously; every $5 increase in repurchase price is ~$0.01 less accretive in the outyears. We expect ED to re-affirm its L-T 5-7% EPS CAGR off a new base year – the midpoint of its 2023 guidance range (our 2025E implies a CAGR of ~6.5% off our new 2023E).
- ED will provide equity needs for 2023-25 and likely more clarity on use of proceeds from CEBs' sale. Based on the $3.7B midpoint of net cash proceeds from CEBs' sale and with $450M of equity needs mitigated in 2022, if ED foregoes another $375M (half of prev. $750M block equity guide in aggregate over 2023-24) and repays $1.05B of parent debt, $1,825M is available for repurchases. Alternatively, if ED pre-funds its 2024 block equity needs, we estimate that the buyback size reduces to $1,450M.
- In late-Dec., ED informed the ALJs in CECONY's electric/gas rate cases that it is *"very close to an agreement"*, with settlement negotiations continuing to resolve a few remaining issues. Our estimates assume that CECONY is only able to earn ~30bps below its currently allowed 8.8% ROE, but Staff's

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8.8% recommendation and the 45bps multi-year stayout premium in O&R's most recent settlement indicate upside potential – every 10bps of ROE at CECONY is ~$0.05-0.06 of EPS. In the Steam rate case, CECONY is scheduled to file an update on Feb. 10th and Staff is set to file testimony on Mar. 24th. Securing a de-coupling mechanism is key, as ED's energy efficiency initiatives have led to declining Steam sales, even on weather-normalized basis.

- ED will also roll forward its capex plan through 2025. Most of the plan is already known given CECONY's electric/gas and steam rate cases; for O&R, we currently assume that 2025 capex is similar to 2024 levels. Our sense is that there are incremental investment opportunities at CECONY from $4.1B of proposed Phase 2 transmission projects, including the ~$1B Brooklyn Clean Energy Hub, and at CET from the Propel NY proposal. In Dec., CECONY filed a $810M scalable reliability proposal, requesting the NY PSC to approve either the original hub design or the alternative version by its Mar. 16th session.

EIX: Interest rates pressure easing but ROE cut weigh on 2023, 5-7% growth target

- We estimate 2022 EPS of $4.56, near consensus. We expect EIX to introduce 2023 guidance with a midpoint around $4.70, missing $4.78 consensus but in-line with our now-lower $4.69E (about $0.03 below our previous estimate). Our estimates assume the 25bp ROE cut approved last month.
- We expect an update to 2025 guidance and updated capital plan through 2025, though we do not believe the latter will change much.
- Reducing 2023-25E: We cut 2023-25E to $4.69/5.01/5.55 from $4.72/5.07/5.65, mostly reflecting the 25bp ROE cut. Previously, we only had about half of the ~$0.11 hit to 2023 from the ROE cut (no hit to 2024-25), assuming some offsets. But we see operational variances in 2023 roughly flattish to those in 2022, then rising in 2024 and in line with those assumed by EIX for 2025. Our 2024-25E now assume the 25bp ROE cut. Our estimates still assume the previously identified refinancing risk of low-cost debt maturities related to 2017/18 wildfire damages through 2025.
- We see low end of 2025 guidance: On 2025 guidance, a few things to consider are interest rates have moderated since last Nov, modestly less dilution as price of new issuances are higher, and the 2025 allowed ROE could be higher if the cost of capital mechanism is triggered. But we still see 2025E near the lower end of EIX's guidance of $5.50-5.90, as we do not expect EIX to assume ROEs rise. Every 10bp = $0.05 in 2025.
- Wildfire damages: EIX tends to update its 2017-18 wildfire damages estimate every quarter. The last update was a sizeable increase to $8.8B from $7.9B, as of 9/30/22, which was disappointing. EIX indicated the number could still be updated. EIX plans to seek recovery of ~$6B by the end of 2023. No recovery is assumed in EIX's outlook or our estimates. On wildfire risk, EIX received approval of its annual safety certificate for the upcoming wildfire season.
- Equity and B/S: EIX had initially projected $300-400M of equity or equity-like content in 2022. But around $100M of that was tied to the purchase of a storage project being built by Ameresco, which has been delayed to 2023. We believe EIX did not issue equity last year beyond DRIP (~$100M) given the delay and weak share price. This year, we think EIX could issue ~$400-500M, which is above the $200-300M expected annually given Ameresco and a higher share price. EIX points the rating agencies' 15-17% FFO/Debt.

EMA: Not expecting much ahead of Analyst Day

- We forecast FY22 EPS of C$2.97 which is in-line with consensus. We see several puts in takes in Q4. To the positive, we expect better performance at Emera Energy, favorable weather in FL, and a much better FX rate (1.35 vs 1.26). To the negative, reversal of positive FX/LTIP hedges from 4Q21, warmer than normal weather in Nova Scotia, and higher interest costs at the parent.
- EMA does not provide annual EPS guidance. Our 2023E of C3.22 is a touch below consensus at C$3.24. Our estimate implies 8.5% EPS growth YoY driven by TECO's second step increase, new rates at NM gas and continued customer growth at People's Gas. Partial offsets include share dilution and regulatory lag at Nova Scotia Power. We assume a FX rate of 1.30, consistent with EMA's guidance at Q3. Every 0.01 in FX is worth C$0.02 of EPS on an annualized basis.
- EMA has plans to hold an Analyst Day on 3/2 which is just a few days after it reports Q4 results on 2/24. We aren't expecting to get too many new details ahead of the A.D. when EMA reports. One item we do

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expect to have clarity on by the earnings call is the final order in Nova Scotia Power's rate case – recall, there is a settlement pending before the utility review board; the only intervenor that filed negative comments against the settlement was the Province, which is unsurprising given the prior political intervention in the case.

- At a high level, our expectation for the Analyst Day is that EMA will focus investors to the investment opportunities in FL going forward. We also expect there to be a focus on the trajectory of the balance sheet improvement and when EMA will achieve 12% FFO/D. We do not expect any update or extension of the capital plan.

ES: Offshore wind sale after YE call; higher RB but EPS growth target likely unchanged

- We estimate 2022 EPS of $4.10, in line with consensus. We expect ES to introduce 2023 guidance with a midpoint of $4.40 vs our $4.39 and consensus of $4.38.
- We anticipate disclosures on ES' 5yr capital plan, including an update to the existing plan through 2026, which ES has said would be at least $3B higher than its plan from last Feb. We also believe ES will affirm its LT EPS growth target of the top half of 5-7%, regardless of the outcome of its offshore wind sale. While we see the top end as achievable, we understand the risk to raising EPS growth expectations.
- Offshore wind sale likely in 1Q23 but after call: The market is waiting on the two buyers of ES' 50% interest in the offshore wind JV with Ørsted: one for the 1.76 GW of contracted projects under development and another for the 175k acres of undeveloped lease areas. We think the announcement will come after ES' call next month, likely in March or even early 2Q23. We think ES will still get a premium to what the company have invested, given the high value on the lease acreage. ES expects to replace offshore wind earnings in 2026 ($130-150M) with returns from at least $3B of incremental utility investments, the majority of which has been approved or identified (e.g., AMI, MA DER-related resources, and interconnections to third-party offshore wind facilities).
- Reducing 2024-25E: We cut 2024-25E to $4.77/5.11 from $4.87/5.17, mostly reflecting a lower assumed price for its offshore wind interest, which translates into less debt reduction and interest savings, as well as higher interest rates.
- Rates/bills still in focus but weather has helped: ES is not in any large rate cases. But rates were set to rise on commodity prices (mostly from 2022 procurements when prices were higher) and other annual changes 1/1/23. We were bracing for political pushback as customers got their bills this winter, but the mild weather has blunted that near-term. A CT lawmaker proposed legislation that would have the state legislature sign off on rate changes; but we believe that does not have wide support.
- Equity plan unchanged for now: In 2Q22, ES began issuing some equity under its $1.2B ATM program (plus $600M of DRIP), which goes through 2025. But we don't believe ES issued much equity in the latter portion of 2022. We expect ES to continue its ATM program, refining it after the offshore wind sale closes.

ETR: Quite noisy since last earnings call; reg relations in focus

- We estimate 2022 EPS of $6.42, above consensus. We expect ETR to affirm 2023 guidance of $6.55-6.85; our estimate is $6.73 vs consensus of $6.74.
- It has been noisy since Drew and Kimberly's first call as CEO and CFO last Nov, centered around LaPSC storm cost securitization and FERC SERI orders.
- Storm cost securitization: It was resolved last week after a deal was reached (see note). But the tone of the LaPSC meeting was one that may be concerning for investors. We believe ETR will address its strategy to improve regulatory relations, particularly ahead of the next storm season this summer.
- SERI: A late Dec FERC order appeared to resolve two of the more meaningful matters related to lawsuits against ETR's SERI, which owns Grand Gulf nuclear plant. After that 12/23 order, ETR reaffirmed its LT EPS outlook, but the LaPSC, speaking on behalf of the other claimants – AR PSC and NOLA CC – claimed another $850M of incremental refunds related to uncertain tax positions ($510M of which would be owed to the three claimants). ETR has made a compliance filing detailing its conclusion

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that no incremental refunds are owed, and the regulators are expected to file a response soon. FERC may need to clarify.

- Resiliency: ETR filed small portions of its 10yr resiliency plan ($15B) with NOLA CC and the LaPSC. The performance of an advanced resilient grid in FL after Ian is a real-world example of the benefits from resiliency investments. Given the recent noise at LaPSC, we think investors will ask about the chances of getting resiliency approved. Note ETR has only $900M of the $2.6B of resiliency costs through 2025 in its 2023-25 capital plan.

EVRG: Weak 2023, but strong second half story into manageable KS case

- We are raising our 2022E to $3.62 (from $3.57) – ahead of consensus and at the top-end of $3.53-3.63 guidance. This range was just raised on the Q3 call, but there was a lot of favorable weather that came in since then. Besides weather, we see Q4 driven by absence of a one-time Kansas tax hit, transmission rate relief, O&M savings and bill credit expirations; partially offset by higher depreciation and absence of non-regulated outperformance last year.
- We've also lowered our 2023E to $3.63 (from $3.72) ahead of EVRG issuing guidance – below consensus and implying only 2.5% growth off the original 2022 guidance midpoint. This has likely been a big driver of recent underperformance. While we previously added back some of the benefits of the revised Missouri rate order, we underappreciated the inability to find material short-term offsets to interest rate headwinds (300bps = $0.12/sh). Which when combined with $0.08 of one-time Missouri rate items (Sibley $0.05, AMI $0.01, hydro PPA $0.02), is too much to overcome.
- Importantly though, we expect EVRG to reaffirm its long-term 6-8% EPS CAGR over 2021-2025 (no changes to the base of time horizon). It will be important for mgmt. to convey what are the drivers to get back on track after 2023, such as O&M management.
- The big focus for 2023 will be the Kansas rate case, which will kick-off in late-April. The state has had rate sensivity, but we believe EVRG has a good story to tell. Rates were up just 1% over the 2017-2022 stayout and are projected to rise at a 2% CAGR over 2022-2026. This is far below inflation and regional peers. We found commissioner commentary at a December workshop to be relatively constructive. Further, we saw the recent KCC Staff recommendation in the ATO case to be reasonable – higher ROE and equity ratio.
- We also expect EVRG to roll-forward its five-year capital plan to 2027. This could move up modestly from $10.7B, but should still support 5-6% rate base growth. In June EVRG will file its latest Integrated Resource Plan, which should lay out the latest fleet transition plan post-IRA.

EXC: EPS growth again in focus on roll-forward; hoping addressed by return to annual ranges

- We estimate 2022 EPS of $2.25, in line with consensus. We expect EXC to introduce 2023 guidance with a midpoint around $2.33, slightly below consensus of $2.36, the 30Y UST yield (currently 3.7%) will be a key assumption since it is the final year of IL's formulaic rate plan; every 50bp increase in 30Y is about +$0.04, though that is partially offset by higher interest rates, with every 50bp increase in rates equal to -$0.01.
- EPS growth will again be in focus, this time 2026 and beyond; still see 6-8%: EXC stock was hurt last year on the question over nonlinear EPS growth and conviction on its 6-8% through 2025. New mgmt. clarified and confirmed the messaging around both, helping the stock somewhat recover. We now expect the market to focus on growth beyond 2025. The nonlinearity – driven by triennial PECO rate cases – will remain, so whether the 6-8% is intact through 2026 and off what base year will be key questions. Every new year, EXC typically extended its utility EPS growth one-year and based it off actuals. Last year, it estimated off an expected 2021. We think EXC can still be within 6-8% through 2026 and off 2022A. We project 6.5% growth 2022-26.
- Annual ranges: We think EXC could return to providing annual EPS ranges during its forecast period, which would go a long way in terms of visibility.
- IL rate case: EXC filed a ComEd rate case last week under the 4-year rate plan framework enacted in 2021. It is quite early, but we expect questions on planning assumptions. ComEd requested ~10.5%

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ROEs, rising 5bp annually. But we suspect EXC's outlook will assume something less than that. Notably, EXC will be able to earn up to 32bp of incentives to the ROE under the MYP framework. Our ComEd ROE forecasts in 2024 and beyond are ~9.5%, close to the 9.6-9.7% ROEs authorized to gas LDCs in IL over the past few years.

- AMT and equity: EXC expects to get IRS guidelines on the deductions under IRA but has indicated a worst case is ~$200M/yr cash hit. EXC suggested it would work to mitigate that impact. EXC does not anticipate any incremental equity needs beyond the $400-450M previously identified and expected to be issued anytime in 2023-25.

FE: Big catalysts remain pending; asset sale could be before call

- We project 2022 EPS of $2.42 – in-line with consensus and just in the top-half of $2.30-2.50 guidance that FE pointed too. We see Q4 driven by similar items to earlier this year – Ohio rate credits, vegetation mgmt. accounting change, equity dilution, and the FET stake sale. To the positive, FE will benefit from both distribution/transmission rate base growth and interest cost savings from debt paydown, as well as continued mining outperformance.
- Alongside our earnings preview, we published a refreshed FE model that results in our estimates moving up to $2.50/2.65/2.83 across 2023-2025 (from $2.43/2.62/2.80). This assumes another 20% FET stake sale for $2.4B closes around mid-year, with proceeds going towards debt paydown in an accretive manner. We also assume continued coal mining outperformance in 2023 that nearly fully offsets the pension headwind. FE will issue 2023 guidance on the call – our new $2.50 estimate is in-line with consensus and slightly below the implied range of 6-8% growth ($2.55-2.60). Our 2025E implies a 5.7% CAGR off the 2022 guidance base and is still slightly below consensus.
- Speaking of pension risk exposure – we see the 2023 headwind finishing close to the $0.45/sh it was at Q3-end. FE has been working on mitigants like cost cutting and interest cost savings; but our sense is the vast majority is really coming from the low-quality mining business.
- As part of our updated model assumptions, we believe FE can achieve its target of 14-15% FFO/Debt by 2024. FE will be able to significantly reduce its outsized holdco leverage. We expect restoration of investment grade ratings this year, which could be a nice catalyst.
- We're also looking for updated disclosures on capex and rate base, as FE has alluded to potential upside in NJ/PA. We believe a stronger balance sheet could help enable this. Current rate base growth is only 4% at the distribution businesses (9% at transmission). This year will also start a big rate case cycle for FE with filings in NJ/WV/MD in 1H23. The bigger PA/OH jurisdiction filings will be made in 2024.
- Finally, everyone is still waiting on the outcome of the important CEO search. We sense the timing on this may have slipped beyond the year-end call, as FE continues to seek someone with a strong reputation amongst investors.

FTS: Low key call after the big Q3 update

- We project 2022 EPS of $2.75 – in-line with consensus. We see Q4 earnings driven by ITC rate base growth, more favorable FX rates, and potentially better Belize hydro; partially offset by weaker higher interest costs. Notably, our estimate would imply 6% growth YoY, which is the first material growth since 2017. As a reminder, FTS doesn't give annual guidance. We forecast 2023E of $2.96 versus $2.98 consensus.
- FX continues to move in FTS' favor. They assumed $1.30 in their outlook versus the $1.34 current rate. Every $0.01 move is $0.01 of EPS.
- FTS refreshed its five-year capex and rate base growth with Q3. It also lowered its dividend growth outlook to 4-6% (from 6%). We don't see any changes to any of this.
- The big focus to start 2023 is the pending Arizona rate case. We found the ACC Staff recommendation to be a reasonable starting point – an allowed ROE of 9.60% would be above TEP's current 9.15%, and Staff was on board with the higher 54% equity ratio. We're still waiting on rate design testimony (1/27) that will take positions on TEP's proposed renewables transition rider. It'll be key to see how the new

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ACC weighs in following the elections for 2 seats last fall. In recent history, final rate case outcomes have been worse than the Staff rec.

LNT: Working to address the remaining solar/storage in IA; WI rate case filing in Q2

- We forecast 2022 EPS of $2.79 – in-line with consensus and just below the midpoint of the $2.76-2.83 guidance that was raised back in Q3. We see the quarter up materially YoY, driven by rate relief, catch-up AFUDC earnings due to switching from tax equity to full ownership of renewables in Q3, more favorable weather vs. 4Q21, and sales growth. Partial offsets include higher D&A and interest expense.
- We expect LNT to reaffirm 2023 guidance of $2.82-2.96. As is typical, we expect LNT to re-base its long-term 5-7% EPS CAGR off temperature-normal 2022 guidance midpoint of $2.73. Given the lack of rate relief in 2023, LNT is focused on lowering O&M to offset the pressures forecasted from higher interest expense and equity dilution.
- LNT thinks there is a good path for rate-basing NEE's 200 MW Duane Arnold solar and plans to file more information requested by the IUB by January-end. On the remaining 200 MWs of solar in IA, LNT is currently deliberating whether to restart the advanced ratemaking process, which gets a premium ROE, by more definitively identifying sites vs. moving forward and requesting recovery through a traditional rate case. 75 MWs of proposed battery storage will likely require further discussion with the IUB. In WI, LNT intends to place 600 MWs of solar in-service in 2023 and bring another 250 MWs online in 1Q24 – within the 6/1/24 accredited capacity deadline for the MISO capacity auction.
- LNT will file its next WI rate case at the end of April/beginning of May, with an outcome expected by YE23. At EEI, mgmt. pointed to mid-single-digit annual customer bill increases over the life of its plan, inclusive of fuel. In prior WI rate cases, LNT used regulatory liabilities on WP&L's books to mitigate customer bill increases. LNT is engaging in discussions with intervenors, but we sense that the absence of these offsets makes reaching an upfront settlement (even before filing) more difficult this time. This rate case will be watched closely given some concern around WEC's recent one that resulted in a constructive outcome after the initial settlement was rejected.

NEE/NEP: All about the investigation

- We estimate 2022 NEE earnings of $2.86 – slightly below consensus and the top-end of its $2.80-2.90 range. We see 9% rate base growth at FPL. Typically NEE uses some reserve amortization in Q4 ($137M last year) and this stood at the full $1.45B as of Q3-end. New Resources projects online will also be a driver, though wind conditions were just above normal last year (101% last year). Equity dilution from the unit conversions will also be a headwind.
- NEE has been consistent that it expects to provide an update on its second internal investigation around the Florida political noise by the year-end call. We view the fact that nothing has been disclosed yet as possibly a good signal. If something concerning was found, we believe NEE would've acted quickly rather than waited until the call. If the findings of the investigation are benign this would lift an overhang on the stock.
- We're not expecting any changes to NEE's long-term financial outlook, after it was re-based higher two times last year. We expect NEE to point to the high-end of 2023 guidance of $2.98-3.13 (us/consensus are already there), as well as the high-end of the long-term 6-8% EPS CAGR based off 2024.
- As always, NEER's backlog additions will be in focus. Last quarter saw an impressive 2.36 GWs added, but there was also 0.68 GWs that came out of the backlog. In Q4 last year, NEE added 1.52 GWs. We expect 2022 to a set a new high watermark, above the 7.2 GWs added across 2021. The current backlog totals 20.0 GWs.
- At NEP we estimate Q4 EBITDA of $401M – below consensus, but above $322M last year. This is being driven by a multitude of dropdowns that closed last year and the absence of major maintenance costs at Genesis. Wind conditions were 101% of normal last year, so this may not be a big swing factor. We expect NEP to reaffirm its 2022-2023 year-end run-rate guidances of $1,785-1,985M and $2,200-2,420M respectively.

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NI: Looking for updates on NIPSCO minority sale and rate case

- We estimate FY22 EPS of $1.45 which is in-line with consensus. Positive drivers in Q4 include rider investments and O&M savings. Partial offsets include share dilution and higher interest expense and D&A.
- Our expectation is that NI will reaffirm its 2023 guidance of $1.50-1.57. Our 2023E of $1.54 matches current consensus. Given that NI recently refreshed/roll forward its capex and financing plan at its Analyst Day, we don't expect any material financial updates on the call.
- Intervenor testimony in NIPSCO's rate case was just filed on Friday (1/20) and we thought the OUCC's recommendation was a decent starting point coming in at ~62% of NIPSCO's ask. ROE at 9.20% (vs the 10.4% request and 9.75% currently allowed) is low but not surprising. There were no major differences on rate base. We look to hear more from management on the potential for reaching a settlement.
- The other rate case that still needs to be finalized is OH, where parties filed a settlement in early November. PUCO has yet to place the settlement on an agenda for a final vote. We don't believe there to be any cause for concern in not acting yet and will be watching upcoming agendas closely (PUCO meets twice a month, next open meeting is 2/25). Note, OH's rate structure is such that each month is effectively equal from an earnings standpoint – so a delay in getting new rates in Q1 isn't overly impactful.
- The sale process for a minority stake in NI's NIPSCO electric/gas utility formally kicked off in 1Q23 and we will be interested to get an update on the call. NI has had some inbound conversations ahead of formally launching the process and our sense is that the company has been pleased thus far with the level of interest. Our expectation is a formal sale announcement around midyear, with the sale to close be YE. The sale shouldn't require IURC approval but is likely to need FERC to sign off. We currently assume NI can sell a 19.9% stake for 2.2x book equity, though think there could be upside to that.

NRG: Expecting big Q4 miss vs. guidance on continued challenges; Vivint revenue synergies

- **Big miss expected with results well below guidance.** We forecast 4Q22 EBITDA of $430M, which is significantly below consensus. This implies FY 2022 EBITDA of $1,749M, or about $200M below the bottom end of the FY 2022 EBITDA guidance range of $1,950M - $2,050M. We assume a $100M placeholder negative for performance during the December winter storm due to a mix of net capacity performance penalties in PJM and stronger than expected load during the price spikes in ERCOT. Additionally, on the last call NRG referenced expectations for $100M+ of YoY growth in Q4 due to power and gas optimization opportunities with plans to keep the gas plants fully available. We don't think this materialized and so is a negative vs. the guidance.
- **Vivint and buybacks.** It's unclear if the VVNT acquisition will close prior to the Q4 call – our guess would be it does not and so we expect 2023 standalone guidance to be reiterated. That said, we think NRG will provide more details on expectations for revenue synergies as this wasn't discussed much as part of the transaction announcement call. On buybacks, the remaining $360M commitment seems less likely to be completed until later in the year given recent challenges and until the VVNT financing plan is completed. This may be frustrating for investors given the large decline in the stock price created an opportunity to buy the equity back cheaper.
- **Estimate changes.** We lower our 2022 EBITDA estimate by $211M to $1,749M to reflect a negative placeholder for performance during winter storms in both PJM and ERCOT, as well as reduced optimization opportunities. We trim our 2023-24 EBITDA estimates by $30M to $3,090M and $3,110M, respectively, given reduced confidence in the outlook after a number of challenges in recent years. Our 2023-24E assume a full year contribution from VVNT for simplicity.

OGE: Initial 2023 guide, 5-year outlook refresh; pre-approval of RFP capex key focus

- Our consolidated FY22 estimate is $2.20; for OG&E, our EPS of $2.10 is in-line with the midpoint of the $2.08-2.12 utility guidance range that was raised in Q3. We YoY utility-only results in Q4 down $0.05, driven by higher D&A, O&M, interest expense/property taxes, and decreased recovery through rider mechanisms; partial offsets include more favorable weather vs. 4Q21, rate relief, load growth, and the

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reversal of one-time headwinds from 4Q21 (Uri securitization settlement & transmission reserve). We assume pull-forward of some O&M from 2023 into Q4 given strong YTD results. Our consolidated 4Q22 estimate is down $0.12 YoY, primarily due to the loss of midstream earnings from OGE's full ET exit.

- Key updates on the Q4/YE call include initial 2023 guidance & financing plan as well as a roll forward / refresh of OG&E's 5-year capital plan. Our 2023E of $2.03 is slightly below consensus at $2.05; our utility-only estimate of $2.05 implies a ~6.5% CAGR off the 2021 utility guidance midpoint of $1.81. We will also be watching for OGE's sales growth forecast, with mgmt. being confident at Q3 that 2023 W/A load growth will exceed OGE's 1% historical level, even excluding incremental data mining load.
- To meet ~1.3-1.4 GW of generation needs over 2023-27, OGE is currently negotiating with bidders to its solar, flexible & existing resource RFPs and intends to file for pre-approval of capacity resources by the end of Q1 – it could either request a rider or seek recovery later through a traditional rate case. Consequently, we do not expect OGE to add any RFP capex to its capital plan until it secures pre-approval for these investments from regulators. At EEI, mgmt. also pointed to moderating T&D capex some in generation capex heavy years to smooth rate base growth and manage customer bill impact.
- Given the loss of midstream distributions, OGE will need to issue HoldCo debt in the outyears to finance higher capex. While OGE presently targets 18-20% FFO/Debt over 2022-24, a lower credit rating downgrade threshold in the range of 16-17% post its complete ET stake exit would provide more balance sheet headroom.
- Another item to monitor in Q1 is OG&E's FRP rate adjustment application in AR, where APSC Staff recently recommended a $9.59M hike (based on 4% of revenues cap) effective Apr. 1st. A hearing is scheduled for Feb. 8th, with an APSC decision anticipated by early-Mar.

PCG: Operational and regulatory improvement should pay dividends

- We estimate 2022 EPS of $1.09, in line with consensus. We anticipate PCG will reaffirm 2023 guidance of $1.19-1.23 and its total return target of at least 10% annually. Our 2023E is $1.20 vs $1.22 consensus.
- We do not anticipate new material disclosures, given they were provided on the 3Q22 call. PCG had some noticeable successes improving operations and regulatory/legislative relations last year, which we anticipate mgmt. to highlight. Looking forward, we expect a discussion on the dividend, GRC, undergrounding, minority sale and wildfire mitigation. PCG cannot say much on FVT holdings, but we expect questions around the FVT's stock sales.
- PCG is our top utility pick: For more on our thoughts on PCG, please see our recent note. PCG is also on Wolfe's Alpha List (note).
- Dividend resumption: PCG's eligibility to reinstate the dividend is $6.2B of cumulative non-GAAP core earnings since 3Q20 (inclusive). PCG is on track to reach that by 2Q23 reporting. While the exact declaration and payment dates remain TBD, PCG has been clear that when the dividend is reinstated it would be "very small" and grow "over time." We think the size is less important at this stage than to its resumption. We view this as a key catalyst for the stock.
- FVT stock sales: The FVT now has 188M shares left after selling 290M shares since last Jan (over several blocks). We believe the FVT overhang is abating and see a complete exit this year – a key catalyst for the stock.
- GRC decision still expected 3Q23: The primary regulatory item this year is the GRC, which has been ongoing since 2021 by design. A final decision is expected in 3Q23. PCG has settled a couple of items – including self-insurance and certain cash recovery items – but at this point we anticipate a full decision. It is a sizeable ask in the first year (~30%) and contains undergrounding spend, though 40% less than it had initially requested. Undergrounding is one the final items yet to be fully briefed, but it is not expected to delay the GRC.
- PacGen minority interest sale schedule appears to be later than hoped: In Nov, PCG said no equity issuances are planned through YE24, assuming a sell of up to 49.9% in its newly created utility generation subsidiary were approved and completed by YE23. Intervenors pushed back on the requested expedited process at the CPUC, and just on 1/20 a scoping memo was issued rejecting both of PCG's requests: an assigned commissioner's ruling on the framework before evidentiary hearings – to derisk the sale for interested buyers – and a final decision in Jun (the scoping memo implies Dec).

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We don't anticipate the delay to meaningfully impact PCG's outlook, as it appears to be more a question of timing.

- Wildfire litigation and safety certificate: PCG still has some pending litigation from Zogg and Dixie. It has reached settlements with counties, including an immaterial settlement on Dixie last week. PCG is in settlement talks with the CPUC SED over a proposed $155M penalty, putting the case on hold through end of this month. Notably, PCG has already received its safety certificate for the next wildfire season.
- Undergrounding plan later this year, would be 10yr plan from 2024 or later: PCG was able work with legislators on undergrounding legislation (as well as a Diablo Canyon life extension bill) last year. The undergrounding bill de-risks PCG's planned 10,000 miles. PCG reduced its undergrounding plans in the pending GRC to $6B from $10B, covering spend through 2026. When PCG files its undergrounding plan, expected after the CPUC kicks off the process this year, it will be a full 10yr plan from either 2024 or maybe even 2025; i.e., undergrounding investments will run into the mid-2030s. The regulatory approval process will take 18 months from filing.

PEG: Relatively uneventful after EEI kitchen sink

- We see 2022 EPS of $3.48 – slightly above consensus and the midpoint of PEG's $3.40-3.50 range. Similar to prior quarters, we see Q4 being driven by a number of timing items related to 2021's fossil asset sale. There was also an $0.08 tax timing hit at the utility last year. Positive drivers at the utility include transmission and infrastructure investment recoveries.
- Alongside our earnings preview, we also updated our commodities assumptions for generators. Our PEG estimates move to $3.46/3.65/4.10 over 2023-2025 (from $3.47/3.57/3.99). PEG was basically fully hedged in 2023 (where pricing had rolled over), with more exposure in 2024 (where pricing was still above our prior assumptions). Our 2025E is slightly below consensus, but actually implies a 9% CAGR off 2023. PEG's 5-7% CAGR assumed pricing at the PTC floor (or 2025 estimate would be ~$0.15 lower in that scenario)
- PEG issued 2023 guidance of $3.35-3.55 at EEI. This was disappointing, as the company re-based its long-term 5-7% EPS CAGR off this low level. Our estimate is $3.46 and in-line with consensus. We expect the guidance to be tightened to a $0.15 range as PEG will have a better sense of its year-end pension impact. At EEI, PEG assumed a $0.25-0.30 pension headwind in 2023 (we're also still waiting on action from the BPU on the request for an accounting order to mitigate ~20%).
- There's been some focus recently on PJM fleet performance during the Christmas cold front that strained the grid. PEG's joint-owned Salem Unit 2 was down for 2 days, but the rest of its nukes ran well. Our sense is that any penalties would likely be offset by performance payments.
- The big recent news was just last week – PEG formally decided to exit its 25% stake in Ørsted's 1.1 GW Ocean Wind 1 project in NJ. This was unsurprising given prior caution around the nascent industry expressed by management. We're now waiting to see what comes of PEG's GSOE lease area that it shares with Ørsted and will likely look to monetize.
- We expect PEG to hold an Analyst Day in March, where it could provide a further update on its long-term vision.

PNW: Expecting a weak 2023 guide due to pension pressure

- Our FY22 EPS estimate of $4.29 is in-line with consensus at $4.27. Weather looked favorable in Q4, so it is possible that PNW could finish at or slightly above the top end of its guidance range of $4.20-4.35.
- We believe PNW will provide 2023 guidance despite having its rate case pending. This is counter to prior practice, but we think management wants to be transparent + the rate case outcome will have very little impact on 2023. We are lowering our 2023E to $3.95 from $4.15 – a miss vs current consensus at $4.16. The main driver is the $0.30 hit from pension that we now assume, which mostly offsets sales growth. We leave our 2024-25E unchanged for now as half the pension impact should be addressed in the rate case and we wait to see if PNW can find some offsets to minimize the remaining amount.
- We also expect PNW to extend its capex and rate base forecast through 2025. We think capex in 2025 to be similar to 2024 at $1.65B, supporting the same 5-6% rate base CAGR. We don't think PNW has any incentive to make material updates to capex without seeing the outcome of the rate case first. What

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happens with the clean energy rider request will also dictate future levels of capex for renewable projects.

- As it relates to APS's rate case, we thought Staff's testimony for in-state peer TEP was fairly constructive. The 9.6% ROE rec is well above APS's current 8.7%. However, Staff recs have generally been OK in Arizona, it is the Commissioners that have proved difficult (though recent signs have suggested that will get better). We will be closely watching when testimony on rate design is filed on 1/27 to see where Staff stands on TEP's Resource Transition Mechanism request.
- We are still likely months away from know the outcome of PNW's rate case appeal at the state appellate court. Oral arguments concluded at the end of November and we now await the judges' final decision. A ruling in PNW's favor would most importantly fix precedent in the state for utility asset recovery but would also be a ~$0.10 EPS boost.

POR: Weak 2023 guidance; high power costs hurt Q4; rate case filing soon?

- We are lowering FY22 EPS estimate by $0.09 to $2.76, which is below consensus at $2.82 and towards the low-end of POR's $2.74-2.89 non-GAAP guidance range. We see YoY results in Q4 down $0.15, primarily due to higher NVPC, with Mid-C power prices averaging 155% higher vs. 4Q21 as per EIA.
- POR will provide 2023 guidance on its Q4/YE call. We are cutting our 2023E by $0.08 to $2.64, which is below current consensus at $2.73, to reflect POR's upsized equity forward and lower issuance price. We expect 2023 to be a weak year due to Faraday's drag (~$0.08), cost inflation/O&M pressures, and higher interest rates, partially offset by sales growth. AFUDC from Clearwater Wind will largely offset dilution from RFP progress payments, but the timing of POR balance sheet restoration equity draw will be important – we presently assume mid-year. Similarly, we are trimming our 2024/25E by $0.06/$0.08 to $3.02/$3.17 due to the aforementioned equity dilution and assuming modestly more regulatory lag. Our 2025E implies a ~4% CAGR off POR's 2022 non-GAAP guidance midpoint of $2.82.
- We think it's likely that POR files a rate case this year (typical timeline is in Feb., with a 10-month process), where the key focus will be addressing/proposing an alternative to the PCAM mechanism to reduce earnings volatility. Our sense is that POR will also seek to include Faraday (~$149M of CWIP + AFUDC as of Q3) in its rate base, secure recovery for O&M inflation/cost pressures, and address rate design since its load growth appears to be more weighted towards lower-margin industrial customers.
- POR remains optimistic about the possibility of rate basing ~200 MW of battery storage stemming from its active 2021 RFP, although contract awards will likely slip into Q1. Assuming ~$2,000/kW of installed capacity, this implies ~$400M of incremental capex. Every $100M of additional RFP capex is ~$0.015 of EPS, net of more equity financing required, which POR expects to issue through an ATM.
- POR will file an updated IRP in Q1, along with its 1st Clean Energy Plan, and launch its next RFP in Q2; bidding and negotiations will occur in 2H23, followed by contract awards in 1H24. POR needs ~3,400 MW of renewables/non-emitting capacity to meet OR's HB 2021 goals, for which it will likely issue an additional RFP later this decade. Winning additional RFP projects will be key to hitting the L-T 5-7% EPS CAGR by 2025 – POR has >50% ownership of renewables generation in the outstanding RFP with Clearwater Wind and will own >50% of non-emitting capacity if it wins ~200 MW of batteries.

SO: Flattish 2023 guidance, lower 2024 well-telegraphed; Vogtle update

- We estimate 2022 EPS of $3.59, in line with consensus and SO's own guidance of top end of $3.50-3.60. We believe SO will introduce 2023 guidance that is flattish to 2022, maybe a midpoint of $3.60, which is below consensus of $3.71 but in line with our $3.61e.
- SO is expected to disclose its 2023-27 capital and financing plans, projected rate base growth, updated 2024 guidance and LT EPS growth. We expect SO to affirm 5-7% growth off 2024 guidance.
- 2024 guidance to be lowered: SO has widely telegraphed a reduction to its 2024 guidance of $4.00-4.30, pointing to the lower tercile given interest rate headwinds and carrying costs on Vogtle impairments subsequent to the initiation of the 2024 guidance in early 2021. We see 2024 guidance with a midpoint of $4.05, slightly below consensus of $4.08.
- Vogtle update: SO pointed to a pipe issue earlier this month on U-3 as cause for a one-month delay to COD (now Apr 2023); SO has since gotten NRC approval for a remediation. GaPSC Staff recently said it did not see a similar pipe issue at U-4 and actually said it was "impressed" by the "high-quality" work

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at U-4. SO still anticipates COD of U-4 by YE22. Staff has said it is "reasonably possible" for SO's CODs to be delayed a quarter (implying 2Q23 for U-3 and 1Q24 for U-4). Every quarter delay is $0.02 for U-3 and $0.05 for U-4. SO will provide an update on Vogtle on its 2/16 call, as it submits VCM 28 (the semiannual update).

- Vogtle prudency: Once U-4 achieves fuel load (Jul/Aug), the prudency case will begin. That will be only major regulatory proceeding for SO over the next few years, following last month's GA Power rate case decision, which we viewed as constructive (10.5% ROE with 11.9% cap, 56% equity ratio).
- GA PSC: The two PSC comms (Echols and Johnson) up for reelection last year remain on the PSC until an election is set by the state of GA. That could be this year, but it depends on a pending court appeal and GA lawmakers. All current comms could vote on any Vogtle prudency matters this year. GA Power also will file for fuel cost recovery next month, but the deferrals (over $1.7B) are expected to spread out over several years, mitigating rate shock.

SRE: Full refresh of outlook expected; approaching Port Arthur FID

- Our 2022 EPS estimate is $9.02 vs. $8.42 in 2021; we are at the top end of SRE's 2022 guidance range and ahead of consensus. We expect a strong Q4 on a combination of steady CA utility growth, cold weather at Oncor and upside at Infrastructure net of the selldown. The main swing variable will be to what extent SRE benefited from the high SoCal border gas prices in its marketing arrangements; the question is how much open exposure SRE had to the high prices.
- **Full refresh of outlook and growth rate likely.** We expect SRE to do a full capital plan and outlook update on the yearend call. This will include an update of 2023 current guidance of $8.60-$9.20, introduction of 2024 guidance ($9.58 WRe vs. $9.62 consensus), and a refresh of the LT growth rate. On the growth rate, we wouldn't be surprised if SRE maintains a 6%-8% LT growth rate over 2022 (original guidance of $8.10-$8.70 as the 2022 base)-2026 just for projects that are in the execution backlog.
- **Oncor rate case clarity?** The PUCT is expected to consider the Oncor rate case at its February 16 open meeting; as a result there should be clarity on what the rate case means for SRE's outlook. The ALJ's recommendation was fairly mediocre for Oncor but a correction filed last week resolved some uncertainty on rate base; exceptions will be filed on 1/24.
- **LNG and Port Arthur.** The keys on the LNG strategy in the coming months is finalizing the conversion of the PGNiG heads of agreement into a binding SPA and the finalization of the financing of Port Arthur. At that point the facility can FID. SRE has targeted a Q1-23 FID so we see a reasonable likelihood of there being positive announcements on this on the call.

VST: Fleet performance feels okay; otherwise uneventful after Q3 updates

- We're forecasting 2022 EBITDA of $3,113M – in-line with consensus and in the upper-half of the $2,960-3,160M guidance range. We see Q4 down materially YoY, as recall that last year featured a $540M gain from Uri securitization proceeds.
- Alongside our earnings preview, we also updated our commodities assumptions for generators. Our VST estimates move to $3,605/3,636M over 2023-2024 (from $3,581/3,454M. Recall that for most of 2022 we had conservatively kept our assumptions below market pricing, but have now seen a material roll-off in the commodity environment in recent months. While 2023 pricing actually moved below our deck, VST is 90% hedged. Whereas 2024 pricing was still above our deck. Notably, the downward shift in nat gas has outpaced power, such that sparks haven't been hit as hard. That said, the sustained elevated coal pricing environment could be a modest pressure.
- We expect VST to reiterate its 2023 guidance range of $3.4-4.0B. Further, we still believe the soft guidance of a ~$3.5-3.7B range over 2024-2025 should still be intact. VST was 70% hedged over 2023-2025 as of the Q3 call. We expect a more detailed look at 2024 hedges with the year-end call.
- The big focus on VST's call will be its fleet performance during Winter Storm Elliott that resulted in chilling temperatures across the country. We have better insight into outage data within ERCOT, where we saw modest outages for VST's fleet, but nothing material during the periods of price spikes. There's been a lot of focus on PJM, where we're more in the dark on outage data, but it was reported that 23% of power plants were down around Christmas. Most of these were nat gas plants, with most of VST's

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PJM fleet being gas. PJM reported that there could be fines of up to $1-2B based on its capacity performance construct. Our sense is that VST's PJM fleet had some plusses and minuses in terms of performance that should result in a manageable outcome.

- We don't expect any major capital allocation updates. VST had $1.2B to go on its buyback by YE23 as of the Q3 call. The rollover in commodities should alleviate some of the liquidity strains (and temporary debt costs), as cash collateral comes back in the door.

WEC: Wisconsin rate case post mortem; headed into Illinois cases

- We forecast 2022 EPS of $4.40 – in-line with consensus and at the top-end of WEC's $4.38-4.40 guidance, which is where it has pointed after raising several times last year. We see Q4 EPS driven by favorable weather and Wisconsin rate relief; offset by depreciation and interest costs.
- WEC already issued 2023 guidance back in December at $4.58-4.62. This was in-line with consensus/us and reflected 6.7% growth off original 2022 guidance – consistent with WEC's 6.5-7% EPS CAGR. Rate relief in Wisconsin is expected to be a primary driver for this year.
- We expect continued focus on the Wisconsin regulatory environment, after WEC saw a constructive final outcome in its case last year, but this was accompanied by some bothersome commentary from commissioners. As a reminder, allowed ROEs came down modestly to 9.80%, but allowed equity ratios moved up to 53%. WEC also got ~79% of its original revenue ask. WEC won't file its next case for another year, but many will also be watching in-state peer LNT's case this year.
- WEC also recently announced that it would be filing rate cases in Illinois. At PGL, this is the first case in 9 years (before WEC acquired TEG). Interestingly, WEC decided not to pursue a renewal of the QIP rider legislation. At the smaller NSG, WEC saw a recent outcome in late-2021 that resulted in a better ROE and equity ratio than PGL has currently.

XEL: Key is resolving Minnesota rate case constructively

- We estimate FY22 EPS of $3.17 which is a penny above consensus and at the midpoint of XEL's $3.14-3.19 guide. We think XEL saw some weather favorability in Q4, which should allow the company to finish in the upper half of its range.
- We expect XEL to reaffirm its 2023 guidance of $3.30-3.40. Our estimate of $3.36 is slightly below consensus at $3.38. We don't expect any material updates to the capex/financing plan as XEL just did its roll forward/refresh on the Q3 call.
- Most of our focus for XEL currently is on the pending Minnesota electric rate case. There is still time for parties to reach a settlement as the ALJ report isn't due until March 1st. Our understanding is that XEL has made some progress with a key intervenor – the Dept. of Commerce – but it is less clear if the other parties will get on board. As a reminder, every 10bps of ROE is worth about a $0.01 of EPS for XEL; MN electric accounts for ~30% of XEL's total rate base.
- Outside of the MN rate case, we will also be watching the CO electric case closely in 2023. However, that case is still early days and there has yet to be a procedural schedule set. XEL's pending RFPs in CO and MN are also focus items this year. The two RFPs represent $1.5-3B of incremental capex upside, majority of which would come from the CO RFP. Details in the MN RFP should be known around midyear while CO is likely some point in the fall.
- As it relates to IRA, we will be curious to hear if there are any updates with respect to XEL's plans to transfer tax credits directly to other big corporations in Minneapolis. Recall, XEL's 5-year plan assumes $1.8B of tax credit transfers.

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WOLFE RESEARCH

January 22, 2023

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From: Steve Fleishman <utilities@wolferesearch.com>
Sent: Friday, March 10, 2023 9:10 AM
To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 3/10/23 - PEG, Short Interest, SRE/Oncor, EVRG, DTE, CNP, EXC/AEE, NI, RUN

Categories: SellSide Notes

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March 10, 2023

THE FLEISHMAN DAILY 3/10/23

PEG, Short Interest, SRE/Oncor, EVRG, DTE, CNP, EXC/AEE, NI, RUN

The Fleishman Daily 3/10/23
Utilities: PEG, Short Interest, SRE/Oncor, EVRG, DTE, CNP, EXC/AEE, NI
Midstream: Short Interest
Clean Energy: Short Interest, RUN
WEBCAST: Fleish on Fridays, TODAY at 1:00pm ET; register here

Utilities

PEG – 2023 guide, 5-7% CAGR, ratebase/capex all affirmed; fully committing to nuclear and disclosing $500M of EBITD with more detail on growth opps; in-line
Utilities short interest – down 4% to lows; shorts in FE, PNW up a lot; D and CA utes down; VST short was tiny
SRE/Oncor - PUCT eyes granting Oncor 9.7% ROE but keeping equity ratio at 42.5%; not great but better than fears; CN
EVRG – modified Kansas transmission bill moving forward with broad support including EVRG; no regulatory lag, but R $0.04 EPS risk; mixed
DTE – Staff files IRP testimony supporting coal shutdowns and regulatory asset treatment, but at lower return; also pus adders
CNP – PUCT approves 2022's ~$78M DCRF settlement and recovery of mobile generation investments; constructive
EXC/AEE – IL Gov appoints 2 new ICC commissioners, chair leaving; first multiyear rate cases pending
NI – Notifies the IURC that a settlement will be filed in NIPSCO's electric rate case by today

Midstream

Midstream Short Interest – Relatively uneventful with a few modest short interest increases

Clean Energy

Clean Energy short interest - continues to climb; RUN up, CWEN vs NEP
RUN – Silicon Valley Bank (SVB) acts as Collateral Agent on RUN's $425mn Credit Facility

Quarterly data: Weather, Forward Prices, Spot Prices, Nuke Outages

Wolfe Utility & Midstream Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Chart Comps, Clean Energy Stock Charts, Valuation Charts, Models

Utilities

PEG – 2023 guide, 5-7% CAGR, ratebase/capex all affirmed; fully committing to nuclear and disclosing $500M of EBITD with more detail on growth opps; in-line

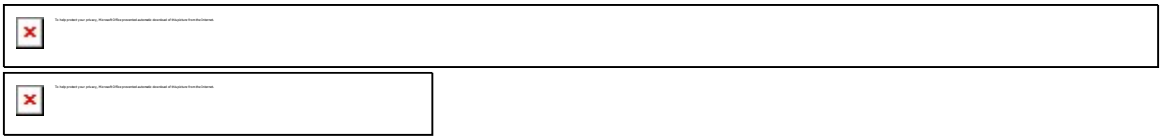
- **2023 guidance of $3.40-3.50 reaffirmed.** Segment has been renamed back to PEG Power (from Carbon-Free In
- **Reaffirms 5-7% EPS CAGR over 2023-2027**. Notes 85-90% of EPS is regulated over duration of plan
- **Reaffirms Rate base CAGR.** 6-7.5% over 2023-2027
    - Reaffirms PSE&G capex of $15.5-18B over 2023-2027 (also discloses $34-40B over 2023-2032)
- **Nuclear.** Committed to retaining the assets and disclosing $500M of EBITDA at PTC floor (rises to $600M in 20 adjustment). Also talking about uprates($100M for 45-60 MWs in 2027-2029), fuel cycle extensions (Hope Cre 2025), and license extensions ($95M for Salem/Hope Creek)
    - Also more detail on other components of PEG Power/Other – BGSS/LIPA is $225M of EBITDA
- **Offshore Wind.** Sold 25% equity stake in Ocean Wind 1 for $225M reimbursement and exiting 50% GSOE stak
- **Credit.** Reaffirms no equity needs and mid-teens FFO/Debt target. $2B debt capacity and $4B investment capac

As expected the earnings and rate base outlook are unchanged, though there is more detail on the regulated capex. The detail is on the PEG Power side though, where PEG is officially committing to retaining nuclear for a variety of reasons a Further, the company is now breaking out the components of PEG Power with EBITDA, depreciation, and interest; plus a future growth opportunities . The PTC floor EBITDA for the nukes aligns with our prior estimates that we published last will be interesting to see this number now officially out there after earlier this week we saw nuclear assets transact. Inte

PEG slides point to 1-2x multiple expansion opportunity to align with premium peer valuations – this is something prior
make the case for as well.

Utilities short interest – down 4% to lows; shorts in FE, PNW up a lot; D and CA utes down; VST short was tiny

- Utilities short interest fell 4% this period and is back at its lows multi-year lows.
- FE short rose 68% likely due to the delay in CEO announcement and continued worries of a rebasing that didn't
- This short increase likely reflects increasing investor concerns on the CEO outcome.
- PNW short rose 35% on the heels of a positive Q4 reaction in the stock on higher sales growth.
- The positive AZ court order came after this short data.
- PPL's 37% short increase was likely due to arb hedging on the recent convert option that was a cheap form of d
- D short fell 22% and continues to fall to multi-year lows. We would frankly prefer to see more shorts since stoc
wall of doubters.
- CA utilities shorts continue to decline as the stocks re-rate higher. EIX short fell 11% and PCG fell 10%.
- VST short position was less than $200M going into their Energy Harbor deal. Thus, no short squeeze drove the s
week, just refocus on a stock that was stuck in mud.



Source: FactSet

SRE/Oncor - PUCT eyes granting Oncor 9.7% ROE but keeping equity ratio at 42.5%; not great but better than fears; CN

- Yesterday at its open meeting the PUCT discussed the Oncor base rate case
- The commissioners agreed to a 9.7% ROE (down 10 bp from the current level but above CNP/AEP), which was a
the ALJ recommended range and above most intervenor positions
- The equity ratio will remain 42.5%, which is unchanged from before but short of Oncor's 45% request
- PUCT also agreed with Oncor's approach on self-insurance reserve and regulated asset recoveries (5 year amor
as recovery of extraordinary COVID costs, and accrued interest
- The updated decision will be reflected in an updated rate order which will be taken up within the next couple m
vote

Overall the decision will keep Oncor roughly in line with where it had been before on ROE/equity ratio. The ROE is bette the adoption of Oncor's position on several other items was good to see; the main disappointment was the unchanged e commissioners appeared unconvinced on the rationale for a higher equity ratio but appeared open to further considerati Moreover, part of the reason for going higher on the ROE was to partially compensate for staying at 42.5% equity. Semp able to give an updated capital plan as well as 2024 guidance on the Q1 call in May. CNP is the other Texas T&D utility 42.5% equity ratio but its last allowed ROE was 9.4% so this outcome would suggest slightly better in the future. There in the TX legislative session that could enhance equity ratios but chances for passage are tough to predict right now.

EVRG – modified Kansas transmission bill moving forward with broad support including EVRG; no regulatory lag, but R $0.04 EPS risk; mixed

- Yesterday, a bill focused on EVRG's transmission delivery charge (**HB2225**) passed out of committee with the co after revisions (the original version would've resulted in more regulatory lag)
    - Video of the discussion can be found at the 1:12 mark here: **Link**
- The passed bill focuses on local transmission rate base (non-FERC/SPP mandated) and reduces the allowed RO the Kansas state level (9.30% for EVRG) from the FERC level (10.30%)
- We estimate this will result in a ~$0.04/sh earnings impact from the 100bps ROE reduction – EVRG's FERC rate (14% of $17.7B total) and a portion of that is FERC/SPP-mandated and a portion is non-retail-load related, thus actual exposed rate base is slightly less than ~$2B (House committee said yesterday it applied to about 80% of transmission)
    - This also sync with what KCC Staff said at the hearing – $40-45M pre-tax revenue impact over the next ~$0.04 annually)
- The bill now goes to the full House and ultimately the Senate, but we are expecting full passage

Our understanding is that this bill had the highest likelihood of passage as it relates to Kansas utility legislation this yea earnings headwind from the lower ROE is disappointing, it avoids the originally proposed version that would have incre lag. Importantly, EVRG is supporting the bill, which we don't believe they would have done if it created risk to their EPS Further, given this was backed by the KCC, it may help to build some goodwill into the upcoming rate case. There are st pending as well that would shift the KCC to an elected commission (**HB2154**/**SB88**) and require the KCC to review regi competitiveness **SB78**, but there has been limited momentum thus far and we see low likelihood of passage.

DTE – Staff files IRP testimony supporting coal shutdowns and regulatory asset treatment, but at lower return; also pus adders

- Yesterday, Michigan PSC Staff filed its recommendations in DTE's Integrated Resource Plan (IRP) – some initial t
    - Supporting regulatory asset treatment for retiring Monroe and Belle River coal plants at book value, but should be complete by 2040 (quicker) and return should be long-term debt (lower)
    - Supports Belle River coal to gas conversion in 2025-2026 and shutting Monroe Units 3/4 in 2028

  - Against request for financial compensation mechanism (FCM) on PPAs – willing to do at WACC and if D 50/50 ownership/PPA split, and only on carbon free resources (Staff noted that prior FCMs for peer utilit come about via settlement)
  - Supporting higher energy waste reduction target of 2.5% (2% proposed)
- Recall that DTE filed its IRP last November — laying out 15.4 GWs of renewables, 1.8 GWs of storage, and an a exit by 2035
  - Renewables – 800/240 MWs of solar/storage in 2023-2027; 3,600/1,000/520 MWs of solar/wind/storag 2,100/7,900 MW/1,050 MW solar/wind/storage in 2033-2042
  - Coal – DTE will accelerate conversion of Belle River from coal to a gas peaker to 2026 (from 2028), whil retirement of Monroe beginning in 2028 (1.5 GWs) and ending with the remainder in 2035 (from 2040)
  - Gas – plan to develop a 950 CCGT with carbon capture in 2035

Our initial take on the Staff testimony is mixed, but this is a starting point. There seems to be general support for the res we had constructive read-throughs from peer CMS on some of the areas of pushback like regulatory asset recovery (CM and PPA adders (CMS has settled on this in the past). DTE has historically rate-based more renewables and thus we do an FCM as being as meaningful. That said, it will be important to get a higher return on the regulatory assets. DTE had p indicated that it is hopeful a settlement can be achieved in 2H22.

<u>CNP – PUCT approves 2022's ~$78M DCRF settlement and recovery of mobile generation investments; constructive</u>

- At its open meeting held yesterday, the PUCT unanimously voted to approve CNP's distribution cost recovery fa settlement agreement filed in July 2022.
  - This stipulates a revenue increase of ~$78M, which excludes the ~$57M revenue requirement for the mo facilities, with rates effective 9/1/22.
- The PUCT also voted 4-1 (Comm. Glotfelty dissenting) to approve the recovery of the ~$200M investment made facilities, which was being addressed in a separate proceeding.
  - This investment includes ~$49M/~$150M for the S-T lease/a portion of the L-T lease.
- Recall, the ALJs' proposal for decision recommended no recovery of CNP's mobile gen. costs.
- The Commissioners agreed to classify CNP's mobile gen. investments as a regulatory asset, with recovery throu 7.5-year regulatory amortization period (i.e., lease term).

We view this as a constructive outcome, particularly given that the ALJs' proposal for decision recommended against re gen. costs. It was also good to see the PUCT acknowledge the context of acquiring mobile gen. facilities – ERCOT's T&D legislatively required to do so in the aftermath of Winter Storm Uri. The Commissioners also underlined the need for rul investments going forward (for example, more competitive/robust RFP processes) as well as clear evidence on the cost of units (how mobile, how many MWs, etc.). CNP expects to file for recovery of the remaining ~$350M portion of its mo L-T lease in Apr.-May this year.

EXC/AEE – IL Gov appoints 2 new ICC commissioners, chair leaving; first multiyear rate cases pending

- IL Gov appointed Conrad Reddick and Stacey Paradis to the IL Commerce Commission and named current comm Scott chair of the 5-member board.
- Current ICC chair Zalewski announced her departure on 6/16. She said: "I thought what was best for the commis commissioner who would be replacing me is to leave now…So they have a chance to sit with documents, unders make really informed decisions as opposed to leaving kind of in the middle of it."
- Both AEE and EXC's ComEd filed in Jan 4-yr rate plans under the 2021 utility law that includes performance-ba as IL formulaic rates sunset YE23.
- The ICC is expected to issue decisions by mid-Dec.

The ICC changes are important as they will review AEE/EXC key multiyear rate cases this year. Incoming chair Scott has (last decade). We are still reviewing the backgrounds of the two new commissioners. Ms Paradis was in leadership at M Efficiency Alliance.

NI – Notifies the IURC that a settlement will be filed in NIPSCO's electric rate case by today

- Earlier this week, NIPSCO notified the IURC that an agreement in principle of all issues in its electric rate case ha and it intends to file a settlement on or before 3/10.
- Settling parties include the Office of Utility Consumer Counselor, NIPSCO Industrial Group, NLMK Indiana, and V additional parties may join after a formal agreement is written.
- Further, NI suggested a modified procedural schedule as follows:
    - Pre-filing of testimony supporting the settlement by 3/17.
    - Pre-filing of testimony opposing the settlement by 3/31.
    - Evidentiary hearing starting on 4/26.

This is encouraging to see to see after mgmt. noted on the Q4/YE earnings call that it was in active settlement discussio intervenors in NIPSCO's electric case

Midstream

Midstream Short Interest – Relatively uneventful with a few modest short interest increases

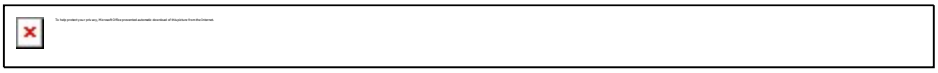
- The WES short rose 20% in the second half of February alongside the company reporting a Q4 miss and issuing EBITDA guidance below consensus

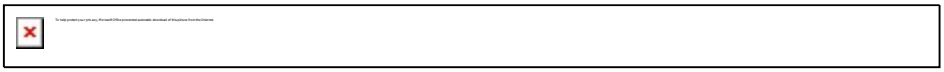
- The EPD short rose 17% but remains at fairly low levels. The stock had outperformed in the first half of Februar interest period) on good results and a constructive 2023 outlook.
- The ETRN short rose 14% alongside high capex guidance for 2023 and continued poor stock performance. The s its lowest price since April 2020!!
- The ET short rose 12% but this was off a 3-year low in absolute number of units sold short

Clean Energy

Clean Energy short interest continues to climb; RUN up, CWEN vs NEP

- TAN short interest rose another 7% to its highest level in over a year.
- Rising rates is likely a concern for the sector.
- RUN short rose 7% potential also on concerns over rising rates.
- Yieldco shorts diverged with CWEN up 9% and NEP down 4%.







Source: FactSet

RUN – Silicon Valley Bank (SVB) acts as Collateral Agent on RUN's $425mn Credit Facility

- SVB has been topping headlines after the bank's stock fell ~60% on Thursday and continued collapse pre-mark base financing need.
  - Prominent venture capital investors have publicly warned others to withdraw assets creating fears of a b
- A screen of Clean Tech 10-K's reveals that SVB acts as the collateral agent on Sunrun's $425mn recourse lendi
  - The facility was arranged in January 2022 and replaced the prior $250mn facility with enhanced terms.

We will be monitoring this exposure as well as others to SIVB given risk it continues to deteriorate. We believe collatera replaced but need to monitor systematic risks. The Clean Tech funding ecosystem overlaps considerably with VCs and s could impact many private companies as well.

Wolfe Events

March 15: Moody's lunch in New York
March 20-24: CEG non-deal roadshow in Europe
March 23-24: ES non-deal roadshow in London
March 27-31: PCG non-deal roadshow in Europe

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Calendar

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Subject: The Fleishman Daily 3/13/23 - NI, New England, FE/Ohio, CAL Watch, PEG, Polls, Rig Count, Midstream & Green Weeklies, FSLR
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March 13, 2023

THE FLEISHMAN DAILY 3/13/23

NI, New England, FE/Ohio, CAL Watch, PEG, Polls, Rig Count, Midstream & Green Weeklies, FSLR

The Fleishman Daily 3/13/23
Utilities: NI, New England, FE/Ohio, CAL Watch, PEG, Poll Results
Midstream: Rig Count, Midstream of Consciousness
Clean Energy: FSLR, GREEN Playbook
WEBCAST REPLAY: Fleish on Fridays; replay here, slides here, poll results here
WEBCAST: Wolfe Natural Resources Weekly Webcast, TODAY at 11:00am ET; register here

Utilities sentiment meter – up to "4" from "3". Utilities were the best GIC sector performer last week but still didn't perform as well as we would hope considering the crisis conditions at the end of the week. Investors are likely weighing utilities heavy use of credit markets relative to defensive nature of the business. The big drop-in interest rates this morning should be a positive for the sector as rising rates have been the biggest earnings pressure for the sector. We think earnings pressure for the market are growing and that investors come back to utilities as the year goes on.

Utilities

NI – Files NIPSCO electric settlement stipulating ~$292M rate hike, 9.80% ROE, and 51.63% equity ratio; solid

New England – Capacity auction prices at $2.59 across zones for 2026-2027; similar to last year and in-line
FE/Ohio – Ohio AG seeking to resume civil lawsuit against FE/Randazzo/Jones following last week's Householder verdict
CAL Watch – Weekly update of implied 2024 ROEs; utility bond yields fall, ROE on track for at least a 50bp increase
PEG – Good or bad, happy or sad, let's stay together
Fleish on Friday – Click link below to see this week's Fleish on Friday Poll Results

Midstream

Rig Count – Permian rig count starting to moderate some
Midstream of Consciousness – The big fundamental – assessing 3-year growth and total return propositions

Clean Energy

FSLR – China based manufacturer LONGi may partner with Invenergy to build modules in the U.S.
Wolfe GREEN Playbook – SVB fallout; GE bullish tone on wind; ENLT preview

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, Clean Energy Stock Charts, Valuation Charts, Models

Utilities

NI – Files NIPSCO electric settlement stipulating ~$292M rate hike, 9.80% ROE, and 51.63% equity ratio; solid

- On Friday, NIPSCO and certain intervenors filed a settlement agreement that will resolve all issues in its electric rate case, if approved.
    - Settling parties include the Office of Utility Consumer Counsel (OUCC), NIPSCO Industrial Group, NLMK Indiana, Walmart, U.S. Steel Corp., and RV Industry User's Group.
- Settling parties agreed to a $291.8M rate increase premised on a 9.80% ROE, 51.63% equity ratio, and a $5.295B pro forma rate base as of 12/31/23.
- Recall, NIPSCO requested a total $291.7M base rate increase in two steps (or ~$395.0M when including the VCT rider in base rates) using a 10.4% ROE and 51.6% equity ratio.
    - First increase of $234.6M effective 9/1/23, based on rate base as of 6/30/23.
    - Second increase of $57.1M effective 3/1/24, based on rate base as of 12/31/23.
- NIPSCO is currently allowed 9.75% ROE and 47.9% equity ratio.

Settling parties agreed to withdraw NIPSCO's proposed variable cost tracker (VCT) and instead agreed to establish a new Environmental Cost Tracker (ECT).
    - NIPSCO is forecasted to annually recover ~$29.9M of costs through its ECT rider.
- Settling parties also agreed to accept NIPSCO's proposed adjustment to increase Pension/OPEB expense by $15.2M in total; NIPSCO withdrew its request for a pension/OPEB balancing account.
- NIPSCO expects a final order on the settlement agreement by 8/23/23, with new rates effective 9/1/23.

We are still reviewing the settlement agreement in depth, but it looks constructive, coming in at ~74% of NIPSCO's initial ask. The small bump in NIPSCO's allowed ROE and the increase in its equity ratio are good to see. We also note that the rate base agreed to reflects the forecasted additions to the Renewable Energy JV Investments since the majority of NI's ask is to get 4 of NIPSCO's renewables projects put into rates.

New England – Capacity auction prices at $2.59 across zones for 2026-2027; similar to last year and in-line

- Yesterday, ISO-NE released the results for the 17th forward capacity auction covering 2026-2027 – pricing at $2.59/kW-month for Rest of Pool, Northern New England, and Southeast New England (this zone wasn't even separately modeled anymore)
- This compares with the 2025-2026 auction pricing last year at: $2.59/kW-month for Rest of Pool, $2.53 for Northern New England, and $2.64 for Southeast New England
- Within in our coverage, VST owns ~3.4 GWs in New England, EXC owns Mystic 8/9 which closes in 2024 and minimal capacity otherwise, and both PEG/NRG sold their remaining assets in the region to ArcLight
- In total, 31.4 GWs cleared relative to a 30.3 GW net installed capacity requirement; 16% (~5 GWs) of cleared capacity was from renewables and DR; 619 MWs of new resources cleared
    - This compares with 32.8 GWs clearing in the previous auction relative to a 31.6 GW net ICR

This was about in-line with expectations It is really only impactful for VST and even for them is very small. We forecast annualized 2026-2027 capacity revenues of ~$100M for VST and with the latest pricing, we see calendarized 2025 capacity revenues looking very similar assuming the same amount of capacity was cleared (historically ~3.1 GWs).

FE/Ohio – Ohio AG seeking to resume civil lawsuit against FE/Randazzo/Jones following last week's Householder verdict

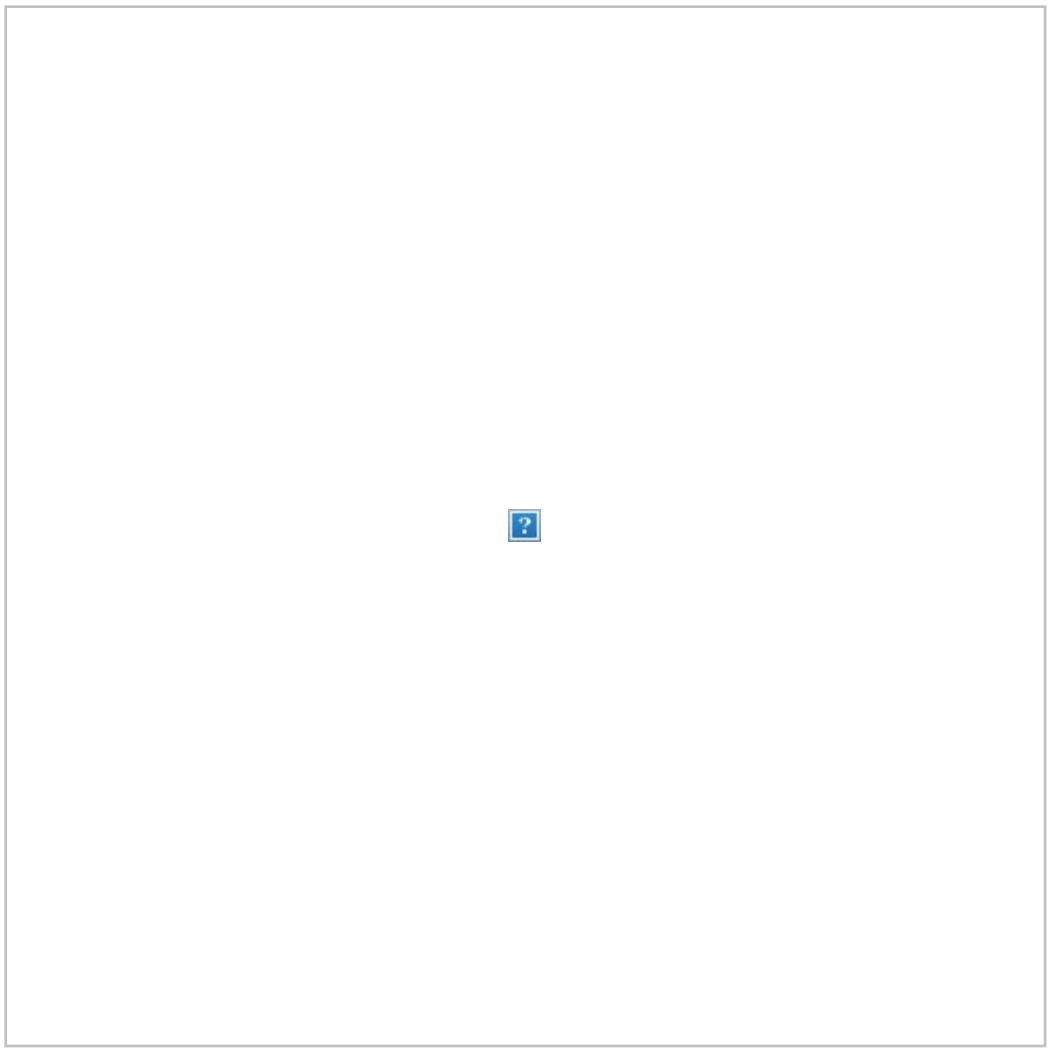
- Late last week, Ohio Attorney General Dave Yost filed a motion to lift the stay on his civil case against FE (along with its former CEO Chuck Jones and former PUCO Chair Sam Randazzo) tied to the HB6 fallout
- This followed a jury verdict last Thursday in the trials for former Ohio House Speaker Larry Householder and former state Republican Chairman Matt Borges

- Yost issued a statement: “Yesterday’s guilty verdicts in federal court against Larry Householder and Matt Borges mark only the beginning of accountability regarding House Bill 6… with the federal prosecution complete, the state of Ohio’s racketeering lawsuit, which already stopped the implementation of HB 6, should now be able to resume.”

Recall that FE already paid a $230M fine as part of its deferred prosecution agreement with the DoJ. FE also already reached a partial settlement with the AG in early-2021 to remove its decoupling mechanism enacted by HB6.

CAL Watch – Weekly update of implied 2024 ROEs; utility bond yields fall, ROE on track for at least a 50bp increase

- This our weekly series on the utility bond yield index used for the Cost of Capital mechanism (CCM). The allowed ROEs in 2023 for CA utilities are 10.05% for EIX; 10.00% for PCG; and 9.95% for SRE’s SDG&E and 9.85% for SRE’s SoCal Gas. But 2024 ROEs depend on whether the CCM is triggered.
- CCM: On 9/30, if the difference between the 12-month average of the Moody’s Bond Utility Baa Index and the benchmark value (currently 4.37%) exceeds 100bp, then the allowed ROE for the next calendar year is adjusted by one-half of the difference, and the current value of the index becomes the new benchmark value. (The index for SoCal Gas is Moody’s Utility A Index).
    - If the difference is within 100bp, ROEs and the benchmark index value remain the same for the subsequent year.
- Below is a chart with the Index values from 10/1/22 through the last available date (light blue bar charts); the average over that period is 5.78% (solid orange line).
- The Index value through last Thu was 5.74%, an 11bp decrease; if that were the average from now through 9/30/23, under the CoC mechanism, 2024 ROEs would be increased by 69bp [=(5.76-4.37)/2].
- It is still early, but the CCM is on track to be triggered, implying at least a 50bp increase in 2024 ROEs, if the Index from now through 9/30/23 averages at least 5.06%.



Source: Wolfe Utilities & Power Research; Bloomberg

PEG – Good or bad, happy or sad, let's stay together

Click here to view our complete note

Analyst Day focused on predictability/transparency. This was the resounding message from mgmt. The regulated business is growing rate base at 6-7.5%, with transmission formula rates and the CIP mechanism limiting volatility. Steps are still being taken to limit pension exposure. Meanwhile PEG officially committed to retaining its nukes, which are de-risked by the PTC floor and anything above it is an upside. However, this is a stock that still trades at just below an average multiple on elevated estimates, despite a no growth-year in 2023 and a disappointing CAGR re-basing just a few months ago. Peer Perform.

Fleish on Friday – Click link below to see this week's Fleish on Friday Poll Results

Click here to view poll results

1. Rising rates – who is most exposed and least exposed?
2. What's your broader takeaways from VST / Energy Harbor deal?
3. Views on PEG post Analyst Day?
4. What's the right EBITDA multiple for nuclear with PTC?
5. PPL – Why has stock been so weak recently?

6. The 15x 2025 stocks – Which do you like best here?
7. The 15x 2025 stocks – Which do you like least here?

Midstream

Rig Count – Permian rig count starting to moderate some

- Baker Hughes rig count data on Friday showed a 6 rig decline in the Permian last week. The Permian oil rig count hit a recent peak of 353 in mid-January but has now moderated to 339 in the latest data.

The Permian rig count remains slightly above its 2022 average. The data can be a little volatile, but any continued declines in rigs will be important to monitor as robust Permian volume growth is important to many companies' investment stories.

Midstream of Consciousness – The big fundamental – assessing 3-year growth and total return propositions

- In yesterday's Midstream of Consciousness, we compare 3-year growth outlooks across EBITDA, OCF/share, and total return of capital using our models that now extend out to 2025. We make observations on total return offerings and compare the stocks across growth and return of capital potential.
- **Comparing company growth outlooks off a record-setting 2022.** For the sector as a whole, we forecast average 2023-25 EBITDA and OCF/share growth of around 4%/yr. That's a little better than we would have thought off a robust 2022 base. See report for company-specific takeaways.
- **So what is the yield plus growth value proposition?** We take our 3-year OCF/share growth rates and combine that with 2023 dividend yields to rank total return. We were surprised to see that TRGP screens as offering the highest total return even with the well below average dividend yield!
- **Who will be the return of capital leaders over the next three years?** We compare the stocks in our coverage on a total return of capital basis for the next 3 years – i.e., dividends plus buybacks, divided by the market cap. The median company in our coverage offers a 24% total return of capital yield over 2023-25. WES, MPLX, MMP, PAA, and ET, each offer a 30%+ return of capital through 2025.
- **Modeling updates and company-specific nuances.** We initiate 2025 EBITDA estimates for EPD, MMP, and MPLX.
- Please see full report **here** for more.

Clean Energy

FSLR – China based manufacturer LONGi may partner with Invenergy to build modules in the U.S.

- Local organizations in Ohio issued a press release on Friday that renewable energy developer Invenergy will invest more than $600M into a JV with China-based

manufacturer LONGi to produce up to 5 GW per year of solar modules in Ohio. The JV is called Illuminate USA.
- Operations of the facility are expected to start by the end of this year
- Invenergy is the anchor customer of the JV

This is an interesting announcement where a large U.S. renewable developer (Invenergy) is looking to source U.S. made solar using a China-based manufacturing partner in LONGi. Our read of the announcement and the quick time to completion of the factory at yearend suggests this would be a module completion facility and so likely only able to receive $0.07/watt subsidy vs. the $0.17/watt fully integrated subsidy. For First Solar, this would be new competition next door in Ohio and a sign of how China-based companies could look to enter the market through JV structures. Importantly, we continue to think FSLR is well protected for a long time given they are nearly full sold on production through 2026 at fixed prices with continued sales over 2027-29.

Wolfe GREEN Playbook – SVB fallout; GE bullish tone on wind; ENLT preview

- In yesterday's Wolfe GREEN Playbook, we highlight Clean Energy exposure to the Silicon Valley Bank collapse which appears modest overall, highlight GE's bullish Investor Day tone on renewables under IRA, and preview ENLT's earnings this week.
- **RUN on the bank: clean tech exposure to SVB.** RUN is the one company to monitor given long-standing relations with SVB, but it looks manageable. Broader contagion and impact on financing markets are the real risks to watch this week.
- **Clean Energy takeaways from GE Investor Day.** GE Vernova sees robust onshore wind growth and expects the U.S. buildout to increase by 2x vs. the prior decade driven by the PTC extension. Cautious offshore wind commentary was not surprising given N-T challenges, but GE seemed optimistic for the industry to improve in 2024.
- **Initiated on ENLT; earnings coming this week.** Our 2022-25E EBITDA are $144/204/306/420M vs. ENLT's current guidance of $145-148M EBITDA in 2022. We expect ENLT to introduce 2023 EBITDA guidance and provide an update on its highly visible projects (what ENLT calls its Mature Portfolio). We also think ENLT may pull forward some projects from its backlog, raising the projected amount of capacity/storage in its Mature Portfolio.
- Please see the full report **here** for more.

Wolfe Events

March 15: Moody's lunch in New York
March 20-24: CEG non-deal roadshow in Europe
March 23-24: ES non-deal roadshow in London
March 27-31: PCG non-deal roadshow in Europe
April 4: DTE non-deal roadshow in New York
June 19-20: EVRG non-deal roadshow in New York/Boston

Recent Popular Reports

Wolfe Clean Energy Initiation
Utilities Top 10 for 2023
Midstream Top 10 for 2023
Clean Energy Top 10 for 2023
Power Supply Outlook 2022
Wolfe Hydrogen Primer
Wolfe Resi Solar Primer
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Midstream Proxy Review
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NiSource Inc.

Intervenor Testimony Filed in NIPSCO Rate Case

Equities

Americas

Electric Utilities

12-month rating	**Neutral**
12m price target	**US$31.00**
Price (20 Jan 2023)	**US$27.21**

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

Trading data and key metrics

52-wk range	US$32.46-24.15
Market cap.	US$12.1b
Shares o/s	443m (COM)
Free float	99%
Avg. daily volume ('000)	1,395
Avg. daily value (m)	US$37.3
Common s/h equity (12/22E)	US$5.94b
P/BV (12/22E)	2.0x
Net debt to EBITDA (12/22E)	6.2x

EPS (UBS, diluted) (US$)

	12/22E	
	UBS	**Cons.**
Q1	0.75	0.75
Q2	0.12	0.12
Q3	0.10	0.10
Q4E	0.45	0.44
12/22E	1.45	1.45
12/23E	1.54	1.54
12/24E	1.66	1.67

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What Happened?

On Friday, intervenor testimony in NiSource's NIPSCO electric rate case was filed. The Office of Utility Consumer Counselor proposed a $246mm rate increase premised on a 9.2% ROE, 49.3% equity ratio and $5.979bn rate base. The OUCC also recommended rejecting NIPSCO's request for a variable cost tracker to recover costs related to its coal-fired generation plants in base rates. NIPSCO's overall revenue request, inclusive of the tracker, is $393.5 or a 25.7% increase. The company is seeking a two step increase, a $235mm increase to take effect by 9/1/23 and a $57mm increase to take effect by 3/1/24, plus the rider going into effect in July '24. NIPSCO's request reflects a 10.4% ROE and 51.63% equity ratio and rate base of $5.946bn. The company was last authorized a 9.75% ROE and 47.86% equity ratio in December of 2019.

Our Takeaway

While the recommended ROE looks a bit low at 9.2% given the rise in the interest rates over the past year, we see the revenue increase, which is 62.5% of the company's ask, as a reasonable amount for a key intervenor position. If the recommendation for the denial of the variable cost tracker were to be granted by Indiana regulators, it would likely necessitate NIPSCO to adjust rates for the impact of coal plant retirements in a subsequent base rate case proceeding. This is an important rate case for NI, with NIPSCO Electric accounting for ~37% of operating earnings. The fleet transition at NIPSCO from coal to renewables underpins a large portion of the 6-8% LT EPS growth rate the company unveiled at it's November analyst day. Affordability remains a concern for us across the industry and NI's ask is substantial. However, we believe management is keenly focused on this and elected to spread out the investment over a longer period of time and moderated earnings growth in an effort to manage rate pressure to customers.

What's Next?

The 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. Additionally, Nisource has begun the process of marketing up to a 19.9% stake in NIPSCO for sale, as announced in November. An announcement is expected around mid-year with an expected close by year-end '23. See our note from post the November analyst day here for more details.

Valuation:

The stock is trading at a 4% discount to peer group average on '24E earnings. Constructive resolution of the NIPSCO rate case should support an improved valuation. We maintain our Neutral rating and $31 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	11.0	10.6	10.3	9.8	9.3
P/E (UBS, diluted) x	21.2	18.6	17.9	18.8	17.7	16.4	15.6	14.7
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(8.5)	(15.3)	(1.8)	(0.8)	0.2
Dividend yield (net) %	3.0	3.6	3.6	3.5	3.7	4.0	4.2	4.4

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$ 27.21 on 20-Jan-2023

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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	12.77	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	18.8	17.7	16.4	15.6	14.7
P/E (UBS, diluted)	21.2	18.6	17.9	18.8	17.7	16.4	15.6	14.7
P/CEPS	8.6	7.4	7.8	8.1	7.4	7.0	6.6	6.3
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(8.5)	(15.3)	(1.8)	(0.8)	0.2
Dividend yield (net) %	3.0	3.6	3.6	3.5	3.7	4.0	4.2	4.4
P/BV	2.0	1.9	1.9	2.0	1.9	1.8	1.7	1.6
EV/revenues (core)	3.6	3.8	3.8	4.2	4.3	4.4	4.3	4.2
EV/EBITDA (UBS core)	10.6	9.9	10.4	11.0	10.6	10.3	9.8	9.3
EV/EBIT (core)	17.9	17.2	17.9	18.8	18.3	17.5	16.7	15.9
EV/OpFCF (core)	10.6	9.9	10.4	11.0	10.6	10.3	9.8	9.3
EV/op. invested capital	1.4	1.3	1.3	1.4	1.3	1.3	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	12,065	12,065	12,065	12,065	12,065
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**	**24,532**	**26,194**	**27,591**	**28,141**	**28,600**
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**	**21,836**	**23,348**	**24,595**	**24,995**	**25,304**

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	48.2	51.5	53.9	54.8	55.5
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	+13.9%
Forecast dividend yield	3.7%
Forecast stock return	+17.7%
Market return assumption	9.2%
Forecast excess return	+8.5%

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 $31 price target is an 8% premium to the Regulated Utility average multiple or 18.7x 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.

Quantitative Research Review

UBS publishes a quantitative assessment of its analysts' responses to certain questions about the likelihood of an occurrence of a number of short term factors in a product known as the 'Quantitative Research Review'. The views for this month can be found below. Views contained in this assessment on a particular stock reflect only the views on those short term factors which are a different timeframe to the 12-month timeframe reflected in any equity rating set out in this note. For previous responses please make reference to (i) previous UBS research reports; and (ii) where no applicable research report was published that month, the Quantitative Research Review which can be found at https://neo.ubs.com/quantitative, or contact your UBS sales representative for access to the report or the Quantitative Research Team on qa@ubs.com. A consolidated report which contains all responses is also available and again you should contact your UBS sales representative for details and pricing or the Quantitative Research Team on the email above.

NiSource Inc.

Question	Response
1. Is the industry structure facing the firm likely to improve or deteriorate over the next year? Rate on a scale of 1-5 (1 = getting worse, 3 = no change, 5 = getting better, N/A = no view)	3
2. Is the regulatory/government environment facing the firm likely to improve or deteriorate over the next year? Rate on a scale of 1-5 (1 = getting tougher 3 = no change, 5 = getting better, N/A = no view)	2
3. Over the last 3-6 months in broad terms have things been improving/no change/getting worse for this stock? Rate on a scale of 1-5 (1 = getting a lot worse, 3 = not much change, 5 = getting a lot better, N/A = no view)	3
4. Relative to the current CONSENSUS EPS forecast, is the next company EPS update likely to lead to: (1 = negative surprise vs consensus, 3 = in-line with consensus, 5 = positive surprise vs consensus expectations, N/A = no view)	3
5. What's driving the difference?	
6. Relative to YOUR current earnings forecast, is there relatively greater risk at the next earnings result of:(1 = downside skew risk to earnings, 3 = equal upside or downside risk to earnings, 5 = upside skew risk to earnings, N/A = no view)	2
7. What's driving the difference?	
8. Is there an upcoming catalyst for the company over the next three months?	
9. Is there an actual or approximate date for the catalyst?	
10. Is the catalyst date an actual or approximate date?	
11. What is the catalyst?	

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	55%	24%
Neutral	FSR is between -6% and 6% of the MRA.	36%	21%
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 31 December 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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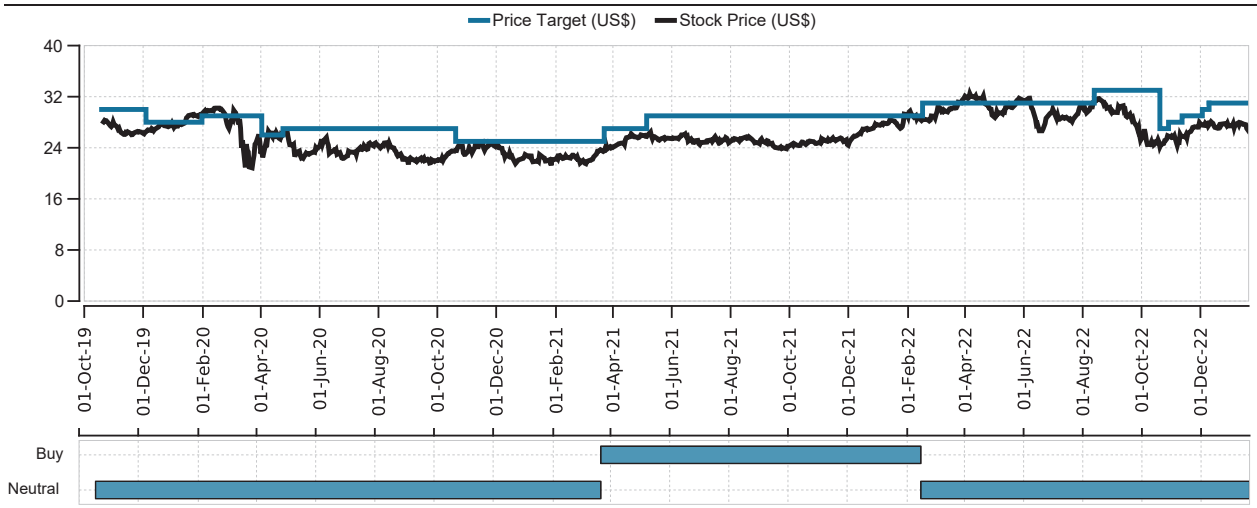
Company Disclosures

Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$27.21	20 Jan 2023

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
2019-10-18	27.98	30.00	Neutral
2019-12-03	26.41	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral
2020-10-19	23.47	25.00	Neutral

Date	Stock Price (US$)	Price Target (US$)	Rating
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
2022-11-11	25.81	29.00	Neutral
2022-12-02	27.57	30.00	Neutral
2022-12-09	27.39	31.00	Neutral

Source: UBS;as of 20-Jan-2023. All prices as of local market close. Ratings as of date shown.

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UBS

First Read

NiSource Inc.

Settlement Reached in NIPSCO GRC

Equities

Americas

Electric Utilities

12-month rating	**Neutral**
12m price target	**US$30.00**
Price (10 Mar 2023)	**US$26.71**

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

Trading data and key metrics

52-wk range	US$32.46-24.15
Market cap.	US$11.8b
Shares o/s	443m (COM)
Free float	99%
Avg. daily volume ('000)	1,206
Avg. daily value (m)	US$33
Common s/h equity (12/22E)	US$5.95b
P/BV (12/22E)	2.0x
Net debt to EBITDA (12/22E)	6.2x

EPS (UBS, diluted) (US$)

	12/22E	
	UBS	**Cons.**
Q1	0.75	0.75
Q2	0.12	0.12
Q3	0.10	0.10
Q4E	0.49	0.50
12/22E	1.45	1.47
12/23E	1.54	1.56
12/24E	1.66	1.68

What Happened?

This morning, Nisource filed an 8-k announcing a settlement with five key parties to the NIPSCO general rate case, including the Office of Utility Consumer Counselor. The agreement, which still needs Indiana Utility Regulatory Commission approval, calls for a $291.8mm revenue increase over two phases in '23 and '24. This reflects a 9.8% ROE, 51.6% equity ratio and $5.925bn rate base. The company had sought a $393.5mm rate increase, 10.4% ROE and 51.6% equity ratio. The settlement also calls for the establishment of a Environmental Cost Tracker (ECT) which is a modified and smaller in scope version of the Variable Cost Tracker (VCT) that NIPSCO has initially proposed. The ECT will track ~$30mm in cost and in is included the headline revenue number of $291.8mm. The first rate increase will take effect 9/1/23.

What's Our Take?

We view this as a constructive outcome with ~74% of the revenue ask being awarded and the 9.8% ROE being in-line with the 9.75% awarded in December 2019. The revenue percentage of ask and the ROE metrics are both modestly above national averages. Nisource management had indicated on the fourth quarter earnings call that a settlement was likely, so investors had expectations this was coming, but nonetheless good to see announced. The company had a positive update on the Q4 call where they raised guidance for 2023 and reiterated the long term outlook as unveiled at the November investor day. See our notes here and here for more details.

What's Next?

Parties not signed on to the agreement have until 3/31/23 to file opposition with the IURC. NIPSCO anticipates a final order by 8/23/23. Additionally, Nisource has begun the process of marketing up to a 19.9% stake in NIPSCO for sale, as announced in November. An announcement is expected around mid-year with an expected close by year-end '23.

Valuation:

We maintain our Neutral rating and $30 target.

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Highlights (US$m)	12/19	12/20	12/21	12/22E	12/23E	12/24E	12/25E	12/26E
Revenues	5,184	4,697	4,900	5,208	5,448	5,644	5,813	5,980
EBIT (UBS)	1,047	1,031	1,046	1,181	1,276	1,402	1,497	1,591
Net earnings (UBS)	495	507	573	642	677	734	782	833
EPS (UBS, diluted) (US$)	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)	(12,369)	(14,567)	(15,163)	(15,668)	(16,080)
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	22.7	23.4	24.8	25.8	26.6
ROIC (EBIT) %	7.9	7.5	7.4	7.7	7.2	7.3	7.4	7.6
EV/EBITDA (UBS core) x	10.6	9.9	10.4	10.8	10.5	10.2	9.7	9.3
P/E (UBS, diluted) x	21.2	18.6	17.9	18.5	17.4	16.1	15.3	14.5
Equity FCF (UBS) yield %	(1.6)	(6.0)	(6.2)	(8.5)	(15.6)	(1.8)	(0.8)	0.2
Dividend yield (net) %	3.0	3.6	3.6	3.6	3.8	4.0	4.3	4.5

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$ 26.71 on 10-Mar-2023

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Forecast returns

Forecast price appreciation	+12.3%
Forecast dividend yield	3.8%
Forecast stock return	+16.1%
Market return assumption	9.6%
Forecast excess return	+6.5%

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 $30 price target is an 12% premium to the Regulated Utility average multiple or 18.1x 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 second 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. Our price target is derived using a sum-of-the-parts P/E valuation.

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NiSource Inc.

Question	Response
1. Is the industry structure facing the firm likely to improve or deteriorate over the next year? Rate on a scale of 1-5 (1 = getting worse, 3 = no change, 5 = getting better, N/A = no view)	3
2. Is the regulatory/government environment facing the firm likely to improve or deteriorate over the next year? Rate on a scale of 1-5 (1 = getting tougher 3 = no change, 5 = getting better, N/A = no view)	3
3. Over the last 3-6 months in broad terms have things been improving/no change/getting worse for this stock? Rate on a scale of 1-5 (1 = getting a lot worse, 3 = not much change, 5 = getting a lot better, N/A = no view)	3
4. Relative to the current CONSENSUS EPS forecast, is the next company EPS update likely to lead to: (1 = negative surprise vs consensus, 3 = in-line with consensus, 5 = positive surprise vs consensus expectations, N/A = no view)	3
5. What's driving the difference?	
6. Relative to YOUR current earnings forecast, is there relatively greater risk at the next earnings result of:(1 = downside skew risk to earnings, 3 = equal upside or downside risk to earnings, 5 = upside skew risk to earnings, N/A = no view)	3
7. What's driving the difference?	
8. Is there an upcoming catalyst for the company over the next three months?	
9. Is there an actual or approximate date for the catalyst?	
10. Is the catalyst date an actual or approximate date?	
11. What is the catalyst?	

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Buy	FSR is > 6% above the MRA.	55%	24%
Neutral	FSR is between -6% and 6% of the MRA.	36%	21%
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%

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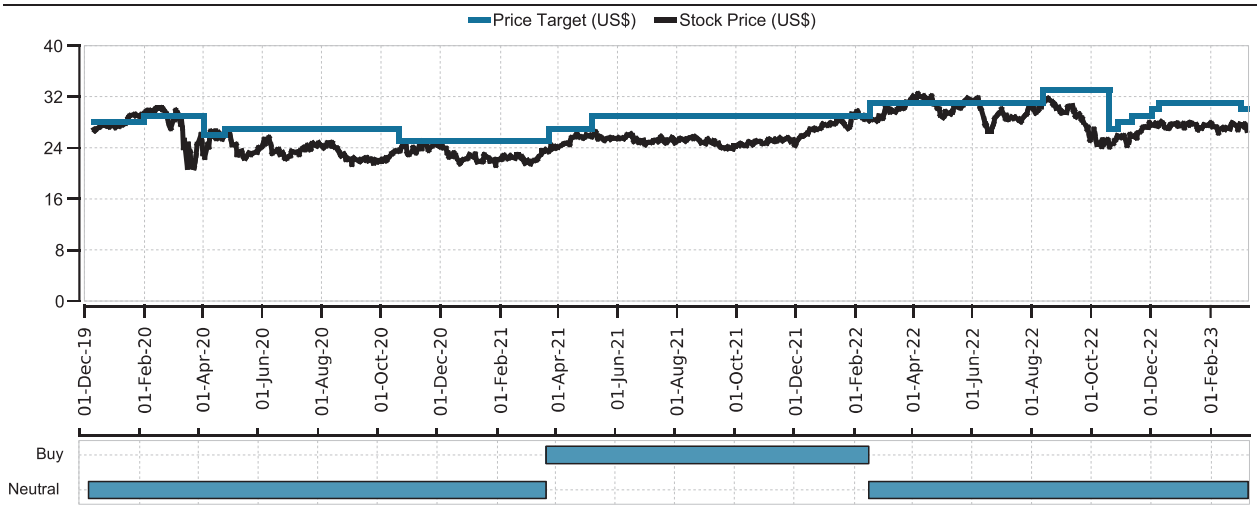
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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$26.71	10 Mar 2023

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
2019-12-10	27.00	28.00	Neutral
2020-01-30	29.10	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy

Date	Stock Price (US$)	Price Target (US$)	Rating
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
2022-11-11	25.81	29.00	Neutral
2022-12-02	27.57	30.00	Neutral
2022-12-09	27.39	31.00	Neutral
2023-03-03	27.70	30.00	Neutral

Source: UBS;as of 10-Mar-2023. All prices as of local market close. Ratings as of date shown.

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EVERCORE ISI

Flash Note | **Energy | Power & Utilities**

May 03, 2023

NiSource Inc

NI | $27.91

Outperform | Target Price/Base Case: $31.00

Company Update

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First Crack at 1Q23

We believe NiSource's 1Q23 earnings release has neutral implications for the stock. Q1 EPS slightly beat consensus. The company reaffirmed its 2023 non-GAAP NOEPS earnings guidance and annual non-GAAP NOEPS growth of 6-8% through 2027. NIPSCO minority sale is on track for 2023.

Key Takes:

- NI reported Q1 adjusted diluted Net operating EPS (NOEPS) of $0.77 vs. our estimate of $0.77 and street consensus of $0.75. 1Q23 NOEPS is 3% higher than 1Q22 NOEPS of $0.75.
- Reaffirmed 2023 non-GAAP NOEPS guidance range of $1.54-$1.60.
    - Midpoint of $1.57 represents 6.8% growth off 2022 NOEPS. Consensus is at $1.55.
- Reaffirmed annual non-GAAP NOEPS growth of 6-8% through 2027.
    - Off the 2023 earnings guidance range of $1.54-$1.60.
- Reaffirmed $15B 2023-2027 capex plan with ~75% of investments beginning earning in less than 18 months
    - Driving 8%-10% annual utility rate base growth
- Northern Indiana Public Service Company (NIPSCO) minority sale process on track for 2023
- Long-term 14-16% FFO/Debt target reaffirmed
- NIPSCO reached a settlement in the electric rate case on March 10th
- Shawn Anderson, formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer, effective Mar 27th

NI will host a conference call at 11am ET. Dial-in: 1 (888) 330-2391. Passcode: 28323. We will follow the call with a detailed note.

Additional Details:

- **Minority Interest Sale:** Minority interest sale of NIPSCO is still expected to be completed in 2023 and continues to track as expected. The company remains confident in the attractiveness of the asset and has previously stated that there is no decline in interest attributable to interest rates, particularly given the quality of the potential counterparties with ready capital to deploy, bank leverage tools, and long-term investment preference. NiSource has initiated the sale process, and we expect an announcement by mid-year and close by year-end. We estimate $1.5-$2B in cash proceeds.
- **NIPSCO Electric rate case**: On March 10th, NIPSCO and other parties reached a settlement agreement in its electric rate case in Indiana. The settlement proposed a $292M rate increase compared with $395M company requested, including base rate increase and tracker. The parties agreed on an ROE of 9.8% versus current 9.75%, and an equity layer of 51.63% versus current 47.86%. Recall that company requested a 10.4% ROE and a 58.5% equity ratio on a rate base of $5.95B. We view the settlement as constructive if approved. A final Commission order is expected in mid-August with rates going into effect in September.
- **Virginia gas rate case**: On Dec 9th, Columbia Gas of Virginia reached a settlement with $25.8 million rate increase, inclusive of SAVE (Steps to Advance Virginia's Energy Plan) infrastructure tracker ($14.5MM), representing a settlement as to a specific revenue number but not as to a specific ROE. Recall that NiSource requested $40.6MM revenue increase 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. A final order is expected in 2Q23.

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- **OH gas rate case**: On Oct 31st, 2022, Columbia Gas of Ohio filed a settlement representing a $68.2M revenue increase with 9.6% ROE and 50.6% equity layer. The company originally requested $221MM with ROE of 10.9%. The equity ratio request of ~51% was not disputed. The commission approved the settlement in January 2023 for new rates effective in March.
- **Leadership changes:** The company announced several leadership changes on March 15th, link. Notably Shawn Anderson formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer effective Mar 27th. Donald Brown, NiSource's former chief financial officer, assumed the role of executive vice president and chief innovation officer on Mar 27th, replacing Melody Birmingham, who was named as executive vice president, and group president, NiSource utilities.

VALUATION METHODOLOGY

We use a SOTP analysis to arrive at our price target

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

TIMESTAMP

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

Time of dissemination: May 03 2023 7:36 AM ET

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage 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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Sell -the total forecasted return is expected to be less than 0%

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

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

Evercore Group:

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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%.

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Evercore ISI rating (as of 03 May 2023)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	465	57	Buy	53	11
Hold	296	36	Hold	26	9
Sell	16	2	Sell	0	0
Coverage Suspended	35	4	Coverage Suspended	4	11
Rating Suspended	9	1	Rating Suspended	2	22

Issuer-Specific Disclosures 03 May 2023

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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To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: EIX, PEG, OGS, EXC, NI, ALE, SR, AVA, SMR, MA/Wind, Policy, SPP, PCG, CAISO, WEC, AEP/DUK/NI - Guggenheim Securities, LLC
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Power & Utilities May 3, 2023

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Access This Report

SAVE THE DATE: We are hosting a dinner with CNP's COO, new CFO, and others on May 22nd...

For our AGA conference (May 20-23) meeting schedule, please scroll down...

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our EXC NDR, AEP NDR, ETR NDR, DTE NDR, PCG NDR, ES NDR, SMR NDR, LNT NDR, PNW NDR, AWK NDR, CMS NDR, SO NDR, POR NDR, CEG NDR, PEG NDR, and other events, scroll down...

EIX: 1Q23 EPS Beat; All Quiet on the Western Front, Regulatory Activity Spikes Mid-May but More Tailwinds, in Our View (see our note HERE)

PEG – 1Q EPS Beat; Quiet Quarter Emblematic of Lower Risk Business Mix; Electrification for the Long-Haul Upside (see our note HERE)

OGS: Calm Despite Stormy Weather — 1Q23 In Line & 2023 Guidance Maintained (see our note HERE)

EXC reports 1Q23 earnings

NI 1Q23 in line; reiterates all guidance, including YE23 anticipated NIPSCO minority interest sale closing date

ALE reports 1Q23 earnings

SR reports fiscal Q2 2023 NEEPS beat; narrows guidance around unchanged midpoint

AVA reports large miss for 1Q23; maintains annual guidance

EXC/IL – ComEd trial results in 4 guilty verdicts

SMR – NuScale continues to pursue opportunities in SE Asia; news release correction clarifies SMR's role

MA/Wind – MA DOER and other agencies issue RFP for up to 3.6GWs of offshore wind

Policy – Senator Manchin advances efforts on permitting reform in Senate

SPP – Grain Belt developers update on phasing of HVDC work

PCG – PCG CEO makes constructive comments on company culture in media interview

CAISO – CA transmission RTO bill is referred to Appropriations committee

WEC – S&P Revises WEC Energy Group Outlook to Negative

AEP/DUK/NI – Indiana legislation signed into law this week protects utilities' control over building power lines

EXC reports 1Q23 earnings

- EXC reported $0.70 vs. Gugg/Cons of $0.67/0.66
- Reaffirmed 2023 EPS guidance of $2.30-2.42 vs. Gugg/Cons $2.36/2.37
- Results for the quarter featured ($0.04) of weather at PECO, ($0.01) at PHI
- Key long term outlook messages unchanged from 4Q22 update (EPS and DPS growth/payout ratio commentary)
- Key parameters of financing plan unchanged ($425m equity by '25), 80% of debt financing needs executed in 1Q
- Call at 10am – register HERE
- Slides HERE

NI reports 1Q23 in line net operating EPS of $0.77 vs Gugg/consensus at $0.76/$0.76; maintains 2023 guidance of $1.54-$1.60 ($1.57 midpoint) vs Gugg/consensus at $1.57/$1.56

- **Asset sale update:** NI reports being "on track" with regard to strengthening its balance sheet via a successful minority interest sale of its NIPSCO utility
  - Company still expects a **close in 2023**

- **Credit:** continuing to target 14%-16% FFO/debt post-sale of NIPSCO minority interest
- **EPS CAGR:** reiterates 6%-8% expected annual NOEPS growth through 2027 (illustrated clearly on slide 5)
- **Cost management:** reiterates guidance of flat O&M
- **Capex:** $15bn 2023–2027 capex plan reiterated, along with 2023 capital investment guidance
- **Rate Base:** reiterated 8%-10% expected annual rate base growth; recall that FY22 projected rate base was estimated at ~$16.6bn
- **Credit:** ~$11.6bn of total debt as of March 31, 2023; ~$10.3bn of LT debt; ~13yr weighted average maturity; 3.83% weighted average interest rate
    - Committed to maintaining current investment-grade credit ratings: S&P (BBB+), Moody's (Baa2), and Fitch (BBB)
- **Financing:** maintains 2023–2027 financing plan; equity plans (excluding the remarketed equity units of $863m) are to restart the company's ATM equity in 2025+, to support current investment grade credit ratings; may also be used to redeem o/s preferred stock ($900m)
- **TSR:** continuing to target 9%-11% total shareholder return
- **Dividend:** reiterated 60%–70% payout target.
- Call is at **11:00am at 1-888-330-2391... Passcode: 28323**

ALE reports 1Q23 earnings

- ALE reported $1.02 vs. Gugg/Cons of $1.22/1.18
- Reaffirmed 2023 EPS guidance of $3.55 to $3.85 vs. Gugg/Cons of $3.70/3.71
- Weather was ($0.10) impact on the quarter
- "Sales to residential, commercial and municipal customers decreased from 2022 primarily due to warmer weather in 2023 compared to 2022. Sales to municipal customers also decreased as a result of a new contract entered into with Hibbing Public Utilities in April 2022 with sales under the new contract classified under other power suppliers." - Q
- ACE 'below expectations' on lower wind and availability of assets
- ACE O&M up 25% (+$2.9m)
- Higher O&M also dragged on MN Power (+$10.4m vs. 1Q22)
- 1Q23 contribution of $4.5mm from New Energy
- Still planning next MN Power case in 4Q23
- Call at 10am – register HERE
- Slides to be posted HERE

SR reports 2FQ23 beat of $3.70 in NEEPS vs Gugg/consensus at $3.44/$3.50; narrows FY23 NEEPS guidance to $4.20–$4.30 (from $4.15–$4.35), maintaining $4.25 midpoint, vs Gugg/consensus at $4.25/$4.25

- Reiterates confidence in 5-7% long-term EPS growth off of a base of the midpoint of the company's original fiscal 2023 earnings guidance of $**4.15**

- Following fiscal Q2 2023 results, SR has updated its segment guidance as below:
    - **Gas Utility:** $210m–$220m, **down** from $225m–$235m, previously
    - **Gas Marketing:** $43m–$48m, **up** vs $25m–$30m, previously
    - **Midstream**: $10m–$12m **a minor tweak upwards** vs $9m–$11m, previously
    - **Corporate & Other:** $-25m–$-30m vs $-20m–$-25m, previously
    - *Notable offsets to the strength at Marketing and Midstream were the impacts of lower margins during the winter of the Gas Utilities, as well as high interest expenses (impactful at both Gas Utilities and Corporate costs).*

- **Capex:** targeted 10-year capital investment plan remains $7bn, and expected capex for fiscal 2023 remain $700m, including the company's Midstream expansion for Spire Storage, which it reports "remains on plan".
- **Rate Base growth:** Capex is anticipated to drive 7%–8% utility rate base growth
- *Presentation and accompanying details not yet released*
- Earnings call will be held today at 9**:00 AM ET**… Dial-in: **844-824-3832**…(**no access code**)

AVA reports large miss for 1Q23 of $0.73 vs Gugg/consensus at $1.23/$1.16 and 1Q22 EPS of $0.99; maintains 2023 annual guidance of $2.27–$2.47 ($2.37 midpoint) vs Gugg/consensus at $2.28/2.34

- $–0.11 of EPS decline was driven primarily by inflationary pressures resulting in increased labor and benefits costs, among other operating expenses.
- $–0.09 came from timing-driven changes to AVA's effective tax rate; EFT was –13.7% in 1Q23 vs –17.8% in 1Q22.
- $–0.08 was a direct result of higher interest rates.
- $–0.02 at "other businesses", due to net investment losses recognized in 2023 compared to net investment gains recognized in 2022.
- **Margins:** compared to 1Q22, electric utility margin was flat, while natural gas utility margin increased EPS by $0.06 in 1Q23
- **"***We expect lower net power supply costs for the remainder of the year, resulting in a benefit under the ERM***" —** Dennis Vermillion, President and CEO
    - AVA booked a $7.6m pre-tax expense under the Energy Recovery Mechanism (ERM) in Washington, compared to a $1.9m pre-tax benefit in 1Q22

- **Capex:** 2023 capex guidance at Avista Utilities was reiterated at $475m; AEL&P capex is expected to be $19m vs $15m previously.
- **Debt Financing:** AVA issued $250m of long-term debt in 1Q23 (vs prior guidance of $200m for 2023) and does not expect to issue further LT debt this year.
    - The company ***does however*** expect to increase the capacity of its $400m credit facility to $500m in 2Q23.

- **Equity Financing:** $30m of equity was issued in 1Q23, and common stock issuance guidance was maintained at $120m for 2023.

EXC/IL – ComEd trial results in 4 guilty verdicts

- Michael McClain, former ComEd CEO Anne Pramaggiore, ex-ComEd lobbyist John Hooker and former City Club President Jay Doherty were convicted on all counts following 27 hours of deliberation
- More HERE

Guggenheim takeaway: *The case has been a constant point of media noise in IL in recent weeks, so good to see resolution in our view ahead of the second phase (former speaker Madigan). As a reminder, this matter was the driver of the July 2020 deferred prosecution agreement between the utility and the US Attorney's Office for the Northern District of Illinois. More recently, the case had tangential readthrough to the ICC given certain linkages (see HERE).*

SMR – NuScale continues to pursue opportunities in SE Asia; news release correction clarifies SMR's role

- Alongside a state visit of the Philippine president to DC, the president's office initially indicated in a release that the company would invest ~$7bn in the country to build a 430MW plant
- The language around the meeting with NuScale executives was subsequently amended yesterday to clarify that the company is working on a study and potentially with a local developer
- More HERE

Guggenheim takeaway: *The headline of NuScale potentially investing several times its market cap in the country generated some noise yesterday, with the subsequent clarifications helping to underscore that this is a normal outreach process for the country – similar to what we have seen to date in eastern Europe. We continue to monitor for additional data points on leads like these.*

MA/Wind – MA DOER and other agencies issue RFP for up to 3.6GWs of offshore wind

- The blockbuster RFP will set in motion a ~8 month response period in which projects of varying sizes may be bid in
- "If approved, the draft RFP will invite submittals for offshore wind generation to procure up to 3,600 MW, which represents 25 percent of the state's annual electricity demand and a significant increase over the previous procurement, which sought approximately 1,600 MW of offshore wind." - release
- "The procurement team would have flexibility to evaluate bids ranging from 400 MW to 2,400 MW in size, and to select a project or projects that bring significant benefits to the Commonwealth." - release
- Bids are due 31 January 2024
- More HERE

Guggenheim takeaway: *Flagged for your awareness as MA joins NY in seeking additional procurements of wind. The latest request is the first to come after last summer's modifications to the process and is the first to be lead by the DOER. The solicitation includes a weighting towards economic development and other social considerations, which was a point of interest in the state during last year's session. While we would not be*

surprised to see ES' JV bid into this latest RFP, we continue to expect an exit in the coming quarters, with an announcement potentially by the 2Q call. The state is also grappling with the ongoing fallout around the technical default for the Commonwealth project.

Policy ─ Senator Manchin advances efforts on permitting reform in Senate

- The Senator's office has re-released his prior legislation on permitting reform to serve as a starting point in Senate and Congressional negotiations
- "Today, U.S. Senator Joe Manchin (D-WV), Chairman of the Senate Energy and Natural Resources Committee, introduced the *Building American Energy Security Act of 2023*, the text of the National Defense Authorization Act (NDAA) amendment that was supported by 47 Senators (40 Democrats and 7 Republicans) in a tied floor vote in December 2022. This legislation will serve as a starting point for upcoming conversations in the Senate around reforming energy permitting to ensure American energy security and independence." – Manchin's office
- More HERE

Guggenheim takeaway: *Heads up as the process begins to heat up on both sides of the Hill – the successful passage of a budget package (with permitting items) by Republicans sets up further conversations on this specific topic, and we continue to see the area as ripe for bipartisanship in the coming weeks.*

SPP ─ Grain Belt developers update on phasing of HVDC work

- The developers continue to analyze potential impacts of the line and its second phase into IL for impacts on energy and capacity pricing in MISO and potentially PJM
- "Preliminary design has begun. Detailed design is required to start Q4 2023, in order to meet 2028 COD. Results of SPP TWG studies are needed to start detailed design in Q4 2023." - presentation
- More HERE

Guggenheim takeaway: *We continue to monitor Grain Belt as a both a resource adequacy option for adjacent utilities, and for its potential impact on energy and capacity pricing in MISO Zone 4 and beyond.*

PCG – PCG CEO makes constructive comments on company culture in media interview

- PCG CEO Patti Poppe made comments in a Press Democrat interview on transformation progress.
- Commentary directly addressed the ongoing culture change and PG&E.
- More here.

Guggenheim takeaway: *FYI. Transparent and open commentary on PG&E legacy issues.*

CAISO – CA transmission RTO bill is referred to Appropriations committee

- CA Legislature re-referred the bill addressing CAISO expansion into a western RTO to the appropriations

committee.

- CA introduced an assembly bill (AB538) that would look for CAISO to become an expanded western RTO with increased governance and multistate jurisdiction.
- The CAISO would be able to submit a plan to the CEC for expanded governance and multistate inclusion of resources into the RTO structure.
- Lawmakers believe this would be a solution to the resource adequacy constraints that CAISO has felt in recent years and would open up more availability of clean energy resources aligned with CA policy goals.
- Bill text here: AB538.

Guggenheim takeaway: *FYI. Resource adequacy work continues in CA.*

WEC – S&P Revises WEC Energy Group Outlook to Negative

- S&P highlighted at the top of its report that WEC reaffirmed its expectation to fund its capital plan without any new equity issuance, a plan which incorporates $12.4bn of investments through 2025.
- S&P further states that WEC's negative operating cash flow has grown in recent years primarily from high capital spending and large nonutility acquisitions, and that S&P believes the company is disproportionately funding this cash deficit with incremental debt, weakening financial measures, in the rating agency's view.
- As a result, S&P believes its consolidated FFO- to-Debt could reside below S&P's downgrade threshold for the next three years.
- Bloomberg link to S&P release HERE

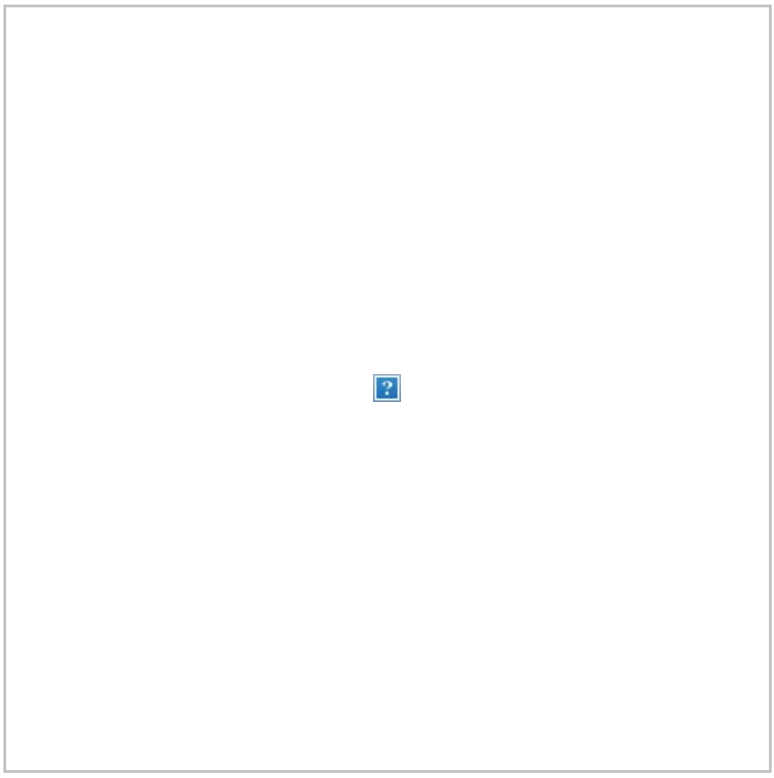
Guggenheim takeaway: *We caught up with the company following this release. WEC stated that from their perspective, S&P hasn't looked at the longer term, and highlighted that the outlook on WEC's utilities remains stable. The company does not expect this will materially impact its ability to access the capital markets, a view which we agree with, while also explicitly clarifying that WEC remains confident in its outlook.*

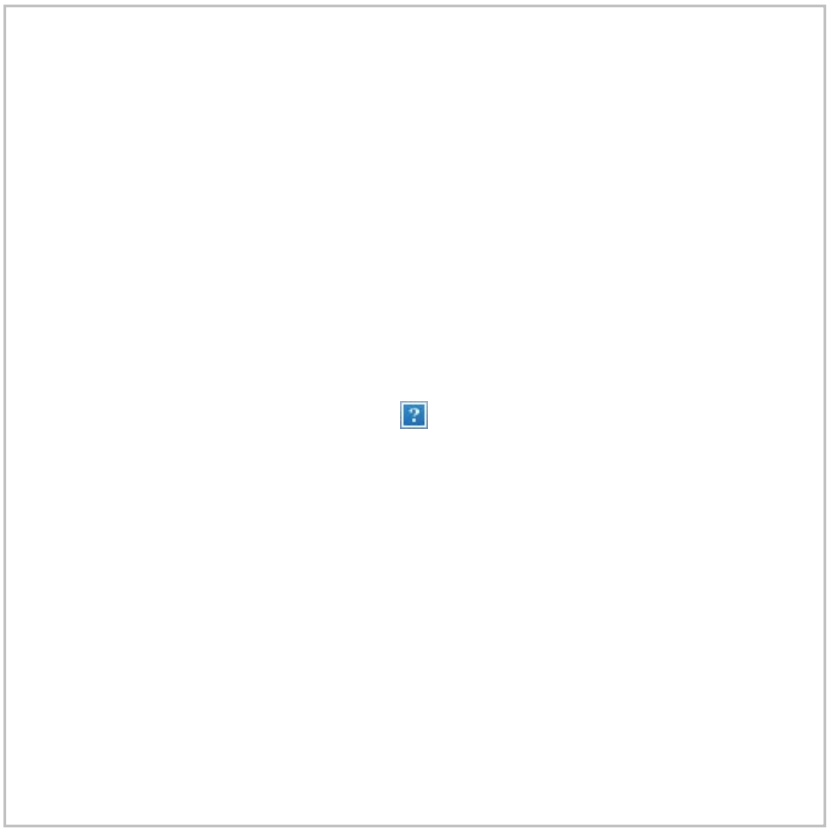
AEP/DUK/NI – Indiana legislation signed into law this week protects utilities' control over building power lines

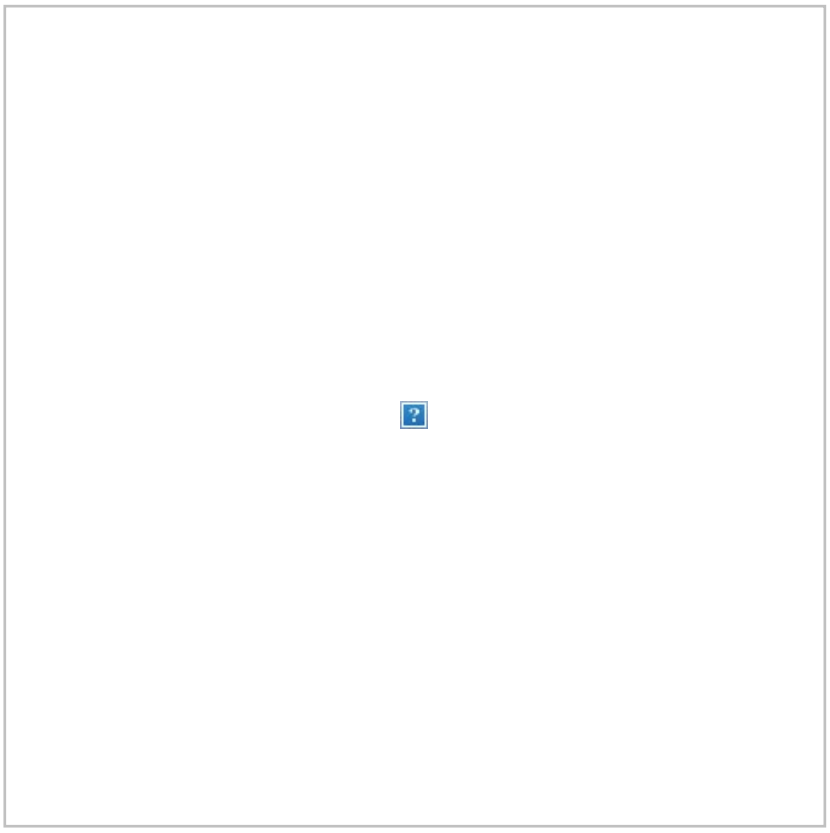
- Governor Eric Holcomb, a Republican, signed legislation Monday that will give utilities the right to build and operate transmission projects that connect to their existing systems. Utilities owned by NiSource Inc. and AES Corp. also stand to benefit.
- Indiana Energy Association President Danielle McGrath hailed the new law as "sound policy," in response to an email sent to Duke for comment. AEP, AES and NiSource also referred to McGrath for comments.
- We note that transmission costs have apparently increased by an average of ~63% in Indiana over the preceding five years, as per the Electricity Transmission Competition Coalition, an advocacy group representing manufacturers and others who opposed the bill.
- Utilities will have to competitively bid to build projects and have the advantage of having crews on hand to make timely repairs after storms, according to McGrath.
- More HERE

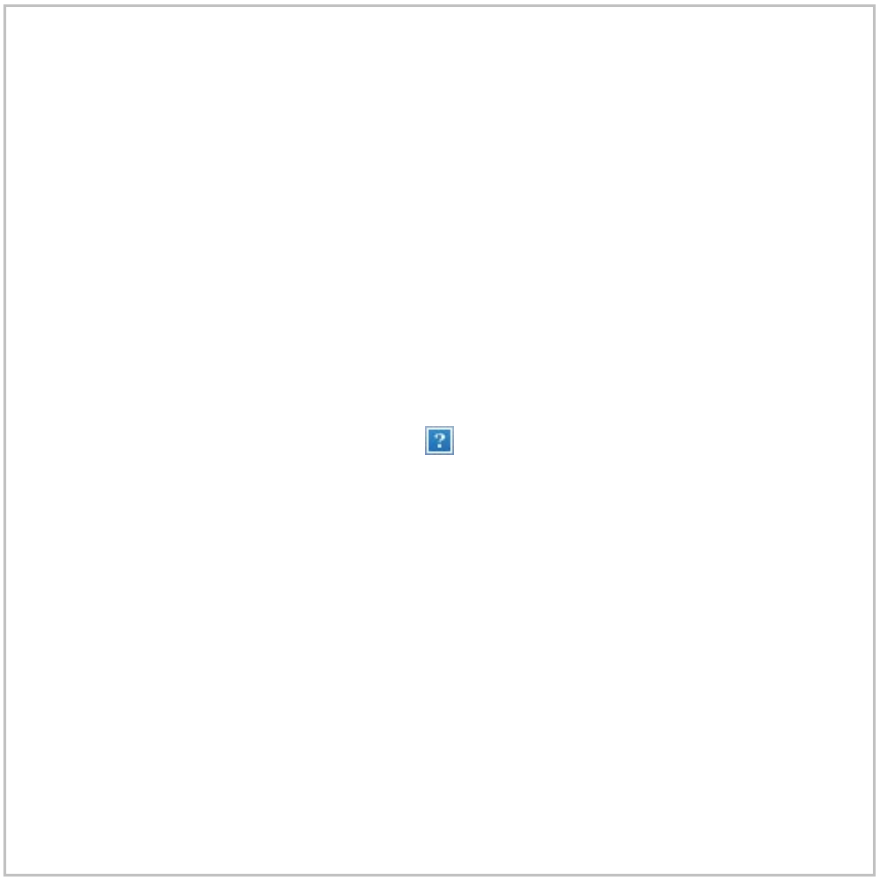
Guggenheim takeaway: *From our coverage universe, we see AEP, DUK, and NI, as best positioned to benefit*

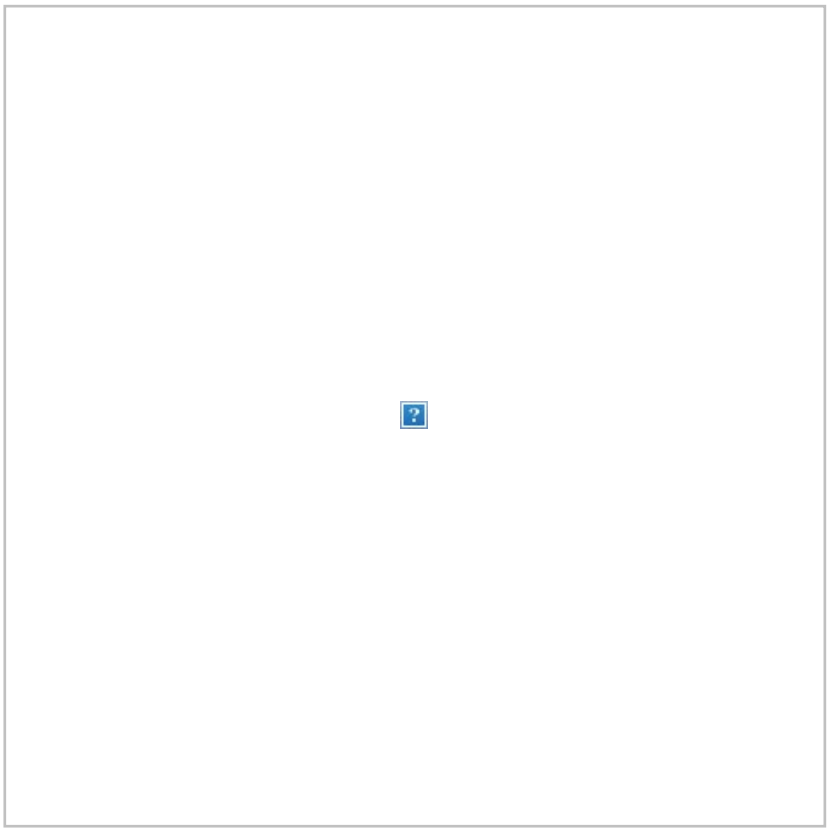
from this new law.

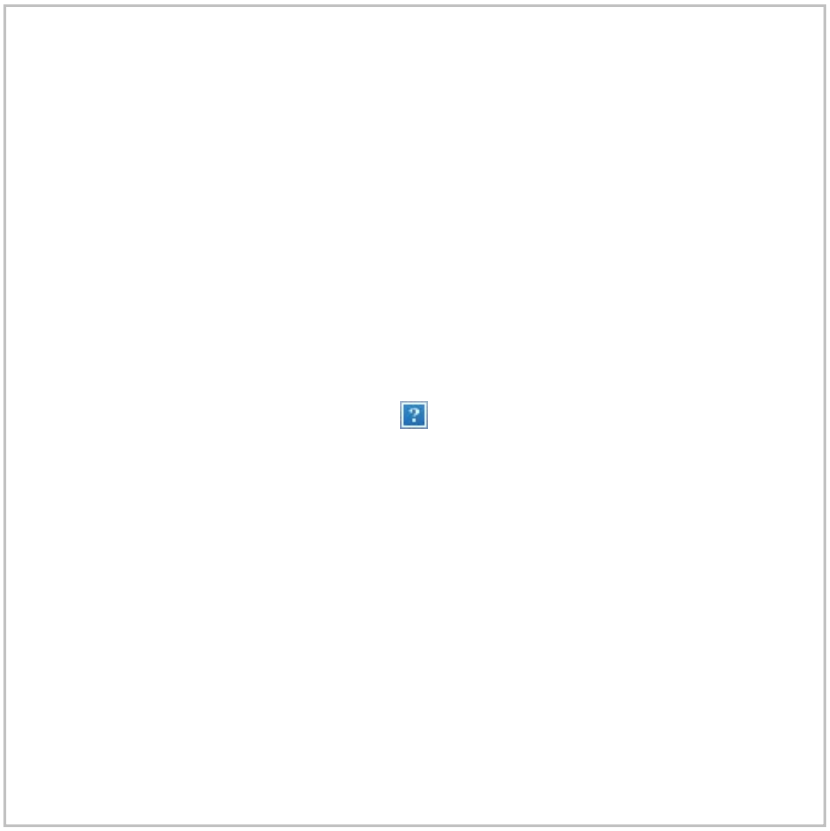


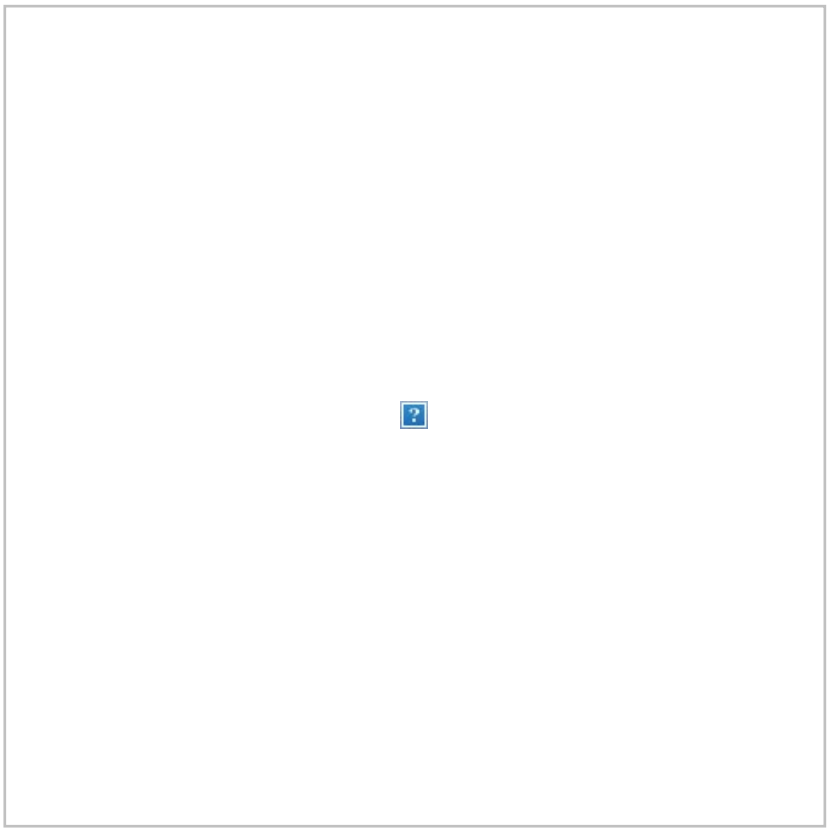


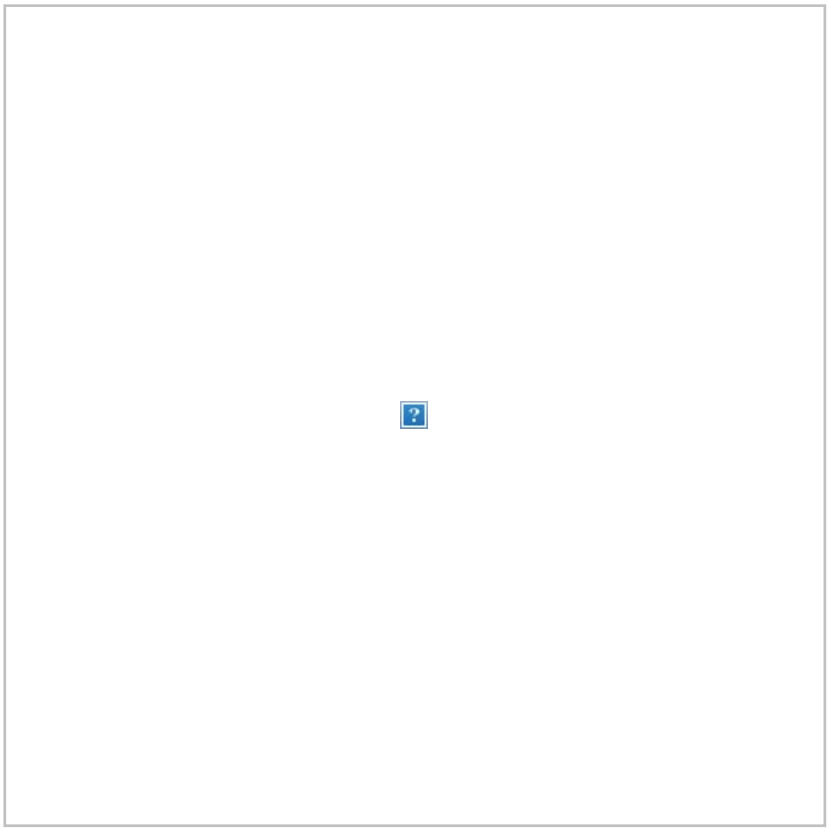


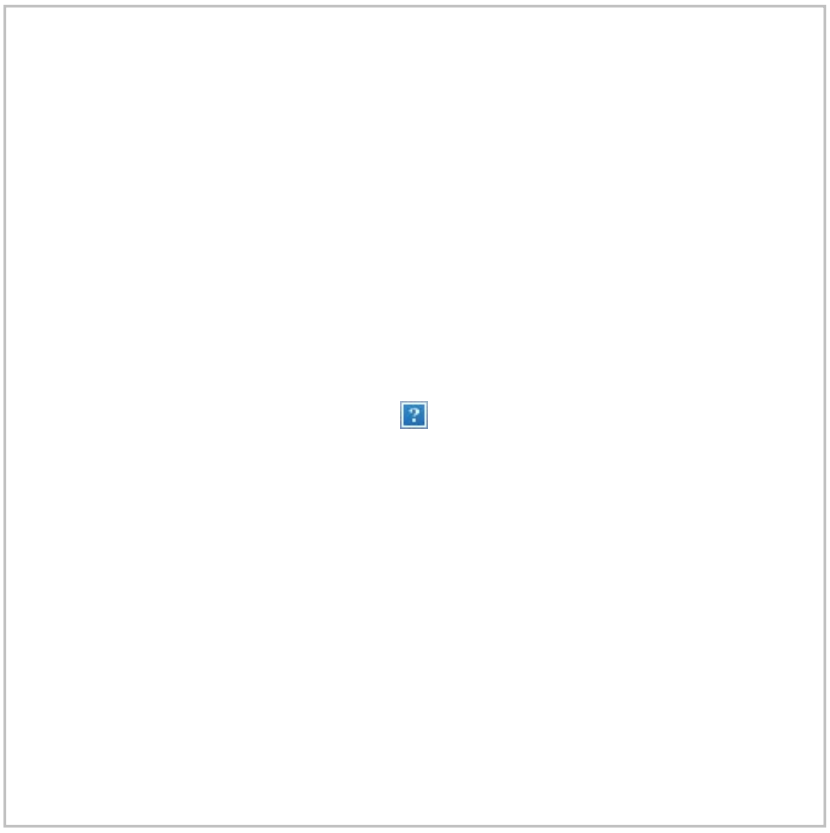


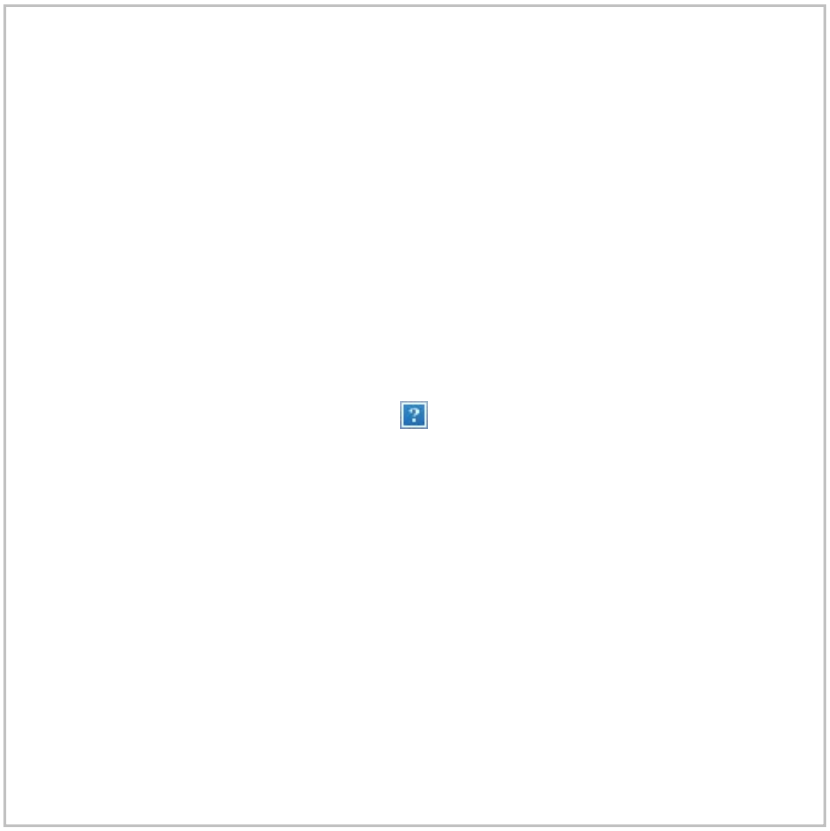


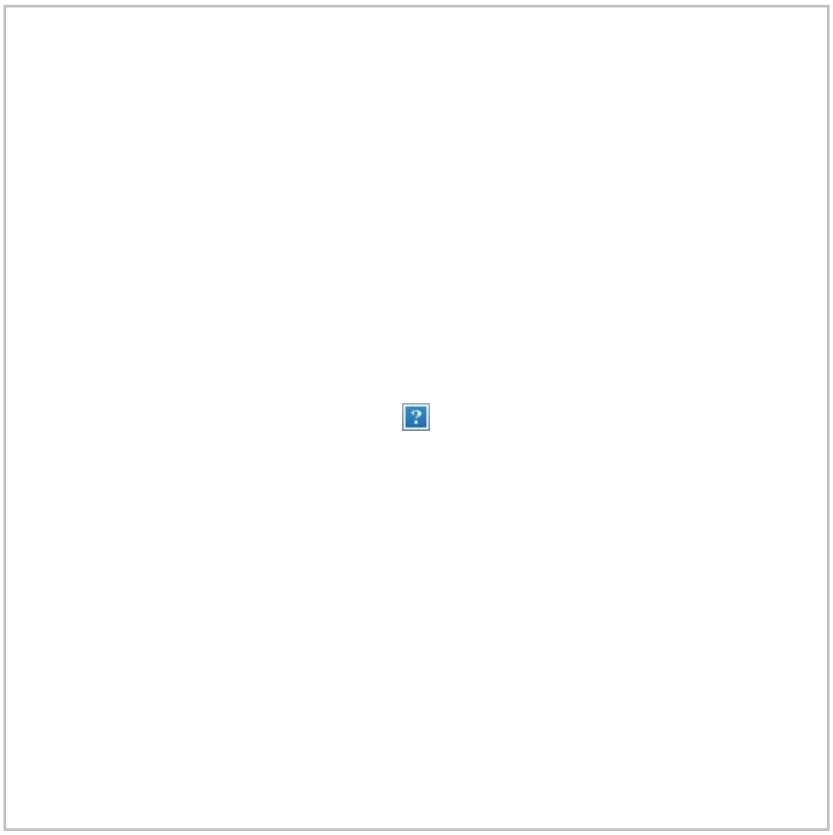




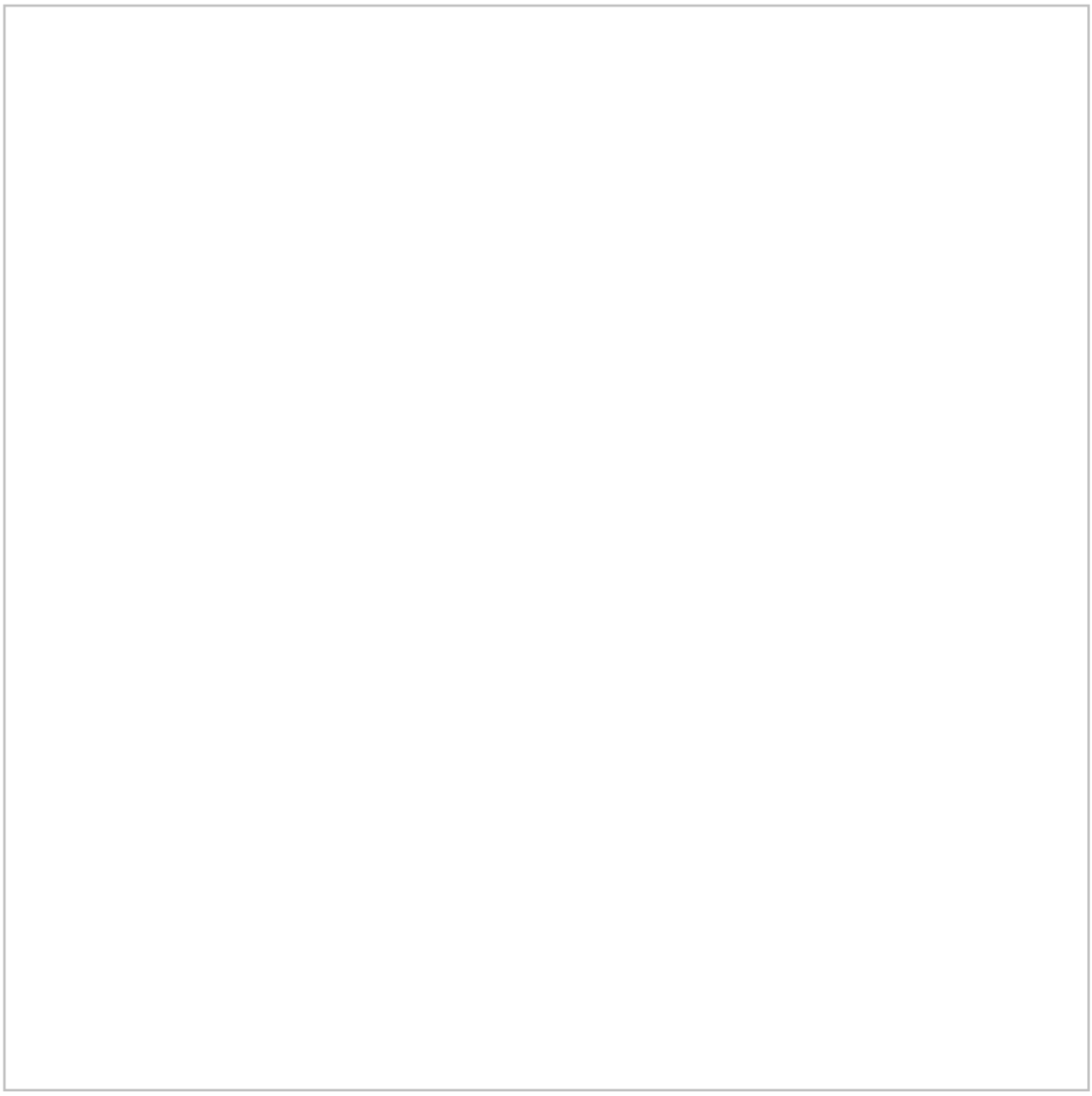




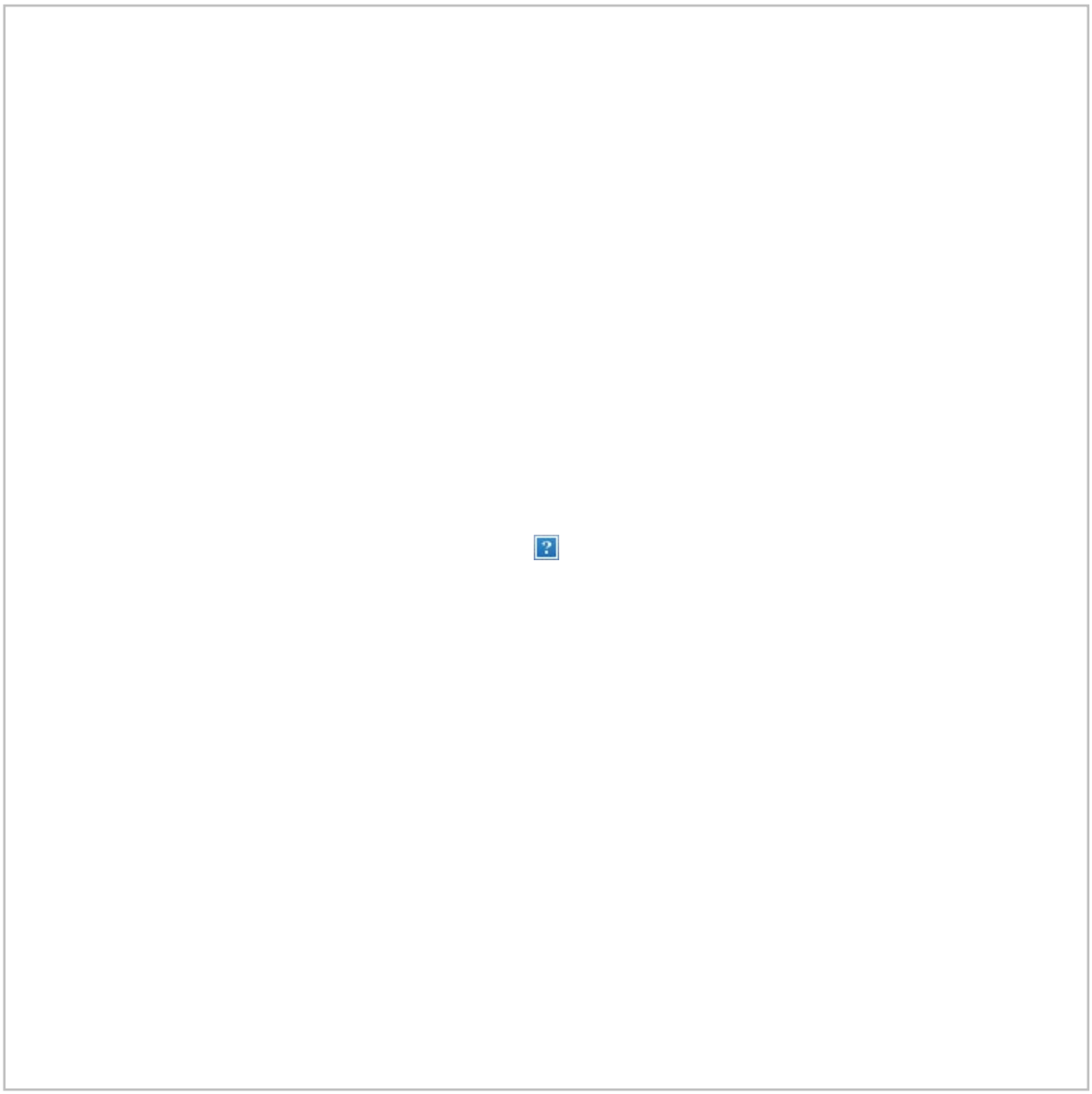




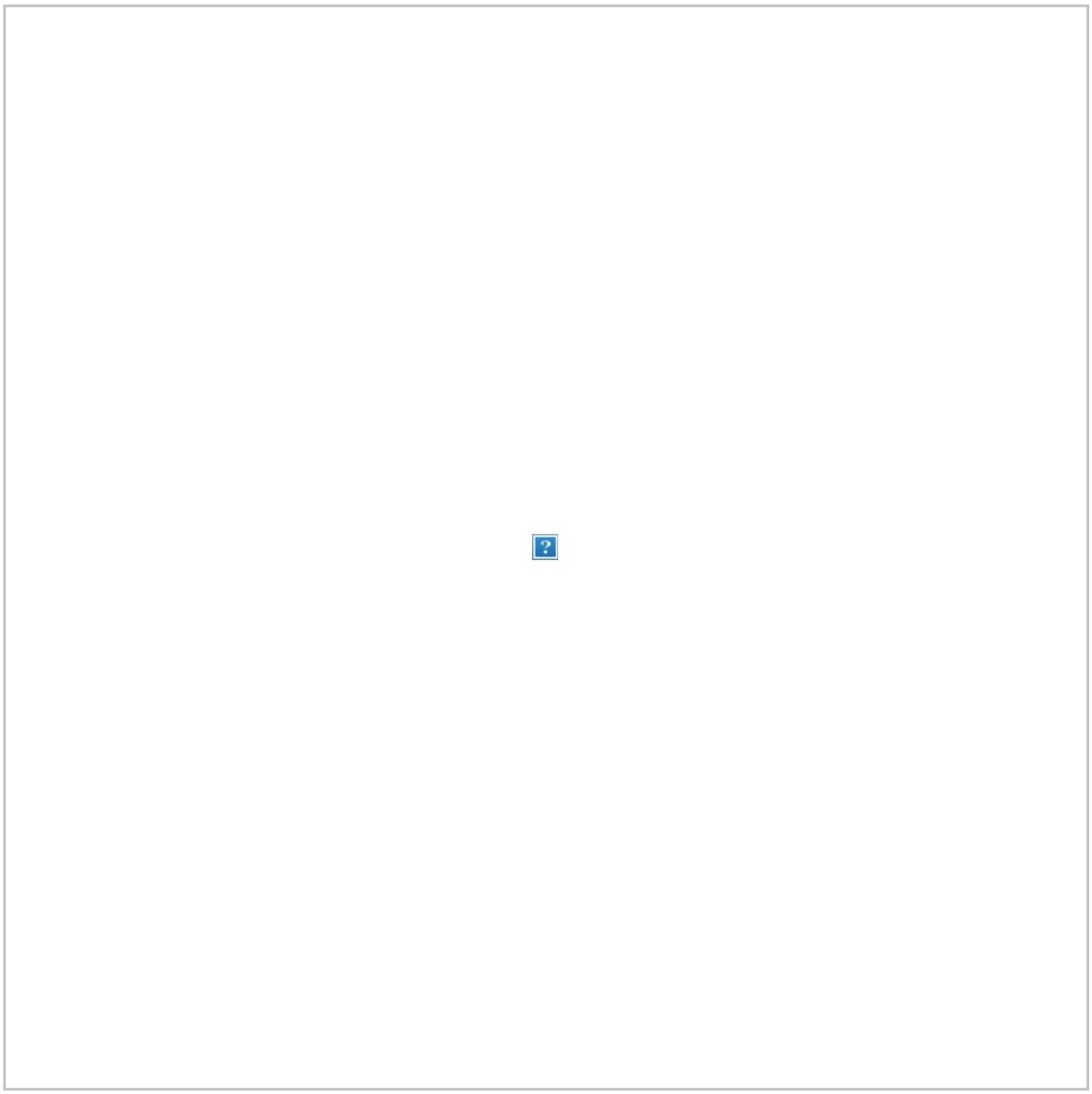
Guggenheim 2023 Client and Corporate Access Utility Events



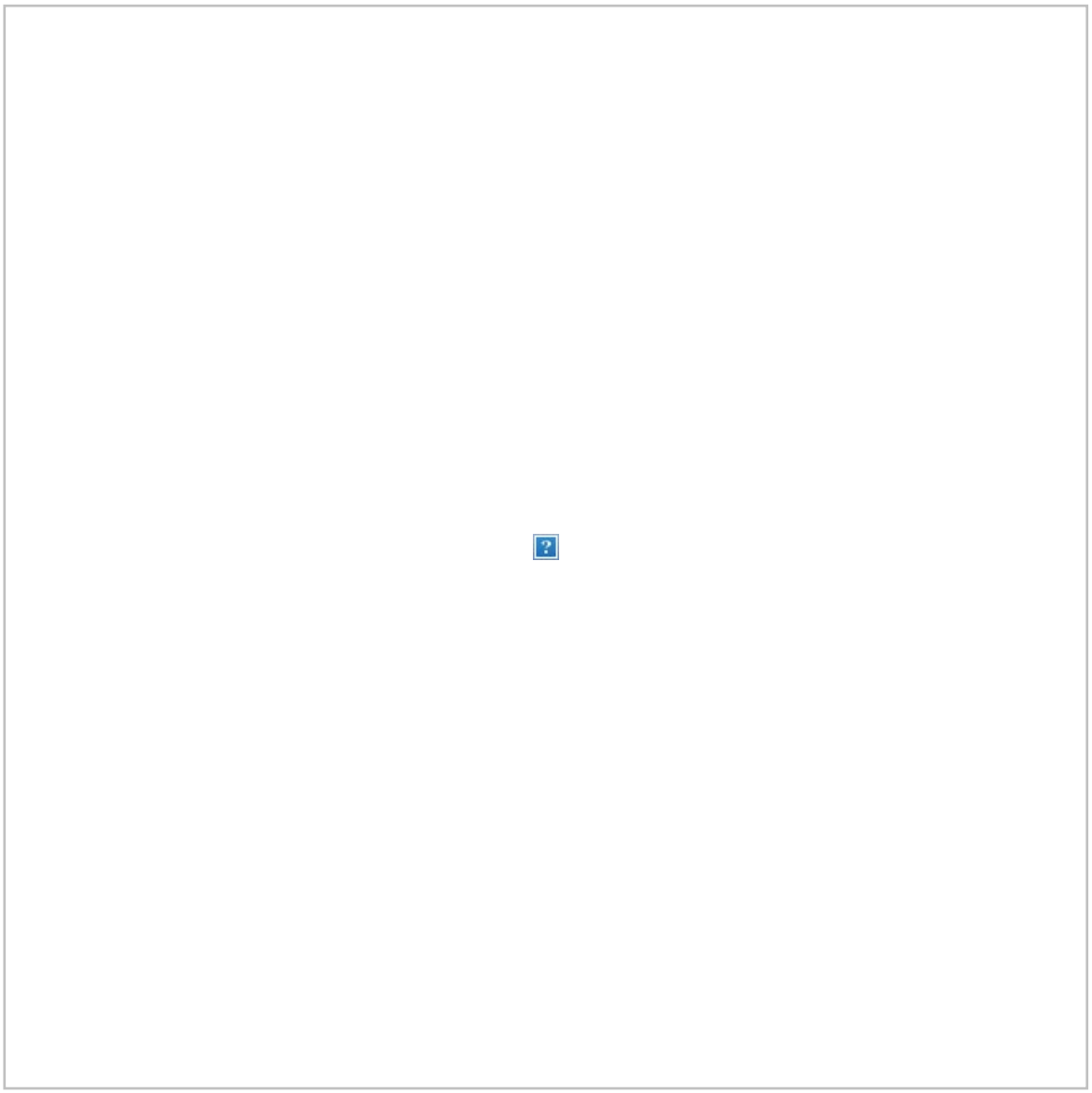
Guggenheim Comp Sheet



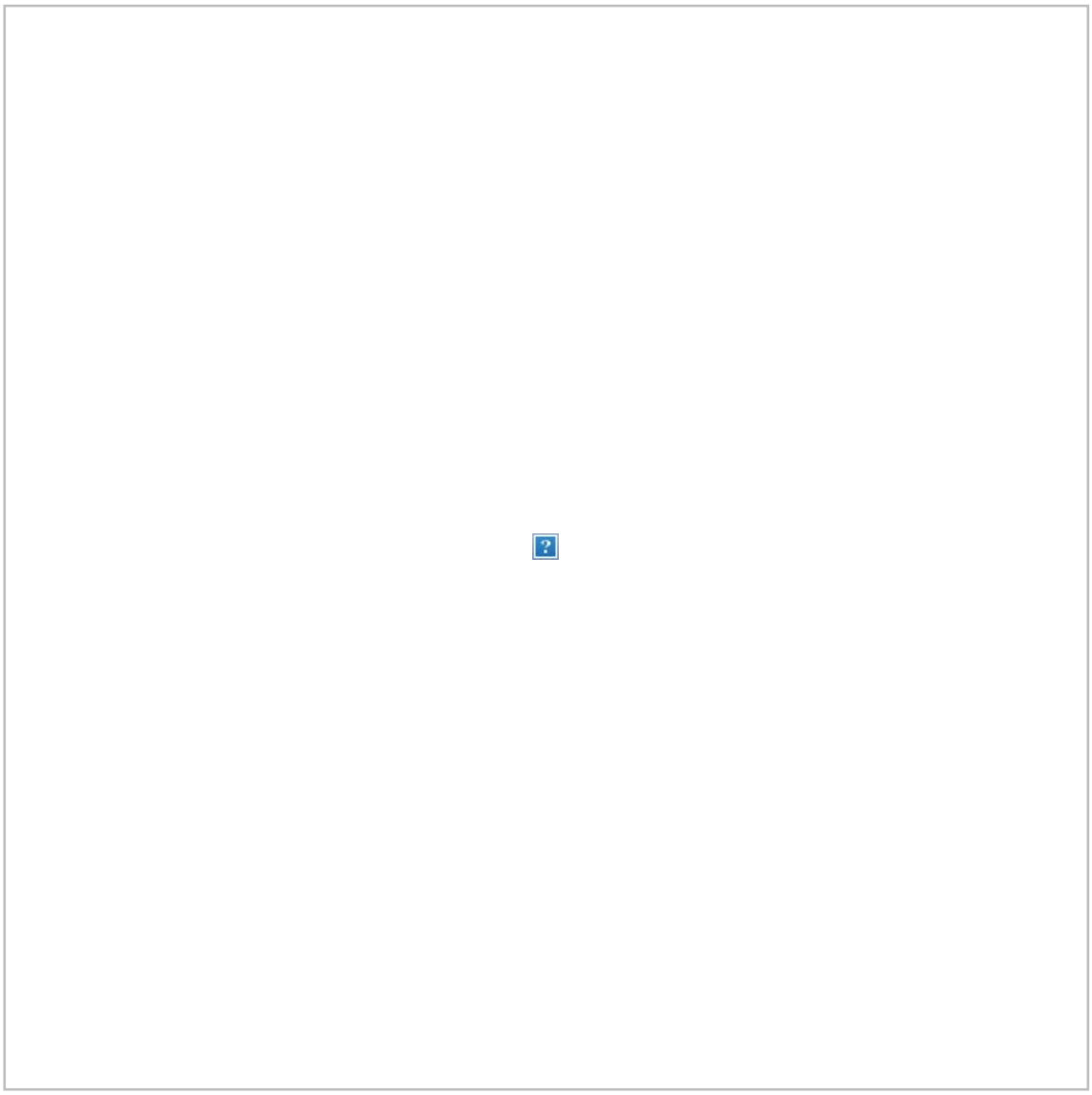
Share Price Performance (Year-to-Date, Three-Month, One-Month, & Five-Day Trailing)



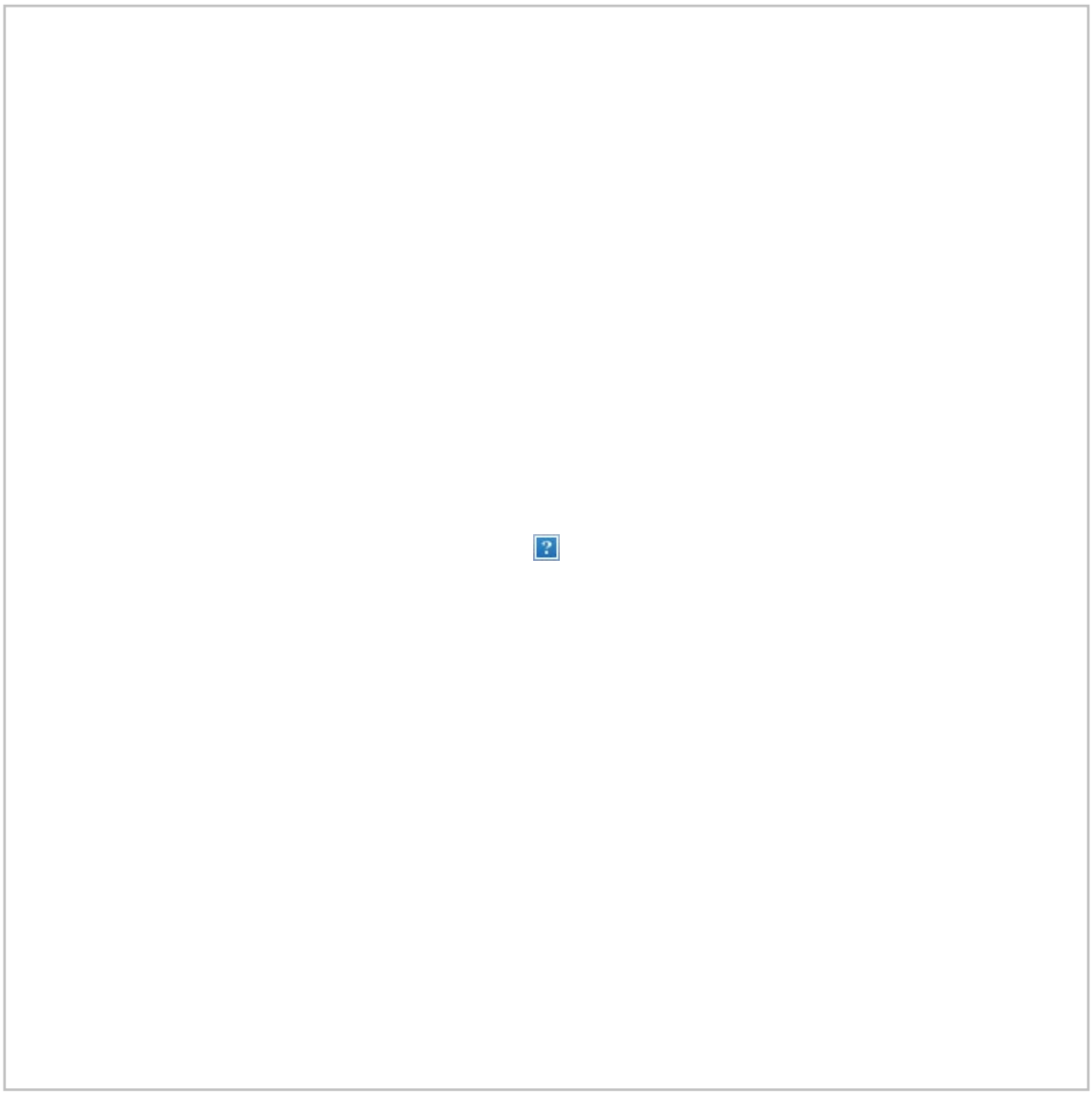
Generation and Mix



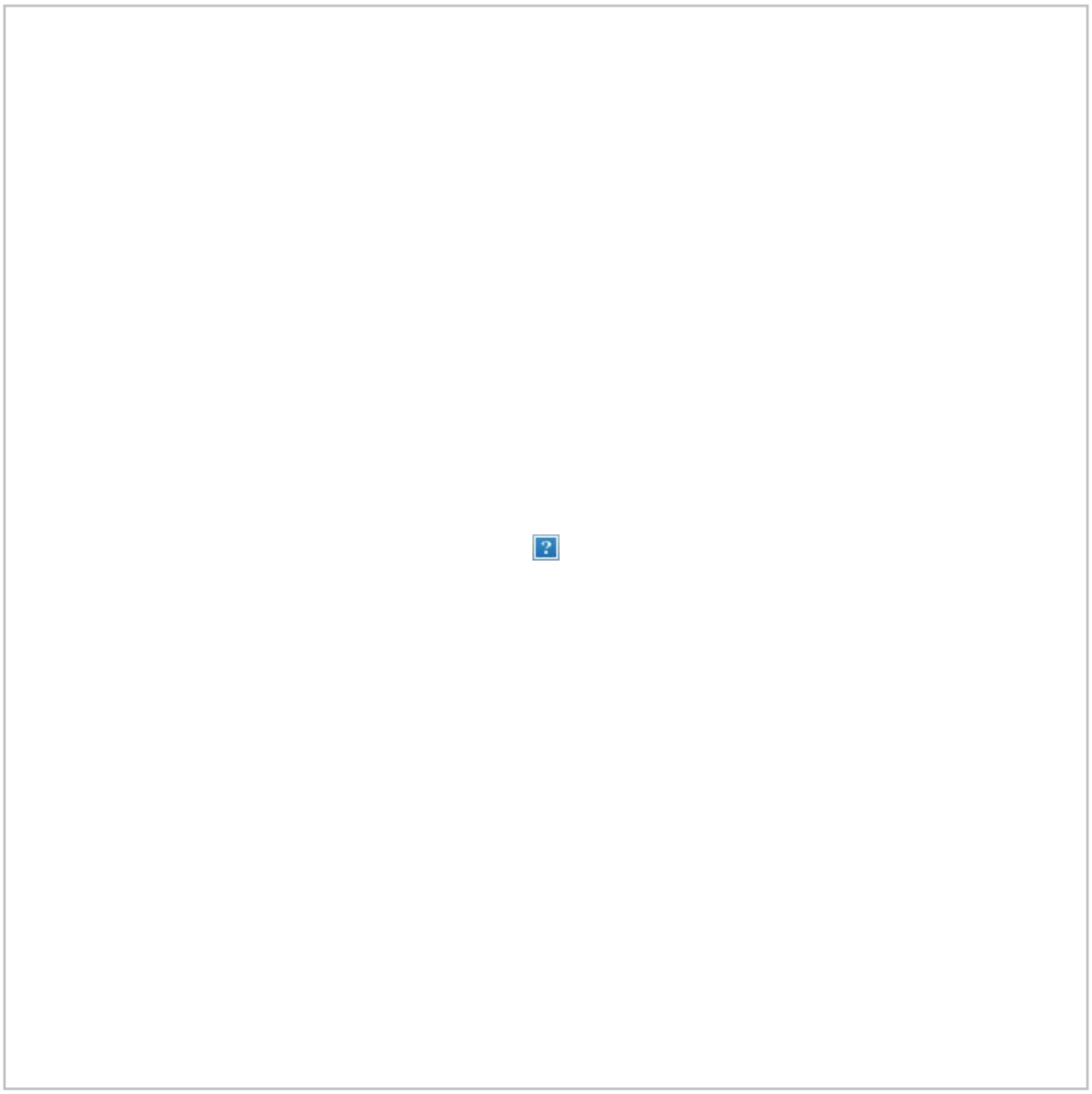
Generation and Mix (continued)



Weather



YTD Peak Load



Regulatory Calendar

Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- Utility and IPP 1Q23: Valuation and Estimate Adjustments
- Quarterly Weather Review: Cloudy With a Chance of Lower EPS
- Rising Debt Costs a Problem? Nah, Fake It Till You Make It
- AEP: No Surprise, KY Deal Breaks – Clearing Event
- Guggenheim Nuclear Conference Wrap: If You Build It, They Will Come?
- NEP: CEPF and Near-Term Financing Drilldown – Headwinds? Yes. Distribution Reset? Unlikely. Share Weakness Unwarranted; Bear Calls Flawed

- ERCOT: Policy Call Reinforces Uphill View on Repricing as TX Legislature Mulls Resource Adequacy Tweaks
- AEE NDR: Bread and Butter Utility Update Underscores Ameren's Premium Attributes
- NEE NDR: Management Continues to Chop Through IRA Upside Opportunities but Baseline Remains Conservative; Headline Hurdles Require Time
- ES: What Are the Bears Playing for Now? The Dislocation to Group Getting Out of Hand
- SRE: Port Arthur Reaches FID, Few Holdovers with Project Equity, but Economics Are Broadly Accretive
- SMR: 2023 to See Slightly Heightened Cash Usage as Focus Remains on Execution
- HE – Making Sense of Banking Turbulence; HE's ASB Remains Well Insulated From Isolated Liquidity Issues
- DUK: CEO NDR – How to Strengthen the Balance Sheet Without a "Rip-the-Band-Aid-Off" Equity Scenario? Patience.
- PEG Analyst Day – Straight Talking with PEG; Mgmt. Backs Up Sustainable 5-7% EPS Growth with Room to Exceed
- SRE: PUCT Modifies Oncor PFD, Approves Oncor Rate Case; 9.7% ROE and 42.5% Equity Ratio – Above Our Expectation
- Arizona Regulation: Taking a Deep Dive in the Desert — New Commissioners Bring a Wealth of Experience, Insights, and Planned Improvements to the ACC
- PNW: APS Wins Appeal of 2019 Rate Case's Penalty ROE and SCR Disallowance — Arizona Supreme Court May Be Next
- VST: Sensible Transaction and Organizational Realignment Look to Freeze the Melting Ice Cube Argument
- Deal or No Deal? Taking the Pulse of Fuel Deferrals Across Our Coverage Universe
- PJM: How Low Can You Go? Residualization of the BRA Marches On…
- D: Legislative Breakthrough Yields a Deal; Focus Turns to Credit Repair
- AEP: Contracted Renewables Sale Above Our Expectations
- LNT: Cleanup in Aisle 4? PSCW's Damage Control Proves Effective: Upgrading to NEUTRAL
- PSCW: Conversation with Chair Valcq Strikes a Balanced Tone
- D: Halftime in Richmond as Multiple Bills Advance
- D: SB1265 Amended Ahead of Crossover Deadline Tomorrow
- FE – The Same Board Who Set The Current Strategic Plan Is Also Picking The CEO… Follow-Up Thoughts Post Our Mgmt. Call
- FE – Rebase Coming? No. Asset Sale Delay? No. New CEO Strategy Shift? No. Balance Sheet Concerns? No. More Growth Opps? Yes. FE Remains '23 Best Idea
- D: General Assembly Sausage-Making Enters Full Swing as Lawmakers Continue to Cement the Bid-Ask
- D: Key Bills Pass Out of Senate Committee
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D: New Legislation Proposes Novel Option for OSW Stake Sale – Mosaic Pieces Continue to Form a Clearer Picture
- ETR – LPSC Votes on Modified Settlement Proposal with Customer Benefits, but Recognition of Hurricane

Cost Prudency

- D: Opening Move in Richmond: Evolutionary Legislation Lays Path Forward

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UBS

First Read

NiSource Inc.

Q1 Earnings Inline, LT Outlook Reaffirmed

Q: How did the results compare vs expectations?

A: Inline. The company reported adjusted Q1'23 earnings of $0.77/ per share vs. UBS/ consensus of $0.76/$0.75 per share. The company reported $0.75 per share for Q1'22.

Q: What were the most noteworthy areas in the results?

A: The company removed the impact of weather from its adjusted earnings, but weather would've been a 6c negative in the quarter relative to the operating number. The company saw higher revenues at both the electric and gas segments, but this was largely offset by higher interest and D&A. The company also benefited from higher corporate owned life insurance, while also facing a modestly higher tax rate in the quarter.

Q: Has the company's outlook/guidance changed?

A: No. The company reaffirmed 2023 full year EPS guidance of $1.54-1.60 and longer-term guidance of 6-8% annual EPS guidance through 2027 driven by 8-10% rate base growth. The company remains on track to transact a minority interest in the NIPSCO subsidiary in 2023.

Q: How would we expect investors to react?

A: Neutral. The print looks inline with expectations. We expect questions to focus on the sales process at NIPSCO, efforts to keep O&M flat going forward and the recently announced NIPSCO settlement.

Key Metrics ()

	Consensus estimates	UBS estimates	Actual	% diff vs. UBS
Adjusted EPS	$0.75	$0.76	$0.77	1.3%

Source: Company Reports, UBS Estimates, FactSet

Equities

Americas
Electric Utilities

12-month rating	**Neutral**
12m price target	**US$31.00**
Price (02 May 2023)	**US$27.91**

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

Trading data and key metrics

52-wk range	US$31.77-24.15
Market cap.	US$12.7b
Shares o/s	446m (COM)
Free float	99%
Avg. daily volume ('000)	1,162
Avg. daily value (m)	US$32.1
Common s/h equity (12/23E)	US$6.31b
P/BV (12/23E)	2.0x
Net debt to EBITDA (12/23E)	6.3x

EPS (UBS, diluted) (US$)

	12/23E	
	UBS	Cons.
Q1E	0.76	0.75
Q2E	0.13	0.15
Q3E	0.11	0.14
Q4E	0.45	0.50
12/23E	1.45	1.55
12/24E	1.56	1.67
12/25E	1.68	1.79

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Highlights (US$m)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Revenues	4,697	4,900	5,851	5,972	6,261	6,521	6,771	6,996
EBIT (UBS)	1,031	1,046	1,162	1,140	1,327	1,473	1,624	1,750
Net earnings (UBS)	507	573	597	642	692	747	814	896
EPS (UBS, diluted) (US$)	1.32	1.37	1.35	1.45	1.56	1.68	1.80	1.92
DPS (net) (US$)	0.88	0.90	0.96	1.02	1.08	1.14	1.20	1.20
Net (debt) / cash	(10,501)	(11,253)	(12,821)	(13,070)	(14,494)	(16,210)	(17,039)	(17,716)
Profitability/valuation	**12/20**	**12/21**	**12/22**	**12/23E**	**12/24E**	**12/25E**	**12/26E**	**12/27E**
EBIT (UBS) margin %	22.0	21.3	19.9	19.1	21.2	22.6	24.0	25.0
ROIC (EBIT) %	7.5	7.4	7.4	6.6	7.3	7.4	7.5	7.6
EV/EBITDA (UBS core) x	9.9	10.4	11.3	11.5	10.4	9.9	9.4	8.9
P/E (UBS, diluted) x	18.6	17.9	21.4	19.7	18.2	17.0	15.9	14.8
Equity FCF (UBS) yield %	(6.0)	(6.2)	(7.6)	(14.0)	(7.7)	(10.6)	(5.6)	(4.0)
Dividend yield (net) %	3.6	3.6	3.3	3.6	3.8	4.0	4.2	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$ 27.91 on 02-May-2023

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Forecast returns

Forecast price appreciation	+11.1%
Forecast dividend yield	3.7%
Forecast stock return	+14.8%
Market return assumption	9.1%
Forecast excess return	+5.6%

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

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. Our $31 price target is based off a 14% premium to the regulated group average or 19.8x our 2024 estimate of $1.56. The premium consists of +5% for the group undervaluation, +5% for second quartile regulation and +4% for first quartile EPS growth.

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NiSource Inc.

Question	Response
1. Is the industry structure facing the firm likely to improve or deteriorate over the next year? Rate on a scale of 1-5 (1 = getting worse, 3 = no change, 5 = getting better, N/A = no view)	3
2. Is the regulatory/government environment facing the firm likely to improve or deteriorate over the next year? Rate on a scale of 1-5 (1 = getting tougher 3 = no change, 5 = getting better, N/A = no view)	3
3. Over the last 3-6 months in broad terms have things been improving/no change/getting worse for this stock? Rate on a scale of 1-5 (1 = getting a lot worse, 3 = not much change, 5 = getting a lot better, N/A = no view)	3
4. Relative to the current CONSENSUS EPS forecast, is the next company EPS update likely to lead to: (1 = negative surprise vs consensus, 3 = in-line with consensus, 5 = positive surprise vs consensus expectations, N/A = no view)	3
5. What's driving the difference?	
6. Relative to YOUR current earnings forecast, is there relatively greater risk at the next earnings result of:(1 = downside skew risk to earnings, 3 = equal upside or downside risk to earnings, 5 = upside skew risk to earnings, N/A = no view)	3
7. What's driving the difference?	
8. Is there an upcoming catalyst for the company over the next three months?	
9. Is there an actual or approximate date for the catalyst?	
10. Is the catalyst date an actual or approximate date?	
11. What is the catalyst?	

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	54%	22%
Neutral	FSR is between -6% and 6% of the MRA.	36%	21%
Sell	FSR is > 6% below the MRA.	10%	18%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2023.
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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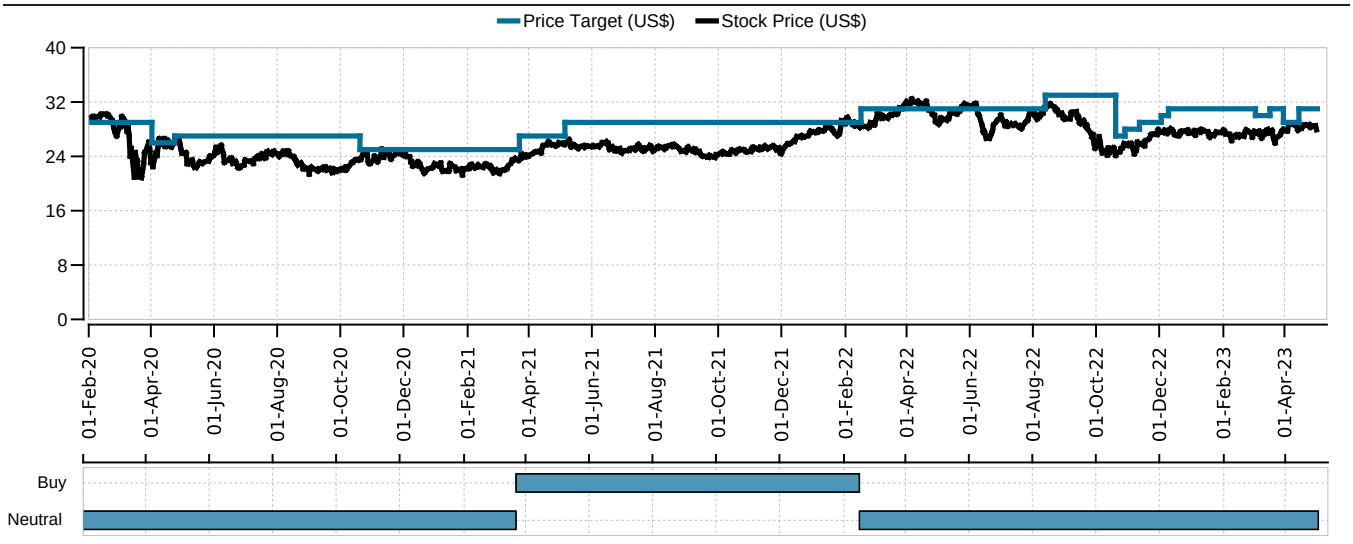
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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$27.91	02 May 2023

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
2020-01-31	29.31	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy

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Date	Stock Price (US$)	Price Target (US$)	Rating
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
2022-11-11	25.81	29.00	Neutral
2022-12-02	27.57	30.00	Neutral
2022-12-09	27.39	31.00	Neutral
2023-03-03	27.70	30.00	Neutral
2023-03-17	27.47	31.00	Neutral
2023-03-30	27.84	29.00	Neutral
2023-04-14	27.85	31.00	Neutral

Source: UBS;as of 02-May-2023. All prices as of local market close. Ratings as of date shown.

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Date: Wednesday, May 3, 2023 9:01:50 AM

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May 3, 2023

THE FLEISHMAN DAILY 5/3/23

EXC, NI, FTS, AGR/PNM, NY Gas Ban, EIX, PEG, OKE, ET, EPD, SPWR, Ørsted, Offshore Wind, ENPH

The Fleishman Daily 5/3/23
Utilities: EXC, NI, FTS, AGR/PNM, NY Gas Ban, EIX, PEG
Midstream: OKE, ET, EPD, Earnings Takeaways in one page
Clean Energy: SPWR, Ørsted, Offshore Wind, ENPH

Utilities

EXC – Q1 beat but FY guidance and EPS growth target affirmed
NI – Small Q1 beat; FY23 guidance and L-T 6-8% annual EPS growth target reaffirmed; NIPSCO minority interest sale on track for 2023; in-line
FTS – Big Q1 EPS beat; capex, rate base growth, dividend growth all unchanged
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EPD – Count Project $10B be a stretch goal in 2024?
Earnings Takeaways in one page – LNG, MPLX, EPD, ETRN, DTM

Clean Energy

SPWR – 1Q EBITDA weaker than anticipated on backlog build and adverse weather; FY23 guidance affirmed due to growing backlog
Ørsted – 1Q23 EBITDA misses Bloomberg consensus but in line with sell-side survey; FY23 guidance affirmed
Offshore Wind – Massachusetts set to launch 4th RFP
ENPH – CFO Yang acquires $549k of stock

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, Clean Energy Stock Charts, Models

Utilities

EXC – Q1 beat but FY guidance and EPS growth target affirmed

- **1Q23 beat**. $0.70 vs $0.66 consensus, $0.67 WRe.
- **2023 guidance affirmed:** $2.30-2.42 vs $2.36 consensus, $2.37 WRe
- **Affirmed 6-8% EPS growth rate through 2026 off 2022.** EXC's 6-8% CAGR off midpoint of 2022 guidance ($2.25), implying 2025E of $2.76 vs $2.74 consensus and $2.76 Wolfe estimate; reaffirmed same annual growth indicators below:
  - 2023: below low end of 6-8%
  - 2024: low end of 6-8% growth
  - 2025: above 6-8% growth
  - 2026: middle of 6-8%

- **IRA impact reflected in FFO/D range of 13-14% in 2023-26; no incremental equity needs through 2025 beyond the remaining $425M.** EXC notes if repairs deduction issue is fixed, then EXC sees high end of 13-14% through 2026; if not, then low end. EXC's downgrade threshold is 12%.
- **IL MYP rate case:** Intervenor testimony is expected 5/22 on ComEd 4-yr rate plan under the 2021 law, requesting 10.5% ROE; every 50bp of ROE is $0.04 in 2024-26. A decision is expected by 12/20/23.
- **Says earned ROE on track to be within 9-10% target range**. Earned ROE for trailing twelve months through 1Q23 was not specified; 4Q22 was 9.4%.

Slightly positive given Q1 beat but guidance and growth outlook affirmed. midpoint of 6-8% or better and providing indications of annual growth. On the call, we expect questions around the repairs deduction and cash tax impact, ComEd rate case intervenor testimony this month,

and other MYP/reconciliation cases in Maryland and DC. We also anticipate some questions on any read-through from yesterday's jury verdict in the former ComEd executive's bribery case.

NI – Small Q1 beat; FY23 guidance and L-T 6-8% annual EPS growth target reaffirmed; NIPSCO minority interest sale on track for 2023; in-line

- **Small Q1 EPS beat.** NI reported 1Q23 EPS of $0.77, slightly above us/cons. at $0.76/$0.75.
- **2023 guidance reaffirmed.** Range of $1.54-1.60 vs. cons. at $1.55 (WRe $1.58).
- **L-T 6-8% annual EPS growth target reaffirmed through 2027.**
- **5-yr. capex plan unchanged.** $15B of capex over 2023-27 drives 8-10% annual rate base growth.
- **Updates on IN renewables projects.** Estimated in-service date for Fairbanks Solar refined to 2Q25 (from 2024-25 prior); amendment for Green River Solar PPA approved.
    - Construction on Indiana Crossroads Solar and Dunns Bridge Solar I projects is nearing completion; work has begun on Dunns Bridge II and Cavalry Solar projects.
- **NIPSCO minority interest sale.** Remains on track for 2023; L-T 14-16% FFO/D target reiterated.
- **NIPSCO electric rate case.** Settlement stipulates a $292M revenue increase based on a 9.8% ROE and $5.95B rate base; order anticipated in Aug. with rates effective Sept. 2023/Mar. 2024.

An in-line update from NI, as Q1 slightly beats, the $15B 5-yr. capex plan & L-T growth outlook are reaffirmed, and IN renewables projects remain on target with previously revised in-service dates. On the call, we will be looking for color from mgmt. on how NISPCO's minority interest sale process is progressing.

FTS – Big Q1 EPS beat; capex, rate base growth, dividend growth all unchanged

- **FTS reported adjusted 1Q23 EPS of $0.91 vs. $0.78 last year – up 16.7% YoY and big beat** versus $0.82 consensus and our $0.82
    - Driven by rate base growth, FX, AZ weather, and Aitken Creek gas / Belize hydro; partially offset by financing costs and share dilution
        - Timing of wholesale sales and FERC transmission in AZ also had a +$0.04-0.05 impact
- No 2023 guidance as expected (consensus: $2.95, WRe: $2.96)
    - Consensus implies 6.1% YoY set-up off 2022A
- **Reaffirms dividend growth at 4-6% through 2027**
- **Five-year capex plan over 2023-2027 of $22.3B reaffirmed**
- **Rate base growth CAGR affirmed at 6.2% ($40.7B/$46.1B in 2025/2027)**
- **Aitken Creek sale.** Announced earlier this week for $400M CAD – proceeds used to repay credit facilities and support regulated growth
- **FX. Assuming $1.30 in plan** vs. $1.36 currently (every $0.05 in FX change = $0.06 EPS and $500M capex)

Another solid quarter from FTS, even though some of the beat appears to be timing. The company is starting to show material EPS growth again for the first time in several years. The call is ongoing, but we expect focus on the pending AZ rate case, Iowa Supreme Court decision on ROFRs, and future ITC opportunities in MISO.

AGR/PNM – Latest filings by companies and New Mexico PRC provide more transparency on merger rehearing discussions; still waiting on NM Supreme Court

- Merger applicants AGR/PNM's most recent filing was in response to New Energy Economy's (the only party opposed to the original merger settlement) claims that the New Mexico PRC had ex parte discussions
- These claims were centered around the pending Supreme Court process and eventual reconsideration of the merger at the NM PRC
- AGR/PNM explain that the communications were not improper, as it didn't concern the merits of the merger applications
- AGR/PNM and the NM PRC have made public the email exchanges that were alleged to be ex parte
- NM PRC stated its intention is to indicate support for a motion that would dismiss this appeal and remand jurisdiction to the Commission so that Commission may consider a motion to reopen

The AGR/PNM and NM PRC filings push against the latest claims of the one party that opposed the original settlement. AGR/PNM's intention is that they have nothing to hide. We're still waiting on the New Mexico Supreme Court to decide on remanding the case, but our conversations with AGR indicated that a decision at the NM PRC is still possible by the current merger deadline of July 20.

NY Gas Ban – Bill to prohibit gas use in new construction progressing as part of state's annual budget process

- On 5/1, NY lawmakers released a budget bill that directs state code officials to prohibit fossil fuel equipment and building systems in new construction with 7 or fewer floors by 2026.
    - This requirement would expand to all new construction by 2029.
- This measure passed as part of the state's annual budget process; the budget is overdue and legislators are expected to vote on the bill this week.
- Recall, Gov. Hochul had backed the Climate Action Council's earlier recommendation to prohibit fossil fuel combustion in small/larger buildings by the end of 2025/2028.
- To address emissions from existing buildings, the Climate Action Council separately recommended a requirement to replace end-of-life equipment with heat pumps or other non-fossil fuel systems beginning in 2030; the legislature has not taken up that recommendation yet.

This bill would support electrification and energy efficiency investments, which in-state

utilities like ED have been focused on. However, we worry about the reliability and affordability issues that could stem from transitioning away from natural gas use too fast, especially given that NY is depending on future offshore wind projects, which run intermittently.

EIX – File GRC in May and go away till key Q2 call
Click here to view our complete note
Stock recovery continues, still cheap option on 17/18 recoveries; raise PT to $79. EIX 1Q23 of $1.09 beat $0.95 cons but was in-line with our $1.08. EIX affirmed 2023 and 2025 guidance. EIX raised its 2017-18 wildfire costs by $90M but still sees the total costs at $8.8B ($6B of which it plans to request recovery). EIX is the best performing utility YTD, beating the UTY by 1,920bp. But it still trades at a ~19% discount. None of the potential 17/18 fire cost recovery is in its 5-7% EPS growth target through 2025, which EIX will update through 2028 this Jul. We raise our PT by $1 to $79.

PEG – Devils win; "gotta support the team"
Click here to view our complete note
Q1 EPS beats, 2023 guide reaffirmed. PEG posted Q1 EPS of $1.39 – ahead of our above-consensus estimate. This was also above $1.33 a year ago – driven by utility rider recovery and higher nuke hedge pricing; offset by weaker BGSS, lower pension earnings, and interest costs. The CIP mechanism neutralized weather impacts on sales, while transmission formula rates protect as well. PEG maintained its $3.40-3.50 guidance range and reaffirmed the 5-7% EPS CAGR over 2023-2027.

Midstream

OKE - Q1 tops estimate on insurance recovery; 2023 guidance unchanged

- ONEOK reported Q1 EBITDA of $1.72B vs. $864M last year, ahead of street consensus
- The quarter was up on a $779M insurance settlement gain for Medford, higher volumes and fees at the G&P and NGL segments, and higher storage rates at the transmission segment
- **Guidance maintained.** OKE reaffirmed 2023 guidance of $4.425B-$4.725B inclusive of the net insurance recovery benefit ($779M gain less $240M in 3rd party frac costs)
- **Key projects completed.** OKE's two major growth projects - Demicks Lake III processing plant and MB-5 fractionator were completed and placed into service; MB-5 will help partially handle volumes from Medford as MB-6 work continues

The quarter looked solid benefiting from higher volumes and rates generally as expected. The key will be any incremental color on guidance and what potential impact the commodity price dynamics may be having on the year.

ET – Setting up for a beat and raise repeat in 2023
Click here to view our complete note

Big Q1 beat. EBITDA beat consensus by 5% with strong beats vs. our estimate in 1) NGLs on an inventory item and blending, 2) Interstate on what appears to be core business improvement, and 3) Intrastate on better gas sales with volatility. Volumes were pretty much in line with our expectations to even a little light in the NGL segment.

EPD – Count Project $10B be a stretch goal in 2024?
Click here to view our complete note
Q1 beat on market opportunities…and despite very weak NGL marketing. EBITDA of $2,321M was 3% ahead of our estimate / consensus. The beat was driven by very strong propylene results on a blow-out in PGP-RGP spreads, gas gathering uplift from Rockies price strength, and high NGL export and pipeline volumes, the latter of which EPD sees continuing. Strong results came despite the lowest NGL marketing margin quarter (excluding MTM items) since 3Q21.

Earnings Takeaways in one page – LNG, MPLX, EPD, ETRN, DTM
Click here to view our complete note
An overall constructive surge of earnings this morning ran into an unfavorable macro tape. MPLX had a big beat that lends support to mid-single digit growth commentary, the LNG guide raise was a nice relief after spreads weakened, and EPD beat with a "growthy" tone. *We will update models with company-specific notes at a later time.

Clean Energy

SPWR – 1Q EBITDA weaker than anticipated on backlog build and adverse weather; FY23 guidance affirmed due to growing backlog

- Customer additions of 21,000 vs. WRe of 20,289.
  - Enters Q2 with backlog of 23,000 retrofit customers.
  - NEM 2.0 bookings for retrofit customers up 135% resulting in >6 month backlog.
  - Leases grew 268% y/y.
- Adj. EBITDA of $0.6M vs. WRe of $3.9M and consensus of $14M.
  - Adjusted EBITDA/customer before platform investment of $1,200 vs. WRe of $1,725.
- **Affirmed 2023 guidance of $2,450–$2,900 Adjusted EBITDA per customer before platform investment; 90,000–110,000 customer adds; $125–$155M Adjusted EBITDA.**
- SPWR also put out a separate press release announcing a new $550M solar loan purchase agreement with KKR.
  - YTD capital raised sufficient to fund $1 billion of solar loans.

SPWR's EBITDA miss vs. consensus was expected by us due to adverse weather, but results were even weaker than anticipated. Adverse weather was flagged as keeping crews idle while SG&A was higher due to NEM 2.0 grandfathering backlog build. Management notes that NEM 2.0 orders are still coming in from dealers and the growing backlog gives them confidence in meeting the FY23 guide. The conference call is underway.

Ørsted – 1Q23 EBITDA misses Bloomberg consensus but in line with sell-side survey; FY23 guidance affirmed

- Ørsted reported 1Q23 results both with and without farmdown gains that missed *Bloomberg* consensus but was in line with a recent sell-side survey.
- **1Q23 EBITDA vs sell-side survey consensus and WRe (all in DKK); Offshore beat, Onshore in line, Bio/other missed.**
    - Total: DKK 6.9B vs DKK 6.9B sell-side survey; WRe was DKK 7.8B; Bloomberg has consensus at DKK 7.1B
    - Offshore: DKK 5.4B vs 4.8B sell-side survey vs WRe of DKK 5.8B
    - Onshore: DKK 0.8B vs 0.9B vs 1.1B
    - Bio/other: DKK 0.5B vs 1.1B vs 0.8B
- **2023 EBITDA of DKK 20-23B (ex gains) affirmed.** Sell-side survey consensus (ex gains) was DKK 22.0B vs WRe of DKK 21.6B; Bloomberg has consensus at DKK 22.8B.

- **FFO/adj net debt is 38% vs 37% in previous quarter; target remains 25%**.
- **6/8 CMD**. Expects to update outlook, which was last provided in 2021; updates will include financial targets.

We view the update as modestly negative, as it relates mostly to the Bioenergy/CHP business, not the company's core offshore and onshore business. The call is ongoing, as we publish. We anticipate questions on the US, including potential impact on returns from energy communities tax bonus and other IRA benefits, as well as the company's interest in Eversource's offshore wind sale and pending offshore wind solicitations. We also expect questions on any potential equity needs and any previews to next month's CMD strategic and financial outlook.

Offshore Wind – Massachusetts set to launch 4th RFP

- Yesterday, a request for approval to launch the 4th offshore wind solicitation was filed with the Massachusetts DPU – allowing bids for 200-2,400 MWs
    - The proposed timeline would have bids due in January 31 2024 and selection of winners in June 12 2024
- Recall that AGR's Commonwealth Wind (1.2 GWs) and Shell/EDPR/Engie's Mayflower Wind (0.4 GWs) were winners of the third solicitation (these same parties have won all MA bids thus far and were the only bidders in the most recent one
- AGR's Commonwealth Wind subsequently sought to renegotiate its contract, then cancel it and re-bid, due to economic conditions
    - The originally filed PPAs were starting at $59.60/MWh nominal price ($47.68/MWh for energy and $11.92 for RECs, both of which escalate by 2.5% annually)
    - The total levelized all-in energy price for Commonwealth Wind was $72.17/MWh
- Massachusetts has a goal of 5.6 GWs of offshore wind by 2027 and has awarded 3.2 GWs so far (including Commonwealth Wind)

We'll be interested to see how the next MA solicitation progresses, as AGR has made it clear it intends to re-bid. Shell/EDPR/Engie have been successful in the past and Ørsted owns lease areas that can bid. One important nuance is that a change in MA law makes it such that each successive auction no longer has to have a lower PPA price than the last. The ability to bid higher PPA prices this time, should help with economic viability.

ENPH – CFO Yang acquires $549k of stock

- Yesterday, ENPH CFO Mandy Yang acquired 3,500 shares of ENPH for a total of $549,022.

Good to see, especially following board member TJ Rodgers' >$10M of purchases last week

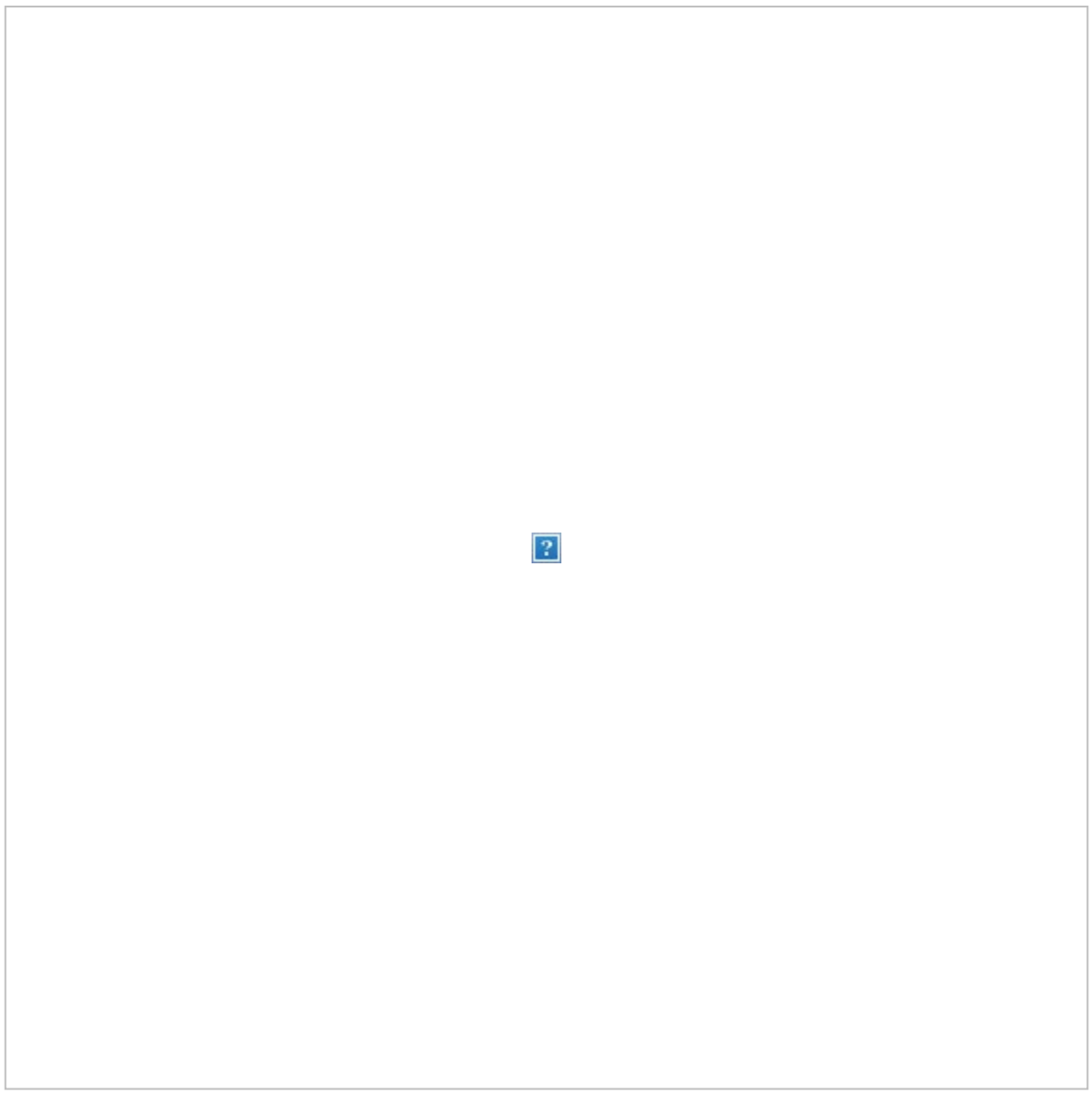
Wolfe Events

May 12: Group Breakfast with NEE CEO in NYC
May 16-17: DUK non-deal roadshow in Midwest and Canada
May 17-18: AES non-deal roadshow on West Coast
May 21-22: 2023 AGA Conference Management Meetings in Florida
May 22: Dinner with PAA CEO at EIC
May 24: NXT, ENPH, and RUN Clean Energy Bay Ara Tour
June 14-15: Midstream, Utilities, and Renewables Bus Tour in Texas
June 20-21: EVRG non-deal roadshow in New York/Boston

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NiSource Inc (NI.N)

Slight Beat, NIPSCO Sale Timeline Guidance Unchanged

CITI'S TAKE

Ni modestly beat on EPS, reaffirmed NIPSCO sale and generation buildout timeline, and should modestly benefit from new Indiana law on T&D.

Q1 — Nisource's $0.77 beat consensus's $0.75/Citi's $0.73, driven by new gas rates and weather decoupling mechanism, offset by higher D&A, interest expense, & taxes.

NIPSCO Sale – Timeline Unchanged? — NI talked to a broad range of qualified buyers. They do not anticipate any approval process with the IURC but will engage with the commission by filing after an agreement is reached. The company reiterated the current timeline for the transaction (YE 2023 transaction), but choppy deal markets and lots of assets on the market increases deal execution risk, in our opinion.

Indiana ROFR Bill Signage, Transmission Projects — Under HB1420 (just signed by the Governor), NIPSCO and other incumbent Indiana utilities have the right to build, own and operate transmission projects in their current service territory without going through competitive bidding. This bill gives Nisource more footing to participate in MISO's transmission plan, earliest in service date in 2028 -- tranche 1 outlined 18 projects with $10B cost, and tranche 2 targeted approval in 1H24. Nisource will work with MISO to quantify the capex. Beyond HB1420, SB9 and HB1007 may modestly impact the Company's outlook given impact for generation outside of IRPs and future rates (although doesn't impact our current estimates).

Future of Gas: As the 9th circuit decision in California makes it harder to ban gas hookups, NiSource has laws on the books in 3 of 6 jurisdictions that prevent local governments to ban gas hookups, so the impact is limited for NiSource.

Program Apollo: $40M-$60M Recurring Savings — Management is working on recurring lean program to cut $40-60M/yr in O&M. The current CIO is focused on $1B investment in IT to cut costs in planning, execution, and customer service.

Renewable Projects on Track — Dunns Bridge I Solar and Crossroads Solar are still targeting Q2 COD. Calvary Solar and Dunns Bridge II Solar have started construction, and Crossroads 2 Wind is targeting 2023 COD.

Convert Financing? — Nisource could consider doing a convert with *cash* premium paid in the future (if necessary), in our view, to lower interest expense modestly. In investor dialogue, NI is on a short list of utilities investors focused on this.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2022A	0.75A	0.12A	0.10A	0.50A	1.47A	1.47A	1.70A
2023E	**0.77A**	**0.22E**	**0.28E**	**0.31E**	**1.58E**	**1.55E**	**1.54E**
Previous	0.73E	0.22E	0.28E	0.31E	1.54E	na	na
2024E	**0.75E**	**0.26E**	**0.32E**	**0.36E**	**1.69E**	**1.67E**	**1.65E**
Previous	0.76E	0.25E	0.32E	0.36E	1.69E	na	na
2025E	**na**	**na**	**na**	**na**	**1.80E**	**1.79E**	**1.77E**
Previous	na	na	na	na	1.80E	na	na

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

Click here for Visible Alpha consensus data

Neutral	
Price (02 May 23 16:00)	US$27.91
Target price	US$30.00
Expected share price return	7.5%
Expected dividend yield	3.6%
Expected total return	11.1%
Market Cap	US$11,526M

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



Ryan Levine AC

Xinru Yin

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

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Prepared for Michael Weisenburger

We adjusted our estimates modestly to reflect Q1 results, and cost cutting initiative.

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NI.N: Fiscal year end 31-Dec						Price: US$27.91; TP: US$30.00; Market Cap: US$11,526m; Recomm: Neutral					
Profit & Loss (US$m)	**2021**	**2022**	**2023E**	**2024E**	**2025E**	**Valuation ratios**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Sales revenue	4,900	5,851	5,410	5,420	5,677	PE (x)	20.4	19.0	17.6	16.5	15.5
Cost of sales	-2,141	-2,931	-2,417	-2,206	-2,313	PB (x)	1.9	1.8	1.8	1.7	1.6
Gross profit	2,759	2,919	2,993	3,214	3,365	EV/EBITDA (x)	14.1	12.4	12.7	12.3	11.9
Gross Margin (%)	56.3	49.9	55.3	59.3	59.3	FCF yield (%)	-5.5	-6.3	-14.0	-9.0	-11.6
EBITDA (Adj)	**1,755**	**2,087**	**2,178**	**2,411**	**2,647**	Dividend yield (%)	3.2	3.4	3.7	3.9	4.1
EBITDA Margin (Adj) (%)	35.8	35.7	40.3	44.5	46.6	Payout ratio (%)	65	64	65	64	64
Depreciation	-748	-821	-816	-898	-1,000	ROE (%)	9.9	12.4	10.6	11.3	11.5
Amortisation	0	0	0	0	0	**Cashflow (US$m)**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
EBIT (Adj)	**1,007**	**1,266**	**1,362**	**1,514**	**1,648**	EBITDA	1,755	2,087	2,178	2,411	2,647
EBIT Margin (Adj) (%)	20.6	21.6	25.2	27.9	29.0	Working capital	-260	-285	-237	-90	-78
Net interest	-341	-362	-469	-540	-610	Other	-281	-380	-544	-697	-780
Associates	0	0	0	0	0	**Operating cashflow**	**1,214**	**1,422**	**1,397**	**1,625**	**1,790**
Non-Op/Except/Other Adj	37	65	32	47	47	Capex	-1,838	-2,203	-3,145	-2,750	-3,250
Pre-tax profit	**703**	**969**	**925**	**1,020**	**1,084**	Net acq/disposals	0	0	0	0	0
Tax	-118	-165	-183	-203	-216	Other	-367	-367	-171	0	0
Extraord./Min.Int./Pref.div.	-55	-55	-55	-55	-55	**Investing cashflow**	**-2,205**	**-2,570**	**-3,315**	**-2,750**	**-3,250**
Reported net profit	**530**	**749**	**687**	**762**	**813**	Dividends paid	-345	-382	-450	-489	-520
Net Margin (%)	10.8	12.8	12.7	14.1	14.3	**Financing cashflow**	**1,011**	**1,196**	**2,061**	**1,213**	**1,548**
Core NPAT	560	649	710	762	813	**Net change in cash**	**21**	**48**	**142**	**88**	**88**
Per share data	**2021**	**2022**	**2023E**	**2024E**	**2025E**	**Free cashflow to s/holders**	**-624**	**-781**	**-1,748**	**-1,125**	**-1,460**
Reported EPS ($)	1.30	1.69	1.53	1.69	1.80						
Core EPS ($)	1.37	1.47	1.58	1.69	1.80						
DPS ($)	0.89	0.94	1.02	1.09	1.15						
CFPS ($)	2.97	3.21	3.11	3.61	3.97						
FCFPS ($)	-1.53	-1.76	-3.90	-2.50	-3.24						
BVPS ($)	14.55	15.61	15.85	16.54	17.31						
Wtd avg ord shares (m)	409	433	439	441	441						
Wtd avg diluted shares (m)	409	443	448	450	451						
Growth rates	**2021**	**2022**	**2023E**	**2024E**	**2025E**						
Sales revenue (%)	4.8	19.4	-7.5	0.2	4.8						
EBIT (Adj) (%)	61.3	25.7	7.6	11.1	8.8						
Core NPAT (%)	10.1	15.8	9.5	7.3	6.7						
Core EPS (%)	3.7	6.9	8.1	6.8	6.5						
Balance Sheet (US$m)	**2021**	**2022**	**2023E**	**2024E**	**2025E**						
Cash & cash equiv.	95	75	148	148	148						
Accounts receivables	826	1,042	766	813	851						
Inventory	499	752	567	598	623						
Net fixed & other tangibles	20,491	22,442	24,783	26,635	28,886						
Goodwill & intangibles	1,486	1,486	1,486	1,486	1,486						
Financial & other assets	761	939	819	841	858						
Total assets	**24,157**	**26,737**	**28,570**	**30,521**	**32,852**						
Accounts payable	698	900	407	411	412						
Short-term debt	618	1,792	2,833	3,894	5,322						
Long-term debt	9,183	9,524	10,940	11,540	12,140						
Provisions & other liab	6,385	6,620	6,305	6,309	6,311						
Total liabilities	**16,884**	**18,835**	**20,484**	**22,154**	**24,184**						
Shareholders' equity	7,273	7,902	8,086	8,367	8,668						
Minority interests	0	0	0	0	0						
Total equity	**7,273**	**7,902**	**8,086**	**8,367**	**8,668**						
Net debt (Adj)	**9,707**	**11,240**	**13,624**	**15,286**	**17,313**						
Net debt to equity (Adj) (%)	133.5	142.2	168.5	182.7	199.7						

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

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GAS-ROR-010
Attachment F
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NiSource Inc

Company description

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

Investment strategy

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

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $32. We value regulated assets at a multiple of 1.5x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $32 and $29, respectively.

Risks

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

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Appendix A-1

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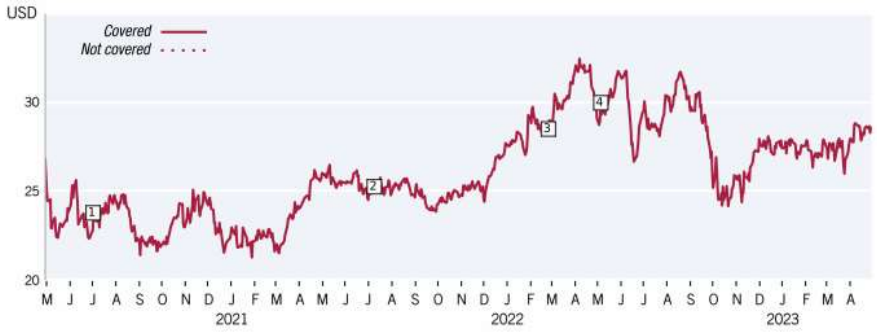
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NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan Levine



	Date	Rating	Target Price	Closing Price
1	01-Jul-20 14:08:34	2	*24.00	23.46
2	08-Jul-21 15:00:03	2	*27.00	24.95
3	23-Feb-22 23:34:02	2	*28.00	28.21
4	04-May-22 17:57:28	2	*30.00	29.67

*Indicates Change

Rating/target price changes above reflect Eastern Time

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Citi Research Equity Ratings Distribution

	12 Month Rating			Catalyst Watch		
Data current as of 31 Mar 2023	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage (Neutral=Hold)	56%	34%	9%	30%	57%	13%
% of companies in each rating category that are investment banking clients	59%	65%	53%	67%	56%	62%

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J.P.Morgan

NiSource Inc.

1Q Lands Just Ahead; NIPSCO Sale Process Tracking Expectations; Transmission ROFR Legislation Stands Out

Overweight

NI, NI US
Price (02 May 23):$27.91

North American Utilities

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- **1Q23 lands just ahead of estimates; 2023 guidance reaffirmed.** NI reported 1Q23 adj EPS of $0.77, just ahead of the $0.75/$0.76 JPM/Street median estimates. The company also reaffirmed its 2023 guidance range of $1.54-1.60 (JPMe/Street median $1.56), plus long-term growth targets. Management spent meaningful time on the call outlining active O&M efficiency efforts, continuing a significant topic since the company's fall investor day. On balance, targeted flat O&M through 2027 remains on track, and NI intends to offer further details on efficiencies as the latest cost effort progresses.
- **NIPSCO transaction remains on track.** NI offered no new information on the NIPSCO minority stake sale process, but framed the transaction as on track for its 2023 targets (mid-year announcement and 2023 completion). Overall tone remains positive, in our view, with management noting broad interest and a straightforward process to close. While investor attention remains firmly focused on the prospects for a favorable deal valuation and overall execution on this key element of NI's long-term plan, we did not anticipate any significant update into the quarter and instead await a targeted mid-year announcement as the next sale update.
- **IN transmission ROFR legislation further underpins plan upside.** Recently signed Indiana transmission ROFR legislation received notable enthusiasm from management, with the impacts framed as solidifying NI's transmission upside within the 2028+ outlook. To quantify this, NI pointed to MISO's ongoing LRTP work, where we expect tranche 2 potential to start emerging into the end of 2023 and early 2024. Securing clearer leverage to this long-dated theme is a positive starting point, in our view, and we look to further updates as MISO's process unfolds.
- **Other takeaways: Gas M&A, IN rate case settlement.** On gas M&A, topical given recent media reports around LDC assets hitting the market, management emphasized the current focus on organic growth and executing NI's investor day plan. We see no surprises in this response, although note this topic has been a source of recent investor questions. Separately, the company highlighted positive regulatory progress in reaching a settlement in NIPSCO's electric rate case, and we expect closing out the final case hurdles will further showcase NI's declining regulatory risk.

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Table 1: NI 1Q23 Results

Income Statement:	Actual 1Q22	Actual 1Q23	JPM 1Q23E	% Chg Y/Y	% Chg vs JPMe	YoY Drivers
Operating Earnings	494	563	533	14%	6%	New base and infra replacement program rates, customer growth/usage, lower O&M, higher D&A
Net Income	329	343	336	4%	2%	Favorable COLI impacts, higher interest expense and non-service pension costs
Share Count	441	447	448	1%	0%	
Operating EPS	**$0.75**	**$0.77**	**$0.75**	**3%**	**3%**	

Source: Company reports and J.P. Morgan estimates.

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NiSource Inc. (NI, NI US) Price Chart



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

Date	Rating	Price ($)	Price Target ($)
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
09-Dec-22	OW	27.77	31
13-Mar-23	OW	26.71	30
24-Apr-23	OW	28.64	31

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EVERCORE ISI

Energy | Power & Utilities

May 03, 2023

NiSource Inc

NI | $27.91

Outperform | Target Price/Base Case: $31.00

Company Update

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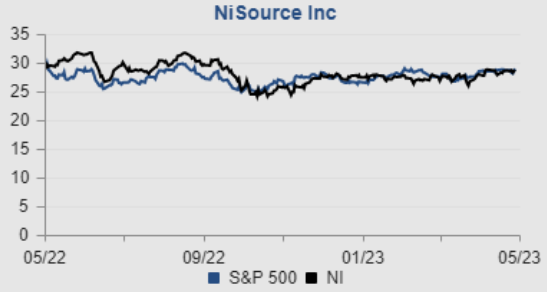
Company Statistics

Market Capitalization (M)	$11,996
Shares Outstanding (M)	413
Dividend	0.94
Dividend Yield	3.2%
Payout Ratio	59.7%
Expected Total Return	9.8%
Fiscal Year End	Dec

Earnings Summary

	2023E	2024E	2025E
EPS	**$1.57**	**$1.69**	**$1.80**
P/E	**18.5**	**17.2**	**16.1**
EPS vs Consensus	**1.5%**	**1.4%**	**0.7%**
Consensus EPS	**$1.55**	**$1.67**	**$1.79**
Consensus P/E	**18.8**	**17.4**	**16.3**

1 Year Price History



Source: FactSet

Effective Execution

Key Takes:

- NI reported Q1 adjusted diluted Net operating EPS (NOEPS) of $0.77 vs. our estimate of $0.77 and street consensus of $0.75. 1Q23 NOEPS is 3% higher than 1Q22 NOEPS of $0.75.
- Reaffirmed 2023 non-GAAP NOEPS guidance range of $1.54-$1.60.
    - Midpoint of $1.57 represents 6.8% growth off 2022 NOEPS. Consensus is at $1.55.
- Reaffirmed annual non-GAAP NOEPS growth of 6-8% through 2027.
    - Off the 2023 earnings guidance range of $1.54-$1.60.
- Reaffirmed $15B 2023-2027 capex plan with ~75% of investments beginning earning in less than 18 months
    - Driving 8%-10% annual utility rate base growth
- Northern Indiana Public Service Company (NIPSCO) minority sale process on track for 2023
- Long-term 14-16% FFO/Debt target reaffirmed
- NIPSCO reached a settlement in the electric rate case on March 10th

Maintaining our Outperform rating and $31TP (details within)

Additional Details:

- **Minority Interest Sale:** Minority interest sale of NIPSCO is still expected to be completed in 2023 and continues to track as expected. The company remains confident in the attractiveness of the asset and has previously stated that there is no decline in interest attributable to higher rates, particularly given the quality of the potential counterparties with ready capital to deploy, bank leverage tools, and long-term investment preference. NiSource has initiated the sale process, and we anticipate an announcement and close by year end. We estimate $1.5-$2B in cash proceeds.

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- **NIPSCO Electric rate case**: On March 10th, NIPSCO and other parties reached a settlement agreement in its electric rate case in Indiana. The settlement proposed a $292M rate increase compared with $395M company requested, including base rate increase and tracker. The parties agreed on an ROE of 9.8% versus current 9.75%, and an equity layer of 51.63% versus current 47.86%. Recall that company requested a 10.4% ROE and a 58.5% equity ratio on a rate base of $5.95B. We view the settlement as constructive if approved. A final Commission order is expected in mid-August with rates going into effect in September.
- **Virginia gas rate case**: On Dec 9th, Columbia Gas of Virginia reached a settlement with $25.8 million rate increase, inclusive of SAVE (Steps to Advance Virginia's Energy Plan) infrastructure tracker ($14.5MM), representing a settlement as to a specific revenue number but not as to a specific ROE. Recall that NiSource requested $40.6MM revenue increase 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. A final order is expected in 2Q23.
- **OH gas rate case**: On Oct 31st, 2022, Columbia Gas of Ohio filed a settlement representing a $68.2M revenue increase with 9.6% ROE and 50.6% equity layer. The company originally requested $221MM with ROE of 10.9%. The equity ratio request of ~51% was not disputed. The commission approved the settlement in January 2023 for new rates effective in March.
- **Indiana ROFR legislation**: HB 1420 was signed by the Governor on May 1st, which gives Indiana utility companies the right of first refusal (ROFR) to build, own, and operate new transmission lines approved by a regional transmission organization in their service area, and prevents new projects from being bid on by other competitive transmission companies. The legislation would solidify NI's position to own and invest in Transmission assets, which could be upside to their current capex plan.
- **Leadership changes:** The company announced several leadership changes on March 15th, link. Notably Shawn Anderson formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer effective Mar 27th. Donald Brown, NiSource's former chief financial officer, assumed the role of executive vice president and chief innovation officer on Mar 27th, replacing Melody Birmingham, who was named as executive vice president, and group president, NiSource utilities.
- **Target Price**: Maintaining our Outperform rating and our target price of $31/share. We keep our 2023/2024/2025 EPS estimates of $1.57/$1.69/$1.80 unchanged. See our base case SOTP valuation of $31 on Exhibit 1. We apply a conservative 5% premium to our peer target 17x multiple 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 16.6x 2025 EPS as we mark to market comparable trading multiples. Our bear case in Exhibit 1 below derives $27/share valuation assuming NI can grow EPS at 6% using low end of 2023 guidance range of $1.54, while our bull case is $33/share assuming the company can grow at 8% using high end of 2023 guide of $1.60.

Exhibit 1: NiSource SOTP Valuation

Base

Base Case	'25 EPS	P/E	Val/Shr
Gas EPS	$1.35	16.6x	$22.53
Electric EPS	$0.75	17.9x	$13.47
Parent/Other	($0.31)	17.2x	($5.27)
Consolidated 2024 EPS	**$1.80**	17.2x	**$31.00**
ETR (including dividend)			15%

Bull 1.86

Bull Case	'24 EPS	P/E	Val/Shr
Gas EPS	$1.39	17.5x	$24.33
Electric EPS	$0.77	17.9x	$13.81
Parent/Other	($0.31)	17.7x	($5.44)
Consolidated 2024 EPS	**$1.86**	17.7x	**$33.00**
ETR (including dividend)			22%

Bear 1.73

Bear Case	'24 EPS	P/E	Val/Shr
Gas EPS	$1.31	15.0x	$19.55
Electric EPS	$0.73	16.1x	$11.74
Parent/Other	($0.31)	15.6x	($4.79)
Consolidated 2024 EPS	**$1.73**	15.6x	**$27.00**
ETR (including dividend)			0%

Source: Evercore ISI, Note: ETR based on closing price as of 5/2/23

VALUATION METHODOLOGY

We use a SOTP analysis to arrive at our price target

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 (2023-03-05)	Evercore ISI Target
AEE	Ameren Corp.	Outperform	$89.11	$94.00
AEP	American Electric Power	In Line	$91.28	$102.00
AES	The AES Corporation	Outperform	$22.60	$30.00
AWK	American Water Works Company, Inc.	Outperform	$146.74	$160.00
AWR	American States Water Company	Underperform	$88.42	$70.00
CEG	Constellation Energy Corp	Outperform	$76.79	$93.00
CMS	CMS Energy Corp.	In Line	$61.49	$68.00
CNP	CenterPoint Energy, Inc.	Outperform	$30.05	$32.00
CWT	California Water Service Group	In Line	$55.81	$50.00
D	Dominion Energy, Inc	In Line	$55.53	$65.00
DTE	DTE Energy Co.	Outperform	$111.60	$126.00
DUK	Duke Energy Corp.	In Line	$97.60	$102.00
ED	Consolidated Edison Inc.	In Line	$98.57	$93.00
EIX	Edison International	In Line	$73.28	$70.00
ES	Eversource Energy	Outperform	$76.44	$92.00
EVRG	Evergy	In Line	$61.44	$62.00
EXC	Exelon Corp.	Outperform	$42.57	$46.00
NEE	NextEra Energy Inc	In Line	$75.94	$90.00
NI	NiSource Inc	Outperform	$27.91	$31.00
NRG	NRG Energy Inc.	In Line	$33.33	$40.00
OGE	OGE Energy Corp	In Line	$36.82	$39.00
PCG	PG&E Corp.	Rating Suspended	$17.26	
PEG	Public Service Enterprise Group	Outperform	$62.81	$68.00
PPL	PPL Corp.	Outperform	$28.50	$32.00
SJW	SJW Group	In Line	$75.71	$67.00
SO	Southern Co.	In Line	$73.15	$69.00
SRE	Sempra Energy	Outperform	$153.20	$175.00
VST	Vistra Energy Corp	Outperform	$23.11	$31.00
WEC	WEC Energy Group, Inc.	In Line	$95.25	$98.00
WTRG	Essential Utilities Inc.	Outperform	$42.28	$55.00
XEL	Xcel Energy Inc.	Outperform	$69.10	$75.00

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Time of dissemination: May 03 2023 3:49 PM ET

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

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Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	465	57	Buy	53	11
Hold	296	36	Hold	26	9
Sell	16	2	Sell	0	0
Coverage Suspended	35	4	Coverage Suspended	4	11
Rating Suspended	9	1	Rating Suspended	2	22

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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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ARGUS

NISOURCE INC

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving nearly 4 million natural gas customers and 500,000 electric customers in six states. NiSource's principal subsidiaries include Columbia Gas, 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 Marie Ferguson, June 28, 2023

ARGUS RATING: BUY

- Maintaining BUY
- NiSource recently posted above-consensus 1Q23 EPS and reaffirmed its 2023 guidance.
- We are raising our 2023 adjusted EPS estimate to $1.57 from $1.55 and our 2024 forecast to $1.67 from $1.65.
- NiSource recently boosted its dividend by 6% to an annualized $1.00. The current yield is about 3.7%.
- In June, the company agreed to sell a 19.9% minority stake in its NIPSCO utility to Blackstone for $2.15 billion. It will use the proceeds to strengthen its balance sheet, and invest in utility operations and renewables.

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, though it is making significant investments in green energy generation. Our target price is $34.

We note that NiSource, with an $11 billion market cap, 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.

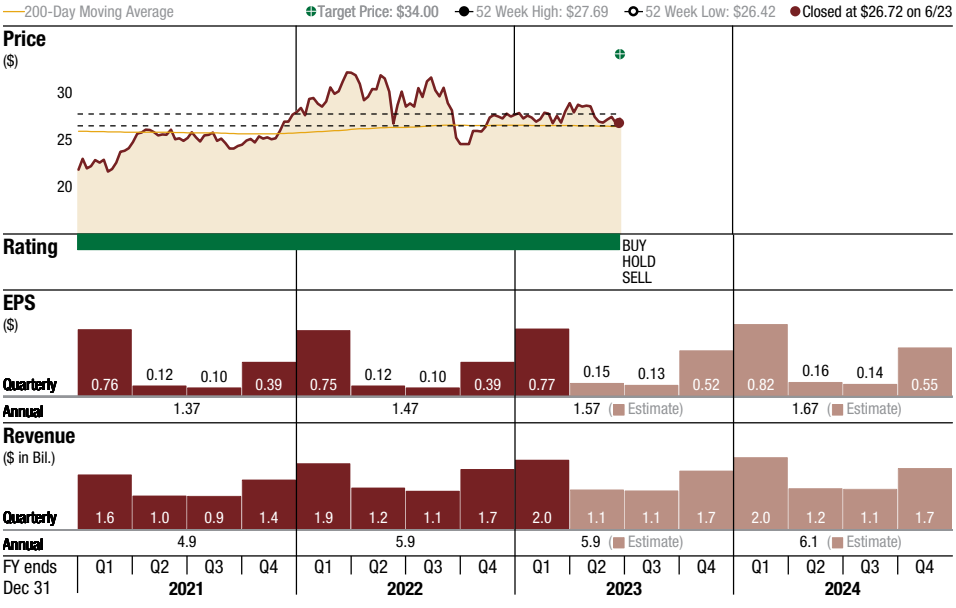
RECENT DEVELOPMENTS

NI shares have underperformed over the past three months, rising 2.2% while the S&P 500 has risen 9.4%. The shares have fallen 4.5% over the past year, compared to a 10.7% gain for the index. They have underperformed over the past five years.

NiSource reported 1Q23 results on May 3. The company posted adjusted net income of

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: 70% Buy, 30% 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	**$27.44**
Target Price	**$34.00**
52 Week Price Range	**$23.78 to $31.87**
Shares Outstanding	**413.06 Million**
Dividend	**$1.00**

Sector Overview

Sector	**Utility**
Sector Rating	**MARKET WEIGHT**
Total % of S&P 500 Market Cap.	**2.00%**

Financial Strength

Financial Strength Rating	**MEDIUM**
Debt/Capital Ratio	**59.0%**
Return on Equity	**10.4%**
Net Margin	**12.0%**
Payout Ratio	**0.64**
Current Ratio	**0.55**
Revenue	**$5.94 Billion**
After-Tax Income	**$710.30 Million**

Valuation

Current FY P/E	**17.48**
Prior FY P/E	**18.67**
Price/Sales	**1.91**
Price/Book	**1.85**
Book Value/Share	**$14.87**
Market Capitalization	**$11.33 Billion**

Forecasted Growth

1 Year EPS Growth Forecast	**6.80%**
5 Year EPS Growth Forecast	**4.00%**
1 Year Dividend Growth Forecast	**6.38%**

Risk

Beta	**0.74**
Institutional Ownership	**93.82%**

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Analyst's Notes...Continued

$343.0 million or $0.77 per share, up from $328.7 million or $0.75 per share a year earlier. EPS beat the consensus forecast of $0.75. Revenue rose 5% from the prior year to $1.97 billion.

In 2022, adjusted net income rose to $648.2 million or $1.47 per share from $571.2 million or $1.37 per share in 2021. Revenue rose 19% to $5.85 billion.

Along with the 1Q results, management reaffirmed its 2023 adjusted EPS guidance of $1.54-$1.60, which it raised from $1.50-$1.57 in February. The company expects to grow adjusted EPS at a 6%-8% annual rate through 2027.

NiSource projects capex of $3.3-$3.6 billion in 2023, $2.6-$2.9 billion in 2024, and a total of $15 billion in 2023-2027. It expects to reduce greenhouse gas emissions by 90% by 2030 and to be coal-free by 2028.

EARNINGS & GROWTH ANALYSIS

NiSource has two segments: Gas Distribution Operations (77% of 1Q23 revenue) and Electric Operations (23%). In 1Q23, Gas Distribution operating revenue rose 7% to $1.54 billion, while Electric Operations revenue increased 8% to $466 million.

In the Electric Operations segment, in September 2022, operating subsidiary Northern Indiana Public Service Co. (NIPSCO) filed it first electric case since 2018. The NIPSCO rate case settlement provides a revenue increase of $292 million, in line with the company's request, to support renewable generation and associated transmission projects, grid modernization, and customer-centric improvements. A final order is anticipated in August 2023.

At Columbia Gas of Ohio, new rates were implemented in the first quarter of 2023 following a rate case settlement. The company has also had gas rate settlements approved in Pennsylvania and Maryland.

The company continues to work on the Indiana Crossroads II Wind project, which is expected to enter service in 2023.

We are raising our 2023 adjusted EPS estimate to $1.57 from $1.55 and our 2024 forecast to $1.67 from $1.65.

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 operating expenses and working capital. As part of this effort, it recently agreed to sell a 19.9% minority stake in its NIPSCO utility to Blackstone for $2.15 billion.

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

Growth & Valuation Analysis

GROWTH ANALYSIS ($ in Millions, except per share data)	2018	2019	2020	2021	2022
Revenue	5,115	5,209	4,682	4,900	5,851
COGS	4,114	2,890	2,695	2,848	3,600
Gross Profit	1,000	2,319	1,987	2,051	2,251
SG&A	—	—	—	—	—
R&D	—	—	—	—	—
Operating Income	126	1,305	961	1,015	1,162
Interest Expense	347	371	365	337	357
Pretax Income	-231	507	-31	707	956
Income Taxes	-180	124	-17	118	165
Tax Rate (%)	—	24	—	17	17
Net Income	-51	383	-18	585	804
Diluted Shares Outstanding	357	376	384	417	443
EPS	-0.18	0.87	-0.19	1.27	1.70
Dividend	0.78	0.80	0.84	0.88	0.94
GROWTH RATES (%)					
Revenue	5.5	1.2	-11.5	5.8	21.3
Operating Income	-86.4	936.7	-26.3	5.5	14.5
Net Income	—	—	—	—	37.5
EPS	—	—	—	—	33.9
Dividend	11.4	2.6	5.0	4.8	6.8
Sustainable Growth Rate		3.4	-2.6	1.9	5.1
VALUATION ANALYSIS					
Price: High	$28.11	$30.67	$30.46	$27.85	$32.59
Price: Low	$22.44	$24.69	$19.56	$21.09	$23.78
Price/Sales: High-Low	2.0 - 1.6	2.2 - 1.8	2.5 - 1.6	2.4 - 1.8	2.5 - 1.8
P/E: High-Low	— - —	35.3 - 28.4	— - —	21.9 - 16.6	19.2 - 14.0
Price/Cash Flow: High-Low	8.6 - 6.9	13.6 - 10.9	9.6 - 6.2	9.6 - 7.3	10.8 - 7.9

Financial & Risk Analysis

FINANCIAL STRENGTH	2020	2021	2022
Cash ($ in Millions)	117	84	41
Working Capital ($ in Millions)	-620	-825	-2,076
Current Ratio	0.73	0.70	0.55
LT Debt/Equity Ratio (%)	189.2	170.0	158.0
Total Debt/Equity Ratio (%)	200.0	181.5	193.4
RATIOS (%)			
Gross Profit Margin	42.4	41.9	38.5
Operating Margin	20.5	20.7	19.9
Net Margin	-1.6	10.8	12.8
Return On Assets	-0.3	2.3	2.9
Return On Equity	-1.5	10.3	13.1
RISK ANALYSIS			
Cash Cycle (days)	35.2	35.4	40.7
Cash Flow/Cap Ex	0.6	0.7	0.6
Oper. Income/Int. Exp. (ratio)	0.9	3.1	3.7
Payout Ratio	64.6	229.7	79.8

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Analyst's Notes...Continued

ratings from Moody's (Baa2/stable) and Standard & Poor's (BBB+/stable).

The company had cash of $35.8 million at the end of 2022 and net available liquidity of $1.56 billion. Debt totaled $9.6 billion at the end of 2022, and accounted for 58.9% of total capitalization. As noted above, the company expects to make capital investments of approximately $15 billion through 2027.

In February 2023, NiSource raised its quarterly dividend by 6% to $0.25, or $1.00 annually, for a yield of about 3.7%. We think the dividend is safe and likely to grow modestly. Our dividend estimates are $1.00 for 2023 and $1.04 for 2024.

MANAGEMENT & RISKS

Lloyd Yates succeeded Joseph Hamrock as the company's president and CEO in February 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 nearly 4 million natural gas customers and 500,000 electric customers in six states. NiSource's principal subsidiaries include Columbia Gas, 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.

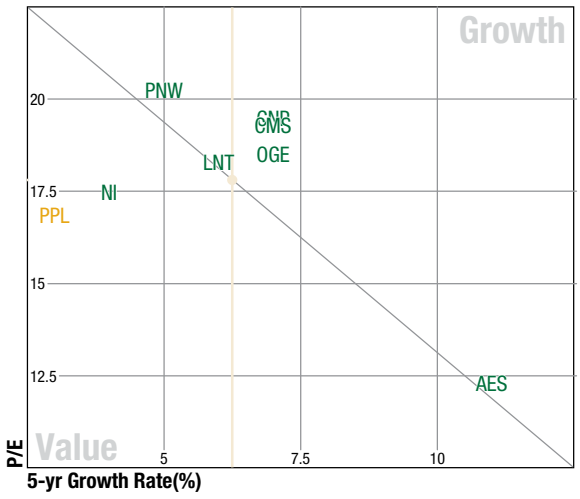
VALUATION

We think that NI shares are attractively valued at current prices near $27. On the fundamentals, the shares trade at 17.9-times our 2023 EPS estimate, near the average multiple of 17.6 for comparable electric and gas utilities. They are also trading at a price/sales multiple of 2.0, below the peer average of 2.4, and at a PEG ratio of 2.3, below the peer average of 2.8. The dividend yield of about 3.7% is in line with the industry average. We are reiterating our BUY rating on NI with a 12-month target price of $34.

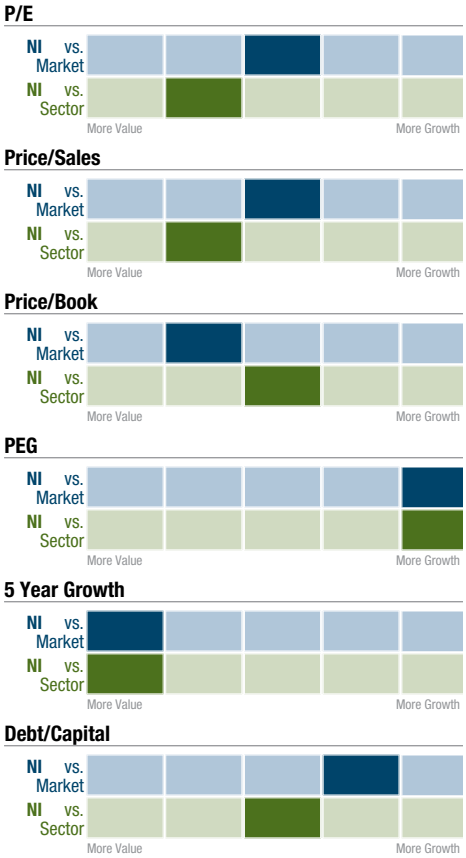
Peer & Industry Analysis

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	19,628	3.0	16.9	9.0	7.6	HOLD
CNP	Centerpoint Energy Inc.	18,386	7.0	19.5	9.1	8.0	BUY
CMS	CMS Energy Corporation	17,394	7.0	19.3	8.1	8.4	BUY
AES	AES Corp.	13,996	11.0	12.3	-3.9	11.8	BUY
LNT	Alliant Energy Corp.	13,278	6.0	18.3	15.6	9.0	BUY
NI	Nisource Inc. (Holding Co.)	11,334	4.0	17.5	12.0	6.4	BUY
PNW	Pinnacle West Capital Corp.	9,287	5.0	20.2	10.3	24.7	BUY
OGE	OGE Energy Corp.	7,228	7.0	18.5	12.7	5.1	BUY
Peer Average		**13,817**	**6.3**	**17.8**	**9.1**	**10.1**	



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Analyst's Notes...Continued

On June 28 at midday, BUY-rated NI traded at $27.05, down $0.39.

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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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BARCLAYS

High Grade Utilities: 1Q23 Results (EIX, EXC and NI)

Improving Credit Pathways Persist

CORE

Key points: 1) Issuance needs: EXC sees remaining needs at PECO ($525mn) and BGE ($600mn), NiSource expects to issue senior unsecureds, and we see continued needs at SoCalEd and EIX holdco; 2) NI 5.65% perp near-term call in focus; 3) credit metric improvement path for EIX and NI, still scope for S&P upgrade at EXC.

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Trade Recommendations

- **Hybrids:** Buy NI 5.650% perps; sell EIX 8.125% 2053s/buy EIX 5.000% perps
- **Opco FMBs:** Buy EIX 5.700% 2053s (Southern California Edison)
- **CDS:** Buy EXC 5y CDS (48/51) and sell FE 5y CDS (87/96)

Relative Value

- **Buy NI 5.650% perps** (~$95; first call June 15): The NiSource perps lose equity credit on the first call date. Further, given a reset to 6.3%, we think they become expensive to maintain on the balance sheet, and we expect NiSource to redeem them. The perps have discrete 5y calls (next call is in June 2028), so the window to call them is now fairly tight (we think it would have to give 30 days' notice).
- **Sell EIX 8.125% 2053s/buy EIX 5.000% perps:** We view the newly issued EIX 8.125% 2053s as less attractive than the outstanding EIX 5.000% perps. The latte rare being quoted at a 10% yield to first call (December 2026), which is the call date preceding their loss of equity credit in March 2027 (given a cumulative 100bp coupon step in 2047). Given that EIX has utilized hybrid issuance to help keep FFO/debt above 15%, we expect EIX to call and replace to maintain equity credit (the 5% perps are worth ~20bp right now, with FFO/debt thinly positioned versus their 15% downgrade threshold at S&P). The 8.125% 2053s are quoted at a 7.3% yield to first call (March 2028), but the loss of equity credit would not occur until 2033 (ie, 20 years before maturity). The reset on the EIX 8.125% 2053s and the EIX 5.000% perps is similar (386.4bp versus 390.1bp). Finally, we prefer the low dollar price of the EIX holdco hybrids through the traditional fire season period.
- **Buy EXC 5y CDS (48/51) and sell FE 5y CDS (87/96):** We see a 30bp compression opportunity, largely with FE tightening in. We view EXC as a good comp to FE, as both are largely T&D utilities. We also see improving credit trajectories for both, though FE has the higher FFO/debt target in the medium term (14-15%, post the sale of the FET minority

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interest in 2024). FE targets FFO/debt improvement to 12% in 2023 from 11% in 2022, which is only slightly below EXC at 13%. Over time, we expect ratings to compress (FE to mid-BBB over the next two to three years, reflecting the higher metrics). Prior to FE's negative governance headlines in summer 2020 , FE and EXC 5y CDS traded about flat (Figure 1). For more on FirstEnergy, see FE: With New CEO, upgrade to IG within reach, 1 May 2023.

FIGURE 1. **FE 5y CDS used to trade about flat to EXC 5y CDS prior to the summer 2020 HB 6 related headlines, and the CEO departure/revolver drawings and downgrade to HY in November 2020**



Open in Barclays Live Chart

Source: **Credit** - Barclays Trading, IHS Markit

- **Buy EIX 5.700% 2053s (Southern California Edison):** At ~177bp, the A2/A-/A- rated FMBs are only ~5bp tight of mid-BBB rated Duk holdco 30y. We think SoCalEd has made meaningful progress in its wildfire risk mitigation plans, and over the next three years has a line of sight to effectively reduce risk largely through an accelerated covered conductor rollout (Figure 4). While we think issuance needs will persist for the opco, especially as it continues to pay for 2017-18 wildfire liabilities, we also think there is path to improve precedence around wildfire recovery, albeit this is not a 2023 event. Even partial recovery could help drive further upside to ratings (wildfire liabilities currently weighs down FFO/debt by ~500bp). We think fair value for EIX 30y should be modestly wide to other California-exposed electric utilities, which have seen lower wildfire costs over the past 10 years (eg, SDG&E or PacifiCorp). This implies ~20-25bp of spread compression opportunity.

Edison International (EIX): 1Q23 Highlights

We maintain our Overweight rating on Southern California Edison (EIX). While EIX opco has outperformed in excess return terms YTD (Figure 2), we continue to see compression opportunities (~20bp across the curve), as levels are more consistent with mid-BBB utility holdocs than A category opcos. EIX has a pathway to substantially cover its high-fire-risk distribution line miles with covered conductor by 2026, and has seen limited material fires since 2017-18, having implemented a wide-ranging wildfire mitigation plan. Given an elevated capex plan, and deferred recovery in California's regulatory framework, cash flow recovery has been gradual, but we expect cash flow to improve through 2023-25. As with other opcos, we expect SoCalEd to regularly access debt, and note it had ~$0.9bn drawn under its credit facilities at end 1Q23.

We maintain our Market Weight rating on Edison International (EIX). EIX holdco has also outperformed YTD, and it remains a wider-trading holdco (~50-60bp back of other mid-BBB holdcos). We think risk-reward is relatively negatively skewed against the holdco going into the traditional wildfire season, and therefore maintain a relative preference for SoCalEd. At ~60bp, the holdco-opco differential for EIX is broadly similar to PCG, though EIX holdco differentials have been less volatile (Figure 3).

FIGURE 2. **EIX Entities versus the Index**

Issuer	Ticker	Amt Out ($mn)	Moody's	S&P	OAS	OASD	Excess Return 1Month	Excess Return 3Months	Excess Return YTD
Utility Index		587,846	A2/A3	A-/BBB+	136	9.1	8	(122)	1
Holdco & Other Custom Index		220,595	Baa1/Baa2	BBB+	134	7.2	13	(91)	28
Edison International	EIX	3,000	Baa2	BBB-	139	3.2	14	(2)	95
Opco Secured Custom Index		261,574	A1/A2	A/A-	135	10.3	6	(144)	(28)
Southern California Edison	EIX	21,750	A2/A3	A-/BBB+	140	9.4	15	(95)	55

Source: Bloomberg Fixed Income Indices

FIGURE 3. **EIX Holdco/Opco Differential versus PCG**



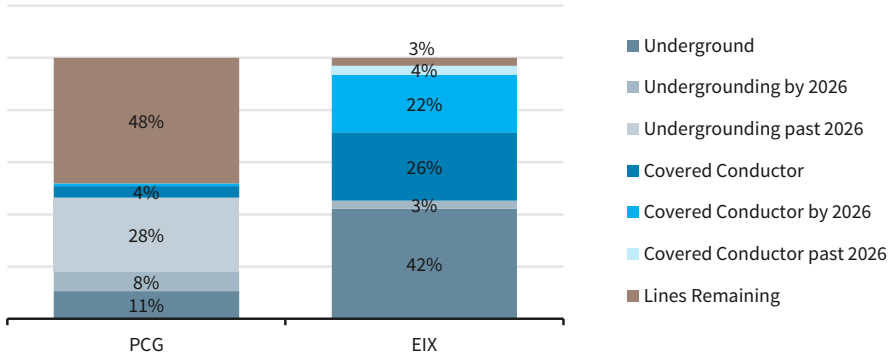
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Source: **Credit** - Barclays Trading, IHS Markit

- **1Q23 results:** We calculate 1Q23 EBITDA of $1,424mn, +8.0% y/y, with about flat revenue. O&M costs were down 27% y/y, which was the main EBITDA growth driver. We calculate a meaningful improvement to FFO to $1,058mn, up from $705mn in 1Q22. That said, working capital moves were significantly negative in the quarter, due in large part to accounts payable (-$508mn), as well as regulatory assets (-$296mn). We calculate CFO pre-WC/debt (on a GAAP basis) at 11.2%, +120bp versus 4Q22. Delays in cash flow recovery are the reason for the difference between FFO and CFO pre-WC. We estimate FFO (EBITDA less interest less cash taxes)/ debt at ~15.5% (compared with 15% or more required for the BBB- S&P rating).

- **Wildfire mitigation plan:** Management highlighted that it filed its 2023-25 wildfire mitigation plan with the Office of Energy Infrastructure, including covered conductor (2,850 miles over 2023-25), as well as 600 miles of undergrounding by the end of 2028. EIX has a total of 16.8k distribution line miles in high-fire-threat districts, of which 7.1k is already undergrounded and 4.4k has seen covered conductors completed. We estimate that by end 2026, almost all of EIX's power lines in these high-threat districts will either be undergrounded or have covered conductors.

FIGURE 4. **EIX vs. PCG Wildfire Mitigation Plan (Covered Conductor vs. Undergrounding)**



Source: Company reports

- **2017-18 wildfire costs:** Through March 31, 2023, SCE estimates ~$8.8bn of total losses, and it has so far paid $7.8bn, including $135mn left to pay under executed settlements, up from $7.6bn at end 4Q22. The company still expects to request total cost recovery of $6bn (plus interest and legal costs), which excludes $2.4bn of insurance and FERC recovery, and $0.5bn that EIX had agreed not to request to recovery. As indicated last quarter, the company will request $2bn of recovery.

- **ROE adjustment:** Management noted that if the 12-month average of Moody's Baa1 bond index exceeds 5.37% at the end of September, SCE will file a Tier 2 advice letter to implement the adjustment to the 2024 ROE. The adjustment would be half the difference between the average and 4.37%. For example, the spot difference was cited at 5.42%, so that would imply a ~52.5bp addition. The cost of debt and preferred would also be updated.

- **Issuance needs:** The company noted ~$400mn of holdco funding needs, and when asked on the call, management was open to convertibles. At the opco level, SCE has ~$0.9bn drawn, and we expect it to be in the market for opco bonds in the near term. SCE's recent securitization proceeds were used to repay a $730mn term loan priority maturity in May 2023.

- **Electrification efforts:** SCE noted that there are nearly 200 EV charging sites to potentially support 4k medium/heavy-duty vehicles. For these sites, SCE might have to upgrade the distribution system, and the company is liaising with customers to understand when and where these vehicles will materialize. For building electrification, SCE has proposed a $677mn 5y program for adopting electric heat pumps.

Exelon Corp (EXC): 1Q23 Highlights

We maintain our Overweight rating on Exelon (EXC): We recently upgraded Exelon to Overweight[1] and there are no further issuance needs at the holdco level for the remainder of the year, and a modest level of issuance left at two opcos. We believe EXC, as a pure-play T&D utility, faces less risk due to commodity price volatility, as well as to the energy transition. While there are ongoing headlines around the prior conductor issues at Commonwealth Edison, the company has addressed the topic, noting that these issues were resolved with the Justice Department under the 2020 deferred prosecution agreement. We see the IL rate case this year as also being a key regulatory item, along with the final effect of corporate minimum taxes (expected later this year). That said, we view EXC as being on the path to an upgrade to BBB+ at S&P, and view EXC holdco as one of the higher-quality holdcos (similar to Southern/NiSource).

[1] High Grade Utilities: Dislocations in Relative Value, 29 March 2023

We maintain our Market Weight on the larger operating companies (Commonwealth Edison, PECO and Baltimore Gas & Electric). We view the larger opcos as well positioned T&D opcos, and in the case of Commonwealth Edison, with some scope for improvement as it transitions to a multiyear rate case. We view valuations, along the tighter end of the range of secured opcos, as fairly reflecting a relatively low risk profile overall.

FIGURE 5. **EXC Entities versus the Index**

Issuer	Ticker	Amt Out ($mn)	Moody's	S&P	OAS	OASD	Excess Return 1Month	Excess Return 3Months	Excess Return YTD
Utility Index		587,846	A2/A3	A-/BBB+	136	9.1	8	(122)	1
Holdco & Other Custom Index		220,595	Baa1/Baa2	BBB+	134	7.2	13	(91)	28
Exelon Corp	EXC	10,376	Baa2	BBB	136	8.1	8	(188)	(73)
Opco Secured Custom Index		261,574	A1/A2	A/A-	135	10.3	6	(144)	(28)
Delmarva Power & Light Co	EXC	375	A2	A	147	13.1	6	(267)	42
Potomac Electric Power	EXC	1,150	A2	A	138	11.1	44	(49)	102
Commonwealth Edison Co	EXC	11,100	A1	A	122	11.7	45	(164)	(49)
Peco Energy Co	EXC	4,125	Aa3	A	116	13.5	58	(182)	(99)
Atlantic City Electric	EXC	700	A2	A	103	5.8	(4)	(10)	43
Opco Unsecured Custom Index		105,352	A3	A-/BBB+	140	10.1	5	(135)	5
Baltimore Gas & Electric Co	EXC	3,750	A3	A	127	11.7	31	(139)	(46)

Source: Bloomberg Fixed Income Indices

- **1Q23 results:** We calculate 1Q23 EBITDA at $1,966mn, +14.5% y/y, supported by revenue growth (+4.4%). Purchased power and fuel costs were slightly higher (+0.6%), while O&M was lower (-2.3%). Cash from operations ($484mn) was notably weaker in the quarter, driven by changes in working capital and regulatory assets/liabilities (-$833mn). Accounts payable (-$482mn) and collateral (-$214mn) were notable changes. Comparability in cash flows versus 1Q22 is impacted by the spin-off of Constellation in 1Q22. We calculate FFO/debt of 12%.

- **2023 financing plans (80% complete):** Exelon's 2023 financing plan is largely complete, with PECO ($525mn) and Baltimore Gas & Electric ($600mn) the main issuers remaining. We note that the company utilized the private placement market for Pepco, Atlantic City and Delmarva Power, and using a delayed draw feature will fund an incremental $600mn at Pepco and Delmarva in September and November 2023.

- **Credit metrics:** The company maintained its 13-14% FFO/debt targets, which gives it a cushion against Moody's downgrade threshold of 12%. S&P has a more constructive take on Exelon, and has an upgrade threshold of 13%. In its May 2023 update, S&P calculated adjusted FY22 FFO/debt at 13.1%. EXC is attempting to mitigate potential negative impacts of the Corporate Minimum Tax and is awaiting guidance from the Treasury; if its proposed repairs are not permitted, then EXC would expect to be the at the low end of the 13-14% guidance.

- **Deferred prosecution agreement:** The company reminded investors that the deferred prosecution agreement signed in 2020 resolved the Justice Department's investigation into ComEd. Management also noted that it has made substantial changes to contracting, lobbying and compliance operations to avoid future conduct issues. The comments were in response to questions regarding the trial of former Commonwealth Edison executives and

associates.[2]

- **Rate cases:** We view the Commonwealth Edison Multi-Year Plan (MYP) case as the most significant for Exelon. The company filed the four-year plan on January 17, and a commission order is expected on December 20. The proposal includes a phase-in of new rates, with the equity layer increasing from 50.58% in 2024 to 51.19% in 2027, and ROE increasing from 10.50% in 2024 to 10.65% in 2027. The plan also expects to defer recovery of 35% of the rate increase to 2026 (but accrued in earnings). The existing Commonwealth Edison rate plan includes a 49.45% equity ratio, and an ROE of 7.85%. Atlantic City ($105mn), Baltimore Gas & Electric ($602mn 3y multi-year plan), Pepco DC ($191mn 3 year plan) and Delmarva - Delware ($48mn) are the other rate cases.

NiSource (NI): 1Q23 Highlights

We maintain our Overweight rating on NiSource (NI): The company maintains solid credit goals, including an FFO/debt target of 14-16% (it reported 13.5% in 2022). It still expects the sale of a minority interest in NIPSCo to take place this year (~$7bn rate base), to support financing for the $15bn capex plan over 2023-27. NiSource targets net zero scope 1 and scope 2 emissions by 2040. NiSource 10y (153bp) and 30y (172bp) are about 10bp tight to DUK holdco, which we view as about fair. Nonetheless, our Overweight for NiSource within the index reflects more modest issuance at NiSource for 2023 (given its expected minority interest sale in NISPCO), our view of better-than-average credit metrics at NI with meaningful cushion to d/g thresholds (13%), and lack of meaningful opco debt.

FIGURE 6. **NI Entities versus the Index**

Issuer	Ticker	Amt Out ($mn)	Moody's	S&P	OAS	OASD	Excess Return 1Month	Excess Return 3Months	Excess Return YTD
Utility Index		587,846	A2/A3	A-/BBB+	136	9.1	8	(122)	1
Holdco & Other Custom Index		220,595	Baa1/Baa2	BBB+	134	7.2	13	(91)	28
NiSource Inc	NI	9,697	Baa2	BBB+	132	8.2	16	(89)	41

Source: Bloomberg Fixed Income Indices

- **1Q23 results:** We calculate 1Q EBITDA at $738mn, +7.3% y/y, reflecting an increase in 1Q revenue (+4.9% y/y), which more than offset an increase in fuel costs (+8.3% y/y). Cash from operations improved by ~$100mn y/y to $683mn, due largely to working capital changes. We calculate FFO/debt at 15% on a GAAP basis, about in line with 4Q22. NiSource has $1.55bn of preferred stock, and a 50/50 debt/equity treatments leads to a ~100bp reduction in the FFO/debt metric. The company's longer-term targets are 14-16%.

- **NIPSCo minority interest sale:** The company continues to target a NIPSco minority stake sale in 2023, and is confident on the process for this year. While it is keeping the regulator up to date, it does not expect a requirement for approvals. During the investor day presentation in 2022, management indicated ~$18bn of aggregate capital uses ($15bn capex and $3bn dividends) for 2023-27. Along with $10bn of cash, and $5bn of debt, the company expected to procure the remaining $3bn from a mix of ATM equity and the proceeds from the minority stake sale. NIPSCO has a total rate base of $7.8bn (equity layer cited as ~50% inclusive of deferred taxes), and we note that Duke Energy sold a minority interest in its Indiana opco at a ~1.3-1.4x rate base.[3]

[2] https://www.justice.gov/usao-ndil/pr/former-commonwealth-edison-executives-and-associates-found-guilty-conspiring-influence

[3] https://s201.q4cdn.com/583395453/files/doc_presentation/2021/01/gic-ir-slides.pdf

- **FFO/debt:** Over 2024-27, NiSource aims to improve FFO/debt to 14-16%, versus 13.5% achieved in 2022. For 2025 and beyond, NiSource expects to use ATM equity to support the metrics, as it looks to execute on an elevated capex program. NiSource's downgrade/upgrade thresholds are 13-17% at Moody's (Baa2) and 13-16% at S&P (for BBB+), with its targets leaving significant cushion versus the downgrade thresholds.

- **NIPSCo rate case:** The settlement achieved in March 10, 2023, supports an ROE of 9.8%, a $292mn revenue increase. An order is expected in August, with rates to be effective in September.

- **Debt issuance:** Following $750mn of debt issuance earlier in the year, NiSource stated that it would likely issue more debt later this year. During the investor day, NiSource indicated ~$5bn of aggregate net debt issuance through 2023-27, implying ~$1bn a year. In its 10Q, the company stated that it has $300mn remaining under its $750mn ATM, though during the call, management said it did not expect to utilize this. The company also expects to remarket its Series C Mandatory Convertible Preferred Stock prior to December 1, 2023. Separately, NiSource has $400mn of perps callable on June 15, 2023. This security was not referenced on the call, but given that it is due to lose equity credit at S&P, and resets to ~6.3%, we expect the company to redeem the security.

Summary of Ratings

Bloomberg U.S. Credit Index

	Old	New
U.S. HG Electric Utilities	Overweight	Overweight
BALTIMORE GAS AND ELECTRIC CO	Market Weight	Market Weight
COMMONWEALTH EDISON CO	Market Weight	Market Weight
EDISON INTERNATIONAL	Market Weight	Market Weight
EXELON CORP	Overweight	Overweight
NISOURCE FINANCE CORP	Overweight	Overweight
PECO ENERGY CO	Market Weight	Market Weight
SOUTHERN CALIFORNIA EDISON CO	Overweight	Overweight

Source: Barclays Research

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BALTIMORE GAS AND ELECTRIC CO, Market Weight, CD/D/E/J/K/L/M

Representative Bond: EXC 2.4 08/15/26 (USD 93.52, 02-May-2023)

COMMONWEALTH EDISON CO, Market Weight, CD/D/E/J/K/L/M

Representative Bond: EXC 2.55 06/15/26 (USD 94.64, 02-May-2023)

EDISON INTERNATIONAL, Market Weight, A/CD/CE/D/E/J/K/L/M

Representative Bond: EIX 4 1/8 03/15/28 (USD 95.17, 02-May-2023)

EXELON CORP, Overweight, A/CD/CE/D/E/J/K/L/M

Representative Bond: EXC 3.4 04/15/26 (USD 96.65, 02-May-2023)

NISOURCE FINANCE CORP, Overweight, CD/D/E/J/K/L/M

Representative Bond: NI 4.8 02/15/44 (USD 91.74, 02-May-2023)

PECO ENERGY CO, Market Weight, CD/D/E/J/K/L/M

Representative Bond: EXC 3.15 10/15/25 (USD 97.01, 02-May-2023)

SOUTHERN CALIFORNIA EDISON CO, Overweight, A/CD/D/E/J/K/L/M

Representative Bond: EIX 4.65 10/01/43 (USD 92.61, 02-May-2023)

Materially Mentioned Issuers/Bonds
EDISON INTERNATIONAL, Market Weight, A/CD/CE/D/E/J/K/L/M

EIX 5 PERP (USD 86.38, 02-May-2023)

EIX 8 1/8 06/15/53 (USD 101.34, 02-May-2023)

FIRSTENERGY CORP, Overweight, A/CD/CE/D/E/J/K/L/M

Representative Bond: FE 3.4 03/01/50 (USD 68.82, 02-May-2023)

NISOURCE INC, A/CD/CE/D/E/FA/J/K/L/M

NI 5.65 PERP (USD 94.75, 02-May-2023)

SOUTHERN CALIFORNIA EDISON CO, Overweight, A/CD/D/E/J/K/L/M

EIX 5.7 03/01/53 (USD 103.11, 02-May-2023)

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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.

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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.

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21% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 39% of bonds with this rating category are investment banking clients of the Firm; 65% 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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BARCLAYS

US Credit Research & Strategy

Hybrid/preferred relative value as the dust settles

CORE

Hybrids/preferreds had a difficult March but have regained about half of their losses and outperformed the corporate index year-to-date. We find the discount for Libor/SOFR-based resets too large, as investors have preferred constant-maturity reset indices. The most attractive trades are in utilities, banks, and midstream.

Total returns were -4% for hybrids/preferreds in March as volumes and volatility spiked. Trading volumes were up 50%, driven by financials, which were at the center of the storm. At one point during the month, PFF was down more than 8% before recovering about half of those losses. From a year-to-date perspective, junior subs/preferreds have outperformed the US corporate index in total returns.

Extension risks back in focus. The recent bank turmoil has increased the attention paid to extension risk. We believe it is appropriate to think of reset/senior ratios above 1.9x as having limited extension risk and those below 1.5x as having increased risk.

We think that extension risk worries have led to an exaggerated increase in the discount for Libor/SOFR reset indices, particularly for bonds that are likely to be called. Running a multi-factor regression, we find that the penalty for Libor/SOFR-based resets has increased by about 15bp, to around 25bp, for non-bank corporate hybrids and by 20bp, to around 40bp, for US bank preferreds, implying investor preference for constant-maturity reset reference rates.

Broadly, some of the most attractive hybrid securities are in the electric utility, Big 6 bank, and midstream sectors. First, they are trading toward the wide end of the range relative to seniors. Second, bonds in these sectors have higher resets (relative to senior spreads) and higher spread ratios to seniors when priced to maturity/perpetuity. In financials, Big 6 bank preferreds have better reset/senior ratios than regionals, driving our preference for the Big 6.

Trade ideas

- **Electric utilities:** Buy NI 5.650% perps; buy CNP 6.125% perps; buy EMACN 6.750% 2076s; sell EIX 8.125% 2053s, buy EIX 5.000% perps.
- **Financials:** Buy CRBG 6.875% 2052s; buy CFG 5.65% perp NC5s (series F); buy C 5.0% perp NC5s (series U)

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Please see analyst certifications and important disclosures beginning on page 17 .

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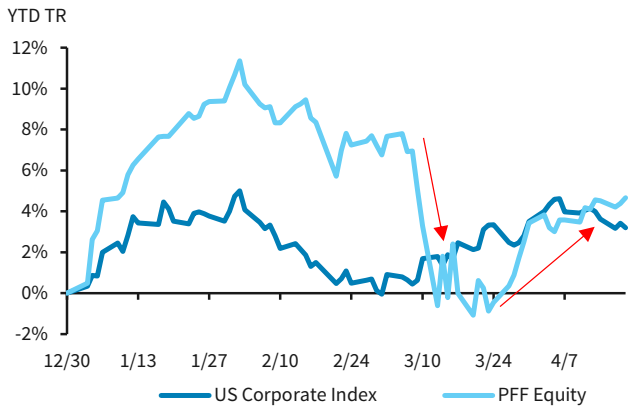
- **Energy/midstream:** Buy the ET 6.5% series H perps, sell the ET 6.625% series B perps; sell TRPCN 5.6% 2082s outright or paired against the TRPCN senior 5.1% 2049s.
- **A&D:** Buy the GE 0 perps.
- **TMT:** Buy PARA 2062s.
- **Tobacco:** Buy BATSLN €3.0 2026 perps and €3.75 2029 perps.

Strategy - Brad Elliott

Hybrids/preferreds have recovered about half of their March losses. After being up 11.4% on the year at one point in early February, PFF is now up only 4.7% for 2023 (Figure 1). That is a clear recovery from the year-to-date lows in March and slightly better than the total returns for the US corporate index (+3.2% YTD).

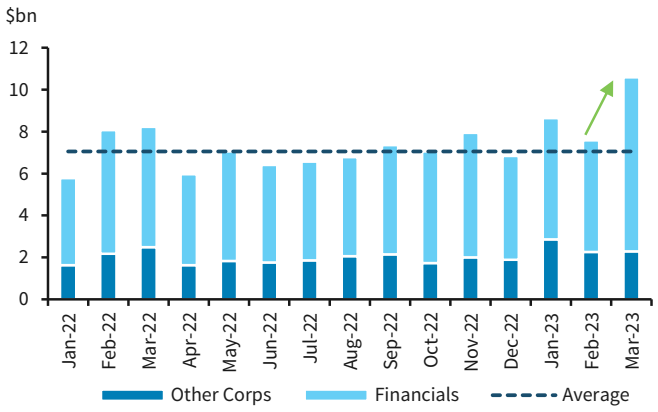
Trading volumes were up 50% in March, driven by financials. Volumes spiked amid the banking turmoil, with acute focus on the AT1 market as Credit Suisse securities were wiped out. This led to widespread underperformance of subordinated paper. Hybrid/pref volumes were up 50% versus the 2022-23 average, with the increase driven entirely by financials (Figure 2). As the dust has settled in April, volumes have dropped significantly and are on pace to be lowest since June 2022.

FIGURE 1. **Hybrids/preferreds have recovered about half of their March losses**



Source: Bloomberg, Barclays Research

FIGURE 2. **Volumes spiked 50% in March**



Source: Bloomberg, Barclays Research

Amid the turmoil, extension risks have come back into focus. One way to assess extension risk is to look at reset-to-senior ratios, with the senior bond likely being a long-dated issue for the same credit. Across the hybrid/pref universe, the average ratio of reset spread over long-dated senior spread is 1.73x, with Big 6 bank prefs having the highest average ratio, followed by electric utilities (Figure 3). We think of reset-to-senior ratios above 1.9x as having limited extension risk and those below 1.5x as having a relatively large risk of extension.

Using the reset spread over a senior long spread is a reasonable proxy for extension risk. In our view, this ratio can be thought of as cheap cost of capital when the ratio is low and expensive when high. In the US, the average cost of equity (excluding financials) is 11-12%,[1] whereas the average cost of debt is 5-6%, or 4.0-4.5% tax-adjusted. Therefore, for a 50/50 debt/equity blend, cost of capital is about 8.5% (or 7.8% using after-tax cost of debt). Looking at this cost of capital versus senior debt implies a range of 1.5x to 1.9x: The 1.5x ratio corresponds

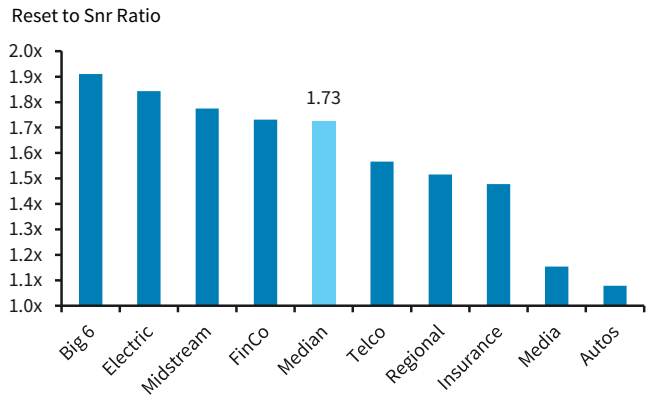
[1] https://pages.stern.nyu.edu/~adamodar/pc/datasets/wacc.xls

to 8.5% versus 5.5% cost of debt, and the 1.9x ratio corresponds to 7.80% versus 4.25% cost of debt.

Therefore, in theory, the natural range for the cost of a hybrid security should be 1.5-1.9x what senior debt costs an issuer, to be equivalent to the cost/value of the capital treatment investors are receiving.

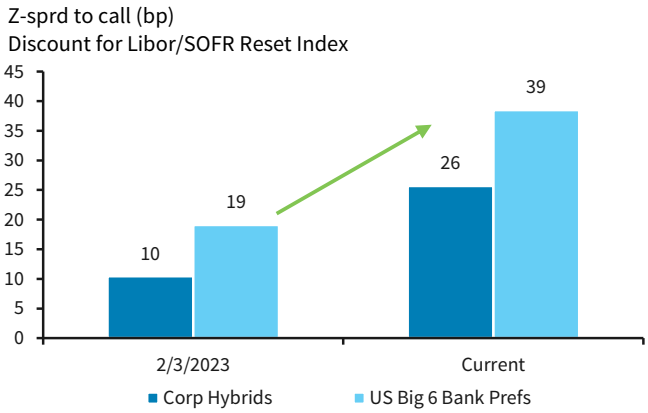
If the cost is below 1.5x, the issuer is receiving value for leaving the hybrid outstanding (ie, there is incentive to extend). If it is above 1.9x, the issuer is paying too much for the hybrid relative to its capital treatment, so it makes more sense to redeem. The current average ratio is exactly in the middle of this range at 1.73x.

FIGURE 3. Reset/senior ratio by sector



Source: Bloomberg, Barclays Research

FIGURE 4. Discount for the Libor/SOFR reset index has risen



Note: Model was run on securities with at least 1.5 years to call.
Source: Bloomberg, Barclays Research

The discount for Libor/SOFR reset indices has increased. Running a multi-factor regression[2] to explain a hybrid/pref z-spread (to call), we find that there is a discount for Libor/SOFR-based reset indices compared with constant-maturity 5y, 7y, or 10y indices. At the beginning of February, this discount was relatively small: 10bp for corporate hybrids and 19bp for US Big 6 bank preferreds. It has now increased by about 15bp for non-bank corporate hybrids and by 20bp for US bank preferreds (Figure 4). This implies a greater flight to safety from hybrid investors as extension risk concerns have increased post-SVB.

In our view, the increased compensation for Libor/SOFR-based structures creates an opportunity to pick up spread/yield in structures that have a high probability of being called, therefore eliminating uncertainty about the shape of the yield curve. The CNP 6.125% perps trade discussed below and C 5% perps are both prime examples.

In financials, we prefer Big 6 bank preferreds to regionals. On average, the Big 6 perps have a relatively high reset-to-senior ratio of 1.9x (implying lower extension risk), while the average for regional bank perps is much lower at 1.5x. Therefore, we view extension risk as too elevated broadly, although we highlight some attractive single-name trades below.

The auto, electric utility, and midstream sectors are trading toward the wide end of the range relative to seniors. Figure 5 highlight aggregate sector-level metrics. While autos trade relatively wide to call, extension risk is greater in the sector, with a 1.08x reset/senior ratio on average, and it is inherently exposed to the economic cycle. Therefore, we prefer midstream

[2] Multifactor regression was run on all non-bank corporate hybrids with more than 1.5 years to call, using reset spread, reset index, ratings, senior spreads, and years to call as inputs to explain z-spread to call. We then ran a similar regression for Big 6 preferreds.

and electric utility hybrids given higher resets (relative to senior spreads) and higher spread ratios to seniors when priced to maturity/perpetuity.

FIGURE 5. Sector relative value table

					Median							% of the Range since Jan-22			
	Price	Reset	Z Sprd to Call	Z Sprd to Mat	Yield to call	Yield to Mat	Hyb-Snr to call	Hyb-Snr Call Ratio	Hyb-Snr to Perp	Hyb-Snr to Perp Ratio	Reset/Snr	Hyb-Snr to call (bp)	Hyb-Snr Call Ratio %	Hyb-Snr to Perp (bp)	Hyb-Snr to Perp Ratio %
Median	**$91.1**	**333**	**502**	**389**	**9.0**	**8.2**	**346**	**3.61**	**164**	**1.71**	**1.73**	**60%**	**57%**	**66%**	**52%**
Insurance	$96.5	332	360	383	7.3	7.4	257	2.73	123	1.49	1.48	54%	61%	38%	27%
FinCo	$76.5	367	889	532	12.5	9.0	666	5.16	207	1.92	1.73	66%	78%	67%	54%
Autos	$87.0	360	613	456	9.8	9.1	406	2.96	152	1.46	1.08	72%	75%		
Electric	$89.8	322	536	376	9.5	7.9	426	4.53	150	1.66	1.84	75%	77%	80%	61%
Midstream	$88.5	394	501	445	9.1	8.8	356	3.94	215	1.82	1.77	72%	79%	70%	45%
Telco	$87.6	307	409	393	7.5	7.2	264	2.57	140	1.49	1.57	66%	61%	60%	52%
Media	$81.0	395	705	555	11.2	9.7	532	4.07	179	1.48	1.15			59%	59%
Regional	$86.8	317	678	411	11.6	8.4	386	3.44	189	1.74	1.52	28%	19%	66%	54%
Big 6	$95.3	333	435	374	8.7	8.5	325	3.83	176	1.90	1.91	47%	49%	60%	44%

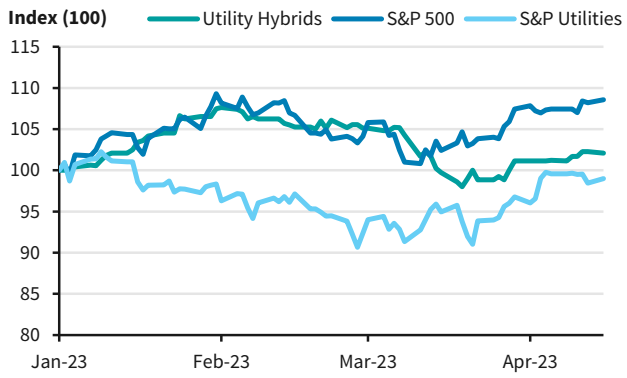
Note: Excludes hybrids that are already floating.
Source: Bloomber, Barclays Research

Power & Utilities - Srinjoy Banerjee

With Edison International (EIX 8.125% 2053s) and NRG Energy (NRG 10.250% perps) issuing hybrids in 1Q22, we believe that the power & utility sector, in general, will continue to evaluate hybrid issuance as a core part of its financing plans, largely for the purposes of obtaining equity credit to preserve ratings. For EIX, hybrid issuance is being utilized to preserve metrics as the company continues to pay for 2017/18 wildfire liabilities. For NRG, hybrid issuance was largely to fund M&A. Hybrid issuance to support funding for elevated capex plans has not been a feature this year, with companies instead turning to capital rotation, and we expect reliance on hybrids to persist as the sector continues to target elevated capex/high-single digit rate base growth. With the NI 5.650% perps (callable June 15, 2023) and CNP 6.125% perps (callable September 1, 2023) callable this year and, in our view, likely to be called, we see scope for further hybrid issuance in the sector.

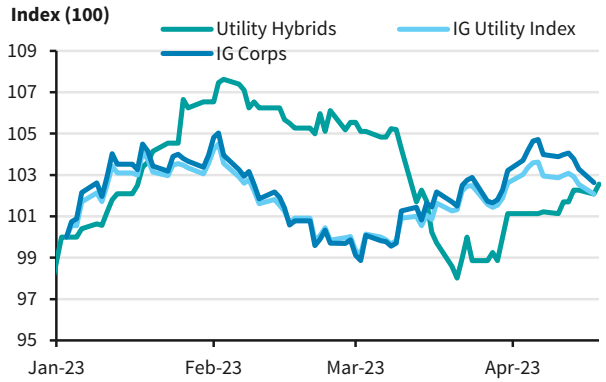
With valuations coming under pressure in recent weeks (Figure 6 and Figure 7), we like hybrids with relatively short-dated calls and with a higher probability of call due to 1) a loss of equity credit, and/or 2) a high reset that would make it more attractive to call and replace the hybrid, and/or 3) a lack of need for the hybrid. We also consider the relative ratio between a company's hybrids and its unsecured notes (or those of the closest comp if more relevant).

FIGURE 6. Utility hybrid performance versus equities



Source: Barclays Research

FIGURE 7. Utility hybrid performance versus credit



Source: Barclays Research

Trade idea - Buy NI 5.650% perps

- The NiSource hybrids are callable on June 15, 2023, and have a discrete call schedule (the following call is in June 2028). The hybrids lose equity credit at S&P on the first call date because of a cumulative 100bp coupon step in 2043. The hybrids have intent-to-replace language in the docs. We expect NiSource to evaluate refinancing the $400mn hybrids in order to maintain the equity cushion they currently provide (~30bp FFO/debt; FY22 FFO/debt was 14.4%, versus a downgrade threshold of 13%; management target 14-15%). With a reset spread of (284bp) about 1.8x that of NiSource 30y unsecureds, along with the loss of equity credit, we think management would prefer to replace rather than keep the perps outstanding.

- NiSource is looking to sell a minority stake sale of NIPSCo (expected to close by year-end 2023); it has indicated that use of proceeds will include the $900mn preferred equity. Otherwise, we expect proceeds to prioritize near-term maturities (~$1bn term loan maturing 2023), offsetting other capex-related issuance needs.

Trade idea - Buy CNP 6.125% perps

- The CNP hybrids are callable at par from September 1, 2023. While these hybrids do not lose equity credit, we think the economic decision is relatively clear for CNP, given a reset of 327bp (assumed coupon of 8.53%). Given that weaker-rated EIX was able to fund a hybrid at 8.125%, we assume that CNP would be able to refinance at a better rate (in unsecureds, CNP is quoted around 60bp tight to EIX).

- The CNP hybrids were issued to help fund the Vectren acquisition, and we think CNP has made substantial progress in improving its credit profile since. We estimate that the CNP hybrids provide about 50bp of FFO/debt cushion, and with FFO of 15% 100-200bp above downgrade thresholds, we think that the cushion is supportive, but not essential to maintain ratings.

Trade idea - Buy EMACN 6.750% 2076s

- We believe that outstanding concerns about Emera's ability to maintain its investment grade unsecured ratings have eased following the Nova Scotia rate case outcome, despite government intervention. The pathway to 12% FFO/debt remains unclear, though we think this is more relevant for the Moody's rating. That said, we think that a one-notch credit rating downgrade at Moody's is less meaningful for the already high yield-rated hybrids (rated Ba2 Neg/BB+ Neg/BB+ Neg). We expect FFO/debt to continue to improve from depressed FY22 levels (7%), supported by deferred fuel cost recovery, as well as about C$205mn of net incremental cash flow in 2022. This would mean run-rate FFO/debt at around 11.5% (above S&P's current threshold of 10%, but short of Moody's threshold for a Baa3 unsecured rating of 12%).

- We also believe there is a high probability that the Emera hybrids will be called at the first opportunity (June 2026), with a reset of 544bp (or 1.8x the 30y senior unsecured spread). The Emera hybrids would also lose S&P equity credit at that date, providing further incentivize for a call: the hybrids offer a 55bp FFO/debt benefit. At 8.6% yield to the June 2026 call, the Emera hybrids screen relatively attractive to our high yield utility universe (e.g, single-B rated CPN unsecured 2028s are quoted at 8.5% to the March 2026 call, or 7.2% to March 2028 maturity).

Trade idea - Sell EIX 8.125% 2053s, Buy EIX 5.000% Perps

- We view the newly issued EIX 8.125% 2053s less attractive than the outstanding EIX 5.000% perps. The EIX 5.000% perps are offered at a 8% yield to first call (December 2026), which is the call date preceding their loss of equity credit in March 2027 (given a cumulative 100bp

coupon step in 2047). Given that EIX has utilized hybrid issuance to help keep FFO/debt above 15% (the 5% perps are worth ~20bp right now; with FFO/debt thinly positioned versus their 15% downgrade threshold at S&P). The 8.125% 2053s are quoted at a 7.3% yield to first call (March 2028), but the loss of equity credit would not occur until 2033 (ie, 20 years before maturity). The reset on the EIX 8.125% 2053s and the EIX 5.000% perps is similar (386.4bp versus 390.1bp). Finally, we prefer the low dollar price of the EIX holdco hybrids through the traditional fire season period (albeit, likely delayed this year, see: PCG - Delayed 2023 Fire Season Offers Relief, but Mitigation Work Continues, April 17, 2023).

- Through the first call period for the two EIX hybrids, we expect to gain clarity on the company's ability to recover 2017-18 wildfire claims ($6bn). EIX has been funding claims as short-term debt on the opco balance sheet, and even partial recovery would support a substantial improvement in credit metrics (~300-350bp), a potential credit positive for the structure.

FIGURE 8. **Utility hybrid pricing sheet**

										Hybrid/Senior Spread Ratios			Hybrid Features	
SECURITY	Index Rating	Coupon	Structure	Hybrid Next Call Date	Reset Index	Hybrid Reset (bp)	Price ($)	YTC (%)	YTM (%)	Reset/30 y Snr Spread Ratio (x)	To Call	To Maturity	Replace	Loss of Equity Credit at S&P
AEP 3.875 62	BBB-	3.875	Jr. Sub	11/15/2026	H15T5Y	268	80.8	10.5	7.3	1.5	4.8	1.5	No	2042
CMS 4.75 50	BB+	4.750	Jr. Sub	3/1/2030	H15T5Y	412	87.3	7.1	7.6	2.4	2.3	1.7	No	2030
CMS 3.75 50	BB+	3.750	Jr. Sub	9/1/2030	H15T5Y	290	75.3	8.3	7.4	1.7	3.0	1.7	No	2030
CNP 6.125 PERP	BB+	6.125	Preferred	9/1/2023	US0003M	327	94.3	22.9	6.8	1.4	23.3	1.6	No	n/a
D 5.75 54	BBB-	5.750	Jr. Sub	10/1/2024	US0003M	306	94.8	9.7	6.7	1.3	3.5	1.4	No	2034
D 4.65 PERP	BB+	4.650	Preferred	12/15/2024	H15T5Y	299	88.3	12.7	7.3	1.8	5.7	1.7	No	n/a
D 4.35 PERP	BB+	4.350	Preferred	1/15/2027	H15T5Y	320	84.5	9.4	7.4	1.9	5.0	1.7	No	n/a
DUK 4.875 PERP	BB+	4.875	Preferred	9/16/2024	H15T5Y	339	96.3	7.7	7.1	1.9	9.5	1.5	No	n/a
DUK 3.25 2082	BBB-	3.250	Jr. Sub	1/15/2027	H15T5Y	232	75.0	11.7	7.2	1.3	7.2	1.5	No	2062
EIX Float PERP	BB+	9.013	Preferred	5/18/2023	US0003M	420	97.5	41.6	9.7	1.9	n.a.	2.1	No	n/a
EIX 5.375 PERP	BB	5.375	Preferred	3/15/2026	H15T5Y	470	89.5	9.6	8.6	2.0	3.6	1.7	No	n/a
EIX 5 PERP	BB	5.000	Preferred	12/15/2026	H15T5Y	390	85.0	10.0	8.1	1.6	4.0	1.6	Intent to	2027
EIX 8.125% 2053	BB+	8.125	Jr. Sub	3/15/2028	H15T5Y	386	101.8	7.7	7.7	1.6	2.3	1.4	No	2033
EMACN 6.75 2076	BB	6.750	Jr. Sub	6/15/2026	US0003M	544	94.0	9.0	8.7	1.8	3.0	1.9	Intent to	2026
NEE Float 10/1/66	BBB	7.244	Jr. Sub	5/18/2023	US0003M	207	81.5	289.6	9.0	1.0	n.a.	1.8	RCC	2046
NEE Float 6/15/67	BBB	6.991	Jr. Sub	5/18/2023	US0003M	213	82.5	269.7	9.0	1.0	n.a.	1.8	RCC	2047
NEE 3.8 2082	BBB	3.800	Jr. Sub	3/15/2027	H15T5Y	255	83.5	8.9	6.8	1.8	4.5	1.6	No	2062
NEE 4.8 2077	BBB	4.800	Jr. Sub	12/1/2027	US0003M	241	85.0	8.8	6.2	1.2	4.5	1.5	No	2057
NEE 5.65 2079	BBB	5.650	Jr. Sub	5/1/2029	US0003M	316	90.0	7.8	6.7	1.5	3.2	1.7	No	2059
NI 5.65 PERP	BB+	5.650	Preferred	6/15/2023	H15T5Y	284	94.3	44.3	6.9	1.8	33.4	1.6	Intent to	2023
NRG 10.250 PERP	B+	10.250	Preferred	3/15/2028	H15T5Y	592	97.0	11.1	10.2	1.8	2.5	1.8	No	n/a
PPL Float 3/30/67	BBB	7.828	Jr. Sub	5/18/2023	US0003M	267	84.8	231.5	9.4	1.3	n.a.	2.0	RCC	2047
SO 4 51	BBB-	4.000	Jr. Sub	10/15/2025	H15T5Y	373	94.0	6.7	7.3	2.3	2.5	1.6	No	2031

SO 3.75 51	BBB-	3.750	Jr. Sub	6/15/2026	H15T5Y	292	85.0	9.3	7.2	1.8	5.3	1.6	No	2031
SRE 4.875 PERP	BB+	4.875	Preferred	10/15/2025	H15T5Y	455	94.3	7.4	8.1	2.7	2.9	2.0	No	n/a
SRE 4.125 52	BBB-	4.125	Jr. Sub	1/1/2027	H15T5Y	287	80.5	10.6	7.6	1.7	4.8	1.7	No	2032
VST 8 PERP	B+	8.000	Preferred	10/15/2026	H15T5Y	693	94.0	10.1	10.5	2.1	2.6	1.9	No	n/a
VST 7 PERP	B+	7.000	Preferred	12/15/2026	H15T5Y	574	89.0	10.7	9.8	1.7	2.9	1.7	No	n/a
WEC Float 5/15/67	BBB-	6.976	Jr. Sub	5/18/2023	US0003M	211	80.5	308.0	9.2	1.0	n.a.	1.8	RCC	2047
Median		5.625				316	89.0	10.1	7.6	1.7	4.2	1.7		

Note: Prices on the bid side.
Source: Barclays Research

Financials - Peter Troisi

Hybrids serve different purposes for financials

Financials are the largest issuers of hybrids, but the securities serve different purposes depending on issuer type. Banks, on the one hand, issue hybrids primarily for regulatory purposes. In particular, they issue perpetual preferreds to fill Additional Tier 1 (AT1) capital needs. The regulatory threshold for AT1s at US banks is 1.5% of risk-weighted assets (RWAs), and accordingly, banks optimize the amount of preferreds they have outstanding to this standard.

US-domiciled insurance companies,[3] on the other hand, issue hybrids primarily for rating agency purposes. Hybrids issued by insurance holding companies in the US do not receive regulatory credit. As a result, the way that US insurers approach the hybrids market is similar to non-financial entities, ie, the value hybrids have to insurers is mainly in the equity credit assigned by rating agencies.

For banks, the binding constraint on hybrid structure and fit within the capital structure is their regulatory treatment. However, for US insurers, the binding constraint is the rating agencies, namely S&P. Each agency assigns different levels of equity/capital credit to insurance hybrids (see this report for more detail), but S&P is the most generous. Therefore, US insurers optimize hybrids to the S&P hybrid methodology.

In general, the S&P criteria grant 100% capital credit to hybrids (eg, subs, junior subs, preferreds) as long as two conditions are met:

- The sum of all hybrids in the structure is less than 15% of the insurer's total capital. The 15% cap is under review by S&P, but we do not expect it to change materially, and any change would not affect the 100% equity treatment standard (see First Impressions: S&P's Proposed Capital Model Changes);
- For dated subordinated debt, the security has at least 20 years of remaining tenor prior to its legal final maturity. In other words, S&P grants 100% equity credit to hybrids issued by US insurers until they reach 20 years prior to their effective maturity date (pursuant to a slight tweak made in 2019 to S&P's rules, see this report).

[3] Hybrids issued by Bermuda-based insurers are given some regulatory credit because the regulatory rules there are different in the US.

Call dates are not always optimized to the S&P rules for insurers

If insurers fully optimized to S&P's methodology, the call date in their hybrids would align with the point at which they lose equity credit, 20 years prior to maturity. After that date, hybrids no longer receive 100% equity credit and are treated 100% as debt, which in many cases would be inefficient because hybrids typically have higher coupons than senior debt. For this reason, many hybrids issued by US insurers are structured as 30NC10s, for example. However, some issuers opt for an earlier call date for additional financial flexibility. Below, we evaluate one of these structures that we think is attractively priced.

Trade idea - Buy CRBG 6.875% 2052s

CRBG 6.875% 2052 (Baa3/BBB-/BBB-) is a 30NC5 hybrid, yielding 9.6% ($90.5) to its 2027 call, or a z-spread of about +590bp. This compares with its 30y senior bonds (4.4% of 2052) quoted at z+285bp. With the spread ratio above 2x, the security is pricing in extension risk, reflecting the additional five years of S&P capital credit after the call date in 2027. Priced to the date of equity treatment loss, the yield is still 8.7% and the z-spread is +524bp.

CRBG is a relatively new credit to the investment grade market following its initial separation from AIG (see Good news at the 'core' for bondholders). The 2052s were its debut offering in the hybrid market and continue to carry a spread discount because of its lack of a track record as a stand-alone credit, in our view. We expect the company's credit valuations to improve as a function of time, particularly given its solid fundamental profile. CRBG is a large, diversified life insurer with solid regulatory capitalization and moderate leverage. In our view, its combination of diversification and scale is rivaled only by higher-rated credits such as MET and PRU.

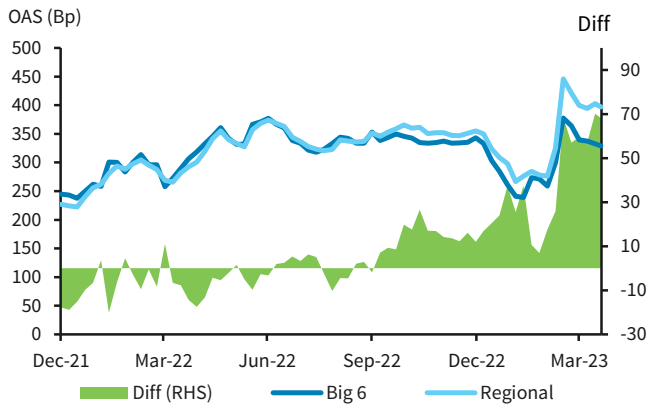
If we are correct in our view about the market's increased comfort with CRBG as a stand-alone credit, its hybrid spreads should be tighter by their call date in 2027 than they are now. The coupon on the CRBG 2052s resets at the constant-rate 5y UST plus 3.846% starting in 2027. We do not believe that spread is low enough to compensate for the loss of S&P equity credit the security would suffer in its final 25 years. **As a result, we recommend buying CRBG 6.875% 2052s.**

One risk to the trade is the likelihood of additional hybrid issuance from CRBG. The company expects to repay $1.5bn of legacy unsecured bank debt with proceeds from the issuance of new hybrids. That said, it does not face imminent pressure to execute the refinancing because the term loan does not mature until February 2025.

Despite wider spreads, not all regional preferreds look attractive

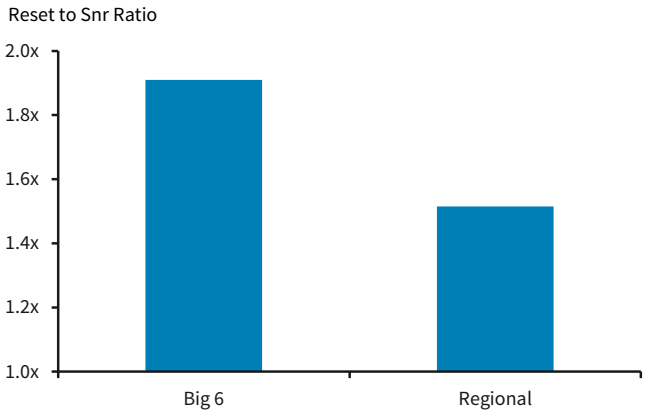
Most preferreds issued by banks sold off following the failures of SVB and emergency merger of UBS and CS. In the US, regional bank preferred spreads have underperformed the Big 6 (Figure 9), driving the basis to about 70bp, reversing the historical relationship. However, the median ratio of reset spread to senior spread in regional preferreds is only about 1.5x, compared with 1.9x for the Big 6 (Figure 10). This suggests that the decompression, broadly speaking, was warranted. On a more granular basis, though, we see select opportunities in regional bank preferreds.

FIGURE 9. **Regionals have underperformed the Big 6**



Source: Bloomberg, Barclays Research

FIGURE 10. **Reset-to-senior ratio**



Source: Bloomberg, Barclays Research

Trade idea - Buy CFG 5.65% perp NC5s (series F)

CFG 5.65% preferreds yield 10% to their 2025 call at $91. The securities have a relatively high reset spread of +531bp, which is about 2.0x its senior spreads. We think the market is pricing in too much extension risk for the preferreds. CFG reported 1Q23 earnings earlier this week that were relatively stable. Its net interest margin (NIM) was unchanged at 3.30%, and asset quality remains sound, with a low net charge-off ratio of 34bp as of 1Q23. CFG's aggregate exposure to commercial real estate (CRE) lending is comparable to peers, and the performance of its portfolio through the Global Financial Crisis was better than several other regionals, suggesting solid underwriting acumen (see HG Banks: Qualifying the CRE Discussion).

Liquidity pressure on banks from deposit volatility has dissipated, and their capital positions remain strong. We expect banks, particularly regionals, to face higher funding costs, as competition for deposits remains high. However, this is an issue that CFG can manage in the context of its earnings capacity, in our view. **We recommend buying CFG 5.65% preferreds.**

Trade idea - Buy C 5.0% perp NC5s (series U)

Citi ended 2022 with five perps totaling $6bn that reach their first call date this year (see US Banks: 2023 Supply Outlook). The three with the earliest call dates (or notice periods) have been extended (Figure 11). The first two extensions occurred prior to the failure of SVB despite seemingly uneconomic reset spreads of L+407bp and L+423bp. We think there is a temporary reason for these non-call decisions. We believe the bank is holding off on making major debt and capital decisions until there is more clarity with regard to its Banamex unit, which is in the process of being sold. We believe that Citi could return to the capital markets to refinance its extended preferreds (or just net redeem them) after it announces a definitive agreement regarding the divestiture of Banamex.

These non-call decisions have priced extension risk across the rest of Citi's preferred structure. Its 5% perps callable in September 2024 reflect this, in our view, trading at $94, or a YTC of 9.7%. The securities have a reset spread of +381bp over SOFR. Although this approximates the weighted average back-end spread of the three perps that have already been extended (+389bp), we believe it would be economic for Citi to call these securities once it has more clarity on Banamex. We expect this to occur before the 2024 call date of the C 5.0% perp NC5s.

FIGURE 11. **Citi perps reaching their first call date in 2023**

Ticker	Original Coupon (%)	Current Coupon (%)	Extended?	Amt. Out ($mn)	Par	First Call Date	Reset Spread (bp)
C	5.95	8.87	Yes	1,500	1,000	1/30/2023	406.8
C	6.875	6.875	No	1,495	25	11/15/2023	413.0
C	5.35	5.35	Yes	1,250	1,000	5/15/2023	346.6
C	7.125	7.125	No	950	25	9/30/2023	404.0
C	5.9	9.09	Yes	750	1,000	2/15/2023	423.0

The C 5.35s are first callable on May 15, 2023, with 30 days' prior notice. C has not issued a call notice.
Source: Bloomberg, Barclays Research

Energy - Good structures turning good, again - Harry Mateer

In early 2022, we noted (*When Bad Structures Turn Good*, April 7, 2022) that quickly rising front-end rates, relatively anchored senior spreads, and floaters or soon-to-be-floaters trading at a discount (providing negative rates duration) meant that "bad" hybrid structures with near-term, low back-end resets could actually outperform. In general, that proved to be the case, with some securities also benefiting from investors' pricing in a higher call probability as the Fed raised rates more quickly than originally expected.

Since our last quarterly report on corporate hybrids, senior spreads have widened, moving reset/senior ratios lower and increasing extension risk across the group. As discussed above, we generally view reset-to-senior spread ratios outside of a 1.5-1.9x band (governed by relative costs of capital) as indicative of lower (above 1.9x) and higher (below 1.5x) extension risk, with the median midstream figure currently at 1.7x. However, this is somewhat misleading given that some hybrids, such as many of those issued by TC Energy (TRPCN) and Enbridge (ENBCN), include structural nuances that make redemption at the first call more likely.

With US rates futures currently pricing an end to Fed rate hikes in June 2023 and Barclays Economics estimating negative GDP growth for several quarters later this year, we think that investors could re-attach value to better hybrid/perpetual structures, namely resets with higher back ends and those that benchmark off the constant maturity five-year (CMT).

Within the Energy Transfer (ET) complex, several perps have moved to trading at a spread ratio of more than 2.0x to senior bonds, a level that we consider attractive and at the wides (on a ratio basis) of the past year. Within the group, **we recommend buying the ET 6.5% series H perps**, with a 2.3x reset-to-senior ratio, a CMT+569bp back end, and a 9.8% yield to perp (+330bp spread pickup to senior, or a 2.1x ratio). Against these, **we recommend selling the ET 6.625% series B perps**, which have a 1.4x reset-to-senior ratio and a L+415bp back end.

With respect to ET's floating-rate perps, our view is that the partnership has capacity to redeem some hybrids without violating S&P's criteria for equity credit on outstandings, although we expect near-term redemption activity to be focused on $25 par perps that have higher resets (see *S&P Update on Hybrids Could Open Redemption Door a Bit Wider*, March 7, 2023) rather than the $1,000 pars.

Since the beginning of the year, TC Energy's hybrids have been notable laggards, versus both the overall midstream cohort and its closest comp, Enbridge. We view this as warranted in light of TRPCN's weaker credit metrics and ratings pressure, with negative outlooks at Moody's and S&P on the company's high-BBB senior ratings. However, the underperformance has been entirely driven by widening senior spreads, with the spread differential between hybrids and senior relatively unchanged since the beginning of the year.

With a two-notch ratings differential between senior and hybrid ratings at TRPCN, we see risk that TC Energy's hybrid ratings could move to high yield if the senior ratings fall to mid-BBB. On that basis, we would expect the subordination premium for TRPCN's hybrids to widen rather than stay constant. Although TRPCN is working on asset sales to accelerate its leverage improvement, we think there is execution risk due to the magnitude of its plan; TC Energy has guided for at least C$5bn of divestitures, and we estimate that it needs at least C$10bn to meaningfully improve its leverage. See *Ratings Pressure Happens Gradually, Then Suddenly* (March 22, 2023).

Given our view that the loss of equity capital treatment at S&P after the first call date is likely to motivate TRPCN to call its hybrids, we recommend reducing exposure to hybrids with longer-dated calls that are further away from a potential par redemption. **We recommend selling the TRPCN 5.6% 2082s**, with just a 213bp spread pickup over senior and a first call date in 2031. **For investors who are concerned about being underexposed into a potentially successful asset sale program, we recommend pairing the 5.6% 2082s against TC Energy's senior 5.1% 2049s, to isolate the subordination premium part of the trade.**

FIGURE 12. Midstream hybrid/perp pricing matrix

								Hybrid/Senior Spread Ratio (x)		Hybrid - Senior Spread (bp)	
Ticker	Coupon (%)	Structure	Hybrid Next Call Date	Price ($)	Reset/30y Snr Z-Spd Ratio (x)	Hybrid YTC%	Hybrid YTM %	To Call	To Maturity	To Call	To Maturity
BPL	9.29	Jr. Sub	5/22/2023	85.75	0.8	224.4	10.8	NM	1.07	NM	37
ENBCN	6.00	Jr. Sub	1/15/2027	93.50	1.6	8.0	7.2	3.1	1.76	300	183
ENBCN	5.50	Jr. Sub	7/15/2027	89.00	1.4	8.7	7.0	3.6	1.69	369	164
ENBCN	6.25	Jr. Sub	3/1/2028	90.75	1.5	8.6	7.3	3.7	1.78	373	187
ENBCN	5.75	Jr. Sub	4/15/2030	91.00	3.0	7.4	8.3	2.6	2.09	250	262
ENBCN	7.38	Jr. Sub	10/15/2027	90.75	2.1	10.0	8.2	4.6	2.05	504	251
ENBCN	7.63	Jr. Sub	10/15/2032	91.00	2.5	9.1	8.7	3.2	2.21	394	290
ENLK	8.98	Preferred	5/22/2023	85.00	NA	234.9	11.0	NM	1.52	NM	197
EPD	7.74	Jr. Sub	5/22/2023	86.00	NA	215.7	9.4	NM	1.90	NM	193
EPD	7.86	Jr. Sub	5/22/2023	94.00	NA	90.3	8.8	NM	1.70	NM	150
EPD	5.25	Jr. Sub	8/16/2027	86.50	1.4	9.1	6.8	5.7	1.72	NM	154
EPD	5.38	Jr. Sub	2/15/2028	81.50	1.2	10.4	6.8	5.5	1.73	NM	156
ET	8.89	Preferred	5/8/2023	90.00	NA	290.5	10.3	NM	1.69	NM	210
ET	6.75	Preferred	5/15/2025	88.00	2.1	13.6	9.5	7.3	1.98	NM	300
ET	6.50	Preferred	11/15/2026	87.00	2.3	11.0	9.8	4.7	2.07	NM	327
ET	6.63	Preferred	2/15/2028	77.00	1.4	13.2	9.2	5.9	1.99	NM	302
ET	7.13	Preferred	5/15/2030	84.00	2.2	10.4	9.7	3.8	2.04	517	318
PAA	8.97	Preferred	5/22/2023	88.50	NA	177.9	10.6	NM	1.59	NM	200
TRPCN	5.63	Jr. Sub	5/20/2025	93.75	1.4	9.0	6.9	4.5	1.60	374	148
TRPCN	5.88	Jr. Sub	8/15/2026	94.50	1.9	7.8	7.8	3.8	1.92	297	227
TRPCN	5.30	Jr. Sub	3/15/2027	86.75	1.3	9.4	7.0	4.0	1.63	437	155
TRPCN	5.50	Jr. Sub	9/15/2029	84.50	1.8	8.7	7.8	3.0	2.00	354	247
TRPCN	5.60	Jr. Sub	12/7/2031	84.00	2.2	8.2	8.0	2.6	1.87	302	215
Median				88.25	1.7	10.0	8.3	3.8	1.78	371	200
Median, with floaters					1.4						

Source: Bloomberg, Barclays Research

Autos and Aerospace & Defense - Andrew Keches

FIGURE 13. **Hybrid valuations**

									Hybrid/Senior Ratio (x)		Hybrid-Senior Spread (bp)	
Ticker	**Coupon (%)**	**Type**	**Next Call**	**Reset (bp)**	**Reset Index**	**Price ($)**	**Hybrid YTC%**	**Hybrid YTM %**	**To Call**	**To Maturity**	**To Call**	**To Maturity**
A&D												
GE	8.20	Preferred	Current	333	US0003M	100.00	—	8.6	—	1.7	—	146
TXT	6.60	Jr. Sub	Current	174	US0003M	75.00	—	9.9	—	2.8	—	292
Autos												
GM	5.75	Preferred	9/30/2027	360	US0003M	83.00	10.7	7.8	3.6	1.4	505	125
GM	6.50	Preferred	9/30/2028	344	US0003M	85.00	10.2	7.7	3.1	1.4	444	119
GM	5.70	Preferred	9/30/2030	500	H15T5Y	86.00	8.3	8.6	1.9	1.5	232	167
Other Industrial												
BNSF	6.61	Jr. Sub	1/15/2026	235	US0003M	95.50	8.5	6.1	6.2	1.6	375	99
SWK	4.00	Jr. Sub	3/15/2025	266	H15T5Y	75.00	20.5	8.2	19.4	1.7	1,536	187
Median						**85.00**	**10.2**	**8.2**	**3.6**	**1.6**	**444**	**146**

Pricing of hybrid/preferred and senior securities reflects bid-side levels.
Source: Barclays Research

Within aerospace & defense, General Electric and Textron are the only corporates with hybrid/preferred bonds outstanding, and both have already reset and are floating. Although the TXT hybrids lost equity credit last year, we see little incentive for the company to call them at this point given the low reset spread, though they do screen as fairly attractive relative to the TXT 2031s at almost three times the spread. On the other hand, **we recommend buying the GE preferreds,** which are likely to be retired in the next 12 months, in our view. At L+333bp, the preferreds carry a 8.6% dividend, or 10.1% on a tax-adjusted basis when compared with senior notes, making them GE's largest and most expensive debt security outstanding. The company retired about half of the tranche earlier this year, but equity credit was preserved at the agencies because of the nature of the GE Healthcare transaction. However, our model suggests that GE has an ability to maintain BBB+ credit ratings after spinning its Power/Renewable business in early 2024, making the equity credit less valuable (for background, see our update from 1Q). With significant cash inflows in the next 12 months (proceeds from GE Healthcare + AerCap), we see a high likelihood that the remaining balance will be retired around the time of spin. Although already trading at par, we view the preferreds as an attractive one-year (or less) carry trade.

Within autos, the hybrid universe is limited to General Motors Financial (GMF), which has three preferreds outstanding. Among these, the 5.7% preferreds offer the best structure. They reset against a constant Treasury index and carry a high reset spread (500bp), making a call highly likely, in our view. That said, the market is ascribing a premium to the 5.7s relative to the GMF 5.75s and 6.5s, which reference LIbor/SOFR and reset at lower spreads (344-360bp). The 5.7% preferred still offer attractive yield pickup over comparable GM/GMF 2030 notes (approximating first call) and GM's long end; however, the spread ratios are on the lower end of the broader hybrid landscape. Moreover, investors are unlikely to gravitate toward junior subordinated paper in the current auto environment, especially with the reset/call still seven years away.

Telecom, Media, and Technology - Sandeep Gupta

Trade idea - Buy PARA 2062s, as equity treatment falls away on call date

We recommend that investors buy PARA 2062s, as we believe the notes are likely to be called in 2027, as equity treatment will go away on the call date and the senior notes will become a more attractive financing option. The current 2027 senior notes trade at a spread of 175bp, compared with the reset, which would be 400bp over the 5y Treasury. S&P considers the effective maturity of the 2062s to be 2047 because the interest rate structure has step-ups in the fixed component, implying that the notes will lose their equity credit in 2027 (20 years before the effective maturity). At a price of $84.46, the current yield to call is 11.37%. PARA 6.25 2057s also become callable in 2027; however, the S&P equity credit will remain until 2037. We expect the company to value the equity credit and not call these notes.

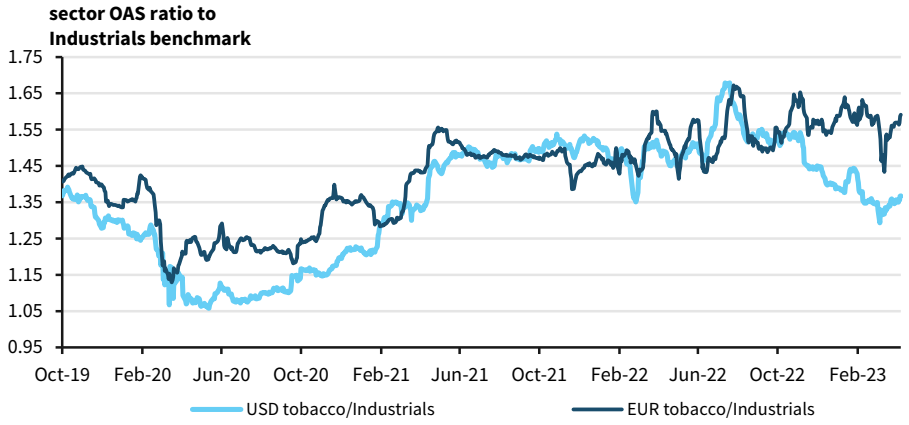
Recent performance

Over the past three months, PARA senior 2050s have performed in line with the 2062s, while the 2057s are almost 200bp wider. This decreased the 2062s' hybrid/senior ratio from 2.5x to 2.4x over the same period.

Tobacco - Priya Ohri-Gupta

As highlighted recently in HG Tobacco: Too much defense, not enough ESG; Lower to UW, we recommend that investors look for opportunities to rotate exposure in the tobacco sector to EUR. In this vein, we view the BATSLN hybrids as an attractive way to pick up spread within the sector, particularly since we have an Overweight rating on BATSLN. The BATSLN hybrids (EUR3.0 2026 perps and EUR3.75 2029 perps) offer compelling pickup both compared with similar-tenor EUR senior unsecureds (Figure 15) and relative to USD bonds on a hedged basis (Figure 16), with a EUR pickup of up to 500bp and a USD pickup of up to 630bp.

FIGURE 14. Given divergence in valuations within tobacco, we recommend rotating from USD to EUR



USD inclusive of 144A.
Source: Bloomberg, Barclays Research

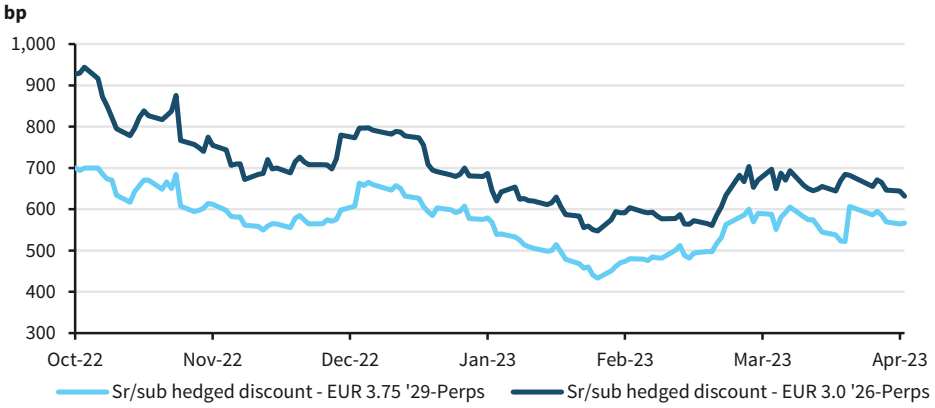
FIGURE 15. **BATSLN sub-senior relationship versus similar-tenor EUR bonds**



Open in Barclays Live Chart

Source: **Credit** - Barclays Trading, IHS Markit

FIGURE 16. **BATSLN sub-senior relationship on a hedged/swapped basis compared with similar-tenor USD bonds**



Source: Bloomberg, Barclays Research

While the credit ratings agencies typically account for these securities as 50-50 debt-equity, in accordance with IFRS standards, BATS classifies them as full equity on its balance sheet. Because of their subordinated nature, hybrid notes can come with a two-notch lower ratings differential – in the case of BATS, the hybrids are rated Ba1/BBB-/BB+; that said, with Fitch recently revising its outlook on the credit to Positive, we think that a future upgrade would push the rating on these notes up as well, such that they would have two investment grade ratings potentially within the next 12 months.

That said, while the instruments initially receive 50% equity credit from the rating agencies, there is a strong incentive to call and/or replace hybrids at the first call date, as not doing so would cause the instruments to be fully treated as debt by S&P, and the coupon would also reset higher. The first call date for the EUR3 2026 perp is September 2026, and for the EUR3.75 2029 perp, it is June 2029. There is also typically reputational risk associated with a non-call event.

In such a non-call event, the loss of equity consideration from the agencies would essentially make the securities expensive senior debt. At the call date, the coupon on the NC5.25s would reset to 337.2bp, with the NC8s resetting to 395.2bp + EUSA5 at first call. Currently, the EUSA5 is at 324bp, implying that if they were to reset now, the coupons would jump to the mid-6% to

low-7% range. Comparatively, the credit's USD intermediates are yielding in the high-5%/low-6% area and the 8y EUR bonds are in the mid-5% range.

Analyst(s) Certification(s):
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Materially Mentioned Issuers/Bonds
BAT CAPITAL CORP, Overweight, A/CD/D/J/K/L/M/N

Representative Bond: BATSLN 3.557 08/15/27 (USD 92.85, 19-Apr-2023)

BRITISH AMERICAN TOBACCO PLC, A/CD/CE/D/J/K/L/M/N

BATSLN 3 3/4 PERP (EUR 74.38, 19-Apr-2023)

BATSLN 3 PERP (EUR 81.50, 19-Apr-2023)

CENTERPOINT ENERGY INC, CD/CE/D/J/K/L/M

CNP 6 1/8 PERP (USD 94.75, 19-Apr-2023)

CITIGROUP INC, A/CD/CE/D/E/GE/I/J/K/L/M/N

C 5 PERP (USD 94.13, 19-Apr-2023)

CITIZENS FINANCIAL GROUP INC, A/CD/CE/D/E/I/J/K/L/M/N

CFG 5.65 PERP (USD 90.00, 19-Apr-2023)

COREBRIDGE FINANCIAL INC, A/CD/CE/D/E/J/K/L/M/N

CRBG 6 7/8 12/15/52 (USD 89.91, 19-Apr-2023)

EDISON INTERNATIONAL, A/CD/CE/D/E/J/K/L/M

EIX 5 PERP (USD 84.50, 19-Apr-2023)

EIX 8 1/8 06/15/53 (USD 102.70, 19-Apr-2023)

EMERA INC, CD/J

EMACN 6 3/4 06/15/2076 (USD 94.00, 19-Apr-2023)

ENERGY TRANSFER LP, A/CD/CE/D/J/L

ET 6 1/2 PERP (USD 87.88, 19-Apr-2023)

ET 6 5/8 PERP (USD 77.13, 19-Apr-2023)

GENERAL ELECTRIC CO, CD/CE/D/E/J/K/L/M/N

GE FLOAT PERP (USD 100.00, 19-Apr-2023)

NISOURCE INC, A/CD/CE/D/E/FA/J/K/L/M

NI 5.65 PERP (USD 93.50, 19-Apr-2023)

PARAMOUNT GLOBAL, CD/CE/J

PARA 6 3/8 03/30/62 (USD 84.75, 19-Apr-2023)

TRANSCANADA PIPELINES LTD, A/CD/D/E/J/K/L/M/R

TRPCN 5.1 03/15/49 (USD 92.05, 19-Apr-2023)

TRANSCANADA TRUST, CD/J

TRPCN 5.6 03/07/2082 (USD 85.25, 19-Apr-2023)

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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.

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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 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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BRCF2242

IN Fact

May 3, 2023 | 18:26 ET~

NiSource

NI-NYSE	Rating	Price: May-3	Target	Total Rtn
	Outperform	$28.12	$31.00	14%

Less Is More – Quiet Set of Updates

Bottom Line:

NiSource reported a small beat for 1Q23 earnings with operating EPS of $0.77 compared to BMO and street estimates of $0.75/$0.76 respectively. **Management reaffirmed their 2023 non-GAAP diluted net operating earnings per share (NOEPS) guidance of $1.54-$1.60 (BMO/Consensus at $1.54/$1.56) with a midpoint of $1.57.** The company also reaffirmed its 2023-2027 capital program totaling ~$15B, which drives an 8-10% rate base growth and underpins the annual NOEPS growth of 6-8% through 2027. **We reiterate our Outperform rating and $31 target price.**

Key Points

On the electric side, the NIPSCO Electric rate case continues to expect a final order in August. Recently on May 1, NIPSCO and the settling parties filed their proposed order with the IURC.

For the NIPSCO minority interest sale, management noted that there are no changes and that it remains on track to close in 2023. Additionally, management reaffirmed their 14-16% FFO/Debt range with metrics at the top end of the range after the company executes the NIPSCO minority interest sale. Management also reiterated that it does not see any equity needs until 2025 and that any equity needs beyond 2025 would be done via an ATM program. **We view the balance sheet strength represented by the ~300bps cushion above the downgrade threshold expected to be generated in the near term as a significant positive differentiator to peers in the current environment**.

On the call, management was asked about their interest in M&A given current market activity. **In response, management noted they do not comment on market rumors and are primarily focused on deploying $15B in their current plan that drives organic growth**. **Accordingly, it is clear that the organic plan remains the priority and any inorganic growth would require an incredibly high hurdle rate.** That being said, management did remark they would welcome assets with a price tag in the vicinity of ~1x rate base.

We view the lack of material updates as a positive for NiSource in the current environment. **Furthermore, with macroeconomic uncertainty and a lack of conviction remaining, we believe investors will continue to favor de-risked names in the near term with visibility and confidence in the execution of both its capital and financing plan will be the keys to continued re-rating potential for the stock over the next 12-18 months**. **We reiterate our Outperform rating.**

For disclosure statements, including the Analyst Certification, please refer to page(s) 7 to 10.

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Company Data			in $
Dividend	$1.00	Shares O/S (mm)	412.5
Yield	3.6%	Market Cap (mm)	$11,600
P/BV	1.6x	Net Debt (mm)	$9,336

BMO Estimates				in $
(FY-Dec.)	2022A	2023E	2024E	2025E
EPS	$1.47	$1.54	$1.67	$1.78
DPS	$0.94	$1.00	$1.06	$1.12
EBIT	$1,276	$1,410	$1,606	$1,770
EBITDA	$2,067	$2,255	$2,519	$2,752

Consensus Estimates				
	2022A	2023E	2024E	2025E
EPS		$1.55	$1.67	$1.79

Valuation				
	2022A	2023E	2024E	2025E
P/E	19.1x	18.3x	16.8x	15.8x
Div. Yield (%)	3.3%	3.5%	3.8%	4.0%

QTR. EPS	Q1	Q2	Q3	Q4
2022A	$0.75	$0.12	$0.10	$0.50
2023E	$0.77a	$0.13	$0.12	$0.52
2024E	$0.87	$0.14	$0.13	$0.53
2025E	$0.93	$0.15	$0.13	$0.56

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.

BMO Capital Markets

NiSource - Block Summary Model

Income Statement	2022A	2023E	2024E	2025E
Electric Operations	456	515	640	700
Gas Distribution	751	854	926	1,030
Coporate & Other	1	1	(1)	(1)
Consolidated EBIT	1,276	1,410	1,606	1,770
Depreciation & Amortization	791	845	914	982
EBITDA	2,067	2,255	2,519	2,752
Interest Expense	396	491	431	502
Income Tax	158	155	199	214
Income from continuing operations	666	706	819	885
Weighted Average Shares Outstanding	452	458	491	497
Diluted Operating EPS	$1.47	$1.54	$1.67	$1.78
Dividends per Share	$0.94	$1.00	$1.06	$1.12
Cash Flow Statement	**2022A**	**2023E**	**2024E**	**2025E**
Operating Cash Flow	1,493	1,568	1,762	1,922
Investing Cash Flow	(2,600)	(3,000)	(950)	(3,300)
Financing Cash Flow	1,058	1,428	(871)	1,269
Net Change in Cash Flow	(49)	(4)	(59)	(109)
EOP Cash on Balance Sheet	46	42	(17)	(126)
Common stock (net)	348	40	903	240
Net debt issued/(repaid)	1,190	1,900	(1,200)	1,640
Dividends paid	(425)	(457)	(518)	(556)
Balance Sheet	**2022A**	**2023E**	**2024E**	**2025E**
Common Equity	6,842	7,134	8,349	8,928
Preferred Equity	1,547	1,547	1,547	1,547
Total Debt	10,991	12,891	11,691	13,331
Enterprise Value	$23,570	$25,520	$25,270	$27,264
Common equity %	35.3%	33.1%	38.7%	37.5%
Preferred equity %	8.0%	7.2%	7.2%	6.5%
Total Debt %	56.7%	59.8%	54.2%	56.0%
Book Value per Share	$18.56	$18.94	$20.17	$21.09

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

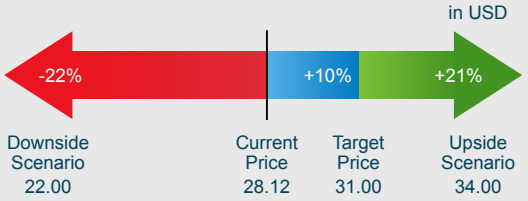
Our target price is the product of a P/E-based sum of the parts. We utilize a regulated-group average multiple using 2025E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook.

Upside Scenario $34.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile, as well as the material improvement in the balance sheet with the successful execution of the minority interest sale in NIPSCO.

Downside Scenario $22.00

Our downside scenario reflects a tightening monetary policy, a deceleration of the company's rate base growth and failure to execute on the sale of a minority interest in NIPSCO to strengthen the balance sheet.



Key Catalysts

Successful execution of both its upcoming NIPSCO Electric rate case as well as sale of a minority interest in its NIPSCO subsidiary by mid-year 2023.

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.

BMO Top 15 List

BMO Top 15 List Member

Income Stock

NI-NYSE Research

Glossary

Company Models

Less Is More – Quiet Set of Updates – Focus Remains on NIPSCO Sale and Electric Rate Case

Bottom Line: We view the lack of material updates as a positive for NiSource in the current environment. The company continues to make steady progress on its NIPSCO minority interest (MI) sale as well as the Electric rate case, which supports its long-term growth plan as well as a strong balance sheet. As seen by its YTD outperformance vs its peers, we believe NI has benefited from its de-risked story and expected balance sheet strength over the forecast period. **Furthermore, with macroeconomic uncertainty and a lack of conviction remaining, we believe investors will continue to favor de-risked names in the near term with visibility and confidence in the execution of both its capital and financing plan will be the keys to continued re-rating potential for the stock over the next 12-18 months. We reiterate our Outperform rating and $31 target price.**

NiSource reported a small beat for 1Q23 earnings with operating EPS of $0.77 compared to BMO and street estimates of $0.75/$0.76 respectively. Gas distribution earnings were $73mm higher year over year as net operating revenues were ~$83mm higher, mainly due to new rates resulting from base rate cases in Ohio, Pennsylvania, Indiana, Virginia, and Maryland and regulatory capital programs/trackers in Ohio, Kentucky, and Virginia. Net operating expenses were ~$4mm higher due primarily to higher outside service costs and uncollectible accounts. On the Electric side, operating earnings were $16mm lower as net operating revenues were ~$4mm lower, primarily due to lower weather-normalized customer usage and net operating expenses were ~$7mm higher primarily due to outside service expense related to generation maintenance. **Management reaffirmed their 2023 non-GAAP diluted net operating earnings per share (NOEPS) guidance of $1.54-$1.60 (BMO/Consensus at $1.54/$1.56) with a midpoint of $1.57.** The company also reaffirmed its 2023-2027 capital program totaling ~$15B that drives 8-10% rate base growth and underpins annual NOEPS growth of 6-8% through 2027.

On the electric side, the NIPSCO Electric rate case continues to expect a final order in August. Recently on May 1, NIPSCO and the settling parties filed their proposed order with the IURC, and while there is a possibility of reply briefs in the interim, an order from the commission is expected to be the next significant event in the August time frame. On the renewable generation investments, all of the projects remain on track with the only change being the Fairbanks Solar Project estimated in-service time was refined from 2024-2025 timeframe to 2Q25. Additionally, the company filed a motion to stay the proceeding on the FMCA Trackers for the recovery of costs related to the closure of Michigan City Generating Station's CCR ash ponds and R.M. Schahfer Generating Station's multi-cell unit, pending the outcome of the electric rate case settlement agreement.

On the gas distribution side, the only pending gas rate case is at Columbia Gas of Virginia and the company expects the final order in 2Q23. **Outside of the final order in the NIPSCO electric rate case, we view the regulatory calendar as largely de-risked in the near term**. Additionally, management noted that in 2022, commodity costs represented ~45% of an average residential customer total bill, on the gas side. With natural gas prices declining almost 50%, this significantly reduces the average customer bill, which should provide additional bill headroom to support the company's capital programs.

On the NIPSCO minority interest sale, management noted that there are no changes and that it remains on track to close in 2023. Additionally, management reaffirmed their 14-16% FFO/Debt range with metrics at the top end of the range after the company executes the NIPSCO minority interest sale. Management also reiterated that it does not see any equity needs until 2025 and that any equity needs beyond 2025 would be done via an ATM program with the goal of sustaining FFO/Debt in the 14-16% range. **We view the balance sheet strength represented by the ~300bps cushion above the downgrade threshold expected to be generated in the near term as a significant positive differentiator to peers in the current environment**.

Also, on the call, management was asked about their interest in M&A given current market activity. **In response, management noted that they do not comment on market rumors and are primarily focused on deploying $15B in the company's current plan that drives organic growth. Accordingly, it is clear that the organic plan remains the priority and any inorganic growth would require an incredibly high hurdle rate. That being said, management did remark they would welcome assets with a price tag in the vicinity of ~1x rate base.**

Recently legislative activity in Indiana advanced (HB 1420) and became law, which expanded the ROFR rights for incumbent transmission owners. We believe that this could provide the company with another upside capex opportunity to its 2028-2032 capital plan.

We maintain our Outperform rating and $31 target price given the de-risked regulatory environment, 6-8% EPS growth rate, and the balance sheet strength. Our 2023-2025 estimates remain unchanged at $1.54, $1.67, and $1.78, respectively.

Exhibit 1: NiSource Inc. - Model Summary

NI Model Summary	2020A	2021A	2022A	2023E	2024E	2025E
EPS By Segment						
Electric Operations	$0.65	$0.65	$0.76	$0.83	$0.86	$0.93
Gas Distribution	$1.15	$1.09	$1.17	$1.32	$1.30	$1.45
Corporate & Other	($0.48)	($0.37)	($0.45)	($0.60)	($0.48)	($0.60)
Consolidated E.P.S.	**$1.32**	**$1.37**	**$1.47**	**$1.54**	**$1.67**	**$1.78**
Dividend per share	**$0.84**	**$0.88**	**$0.94**	**$1.00**	**$1.06**	**$1.12**
Payout Ratio total	63.6%	64.3%	63.8%	64.7%	63.3%	62.9%
Dividend Yield	2.9%	3.2%	3.4%	3.6%	3.8%	4.1%
Valuation Metrics						
Price to Earnings	22.2x	20.2x	18.7x	17.9x	16.5x	15.5x
Price to Book Value	1.7x	1.5x	1.5x	1.5x	1.4x	1.3x
Funding Sources						
Cash Flow from Operations	$1,681	$1,255	$1,493	$1,568	$1,762	$1,922
Total Debt Financings	$2,974	$0	$1,000	$1,900	($1,200)	$2,700
Total Equity Financings	$0	$0	$348	$40	$903	$240
Credit Metrics						
Total Debt/Capitalization	60%	56%	57%	60%	54%	56%
FFO/Total Debt	13%	15%	13.6%	12.2%	15.1%	14.4%
Regulated Operations Performance - Realized ROE						
NIPSCO Electric ROE	10.4%	11.2%	13.1%	12.8%	12.6%	12.1%
Columbia Gas of Ohio ROE	9.0%	9.3%	9.5%	9.7%	9.5%	9.7%
Columbia Gas of Pennsylvania ROE	9.0%	9.3%	9.6%	9.7%	9.5%	9.7%
NIPSCO Gas ROE	9.0%	9.1%	9.7%	9.8%	9.6%	9.8%
Columbia Gas of Virginia ROE	9.0%	9.6%	9.5%	9.6%	9.5%	9.7%
Columbia Gas of Kentucky ROE	8.9%	8.1%	8.5%	8.7%	8.6%	8.9%
Columbia Gas of Maryland ROE	9.1%	9.8%	9.5%	9.6%	9.4%	9.7%

Source: BMO Capital Markets, Company Filings

Exhibit 2: NiSource Inc. - Key Assumptions

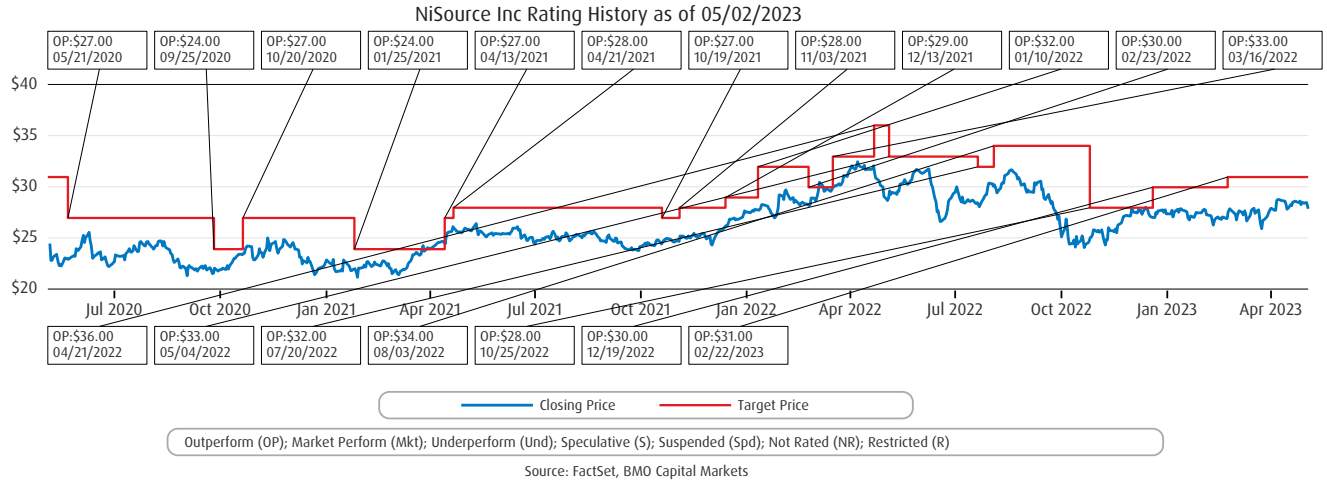
Key Model Assumptions	2020A	2021A	2022A	2023E	2024E	2025E	21-25
Total Capital Expenditures by Segment							
Electric Operations	$423	$483	$1,100	$1,000	$1,400	$1,400	**$4,900**
Gas Distribution	$1,267	$1,296	$1,500	$2,000	$1,800	$1,900	**$7,200**
Consolidated Capital Expenditures	**$1,690**	**$1,780**	**$2,600**	**$3,000**	**$3,200**	**$3,300**	**$12,100**
YE Rate Base Estimates							
NIPSCO Electric	$4,794	$4,898	$5,649	$6,273	$7,268	$8,227	*10.9%*
Columbia Gas of Ohio	$3,412	$3,937	$4,369	$4,991	$5,517	$6,064	*9.0%*
Columbia Gas of Pennsylvania	$2,069	$2,419	$2,685	$3,067	$3,391	$3,728	*9.0%*
NIPSCO Gas	$1,824	$1,991	$2,212	$2,531	$2,801	$3,081	*9.1%*
Columbia Gas of Massachusetts	$1,207	$0	$0	$0	$0	$0	
Columbia Gas of Virginia	$867	$1,086	$1,205	$1,376	$1,521	$1,671	*9.0%*
Columbia Gas of Kentucky	$371	$422	$463	$522	$572	$624	*8.2%*
Columbia Gas of Maryland	$150	$197	$219	$250	$277	$305	*9.1%*
Total Rate Base	**$14,693**	**$14,950**	**$16,800**	**$19,010**	**$21,347**	**$23,699**	***9.7%***

Source: BMO Capital Markets, Company Filings

Exhibit 3: NiSource Inc. - SOTP Valuation

							BMO Low Case		BMO Base Case		BMO High Case	
Regulated, Corporate & Other	Valuation Metric	2025E 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	$0.93	Electric	16.0x	+5.0%	16.8x	13.5x	$13	16.8x	$16	18.8x	$17
Gas Distribution	EPS	$1.45	Natural Gas	16.3x	+7.5%	17.5x	13.8x	$20	17.5x	$25	19.5x	$28
Corporate & Other	EPS	($0.60)	Blend	17.2x	+0.0%	17.2x	17.2x	($10)	17.2x	($10)	19.2x	($11)
Utility & Parent Value		**$1.78**					12.5x	**$22**	17.2x	**$31**	19.2x	**$34**
Total NiSource Inc.								**$22**		**$31**		**$34**
Upside/(Downside)								(21%)		9%		22%
Current Yield								4%		4%		4%
Total Return								**(17%)**		**13%**		**25%**

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 2025E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

Distribution of Ratings (May 02, 2023)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	47.2 %	17.7 %	50.6 %	53.4 %	60.5 %	57.7%
Hold	Market Perform	49.9 %	15.5 %	46.8 %	44.7 %	38.0 %	37.5%
Sell	Underperform	2.9 %	14.3 %	2.5 %	1.7 %	1.0 %	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.

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Mkt = Market Perform - Forecast to perform roughly in line with the analyst's coverage universe on a total return basis;
Und = Underperform - Forecast to underperform the analyst's coverage universe on a total return basis;
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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

(January 2010 - April 2013)
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IN Fact

June 20, 2023 | 20:18 ET~

NiSource

NI-NYSE	Rating	Price: Jun-20	Target ↓	Total Rtn
	Outperform	$27.22	$30.00	14%

Checking Another Box – Modestly Better-Than-Expected MI Interest Sale

Bottom Line:

We see today's NIPSCO minority-interest sale to Blackstone as one of the key derisking events supporting our Outperform rating. At a 1% discount to peers, we continue to recommend NI as a core holding in the sector as it checks the three primary attributes we believe investors place a premium on: 1) strong balance sheet (200 b/p of cushion); 2) predictable regulatory environment with minimal rate case risk; and 3) increasing emphasis on GARP/relative valuation given the widening dispersion in the group which has led to a shrinking investable universe.

Key Points

NiSource announced it has entered into a definitive agreement to sell a 19.9% MI in NIPSCO to Blackstone Infrastructure Partners for $2.15bn. Per the agreement, Blackstone has also committed to funding a pro rata share of NIPSCO's ongoing capital requirements commensurate with its 19.9% interest into perpetuity. This is supported by a $250mm equity commitment letter which is expected to be utilized over 3 years (2024-2026) and brings the total funding commitment to $2.4bn through NI's five-year capital plan. To maintain its 19.9% ownership stake, Blackstone has the option to satisfy its funding requirements through direct contributions and/or by forgoing cashflow distributions from NIPSCO.

Using our YE2022, Blackstone's $2.15b of initial proceeds implies an EV/Rate base multiple of 1.85x, which was in line/slightly above our 1.75x assumption (~$2bn proceeds). **Despite some investors' fear of a lower multiple due to rising interest rates over the past year, we believe NIPSCO's attractive rate-base growth of 13-14%, constructive regulatory environment, and strong credit profile drove the modestly better-than-expected premium transaction multiples.**

Although we do not expect any changes to the company's forward outlook with management clearly placing its emphasis on execution and predictability, we see several potential drivers that could provide upside or cushion to its current outlook: 1) Blackstone's perpetual equity commitment/improving consolidated cash flow outlook, which could potentially reduce its ongoing maintenance ATM needs in 2025+; 2) conservative regulatory planning assumptions; and 3) modest financing efficiencies including the redemption of its $500mm Perpetual B's (~7.6%/non-tax deductible coupon if not called at call date) and lack of upside collar on the YE2023 settlement of its equity purchase contracts ($24.51 floor).

Although we see some bias to the upside, our 2023-2025 estimates remain unchanged at $1.54, $1.67, and $1.78, respectively. **Our target price moves to $30 as we MTM our peer group multiples.**

Key Changes	Target
	$30.00↓
	$31.00

For disclosure statements, including the Analyst Certification, please refer to page(s) 7 to 10.

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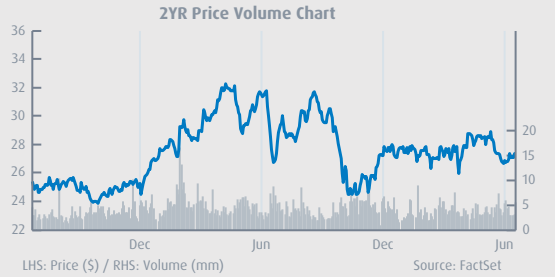
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Company Data			in $
Dividend	$1.00	Shares O/S (mm)	413.1
Yield	3.7%	Market Cap (mm)	$11,243
P/BV	1.6x	Net Debt (mm)	$9,336

BMO Estimates				in $
(FY-Dec.)	2022A	2023E	2024E	2025E
EPS	$1.47	$1.54	$1.67	$1.78
DPS	$0.94	$1.00	$1.06	$1.12
EBIT	$1,276	$1,410	$1,606	$1,770
EBITDA	$2,067	$2,255	$2,519	$2,752

Consensus Estimates				
	2022A	2023E	2024E	2025E
EPS		$1.57	$1.68	$1.80

Valuation				
	2022A	2023E	2024E	2025E
P/E	18.5x	17.7x	16.3x	15.3x
Div. Yield (%)	3.5%	3.7%	3.9%	4.1%

QTR. EPS	Q1	Q2	Q3	Q4
2022A	$0.75	$0.12	$0.10	$0.50
2023E	$0.77a	$0.13	$0.12	$0.52
2024E	$0.87	$0.14	$0.13	$0.53
2025E	$0.93	$0.15	$0.13	$0.56

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.

BMO Capital Markets

NiSource - Block Summary Model

Income Statement	2022A	2023E	2024E	2025E
Electric Operations	456	515	640	700
Gas Distribution	751	854	926	1,030
Coporate & Other	1	1	(1)	(1)
Consolidated EBIT	1,276	1,410	1,606	1,770
Depreciation & Amortization	791	845	914	982
EBITDA	2,067	2,255	2,519	2,752
Interest Expense	396	491	431	502
Income Tax	158	155	199	214
Income from continuing operations	666	706	819	885
Weighted Average Shares Outstanding	452	458	491	497
Diluted Operating EPS	$1.47	$1.54	$1.67	$1.78
Dividends per Share	$0.94	$1.00	$1.06	$1.12
Cash Flow Statement	**2022A**	**2023E**	**2024E**	**2025E**
Operating Cash Flow	1,493	1,568	1,762	1,922
Investing Cash Flow	(2,600)	(3,000)	(950)	(3,300)
Financing Cash Flow	1,058	1,428	(871)	1,269
Net Change in Cash Flow	(49)	(4)	(59)	(109)
EOP Cash on Balance Sheet	46	42	(17)	(126)
Common stock (net)	348	40	903	240
Net debt issued/(repaid)	1,190	1,900	(1,200)	1,640
Dividends paid	(425)	(457)	(518)	(556)
Balance Sheet	**2022A**	**2023E**	**2024E**	**2025E**
Common Equity	6,842	7,134	8,349	8,928
Preferred Equity	1,547	1,547	1,547	1,547
Total Debt	10,991	12,891	11,691	13,331
Enterprise Value	$23,570	$25,520	$25,270	$27,264
Common equity %	35.3%	33.1%	38.7%	37.5%
Preferred equity %	8.0%	7.2%	7.2%	6.5%
Total Debt %	56.7%	59.8%	54.2%	56.0%
Book Value per Share	$18.56	$18.94	$20.17	$21.09

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

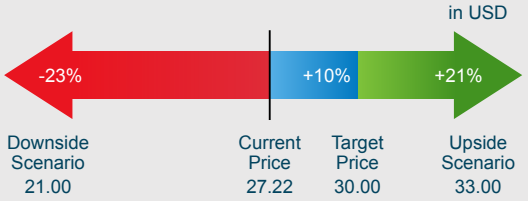
Our target price is the product of a P/E-based sum of the parts. We utilize a regulated-group average multiple using 2025E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook.

Upside Scenario $33.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile, as well as the material improvement in the balance sheet with the successful execution of the minority interest sale in NIPSCO.

Downside Scenario $21.00

Our downside scenario reflects a tightening monetary policy, a deceleration of the company's rate base growth and failure to execute on the sale of a minority interest in NIPSCO to strengthen the balance sheet.



Key Catalysts

Successful execution of both its upcoming NIPSCO Electric rate case as well as sale of a minority interest in its NIPSCO subsidiary by mid-year 2023.

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.

BMO Top 15 List

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Income Stock

NI-NYSE Research

Glossary

Company Models

Checking Another Box – Modestly Better-Than-Expected MI Interest Sale

Bottom Line: We see today's NIPSCO minority-interest sale to Blackstone as one of the key de-risking events supporting our Outperform rating. We continue to recommend NI as a core holding in the sector as it checks the three primary attributes we believe investors are placing a premium on (currently and longer-term): 1) strong balance sheets with cushion to their metrics; 2) predictable regulatory environment with minimal or diversified rate case risk; and 3) increasing emphasis on attractive relative valuation given the widening dispersion in the group which has led to a shrinking investable universe.

With the January approval of the company's Ohio rate settlement and pending August order in its NIPSCO rate case, we see today's announcement as adding significant visibility to the company's financing plan and balance sheet improvement. Moreover, although we do not expect any significant changes to the company's forward outlook with management clearly placing its emphasis on execution and predictability, in conjunction with today's announcement, we see several potential drivers that could add upside or at least cushion to its current outlook including: 1) Blackstone's perpetual equity commitment and improving consolidated cash flow outlook which could potentially reduce its ongoing maintenance ATM needs in 2025+; 2) conservative regulatory planning assumptions; and 3) modest financing efficiencies including the redemption of its $500 million perpetual Bs (~7.6%/non-tax deductible coupon if not called at call date) and lack of upside collar on the YE2023 settlement of its equity purchase contracts ($24.51 floor). **Management reaffirmed its 2023 non-GAAP diluted net operating earnings per share (NOEPS) guidance of $1.54-1.60 (BMO/Consensus at $1.54/$1.57) with a midpoint of $1.57.** The company also reaffirmed its 2023-2027 capital program totaling ~$15 billion that drives 8-10% rate base growth and underpins annual NOEPS growth of 6-8% through 2027.

We reiterate our Outperform rating and would continue to be buyers of the stock as we see today's further derisking as adding to the visibility and cushion to the of the company's financial outlook, which should drive multiple expansion. At a 1% discount to the group, we find NI shares to be one of the most attractive names in our coverage universe given its 7% EPS growth, strong balance sheet, constructive regulatory environment, and minimal and diversified regulatory activity. Although we see some bias to the upside, our 2023-2025 estimates remain unchanged at $1.54, $1.67, and $1.78, respectively. **Our target price moves to $30 as we MTM our peer group multiples used in our SOTP valuation framework.**

Checking Another Derisking Box on the Long-Term Strategy

NiSource announced today that it has entered into a definitive agreement to sell a minority interest (19.9%) in NIPSCO to Blackstone Infrastructure Partners for $2.15 billion. Per the agreement, Blackstone has also made the commitment to fund a pro rata share of NIPSCO's ongoing capital requirements commensurate with its 19.9% interest into perpetuity. This is supported by a $250 million equity commitment letter which is expected to be utilized over a three-year period (2024-2026) and brings the total funding commitment to $2,400mm through NI's five-year capital plan. To maintain its 19.9% ownership stake, Blackstone has option satisfy its funding requirements through direct contributions and/or by forgoing cashflow distributions from NIPSCO.

The transaction implies and equity value of $10.8b and enterprise value of $14.3 billion for 100% of NIPSCO. Using YE2022, Blackstone's $2.15 billion of initial proceeds implies an EV/Rate base multiple of 1.85x, which was in line/slightly above our 1.75x assumption. The company estimates using TTM adj. net income of $333 million, the transaction implies ~32.5x P/E and directionally in line with the ~29x P/E we see using our 2023 forecast net income. **Despite some investors fear of a lower multiple due to rising interest rates over the last year, we believe NIPSCO's attractive rate base growth of 13-14%, constructive regulatory environment and strong credit profile drove the modestly better-than-expected premium transaction multiples.**

The transaction is expected to close by year-end 2023, subject to customary closing conditions, including receiving FERC approvals and clearances. While the transaction does not need IURC approval, the company discussed the transaction with IURC prior to today's announcement. We see limited risk in terms of the FERC approval based on prior precedent with other minority interest sales.

Balance Sheet/Credit Metrics: Management reaffirmed its 14-16% FFO/Debt range with metrics reaching the higher end of the range at YE2023 and moderating towards the midpoint of the target range over the longer term. Management also reiterated that it does not see the need for any additional equity at least until 2025 and that any maintenance equity requirements would be done via a its ATM program ($200-300mm) with the goal of sustaining the healthy cushion above its 13% downgrade threshold (200 b/p at the midpoint). The company also met with all three rating agencies prior to the announcement and while no updated credit comments have been issued, we believe the transaction is likely in-line to modestly better than the plan the company had originally communicated. We would expect both NiSource's/NIPSCO's Stable credit ratings to be affirmed at both Moody's (Baa2/Baa1) and S&P (BBB+/BBB).

NIPSCO Settlement Still on Track for August Final Order

On the NIPSCO Electric rate case, the company continues to expect a final order from the commission in August with rates going into effect in September. **We view this as the last remaining event that completes the de-risking of the story over the next 12-18 months.**

Exhibit 1: NiSource Inc. - Model Summary

NI Model Summary	2020A	2021A	2022A	2023E	2024E	2025E
EPS By Segment						
Electric Operations	$0.65	$0.65	$0.76	$0.83	$0.86	$0.93
Gas Distribution	$1.15	$1.09	$1.17	$1.32	$1.30	$1.45
Corporate & Other	($0.48)	($0.37)	($0.45)	($0.60)	($0.48)	($0.60)
Consolidated E.P.S.	**$1.32**	**$1.37**	**$1.47**	**$1.54**	**$1.67**	**$1.78**
Dividend per share	**$0.84**	**$0.88**	**$0.94**	**$1.00**	**$1.06**	**$1.12**
Payout Ratio total	63.6%	64.3%	63.8%	64.7%	63.3%	62.9%
Dividend Yield	2.9%	3.2%	3.4%	3.6%	3.8%	4.1%
Valuation Metrics						
Price to Earnings	22.2x	20.2x	18.7x	17.9x	16.5x	15.5x
Price to Book Value	1.7x	1.5x	1.5x	1.5x	1.4x	1.3x
Funding Sources						
Cash Flow from Operations	$1,681	$1,255	$1,493	$1,568	$1,762	$1,922
Total Debt Financings	$2,974	$0	$1,000	$1,900	($1,200)	$2,700
Total Equity Financings	$0	$0	$348	$40	$903	$240
Credit Metrics						
Total Debt/Capitalization	60%	56%	57%	60%	54%	56%
FFO/Total Debt	13%	15%	13.6%	12.2%	15.1%	14.4%
Regulated Operations Performance - Realized ROE						
NIPSCO Electric ROE	10.4%	11.2%	13.1%	12.8%	12.6%	12.1%
Columbia Gas of Ohio ROE	9.0%	9.3%	9.5%	9.7%	9.5%	9.7%
Columbia Gas of Pennsylvania ROE	9.0%	9.3%	9.6%	9.7%	9.5%	9.7%
NIPSCO Gas ROE	9.0%	9.1%	9.7%	9.8%	9.6%	9.8%
Columbia Gas of Virginia ROE	9.0%	9.6%	9.5%	9.6%	9.5%	9.7%
Columbia Gas of Kentucky ROE	8.9%	8.1%	8.5%	8.7%	8.6%	8.9%
Columbia Gas of Maryland ROE	9.1%	9.8%	9.5%	9.6%	9.4%	9.7%

Source: BMO Capital Markets, Company Filings

Exhibit 2: NiSource Inc. - Key Assumptions

Key Model Assumptions	2020A	2021A	2022A	2023E	2024E	2025E	21-25
Total Capital Expenditures by Segment							
Electric Operations	$423	$483	$1,100	$1,000	$1,400	$1,400	**$4,900**
Gas Distribution	$1,267	$1,296	$1,500	$2,000	$1,800	$1,900	**$7,200**
Consolidated Capital Expenditures	**$1,690**	**$1,780**	**$2,600**	**$3,000**	**$3,200**	**$3,300**	**$12,100**
YE Rate Base Estimates							
NIPSCO Electric	$4,794	$4,898	$5,649	$6,273	$7,268	$8,227	*10.9%*
Columbia Gas of Ohio	$3,412	$3,937	$4,369	$4,991	$5,517	$6,064	*9.0%*
Columbia Gas of Pennsylvania	$2,069	$2,419	$2,685	$3,067	$3,391	$3,728	*9.0%*
NIPSCO Gas	$1,824	$1,991	$2,212	$2,531	$2,801	$3,081	*9.1%*
Columbia Gas of Massachusetts	$1,207	$0	$0	$0	$0	$0	
Columbia Gas of Virginia	$867	$1,086	$1,205	$1,376	$1,521	$1,671	*9.0%*
Columbia Gas of Kentucky	$371	$422	$463	$522	$572	$624	*8.2%*
Columbia Gas of Maryland	$150	$197	$219	$250	$277	$305	*9.1%*
Total Rate Base	**$14,693**	**$14,950**	**$16,800**	**$19,010**	**$21,347**	**$23,699**	***9.7%***

Source: BMO Capital Markets, Company Filings

Exhibit 3: NiSource Inc. - SOTP Valuation

							BMO Low Case		BMO Base Case		BMO High Case	
Regulated, Corporate & Other	Valuation Metric	2025E 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	$0.93	Electric	15.4x	+7.5%	16.6x	12.9x	$12	16.6x	$15	18.6x	$17
Gas Distribution	EPS	$1.45	Natural Gas	15.6x	+7.5%	16.8x	13.1x	$19	16.8x	$24	18.8x	$27
Corporate & Other	EPS	($0.60)	Blend	16.7x	+0.0%	16.7x	16.7x	($10)	16.7x	($10)	18.7x	($11)
Utility & Parent Value		**$1.78**					11.8x	**$21**	16.7x	**$30**	18.7x	**$33**
Total NiSource Inc.								**$21**		**$30**		**$33**
Upside/(Downside)								(23%)		9%		22%
Current Yield								4%		4%		4%
Total Return								**(19%)**		**13%**		**26%**

Source: BMO Capital Markets, Company Filings

IN Fact

April 20, 2023 | 10:32 ET~

NiSource

NI-NYSE	Rating	Price: Apr-19	Target	Total Rtn
	Outperform	$28.55	$31.00	12%

Revising 1Q23 Estimate With Preview Walk

Bottom Line:

We are lowering our 1Q23 EPS estimate to $0.75 post our 1Q23 preview. Our 2023 quarterly estimates now reflect a more normalized quarterly pattern than previously assumed in our model. On the call, we expect management to reaffirm its 2023 outlook of $1.54-1.60 (Consensus/BMO at $1.55/$1.54, respectively) and reiterate its LT growth rate of 6-8%, and the 14-16% FFO/debt ratio. **We maintain our Outperform rating and our $31 price target.**

Key Points

We are updating our estimate for NI's 1Q23 earnings given the difference in our preview walk and our current quarterly EPS estimate for NI in 2023. As such, despite significantly milder weather y/y, we see a relatively flat y/y comparison as not only does the company report its operating earnings on a weather-normalized basis, but rate relief (+10c) offset the higher y/y interest rate impact (5c), non-service cost for pension (2c), D&A/opex (2c) and modest dilution. Although NI does not include the impact from weather in its operating earnings (only on a GAAP basis), the impact shows up primarily in its cash flow statement. We note that relative to the ~13.5% FFO/debt metric at YE22 and its 13% downgrade threshold, each $10mm of weather-related impact lowers its FFO/debt by ~10 bps. Based on our best estimates, 1Q23's impact could be ~$30mm or 30 bps, all things held equal. However, given its pending MI sale at NIPSCO, we do not see this early-2023 impact as a concern. **In Exhibit 1 (page 3), we detail the drivers of our EPS walk to $0.75. This compares to our previous estimate of $0.94 which was likely pulling up consensus estimate of $0.81.**

In terms of updates, we do not expect any change in messaging related to the NIPSCO minority stake sale. The company still anticipates an announcement in mid-2023 and a transaction close by the end of 2023. On the regulatory side, the company is expecting an order in August in the NIPSCO electric case. We are also watching legislative activity in Indiana (HB 1420), which could expand the ROFR rights for incumbent transmission owners and provide the company with another upside capex opportunity to its 2028-2032 capital plan. The bill has passed in the House and awaits a vote in the Senate.

Key Changes		
	Estimates	**Q1 / 23E**
	EPS	$0.75
	Previous	*$0.94*

For disclosure statements, including the Analyst Certification, please refer to page(s) 6 to 9.

BMO Capital Markets

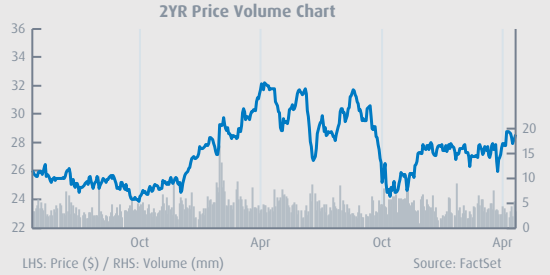
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Company Data			in $
Dividend	$1.00	Shares O/S (mm)	412.5
Yield	3.5%	Market Cap (mm)	$11,777
P/BV	1.7x	Net Debt (mm)	$9,336

BMO Estimates				in $
(FY-Dec.)	2021A	2022A	2023E	2024E
EPS	$1.37	$1.47	$1.54	$1.67
DPS	$0.88	$0.94	$1.00	$1.06
EBIT	$1,104	$1,276	$1,410	$1,606
EBITDA	$1,852	$2,067	$2,255	$2,519

Consensus Estimates				
	2021A	2022A	2023E	2024E
EPS			$1.55	$1.67

Valuation				
	2021A	2022A	2023E	2024E
P/E	20.8x	19.4x	18.5x	17.1x
Div. Yield (%)	3.1%	3.3%	3.5%	3.7%

QTR. EPS	Q1	Q2	Q3	Q4
2021A	$0.73	$0.13	$0.11	$0.39
2022A	$0.75	$0.12	$0.10	$0.50
2023E	$0.75	$0.13	$0.12	$0.54
2024E	$0.87	$0.14	$0.13	$0.53

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	2021A	2022A	2023E	2024E
Electric Operations	387	456	515	640
Gas Distribution	674	751	854	926
Coporate & Other	1	1	1	(1)
Consolidated EBIT	1,104	1,276	1,410	1,606
Depreciation & Amortization	748	791	845	914
EBITDA	1,852	2,067	2,255	2,519
Interest Expense	341	396	491	431
Income Tax	132	158	155	199
Income from continuing operations	571	666	706	819
Weighted Average Shares Outstanding	417	452	458	491
Diluted Operating EPS	$1.37	$1.47	$1.54	$1.67
Dividends per Share	$0.88	$0.94	$1.00	$1.06
Cash Flow Statement	**2021A**	**2022A**	**2023E**	**2024E**
Operating Cash Flow	1,255	1,493	1,568	1,762
Investing Cash Flow	(2,205)	(2,600)	(3,000)	(950)
Financing Cash Flow	635	1,058	1,428	(871)
Net Change in Cash Flow	(315)	(49)	(4)	(59)
EOP Cash on Balance Sheet	95	46	42	(17)
Common stock (net)	0	348	40	903
Net debt issued/(repaid)	31	1,190	1,900	(1,200)
Dividends paid	(367)	(425)	(457)	(518)
Balance Sheet	**2021A**	**2022A**	**2023E**	**2024E**
Common Equity	6,253	6,842	7,134	8,349
Preferred Equity	1,547	1,547	1,547	1,547
Total Debt	9,802	10,991	12,891	11,691
Enterprise Value	$21,940	$23,570	$25,520	$25,270
Common equity %	35.5%	35.3%	33.1%	38.7%
Preferred equity %	8.8%	8.0%	7.2%	7.2%
Total Debt %	55.7%	56.7%	59.8%	54.2%
Book Value per Share	$18.70	$18.56	$18.94	$20.17

Source: BMO Capital Markets, Company Reports

New Scenarios

Valuation

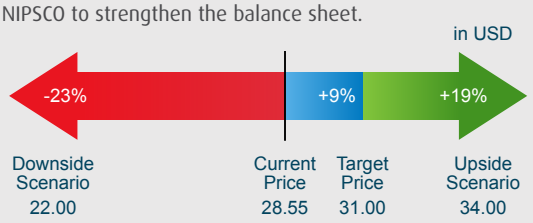
Our target price is the product of a P/E-based sum of the parts. We utilize a regulated-group average multiple using 2025E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook.

Upside Scenario $34.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile, as well as the material improvement in the balance sheet with the successful execution of the minority interest sale in NIPSCO.

Downside Scenario $22.00

Our downside scenario reflects a tightening monetary policy, a deceleration of the company's rate base growth and failure to execute on the sale of a minority interest in NIPSCO to strengthen the balance sheet.



Key Catalysts

Successful execution of both its upcoming NIPSCO Electric rate case as well as sale of a minority interest in its NIPSCO subsidiary by mid-year 2023.

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

Exhibit 1: NiSource 1Q23 Earnings Walk

1Q22 Operating Earnings	**$0.75**
Beginning Net Income	$329
Rate Relief/Riders	$45
Flat O&M	$0
Higher D&A	($10)
Other Income - AFUDC, net of higher pension expense	($8)
Non-Controling Interest - Renewable Tax Equity	($21)
Other & Share Dilution	($2)
1Q23E Operating Net Income	**$334**
1Q23 Diluted Shares	447
1Q23E Operating Earnings	**$0.75**

Source: BMO Capital Markets, Company Filings

Exhibit 2: NiSource Summary Model

NI Model Summary	2020A	2021A	2022A	2023E	2024E	2025E
EPS By Segment						
Electric Operations	$0.65	$0.65	$0.76	$0.83	$0.86	$0.93
Gas Distribution	$1.15	$1.09	$1.17	$1.32	$1.30	$1.45
Corporate & Other	($0.48)	($0.37)	($0.45)	($0.60)	($0.48)	($0.60)
Consolidated E.P.S.	**$1.32**	**$1.37**	**$1.47**	**$1.54**	**$1.67**	**$1.78**
Dividend per share	**$0.84**	**$0.88**	**$0.94**	**$1.00**	**$1.06**	**$1.12**
Payout Ratio total	63.6%	64.3%	63.8%	64.7%	63.3%	62.9%
Dividend Yield	2.9%	3.2%	3.4%	3.6%	3.8%	4.1%
Valuation Metrics						
Price to Earnings	22.2x	20.2x	18.7x	17.9x	16.5x	15.5x
Price to Book Value	1.7x	1.5x	1.5x	1.5x	1.4x	1.3x
Funding Sources						
Cash Flow from Operations	$1,681	$1,255	$1,493	$1,568	$1,762	$1,922
Total Debt Financings	$2,974	$0	$1,000	$1,900	($1,200)	$2,700
Total Equity Financings	$0	$0	$348	$40	$903	$240
Credit Metrics						
Total Debt/Capitalization	60%	56%	57%	60%	54%	56%
FFO/Total Debt	13%	15%	13.6%	12.2%	15.1%	14.4%
Regulated Operations Performance - Realized ROE						
NIPSCO Electric ROE	10.4%	11.2%	13.1%	12.8%	12.6%	12.1%
Columbia Gas of Ohio ROE	9.0%	9.3%	9.5%	9.7%	9.5%	9.7%
Columbia Gas of Pennsylvania ROE	9.0%	9.3%	9.6%	9.7%	9.5%	9.7%
NIPSCO Gas ROE	9.0%	9.1%	9.7%	9.8%	9.6%	9.8%
Columbia Gas of Virginia ROE	9.0%	9.6%	9.5%	9.6%	9.5%	9.7%
Columbia Gas of Kentucky ROE	8.9%	8.1%	8.5%	8.7%	8.6%	8.9%
Columbia Gas of Maryland ROE	9.1%	9.8%	9.5%	9.6%	9.4%	9.7%

Source: BMO Capital Markets, Company Filings

Exhibit 3: NiSource Model Assumptions

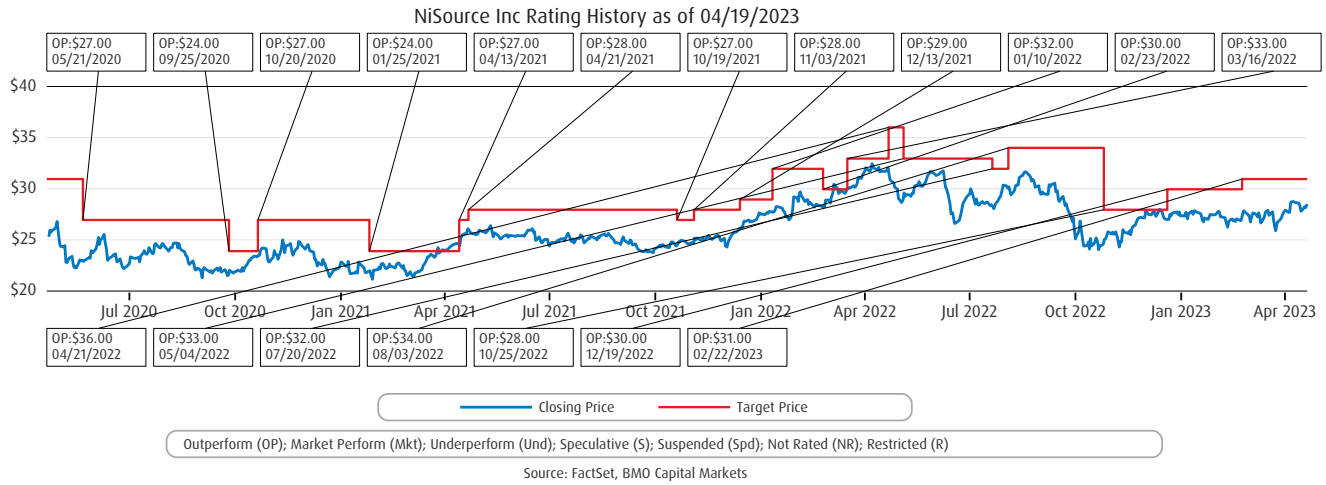
Key Model Assumptions	2020A	2021A	2022A	2023E	2024E	2025E
Total Capital Expenditures by Segment						
Electric Operations	$423	$483	$1,100	$1,000	$1,400	$1,400
Gas Distribution	$1,267	$1,296	$1,500	$2,000	$1,800	$1,900
Consolidated Capital Expenditures	**$1,690**	**$1,780**	**$2,600**	**$3,000**	**$3,200**	**$3,300**
YE Rate Base Estimates						
NIPSCO Electric	$4,794	$4,898	$5,649	$6,273	$7,268	$8,227
Columbia Gas of Ohio	$3,412	$3,937	$4,369	$4,991	$5,517	$6,064
Columbia Gas of Pennsylvania	$2,069	$2,419	$2,685	$3,067	$3,391	$3,728
NIPSCO Gas	$1,824	$1,991	$2,212	$2,531	$2,801	$3,081
Columbia Gas of Massachusetts	$1,207	$0	$0	$0	$0	$0
Columbia Gas of Virginia	$867	$1,086	$1,205	$1,376	$1,521	$1,671
Columbia Gas of Kentucky	$371	$422	$463	$522	$572	$624
Columbia Gas of Maryland	$150	$197	$219	$250	$277	$305
Total Rate Base	**$14,693**	**$14,950**	**$16,800**	**$19,010**	**$21,347**	**$23,699**

Source: BMO Capital Markets, Company Filings

Exhibit 4: NiSource SOTP Valuation

							BMO Low Case		BMO Base Case		BMO High Case	
Regulated, Corporate & Other	Valuation Metric	2025E 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	$0.93	Electric	16.2x	+5.0%	17.0x	13.7x	$13	17.0x	$16	19.0x	$18
Gas Distribution	EPS	$1.45	Natural Gas	16.3x	+7.5%	17.5x	13.8x	$20	17.5x	$25	19.5x	$28
Corporate & Other	EPS	($0.60)	Blend	17.3x	+0.0%	17.3x	17.3x	($10)	17.3x	($10)	19.3x	($12)
Utility & Parent Value		**$1.78**					12.6x	**$22**	17.3x	**$31**	19.3x	**$34**
Total NiSource Inc.								**$22**		**$31**		**$34**
Upside/(Downside)								(22%)		8%		21%
Current Yield								3%		3%		3%
Total Return								**(18%)**		**12%**		**24%**

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 2025E 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 (April 19, 2023)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	47.8 %	17.9 %	50.6 %	53.6 %	59.4 %	57.7%
Hold	Market Perform	49.3 %	16.1 %	46.9 %	44.4 %	38.6 %	37.5%
Sell	Underperform	2.9 %	14.3 %	2.5 %	1.8 %	1.4 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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~ As of April 1, 2019.

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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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Let's Make a Deal: AGA Full Download. Consolidation, Inflation, & Credit

Industry Overview

Consolidation remains absolutely front and center

We leave the Florida American Gas Association (AGA) Financial Conference with more questions than when we came in. The next handful of months could bring the largest wave of utility transaction we have seen in years, based on the feedback from the conference. This is counterintuitive as higher interest rates and generally reduced credit quality across the sector would seemingly reduce the ability to execute. There was a clear bifurcation of parties open to buying and those who would not. Companies that expressed an openness to potential inorganic growth included Duke Energy (DUK), UGI Corp (UGI), Spire (SR), Unitil (UTL) and Avangrid (AGR). In contrast, natural gas focused Atmos Energy (ATO), Black Hills (BKH), and NiSoure (NI), OneGas (OGS) downplayed interest in buying for a variety of factors.

Mild weather & higher costs a recipe for challenges

Another key theme was the degree to which higher operating expenses (O&M) are stubbornly persistent with some natural gas companies seeing 5%+ cost increases as they serve growth while staffing up. If inflation was supposed to be a theme pressuring FY22 and bleeding into FY23, we see clear affirmation that YoY pressures will manifest in 2024 again. The very mild weather to start 2023 in the Eastern US has raises risk of FY23 estimate revisions and erodes latitude for 2024. We see greater risk to smaller cap companies with less scale. We continue to prefer larger-cap, defensive utilities

PTC monetization with transferability a key new angle

We see a multitude of companies evaluating strategies now that PTCs can be monetized directly (even for legacy renewable projects) still generating tax credits from renewables such as wind. Moody's appears to provide wide latitude in including these financing transactions in funds from operations (FFO). In contrast, S&P has taken a definitive view that these are not operating cash flows. The bifurcation between Moody's and S&P could be meaningful for impacted companies. Less reliance on tax equity will be positive for many with NiSource (NI) highlighting a potential +$500Mn rate base opportunity in the ~2025 timeframe. On balance reiterate our Buy rating given positive trends.

What are the best meetings of the conference?

Positive meetings included Xcel Energy (XEL), Northwestern Corp (NWE), Atmos Energy (ATO), CenterPoint Energy (CNP), NiSource (NI), and Sempra (SRE). CNP could raise 2023 capex, financed with a non-core divestiture, on the back of a successful Texas distribution legislation (DCRF). Assuming an uneventful rate case, CNP has latitude to increase its EPS profile to ~8%. SRE management was as confident as ever on CA prospects and there is a real possibility of incremental capex, potentially as soon as the 4Q22 earnings call. Controversial meetings included Southwest Gas (SWX) and UGI Corp (UGI). For SWX, positive long-term ROE statements were juxtaposed against near-term cost pressures and a DPS cut ahead. Expect volatility but increasingly positive setup. For UGI, the challenges for AmeriGas have sapped investor excitement about a consolidated company that trades at a ~10x P/E.

Please see the full report for the full set of conference takeaways.

24 May 2023

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Glossary
AGA: American Gas Association
LDC: Local distribution company
FFO: Funds from operations
O&M: Operations and maintenance
PTC: Production tax credit
ROE: Return on equity
PJM: PJM Interconnection LLC

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Key Macro Points to Note

- **Repairs tax:** since updated guidance was issued from the IRS in early April we note a growing focus on updating repairs tax deductions across guidance for many companies. While a few companies indicated uncertainty still as to their deduction policies relative to the new guideline (WTRG, SRE) many companies overall noted they thought on their initial understandings their deduction strategies were consistent with the updated list of activities that qualified. Stay tuned: while this is unlikely to have any true-up effect with the IRS considering safe harbor this could yet reduce ability to over-earn in some jurisdictions.

- **Undergrounding the distribution grid:** We note companies in both Iowa (LNT) and Michigan (CMS/DTE) discussed their efforts in undergrounding the distribution grid to improve outage times. We stress that this is among the first times we perceive a real focus to shift the grid – we note other regional peers such as WEC do not have a meaningful focus (yet) on this angle. We appreciate the need to upgrade grids to accommodate expanded EV penetration over time and as such gradual shift towards undergrounded wires as these upgrades are made. Stay tuned for others to opine on this front. Capital crowding on priorities remains the key worry here.

- **O&M inflation yes – but no one is 'concerned' (yet) on guidance:** Cannot ignore the drumbeat of concerns and fingerpointing across the sector as expectations of where O&M was going to settle for the year heads yet higher. While not an issue *yet* – further weather pressures could yet expose guidance by later this year. Companies with confidence & upside bias in their outlook will stand out. See CNP's positive bias on capex for '23 as likely received uniquely positively later this year.

- **Acquisitions galore.** The focus at the conference was among the most pronounced in recent memory on deal making. We stress expectations have yet to fully reset lower on just where gas LDC transactions could print, but we assume a step-function lower following rally in rates in recent months. On balance, expect less of a sizable premium: we attribute recent gas utility strength to twin M&A trends as well as reduced overall gas prices.

- **RNG pullback?** Less clarity and pullback in market prices has reduced enthusiasm for Renewable Natural Gas (RNG) strategies. A year ago at the AGA conference a number of companies were buzzing about their expansion strategies. Today, market RINS prices have retreated and execution challenges leave some cautious on execution. Finally, uncertainty as to the fate of whether so-called e-RINS will qualify for the EPA program leaves developers unsure as to whether they should install gas equipment to 'clean up' gas to insert in the pipeline network or leave intact existing sour gas (less/unprocessed) to power generation. Term price for RNG prices has increased markedly trending towards high teens per MMbtu despite pullback in D3. EPA appears to have iced the concept for now despite earlier enthusiasm for a dramatically expanded scope of the program to include e-RINS & qualification for EVs to receive benefits from this program.

Alliant (LNT) The tax man comes

We met with CEO John Larsen, CFO Robert Durian, and Director of IR Susan Gille.

Framing the tax credit opportunity post-IRA

Discussions with LNT mgmt touched on potential updates to the company's capital plan expected with the November update, as is customary. While mgmt has articulated equity needs in 2023, there is the possibility that future needs will be reduced via monetization of production tax credits (PTCs) following passage of the Inflation Reduction Act (IRA). PTCs generated starting in 2023 are expected to be eligible for monetization under the act, including those from the 1.2 GW of wind that LNT currently operates. The coming solar buildout in both Iowa and Wisconsin will add 1.5 GW – mgmt estimates potential incremental cash flows from monetizing all of the associated credits at $350m annually. Questions about impact on the financing plan yet to be resolved include 1) credit rating agency treatment for funds from operations (FFO) purposes, 2) proceeds from the sale of the second stake in West Riverside, and 3) higher equity layer requested in the Wisconsin rate case. Mgmt indicated it expects some visibility into these factors by the time of the November refresh.

Resiliency in focus as lines move under ground

Undergrounding remains a nascent opportunity for both the Iowa and Wisconsin utilities with a long runway yet to be completed – with an estimated 25% of LNT's distribution lines currently underground vs. a long-term goal of 80%. The current pace is 1.5-2.0% per annum (approx. 600 miles) with mgmt reporting that crew efficiency and ability to execute continues to improve with ongoing rollout of the initiative. Cost advantages are particularly robust for three-phase distribution lines, both in the initial install and lifetime maintenance. The limiting factor on accelerating the buildout continues to be bill impacts, though this remains a nascent area that mgmt may opt to scale up following the current solar build initiative in both jurisdictions, particularly given well-documented reliability advantages of undergrounding.

Iowa solar push continues on both fronts

LNT continues to push ahead in Iowa on its Duane Arnold and Creston/Weaver solar & battery storage efforts. Duane Arnold had previously received approval for advance ratemaking without an ROE incentive, but LNT recently filed for rehearing on the ROE incentive portion. While new members of the Iowa Utility Board (IUB) may not want to overrule a decision made by the previous iteration, mgmt indicated a note of cautious optimism given the enhanced evidence filed and support for the project. The outcome of the Creston & Weaver court proceeding is less clear given the judicial process with a July hearing scheduled – note the initial finding of an incomplete record makes this comparably riskier than Duane Arnold. Nonetheless, mgmt expressed confidence in the content of their respective cases for both projects and potential for yet more favorable outcomes given broad-based support for solar generation in the state.

2023 not de-risked, but built-in savings to come in 2H

With Q1's results putting may utilities on the back foot with respect to weather-driven load impacts, LNT sees a degree of built-in savings in its O&M program in the back half of the year. Lower contributions to the charitable foundation, overhead from operating the Lansing plant, and consultant fees are all embedded in the plan to reduce costs in 2023. While we do expect LNT to rely on some 'flex' provisions, we note the company's plan relies largely on execution rather than outright short-term cuts in order to hit EPS numbers. Q3 weather impacts remain by far the largest unknown given seasonality.

Ameren (AEE) All Illinois, all day

We met with Ameren CEO Marty Lyons, CFO Michael Moehn, Ameren Illinois Chairman and President Lenny Singh, Senior Vice President, Regulatory Affairs and Financial Services Teresa Shaw, Director of Investor Relations Andrew Kirk, and Manager of Investor Relations and Corporate Modeling Megan McPhail.

Management did an effective jump in talking down concerns on ROEs and disarming what could have been among the most cautious updates from the company in a while. Still investors read into comments around backfilling lost capex in Illinois cautiously. On balance, we think we are near the 'low mark' in rate case risk and could see some recovery from here.

Illinois testimony – downplaying the earnings impact

Ameren mgmt acknowledged that the staff ROE recommendation at Ameren IL's multi year rate plan (MYRP) proceeding for the electric utility came in below expectations with an initial 8.9% recommendation well below the company's 10.5% ask and 9.89% recommendation in the Ameren IL gas rate case. While the lower capex and rate base recommendation from staff appears concerning, mgmt was more constructive in this regard framing it as 1) a normal part of the back and forth with staff when discussing projects several years out in the forecast and 2) the size of the rate base delta (cumulatively $700m over the term of the MYRP) as modest in relation to the $20B five-year capital plan. *While acknowledging that staff testimony is a cautious starting point, mgmt indicated confidence in 1) achieving its long-run 6-8% EPS CAGR target and 2) shifting capex if needed across the enterprise.*

Reconciling staff views vs. legislation

IL's Climate and Equitable Jobs Act (CEJA) mandates among other provisions that electric utilities receive a determined ROE for the duration of the MYRP. Mgmt noted that the staff rec opens with an 8.9% level in year 1 subject to a formula-like adjustment in future years, and likewise would reflect 9.7% when marked to market for the latest actuals. The issue of Other Postemployment Benefits (OPEB) treatment will also likely need to be reconciled as staff recommended excluding the balance from rate base (roughly $100m) while the treatment under performance-based ratemaking (PBR) would call for inclusion of this item in rate base. Given the relatively small impact from OPEB we could see this as being considered a 'give' in subsequent talks with interveners and staff. We note as well that mgmt was constructive on prospects for reaching an acceptable point on the equity layer, with the 50% vs. 54% proposals from staff and Ameren respectively setting up a natural middle ground.

IL Gas: Constructive starting point

The IL Gas rate case is proceeding on a very similar time frame, with staff testimony coming in recently – data points suggest a much narrower bid-ask with staff than the electric utility, with staff recommending an ROE of 9.89%, 50% equity, and $129m base rate increase vs. the company's $160m. Gas utility dynamics are different from electric in that there is no MYRP on the gas side, thus rate case filings will likely occur at a somewhat regular cadence going forward.

MO regulatory wins: constructive, but in the rearview

Ameren achieved solid regulatory wins via settlement of the Missouri Electric rate case and commission approval of two solar projects. While the Huck Finn project was relatively uncontroversial given its need with respect to renewable energy standards, the Boomtown facility required slightly more back and forth with staff and the commission, with staff ultimately not wanting to opine on a relatively novel approach – note the commission ultimately approved 4-0. The latter project is instructive in our view of Ameren's ability to deliver on its regulated agenda. While we do not make a direct read-across to Illinois as they are distinct jurisdictions with unique regulatory structures and dynamics, Ameren has a strong track record of working constructively with its regulators. Expect intense focus on the Illinois processes in the back half of the year as Missouri is now relatively de-risked.

Atmos Energy (ATO) Victim of own success

It was another constructive meeting with Atmos, our first back in person with the senior management team in years. We suspect it was many others as well – and to that end we thought they made a notably positive impression.

Our meeting focused on what makes Atmos different from many of its peers, and most importantly, the company reaffirmed that it is not interested in third-party acquisitions. The company believes that over time its track record of positive execution will be reflected in its share price and is focusing on the areas within its control. We maintain our Buy rating on shares of ATO, which remain undervalued relative to natural gas peers due to the company's strong growth prospects and consistent historical profile.

"It's not as easy as it looks"

Overall, the senior management described the company's outlook as intact, with the business outlook on track. Atmos believes that its consistent operating and financial execution is often taken for granted relative to peers – effectively a view that it has become a "victim of their own success." The company is highly focused on serving customers at affordable rates and does not see the East and West Coast discussions regarding a shorter duration for natural gas infrastructure as pervasive in its service territories. As evidence, Atmos pointed to the large number of customer fuel choice bills that have been enacted. There are currently 24 states with all fuels legislation enacted and a couple proposals pending in the current state sessions.

Colorado and Virginia the two states without fuel choice

The two states that Atmos operates in without all fuels legislation are Colorado and Virginia. Atmos will support its existing gas system in Colorado in its clean heat plan, pointing to strong customer demand for natural gas and economics versus an alternative. In a scenario with additional electrification, the natural gas consumption on a system would remain elevated as the overall system shifted toward an overnight/ early morning peak when less renewable electric generation is available. In Virginia, there are only ~25,000 customers, with a concentration among large industrial and government/military consumers.

Relatively quiet legislatives session(s), even in Texas

We and investors have been closely watching the legislative sessions to start 2023. We have been tracking Texas, which is Atmos' largest jurisdiction. Overall, the company does not expect major changes from this pending Texas legislative session, which concludes at the end of May. The proposed and advanced legislation relate more to the electric sector for transmission & distribution as well as power generation. Cryptocurrency mining and electric vehicle registration have also been topical areas of the natural gas local distribution companies, not related to Atmos.

In December, Texas Governor Abbott and the Railroad Commission requested investigations into Atmos, which has been a lingering risk area. Management is taking the process seriously and did not appear concerned, but this is still an area of uncertainty.

Fight to control costs more challenging with growth

While Atmos has not been immune to the macroeconomics factors of higher operating and financing costs, management attributed its success to constructive jurisdictions that understand the requirements when building a reliable gas delivery system. Atmos believes that costs could continue to exhibit pronounced inflation due to growth, which is not slowing off elevated levels. For example, in Mid-Texas, the line locates have increased to 1.4Mn from 1.1Mn. This has been attributed to a variety of factors, including new construction, fiber expansions, and renewables projects.

Singing the same story on M&A

Atmos reaffirmed that it is focused on its strong organic growth plan and is not interested in acquisitions, despite the large number of assets reportedly for sale. This was an expected answer but still favorable to hear given the volume of disparate assets that could transact at seemingly more attractive valuations than five years ago.

Storms “lessons learned” as continuing to evolve

Management described the operating differences between Winter Storm Uri's extended freezing weather and Winter Storm Elliott's sharp decline in temperatures. The company is evaluating the areas where the system could have performed better during Winter Storm Elliott and is implementing prospective improvements, as any prudent operator would do. There was elevated media and political attention to the winter storms, and it remains to be seen whether there could be lingering financial impacts, although we do not expect anything material.

Repairs tax reforms have been closely watched for years

On the new formalized repairs tax guidance, Atmos does not expect a material impact. The company has been tracking the progress and engaging for numerous years, following closely given the importance. The company is still reviewing the ~100 pages of guidance but overall did not seem concerned about any prospective impacts.

Management has been closely watching and working with parties on the new repairs tax guidelines, with changes already being implemented. This was one of the strongest statements from a company under coverage and highlights the “best-in-class” approach to multiple facets of the business.

See our 4 May 2023 report, US Utilities & IPPs: PowerPoints: ATO Guide up.

Avangrid (AGR) PNM & following M&A in focus

Our management meeting with Avangrid was a lightning round, touching on just a few of the pivotal topics pending for the company. Avangrid plans to host an Analyst Day after it receives clarity on a litany of regulatory items, including the New York, Maine, and Connecticut rate cases as well as the pending PNM Resources (PNM) merger and large construction projects such as New England Clean Energy Connect (NECEC). Although there are puzzle pieces that need additional clarity, management emphasized the strides it believes it has made in regulatory outreach and the quantum of organic networks opportunities, which are multiple sizes as large as the PNM purchase price. We maintain our Underperform rating on shares of AGR, where we see substantial uncertainty into the prospective earnings profile and below-average growth rate based on large projects. The interest in prospective regulated acquisitions is a risk area as well.

We see upside in New York on any eventual settlement and shifting sentiment on the state as the single most constructive backdrop to shares. We still see a net cautious backdrop as the loss of PNM could force a rebasing/revision to '24+ EPS guidance (even if '23 itself isn't technically at risk per mgmt's statements). On balance, maintain our Underperform given more negatives than positives to EPS outlook.

Regulation wait-and-see

Management believes that it has presented a strong case in New York and believes that it is better positioned than in recent years due to its proactive stakeholder outreach before filing the rate case. Parties have publicly disclosed that they are having settlement discussions in New York, and management described these as "very advanced conversations." Avangrid stated that recovering cash flow and improving its New York credit metrics will be a priority after only a ~2% cash increase in the last rate case during Covid. Management was pleased that the New York Commission/Department Staff recognized the importance of credit quality in its public testimony. Although rate case uncertainty is relatively high, management pointed to $2Bn+ Climate Leadership and Community Protection Act (CLCPA) transmission in 2025-2030 as an example of unique visibility. Avangrid is engaging with stakeholders on ways in which it can have cash cost recovery for some of the long-term projects.

Investors have focused on Connecticut regulation recently for Avangrid and its peer Eversource (ES), but Avangrid management was quick to remind investors that it views the pending rate case as relating to less than 10% of its rate base. The company is waiting for a draft decision and is not in settlement discussions due to the late stage of the process. We did not discuss the Maine rate case, but the parties had the latest settlement conference last week.

Following the progress and favorable datapoints for Consolidated Edison's (ED) rate case joint proposal (i.e., settlement), we have been cautiously optimistic that Avangrid can receive a constructive outcome in its case. The magnitude of the cash increase leads to additional uncertainty, so we will be watching closely.

NECEC construction under evaluation

Consistent with the earnings call, Avangrid stated that it is evaluating the restart of construction on the transmission project after legal successes. The revised ~$1.4Bn capex projection, up from ~$1.2Bn and ~$950Mn originally, will likely pressure economics, in our view. The company redescribed the public contract structure where earnings decline upon commercial operations date (COD) after higher allowance for funds used during construction (AFUDC) stop accruing and cash recovery begins.

This remains a high-profile project, although we see de minimis earnings contribution upon COD; however, the project would have negative net income if construction is not successful. The latest cost estimate was described as reflecting the latest macroeconomic environment, but we believe that could be further increased with a very

tight labor and construction market. Watch for updates here – where admittedly cost increases and need for contract renegotiation remain front-and-center.

We believe the project is likely to happen but the economics post COD remain the key point of ambiguity. On this point, watch for discussion with Massachusetts yet again on reactions to contract negotiations following a 'change in law' exemption. Given our muted expectations we admit this is a potential upside on balance.

M&A - PNM... can it still happen?

Much of the meeting focused on the prospects of M&A based on the latest developments for the pending PNM Resources (PNM) merger in New Mexico but more broadly. First, Avangrid management stated that it remains committed to the PNM acquisition and is pleased that there is now a concrete date for a judicial path forward. The current route was described as the "cleanest" to address elevated procedural focus from stakeholders. Avangrid management stated that the most important next step will be for the respective Boards of Avangrid and PNM Resources to work on an extension of the merger process ahead of the July 20th termination date.

M&A ... and beyond PNM

Overall, Avangrid remains interested in future acquisitions regardless of what happens to the pending PNM transaction. If the PNM transaction is not completed, it appears that Avangrid would look at potential inorganic acquisitions sooner, as it stated a preference to not pursue multiple utility acquisitions at one time.

Smaller gas LDC divestments remain a priority such as Berkshire Gas in Massachusetts in an effort to prune the portfolio too. This should not be under-stated amidst the wider efforts to sell down renewable assets too.

With respect to the $2Bn of potential strategy asset sales, Avangrid clarified that these will be reviewed separately from the PNM process. This was described as very consistent with Iberdrola's ongoing financial planning methodology. Priorities that management considers when evaluating asset sales are (1) the relative net present value (NPV) of the asset under Avangrid versus third-party ownership; (2) consistency of the asset with its networks and renewables focus; and (3) geography of assets, among other factors. Here, we believe that some of the smaller natural gas local distribution companies and/or joint ventures could be candidates within the scope of the plan, which is not in the company's base case long-term outlook. There are some asset sales embedded in the long-term outlook, including a portion of the Kitty Hawk offshore lease and select renewable partnership transactions.

Avangrid described the third-party interest as still high following the IRA, despite the increase in assets available for sale on the market.

Credit metrics depend on PNM outcome

Avangrid did not go into specifics regarding its credit targets but described a desire to have some level of cushion above the 14% FFO/Debt current Moody's downgrade trigger over time. Management highlighted that Moody's stated a -100bp favorable potential lowering of the funds from operations (FFO)/debt target to 13% with PNM due to a higher mix of regulated earnings.

The delta in the credit rating requirement without PNM is an underappreciated nuance from our investor conversations that could lead to management pursuing additional assets sales.

Offshore wind evaluating domestic content

The Vineyard Wind project will not qualify for the new IRA +10pp incentive for using domestic content (DC). Vineyard Wind is set to have its first monopile installed in May, the most visible sign to date of construction progress. Park City and Commonwealth Wind are evaluating the DC benefit but stated that the higher incentive was not large enough to make the Commonwealth power purchase agreement (PPA) viable with the

Massachusetts counterparties. The DC benefits are offset by higher costs and additional supply-chain challenges. AGR expects to rebid its project into the anticipated January 2024 Massachusetts procurement, which has additional flexibility on reflecting future project cost changes.

We had not expected that Vineyard Wind would qualify for domestic content, as it is in such an advanced stage. Other offshore wind developers have described domestic content as a positive driver, so we had expected that Avangrid would have been more bullish on the prospects for its subsequent projects.

See our 26 April 2023 report, Avangrid: 1Q23 underwhelms but mgmt reaffirms FY23 guide. Regulatory outcomes key.

Avista Corp: New CFO, same focus

Our first meeting with new CFO after the formal promotion as expected represented a continuation in our long-standing series of meetings. We do not look for any change in strategy or approach to the company, perhaps with some small tweaks on the margin. Key takeaways from our meeting were: (1) the customer bill impact related to Climate Commitment Act [CCA] remains largely unknown. The customer bill impact relies on Department of Ecology's allowances granted to AVA, which is yet to be finalized. (2) management's core focus is securing good regulatory outcomes in Washington, Idaho and Oregon, specifically Washington given the multi-year rate case framework. (3) no major change in priorities or philosophy from the new CFO who has worked at Avista for nearly 20 years. We will be closely watching the next Washington rate case which will set the stage for ability to improve earned returns and grow EPS closer to rate base. Maintain Underperform on shares of AVA which trade at a premium valuation to our view of the fundamentals.

New CFO looking to continue the well plowed path

Avista has a new CFO Kevin Christie who is focused on continuing where his predecessor left-off: delivering good regulatory outcomes as the company works towards earning its allowed return on equity. The 1Q23 call introduced loose quarterly earnings guidance cadence and the company is evaluating whether it will continue the practice at all. While disclosures may be adjusted slightly, the core strategy including plans to invest in corporate venture projects is not expected to change.

CCA bills & financial implications entirely unknown still

The Climate Commitment Act (CCA) effectively establishes a cap-and-trade program in Washington. Under the program, Washington will hold quarterly auctions of carbon allowances with each allowance representing a metric ton of CO2. These allowances will be sold to carbon emitters with the revenue from sales allocated to state greenhouse gas reduction projects. Critically, utilities will receive allowances at no cost, per the state legislature. The utilities can have the Department of Ecology sell their 'free' allowances and the revenues generated from these sales will benefit ratepayers. The program applies to those businesses emitted more than 25k metric tons of CO2 per year. AVA qualifies for the program. AVA has yet to quantify the customer or financial impact related to the CCA program. Management cited it remains very difficult to determine the gas bill impact from the legislation. A key factor influencing the bill impact is the level of 'free' allowances the utility will receive and flow back to customers. "Low income" customers will not be impacted directly by the CCA legislation at least initially, but the affordability metrics have not been finalized. Management does not currently expect permanent cash flow drag from CCA although there could be timing between CCA payment and customer recovery in rates.

We believe this is one of the more important aspects of the investment outlook for all Washington utilities that is underappreciated by investors today: prices are already at $60/t+ and poised to climb further following discussions with participants in this novel carbon market (given its ambitious targets vs overall emission increases of late). Washington has some of the more ambitious decarbonization objectives which could have an outsized impact on customer utility bills in the 2020s.

Washington multi-year rate case the next reg. milestone

Management plans to file a multi-year rate case in Washington with the (relatively) new legislation in place. The duration of the rate case filing is still to be determined in the two-to-four-year range. If the utility is underearning by a large amount between rate cases AVA is allowed to file for better rate recovery with the 'circuit breaker' feature. Avista has made progress on revenue visibility and areas for further regulatory mechanism adjustment could be around the power cost sharing (ERM) and pension, the latter of which was a notable drag of late – a theme for many in the industry.

Quiet regulatory success in Oregon & Idaho visibility

Avista was able to reach a relatively fast cost of capital settlement in Oregon with a +10bp higher allowed ROE. Management pointed to a recent Idaho settlement for a peer utility with a similar 9.5% allowed ROE. Although Oregon and Idaho are smaller and historically relatively less contentious, these are favorable datapoints.

Lumen: No news is no news

Management is a wait-and-see-mode on its biotechnology investment in Lumen with clinical trial updates not expected until late 2024. The company will continue to mark-to-market the investment quarterly but major updates

Black Hills Corp (BKH) Execution, Without Distractions

Our meeting with management was constructive with the team expressing confidence in its credit metric improvement trajectory and described the overall strategic plan progressing well. Management did not fully close the door on further acquisitions, but this did not sound like an area that the company would meaningfully explore. We maintain Underperform on shares of BKH despite the more favorable meeting as we look for more consistent earnings execution and achievement of credit metrics to restore confidence.

Colorado stakeholder engagement remains a priority

Much of the meeting was focused on the Colorado backdrop which has been topical after the legislation session and with the new rate case filed recently. Black Hills is still engaging with stakeholders on the potential natural gas commodity risk sharing mechanism as well as ways to reduce volatility. Management indicated that it is too early in the process to have a view on reforms but is looking at mechanisms in other states to assess the potential parameters that Colorado could pursue. The changes to some smaller expenses recovery parameters such as lobbying was described as not material. The company's top focus remains operating reliability followed by affordability and believes that it can continue to balance the needs of all stakeholders. Lower commodity costs are in the best interest of all parties and BKH said that everything is on the table at this point. Examples included hedging improvements/expansions and physical gas storage investments.

Overall management did not appear overly worried about the financial impact of Colorado legislation but emphasized it is still very early days. The increased uncertainty is unfortunate and adds to risk in periods of extreme volatility, but we do not view the enacted Colorado legislation as having a material impact on our view of BKH or other Colorado utilities.

The Colorado natural gas rate case was filed shortly after the legislation advanced, and the timing was unrelated to the legislation. In the proceeding, BKH is requesting a ~33% revenue requirement increase that is complicated due to proposal to align rates across different customer geographies. Specifically, the consolidation of the gas cost recovery rate is part of the company's objective of moving towards more consistency.

M&A: Neither a buyer nor a seller

In the past, Black Hills has described itself as a platform for consolidation due to its scalable platform, but the company has not emphasized those attributes of late. Management reiterated that they are very focused on strengthening the balance sheet metrics which was a factor in why the company had pursued the potential minority stake (sub-20%) sale process in 2H22. While BKH did see interest in its assets from a variety of parties, it did not see the valuations that it saw in the market earlier in 2022 and found the conditions associated with the transaction is not adequately compensating for the additional complexity. BKH sold a small unregulated asset in 1Q23 but indicated that it is not pursuing any other unregulated assets at this time.

Progressing on the rate case front at a measured pace

Black Hills is currently targeting approximately three rate cases per year and has now announced Colorado and Wyoming Gas in recent weeks. If the historical cadence and managing messaging holds, this implies another rate case filing is being developed. Management has consistently said that it wants to vet potential filings with regulators and key stakeholders in the respective jurisdictions before disclosing the details to the broader public and investment community. This is a prudent approach. We will be closely watching for the next application as management looks to recovery higher operating and financing costs experienced over the past year-plus.

Historical earned ROEs will be a large governor of which jurisdictions are pursued for rate cases. Some utilities have had more sizeable deltas that have been eroded from macroeconomic pressures.

Credit metrics oscillate between agencies but improving

The 12% 2022 FFO/Debt disclosed with 4Q22 earnings is Black Hill's GAAP-derived calculation which does not necessarily align with Moody's/Fitch Ratings/S&P credit rating methodologies. BKH continues to target 14-15% FFO/Debt and believes that it is on track and potentially ahead of plan to achieve its internal and credit rating agency metrics. The cold winter drove higher volumetric sales and led to a faster than anticipated pace of improvement. The treatment of ~$260Mn regulatory assets is a ~5pp delta between agencies which is a driver between the relatively large spread. The $140-$160Mn at-the-market (ATM) equity in the near-term financing plan is designed purely by management to get back to BBB+ metrics, a level at which the company is comfortable.

1Q23 earnings improvement in the FFO/Debt QoQ along with favorable commentary was the biggest takeaway from earnings from the company. Progress on restoring the balance sheet is one of the most important areas that we and investors we talk to are focused on.

Generation upside opportunities could come with 3Q23

Black Hills recapped its incremental generation capital opportunities which management believes could potentially be formalized with the 3Q23 earnings call. The Colorado 400MW generation request for proposal (RFP) is expected to be initiated in the middle of 2023. The regulated utility can pursue up to 50% ownership if deemed reasonable, a broadly undefined standard. The mix of resource types has not yet been determined and the best technology choices will be balanced based upon levelized cost of energy (LCOE), reliability, and other related parameters. A Colorado Commission order is expected in 1Q24, but management said that it could be able to provide a capital plan update on the third quarter earnings call based upon the current schedule.

Separately there is a South Dakota 100MW build-own-transfer (BOT) process for mid-2026 commercial operations with a 10MW battery addition. This also represents upside to the plan.

Management is still evaluating small modular reactor (SMR) nuclear technology which was described as promising but not even an intermediate-term solution given the lack of commercial progress to date. The company is also reviewing carbon capture, which was described as very expensive, consistent with its exploratory regulatory filing in Wyoming. The next statutory update filing for Wyoming is due in March 2024.

Incremental generation capital is an area of upside and would likely come with 25-30% incremental equity financing to preserve credit quality. Still, this represents net upside to the plan if the utility can present a case that its ownership is reasonable versus third party ownership.

Centerpoint Energy: Even More Robust...

We met with the whole team including newly joined CFO Chris Foster. We saw the meeting as among the most offensive across our utility coverage and still offered upside against a robust set of expectations. Mgmt prospects for rolling forward their 8% EPS growth in '25 continues to progress nicely as the single most important metrics investors are watching (despite offering an already heathy long-term 6-8% EPS).

Legislation is key to the story: poised for resolution imminently

Management suggested it could yet increase capex modestly upon successful passage of the new DCRF mechanism in the Texas legislature this year. We anticipate such a move would allow the company to file for a further, subsequent DCRF filing with the PUCT for recovery this Fall (in lieu of its rate case – which would be delayed to 1Q24 on the electric side). Meanwhile its gas case remains contemplated for this Summer.

A more meaningful step-up in capex remains possible in '25 with mgmt having repeatedly flagged a further $3Bn of upside opportunities lingering.

We perceive authorized equity ratio upside for its gas utility

With a 54% authorized ratebase for its gas utility in Texas, we see upside in its forthcoming rate case up to 60% - consistent with peer utilities in the state including ATO. Watch this as a best nuance in coming months – and follows earlier expectations for a higher equity ratio to be enabled via legislation this session (this does not appear likely at this point). On balance, this should have an annualized effect for '25. We estimate this is worth ~1.5c.

Expansion of emergency generation lingers too

While unlikely to be passed in the current legislative session, we note a more meaningful expansion of emergency generation backstop at its Houston Electric utility appears a potentially further meaningful (and unexpected) angle for many. We note the existing 10-year emergency gen program will begin recoveries this Fall and should boost cash recovery metrics later in the year ($700 Mn over 6-years).

Rate case activity will pick up later this year – not overly concerned

We see a potentially heightened period of investor anxiety as the page turns to 2024 with twin major rate cases for its Electric & Gas businesses in Houston/Texas. We stress latest discussions continue to suggest substantive derisking in the backdrop for both cases. We continue to believe that an equity ratio increase (at least up to 43.75% from 42.5%) remains an entirely conceivably outcome in the electric case despite Oncor having recently concluded its case without any such uplift. See the fears resulting from the last rate case cycle in Texas as likely sizably alleviated through the next cycle.

Elsewhere it will file its latest Minnesota gas case in November and then its latest Indiana electric case this December. The totality of all these cases remains the linchpin behind rolling forward its commitment of 8% EPS growth in '23/24 over to '25. We see growing reason to believe this should be achievable.

O&M: still firmly holding the line, despite peer pressures

Despite outsized O&M pressures from its two peer gas utilities in 2022, we see CNP as quite confident in its ability to hold the line at a flat budget. Both ATO and OGS have signaled outsized (high single digit) inflation in their current year guidance; by contrast CNP has indicated even without its inflation mitigation measures costs would only be organically increasing at a 2-3% clip. We flag the success in cost mgmt as a key differentiator for CNP vs peers.

CMS Energy (CMS) Looking for summer

We met with CMS Energy (CMS) Chief Executive Officer (CEO) Garrick Rochow and Chief Financial Officer (CFO) Reiji Hayes during AGA. CMS reiterated confidence in its ability to achieve FY23 guidance targets, with increased confidence to the high end of the range, despite 1Q23 headwinds. Management emphasized that its FY23 guidance includes contingency for summer weather and storms – meaning that FY23 guidance is achievable even if summer conditions deviate from "normal." Further, CMS characterized the Michigan regulatory construct as strong despite the latest less predictable developments, including a less favorable Staff proposal in Consumer Energy's gas rate case and elevated stakeholder scrutiny post the February ice storms. CMS is confident in its ability to settle its electric and gas rate cases in Michigan. We maintain our Buy rating on shares of CMS given the above-average earnings growth outlook, which is supported by the strong Michigan regulatory backdrop despite recent regulatory noise.

Latest convertible transaction and tender accretive to FY23 earnings

CMS' recent $700Mn, 3.375% convertible senior notes due 2028 and subsequent cash tender offer for up to $150Mn of Consumers Energy notes contribute to FY23 corporate-level cost-saving initiatives that offset 1Q23 earnings headwinds. The convert represented a pull-forward of 2024 financing needs. A portion of convert proceeds were used to cash tender operating company bonds trading below par. We await 2Q23 earnings for quantification of FY23 earnings uplift related to the financing transactions. Cost accretion from the financing transaction as well as CMS tax planning initiatives should offset the 1Q23 earnings headwind from weather and storms.

MI regulatory backdrop constructive, management confident on 2023 rate case outcomes

Management remains confident about the MI regulatory construct and continues to target settlement across gas and electric rate cases. Consumers recently submitted rebuttal testimony in its outstanding Consumers Gas rate case. The testimony revised Consumer Gas' revenue deficiency to $175Mn from the $212Mn initially requested. Management characterized the Michigan Public Service Commission (MPSC) Staff's proposal, which stipulates the $89Mn revenue increase as "strong." Yet, CMS doubled down on its gas sales forecast – the higher Staff gas sales forecast was a driver of the lower Staff revenue proposal (for details, see our 8 May 2023 report: US Utilities & IPPs: Michigan: We still see LT value despite NT regulatory noise. Reit. Buy on CMS & DTE). CMS implemented a sales forecasting methodology consistent with MPSC order from over a decade ago, and management remains encouraged that the MPSC will side with CMS' sales forecast, consistent with historical precedent. We look to June 1st investor meetings with the MPSC for further insight into MPSC's position on key utility issues.

MISO capacity auction supports long-term earnings trajectory, despite YoY decline

The latest MISO capacity auction results printed 2023-2024 capacity prices down significantly from 2022-2023 levels. While it is difficult to compare the results on a year-over-year basis given MISO's pivot to seasonal capacity pricing, the MISO 2023-2024 capacity auction yielded $2/MW-Day to $15/MW-Day capacity prices (depending on the season) versus $236.66/MW-Day capacity prices in 2022-2023. CMS has exposure to capacity prices via its Dearborn Industrial Generation (DIG) operating asset. The lower 2023-2024 capacity prices are unlikely to impact the near-term earnings trajectory given that CMS has contracted majority (~80%) of its near-term capacity exposure. However, if capacity prices continue to decline in future MISO auctions, this may lower 2025+ earnings trajectory at DIG. We currently embed ~$4-5/MW-day (average) capacity prices 2025+ in our CMS earnings estimates. Management expects that despite the lower YoY capacity auction print, the longer-dated transition from renewables and out of coal will support higher capacity prices prospectively. Further, CMS emphasized that its 6-8% EPS CAGR is intact regardless of potentially lower out-year MISO capacity prices.

We see reason for MISO capacity prices to rise between both the shift towards a sloped demand curve to reduce future volatility as well as expanded accreditation criteria which could well reduce capacity qualification for a variety of assets – looking specifically at their performance during the most acute events. On balance, prices likely recovering from here but not back to the all-time peaks from before. Still anticipate robust long-term capacity pricing.

2024 Integrated Resources Plan (IRP): More owned solar, stand-alone storage

CMS is expected to file its next IRP in 2024. While it remains early stages, we expect the next IRP to increase owned solar and stand-alone storage targets. The previous CMS IRP pre-dated IRA tax credits. We expect the incorporation of IRA credits in the plan to result in greater utility-owned solar deployment targets (~50-60% owned solar target currently). Further, we may see further ramp in stand-alone energy storage investment. The upcoming IRP is critical to informing the long-term earnings and growth outlook for the utility.

DTE Energy (DTE) Reliability wags the dog

We met with CEO Jerry Norcia, CFO David Ruud, and President of DTE Gas Joi Harris during AGA. Key takeaways were: (1) The response / mitigation plan to 2023 earnings headwinds (rate case, weather, storms) is progressing better than expected. The 2023 electric rate case decision is fundamental to FY24 EPS. (2) DTE has seen strong stakeholder participation in Integrated Resource Plan (IRP) proceedings to date. 'Controversial' areas of the IRP include timing of Monroe coal plant retirements and treatment of undepreciated balance of Monroe coal plants. (3) Michigan Public Service Commission (MPSC) is likely to paint a more positive picture of MI regulatory backdrop for investors in upcoming June 1st investor meetings. Management maintains strong alignment between DTE and MPSC as DTE plays critical role in MI infrastructure and electrification goals. We maintain Buy on DTE with shares trading at a discount to the group despite above-average investment and earnings growth outlook.

Coal retirement, undepreciated balance key issues in IRP

Management highlights strong stakeholder participation in ongoing IRP discussions supports IRP settlement prospects. Key areas of pushback include timing of Monroe coal plant retirements. DTE's IRP currently contemplates two units of Monroe retiring in 2028 with the other two units retiring in 2035. Stakeholders argue that DTE should fully retire Monroe as early as 2030. Further, treatment of undepreciated coal plant balances is an area of stakeholder contention, specifically whether undepreciated balances should earn debt or equity return. The accounting treatment of ~$700Mn undepreciated Monroe coal plant balances pose material financial implications for DTE relative to other IRP considerations. We note that Consumers Energy and Indiana-Michigan Power IRPs stipulate 9% return on undepreciated coal balances. This suggests a strong precedent for equity-like recovery. Lastly, management highlights that of its 3,200MW solar deployment targets, only 900MW is attributable IRP solar investments while the other 2,400MW represents voluntary renewables. Of the 2,400 MW voluntary renewables, 2,300 MW are already subscribed. DTE is ahead of schedule for subscribing voluntary renewables and continues to see significant demand in this end market. Voluntary renewables program offers contingency to the IRP solar targets pending approval. Management aims to settle the IRP by mid-July.

Regulatory construct supports MI investment goals

DTE reaffirmed its commitment to spend $22Bn capex over the next 5-years. The company believes regulatory and political goals in Michigan – including electrification, EV penetration and manufacturing load growth – supports DTE's 5-year capex plan. Overall, management signaled infrastructure investment goals in MI support MPSC and utility alignment and continues to view favorable MI regulatory construct despite recent noise. The MPSC's recent decision approving 700 MW of DTE's renewable program is the latest positive regulatory datapoint for the company. We look to June 1st MPSC meetings and intervenor testimony in DTE's electric rate case expected June 13th to further gauge the regulatory backdrop in Michigan. However, we are similarly confident in a favorable MI construct.

Resiliency efforts focus on tree-trimming, automation & (longer-term) undergrounding

Management emphasized that severe storms are Michigan's new reality, and double-downed on the near-term criticality of resiliency investments. DTE is focused on advancing its tree-trimming program and ramping grid automation to strengthen grid resiliency. Automation reduces storm duration approx. 70-80%. While DTE requires five years to complete its automation investment initiatives, automation will drive ratable year-over-year improvements to system resiliency through 2028. DTE is five years into its seven-year tree trimming initiative. Management emphasized that tree trimming initiatives mitigated customer outages during the February ice storm – only 16% of customers lost power within the 24 hours of the ice storm versus ~30-40% customer outages within first 24 hours of a severe 2017 storm. Management attributes improved

outages to tree trimming initiatives. Longer-term, DTE will look to ramp undergrounding investment. Currently, approx. 1/3 of DTE's grid is underground while another 1/3 represents higher-voltage wires with stronger poles. The last 1/3 (~15-16k miles) represents old, above-ground wires. This portion of the system is unlikely to support electrification and EV trends long-term. DTE aims to underground as much as possible, although this investment opportunity is likely longer dated.

Duke Energy (DUK) Balancing credit

We met with CFO Brian Savoy, SVP & Head of Natural Gas Sasha Weintraub, and VP of Investor Relations Abby Motsinger. Reactions to the meeting were among the most cautious of AGA large-cap attendees given emerging risk of a modest-sized acquisition: fears linger this would effectively be an over-equitized transaction. Care to indicate balance sheet strength otherwise will remain essential.

90-10 mix feels right, but will evaluate smaller deals

With the pending transaction to monetize the commercial renewables business, DUK mgmt expects to be a mostly regulated business model on a go-forward basis with an approximate mix of 90-10 electric to gas. While there is some (modest) flex on that balance, mgmt indicated there is no desire to significantly expand its natural gas mix (ie to 70-30 electric). Several other parameters will dictate whether the company would consider a transaction for regulated assets including 1) preference for a jurisdiction that DUK already operates in and which has a constructive regulatory framework, 2) credit-accretive asset, 3) balanced financing mix including ~50% equity, and 4) additional operational benefits / synergies. While the parameters initially would appear to limit the scope of transactions, we perceive DUK intends to be disciplined with its approach to any potential transactions in order to remain opportunistic.

Balance sheet implications are top of mind

Mgmt reiterated that the company's existing base capital plan does not contemplate M&A, though a potential transaction would likely require a mix of funding. Unlike the Piedmont gas acquisition, which was principally debt-funded, expect a more balanced mix in the event of a transaction, likely incorporating 50-50 debt and equity. Mgmt indicated that for the deal to be credit accretive based on this type of mix would be a gating item to a potential transaction. Regulatory considerations have been top of mind for utility strategic acquisitions with recent transactions being derailed altogether (Kentucky Power) or otherwise substantially extended (New Mexico). DUK mgmt noted that it would expect to have a compelling case in front of regulators in a jurisdiction where the company already operates, centered around customer benefits and potential for operational improvements.

Resource plan updates to focus on reliability needs

DUK expects to file the next iteration of its integrated resource plans (IRPs) in both North Carolina and South Carolina this calendar year. While decarbonization remains a key theme of the overall mgmt transition, mgmt stressed the need to balance additional considerations of 1) transmission constraints limiting the number of MWs of renewables that can be added and 2) the need to account for higher assumed winter peaks. The parameters as outlined suggest additional need for further generation – either traditional dispatchable or large-scale battery storage. The setup is for potential long-term capital plan upside in the *next* iteration of multi-year rate plans in DUK's Carolinas footprint.

Fuel and renewables sale to provide 50-75 bps uplift

Improving balance sheet metrics based on fuel recovery have been a theme across the sector. In addition to recovery of the "big" balances at DUK's Florida and North Carolina utilities, the pending sale of the commercial renewables business is expected to provide an uplift of 50-75 bps by ear-end 2023 on a run rate basis toward the company's 14% consolidated target. Potential upside on funds from operations (FFO) to debt could still materialize in the form of a credit accretive transaction as discussed above, as well as a better than expected cash flow outcome from the ongoing North Carolina cases – recall that Duke Energy Progress (DEP) achieved a partial settlement, suggesting a degree of regulatory certainty. DUK expects its fleet to qualify for nuclear production tax credits (PTCs) under recent legislation, but federal guidance is yet to be published including key prevailing wage guidelines – mgmt noted a high degree of confidence in the latter point.

Consolidated Edison (ED): JP, all the time

We met with ED CEO Tim Cawley, CFO Robert Hoglund, Treasurer Yukari Saegusa, and Director of IR Jan Childress.

CECONY settlement approval timing still uncertain

The Con Edison Company of New York (CECONY) announced a joint proposal (JP) for a settlement of its electric and gas rate cases with interveners and staff in February 2023 – while this is later than in previous years, the time frame is not significantly stretched, with new rates in effect January 1 retroactively assuming commission approval. Data points suggest that the length of time without a commission approval of the JP is due to elevated workload at the commission – Con Ed's smaller Orange & Rockland utility reached its own JP in November 2022, with approval coming at the commission's April 2023 agenda meeting. Management indicated that there has not been an active back and forth or numerous data requests since announcing the JP – in our view, this suggests that the delay is more likely to be a workflow issue at the commission. Investors are increasingly sensitive to commissions modifying settlements that are presented in recent months, with the WEC electric rate case in December being a prominent recent example of a premium jurisdiction catching investors by surprise.

Steam case – talks ongoing, ROE should trend higher

Given the status of the Steam rate case (settlement talks remain ongoing), incremental updates on expectations were limited. Management continues to stress the need to add a decoupling mechanism in order to incentivize the utility to invest in decarbonization while supporting lower consumption by customers. Absent full decoupling, weather normalization would help to take some of the seasonal volatility out of the business. It remains uncertain how likely these items would be to receive support in a potential settlement, though we note that initial staff testimony opposed decoupling.

Large projects outside of latest rate case

ED management has been outlining the incremental opportunity from large development projects outside of its current rate case. Previously announced projects, including Reliable Clean City (RCC) at $780m and Brooklyn hub ($800m), remain part of the existing capital and financing plan, along with the yet-to-be filed Queens planned substation (Gateway), which the company initially estimates at $1.1B. While projects outside of the approved rate plan introduce a degree of incremental risk, the system improvements are aligned with the city's and state's broader decarbonization goal and climate priorities, which we expect to be long-term supportive. We expect incremental announcements of state-directed investments supporting electric vehicle infrastructure under the New Efficiency New York (NENY) program – recall that ED had previously received $300m in investment awards supporting make-ready investments in electric vehicle charging infrastructure.

Expect equity layer to stay at 48%

Under the (yet-to-be-approved) joint proposal, CECONY received a 9.25% ROE with a 50 bps band before customer sharing. The approved equity layer can be flexed up to 50%, though this would only be to the utility's advantage in the event that the earned ROE can sustainably be at or above the 50 bps threshold. Management indicated that staying above the 50 bps band for a sustained period is not the baseline expectation and correspondingly that the equity layer will not be flexed up.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Electric Utilities & IPPs: Power Points: 1Q Earnings Train: ED Beat, BKH Credit, IDA Equity, HASI, AY Ests	Julien Dumoulin-Smith	05 May 2023
North American Utilities & IPPs: Power Points: VST-ENGH Feedback, ED Clean Energy Hub, NI Indiana, DUK Refresh	Julien Dumoulin-Smith	21 April 2023
Consolidated Edison: Regulatory risks lifted with latest settlement, but outcome priced in	Julien Dumoulin-Smith	21 February 2023

Dominion Energy (D) Wordsmithing the business review

Key takeaways are (1) the impression that Dominion could like to have slightly more than 100bp of FFO/Debt contingency over time above the downgrade threshold; (2) the company targets earning at the allowed return level in Virginia prospectively; and (3) We maintain Underperform on shares with downside to Consensus adjusted EPS forecast and a significant degree of financial & regulatory uncertainty that warrants a discounted valuation today versus utility peers.

Business review progresses: Holistic analysis

Dominion management emphasized that it did not have updates to its business review and is still evaluating the best path forward to achieve its objectives. The company is still fairly definitive on its plans to host an investor day by September 30t hand provide the investment community as much information as possible. The company is evaluating potential asset sales vs equity/equity-linked securities and the preference appears to be heavier on asset sales based upon where the stock trades. The company emphasized that the analysis is not as simple as comparing the implied P/E on an asset sale versus where the stock trades because there are qualitative and quantitative factors to consider. Dominion did note that there are dis-synergies associated with larger core state regulated utility sales that would need to be (and would be) incorporated into the analyses. The company acknowledged again that it has been a challenging time for shareholders, but it is hopeful it can emerge from the business review process positioned to deliver future growth with its good assets & good people.

Equity-linked securities are also under evaluation but appear less likely due to the limited equity credit (25-50%) that would not support as meaningful of leverage reduction. Overall the company is trying to minimize but not necessarily eliminate the common equity needs. The core businesses are the state regulated utilities and the unregulated businesses are not the core assets. These include the Millstone nuclear plant, Cove Point LNG export facility, contracted renewables, and renewable natural gas investments.

Credit metric targets is a key investor debate

The company is still evaluating what the financing picture looks like for the post business review emerged company but is open to modest at-the-market (ATM) equity to finance growth. Management believes there is a tremendous opportunity to deploy capital and success on reliability driven investments will require a 'really good/strong balance sheet'. The final FFO/Debt credit targets have not been publicly communicated yet but management has provided examples of negative historical items to provide a sense of magnitude: ~70bp for fuel cost deferral, ~25-30bp for regional greenhouse gas initiative (RGGI) customer relief, and ~35bp first triennial review settlement.

We currently assume a 15% prospective FFO/Debt level in our estimates and continue to believe this is a fair assumption but potentially slightly on the low side of what management ultimately targets. With more regulated utilities making higher credit metrics (~17%) a feature deserving a premium valuation, we will be watching with intrigue of where the company ultimately opts to target. 14.5-15.5% or 15-16% could ultimately be the sweet spot.

Dividend change still off the table

The guiding principle that the $2.67 annualized dividend per share will not change is intact. The company reiterated that it is targeting mid-60% payout ratio and it could take time to achieve to the extent that the post business review emerged company has a lower earnings per share.

Many investors we speak to have advocated for more flexibility in the dividend decision. Dominion has remained steadfast that it will not lower the dividend per share as part of this business review.

Virginia engagement remains strong

Dominion characterized its Virginia regulatory and legislative relationships as strong and pointed to the enactment of legislation in 2022 as a success. While the company acknowledged noise in the process, the chief objective of a healthy utility with regulatory certainty has largely been achieved. The meaningful customer bill relief sets the stage for a hopefully less contentious rate review that is anticipated to be less controversial given some of the new 'guardrails' on key parameters. Despite the legislative process, Dominion described its engagement with the Virginia Commission Staff as reasonable, productive, and professional. Prospectively Dominion stated that its objective is to earn at or very close to the allowed rate of return.

Between organic sales growth and cost control, Dominion could be in a position to exceed its plan, but we believe a planning assumption (consistent with our estimates) around the allowed return is prudent before we have more experience in the new regulatory regime.

Essential Utilities: Repairing the repairs

Our management meeting was dominated by discussion of (1) new repairs tax guidelines; (2) the outlook for potential Pennsylvania (PA) natural gas earnings in the late 2023 rate case; (3) the balance sheet trajectory; and (4) the prospects of water acquisitions. Our investor conversations have focused on the equity overhang most acutely followed by the PA regulatory certainty with the forthcoming rate case. We maintain Neutral on shares with the segment trading at discounts to peers that appear approximately appropriate due to the lower visibility into earnings growth today.

Repairs tax reforms: 'Not a night & day difference'

Essential Utilities' Peoples Natural Gas utility has one of the larger benefits from repairs tax in our coverage universe from our review of regulatory and financial filings. Repairs taxes are far from new, and the water utility has been utilizing the flowthrough tax accounting since 2011. The new Internal Revenue Service (IRS) guidelines have been an area of industry speculation for over the five years. WTRG is still evaluating the new guidelines to see how it compares to their current policies and at a high level, management did not expect a material impact while emphasizing it was still relatively early in its review. Essential stated that it has been conservative in its policies, so it did not see wide deviations between the guidelines and its accounting. Although the new IRS parameters are specific to natural gas, management expects to align its water policies with the natural gas accounting. The company believes it will be able to provide more clarity with its next earnings call.

Repairs tax was described as approximately representing ~$50Mn for water and $45-50Mn for natural gas annually. The water business has reserves in place that could be unwound. Prior to Essential Utilities' acquisition of the PA natural gas business, repairs tax was not being elected so there is less historical within even a broadly interpreted scope. In the water rate case, there is a ~$160Mn annual capex of repairs eligible spending with the benefits flowing back to customers.

There is increased uncertainty with the new IRS represents a degree of overhang although our initial review of the IRS parameters and company engagement do not appear to be a regime change that would be unexpected for companies. Repairs tax has been a contributor to the delta between the earned and allowed return on equity which was a feature of the acquisition and related agreement to file a rate case. As a result, management would have expected and planned for the 2023 rate case within their EPS trajectory which extends through 2025.

Capital needs predictable - except PFAS

Management remains comfortable with its natural gas spending and did not anticipate any material changes to the volume of annual pipeline replacement. The capital opportunities historically and prospectively are driven by physical/operating constraints which supports ~25 miles per year. After the rate case, the Pennsylvania earnings profile should more closely align with rate base growth prospectively.

In the water business, the capital was similarly described as a fairly predictable $500-600Mn annually with incremental needs as the business grows from inorganic acquisitions. Essential Utilities has developed its initial estimate of Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS) capital and operating expense requirements which are still being refined. Before providing public disclosures, management wants to evaluate if there are opportunities for funding from the Federal government and industrial parties.

Comments are due in mid-June to the Environmental Protection Agency (EPA) which should be the next datapoint of insights into potential higher spending. Management was quick to emphasize that whatever spending estimate is provided for PFAS would not be entirely incremental to its base plan. The company will seek to manage affordability and look for ways to remove other spending from the plan for treatment and related areas. Net, there will still be additional spending required.

High revolver costs & regulatory needs point to equity issuance sooner rather than later

Essential currently has ~$600Mn short-term debt on the revolver which appears to be a primary driver for why management plans to issue the $500Mn equity in the 2023 plan sooner rather than later. The company is still evaluating the mix of security types, methodology (block and/or at-the-market [ATM]), and timing. The current credit metrics are depressed below the 12% FFO/Debt downgrade threshold and have been for at least the past two years. Essential Utilities expects to improve to above 13% FFO/Debt pro-forma for the $500Mn equity issuance and assuming increased cash collection from customers in the Pennsylvania rate case. Besides credit rating agency considerations, there is a need to realign the Pennsylvania natural gas and water capital structures ahead of the 2023 and 2024 rate cases.

Water acquisitions come in fits & starts but still upside

Management described a holding pattern for the DELCORA acquisition and reaffirmed that the odds of financially closing in 2023 appear low based on the regulatory datapoints. Beyond DELCORA, management remains optimistic that it can continue its cadence of smaller water roll-ups but has not given up on more sizeable deals. There has not been a change to management's view that another natural gas acquisition is unlikely.

Investors have perpetually focused on the public valuations for natural gas and water utility pure-play peers, but we did not get the impression that further simplification is a management priority.

MDU Resources (MDU) Cutting a path to the big spin ahead

We met with CEO Dave Goodin, CFO Jason Vollmer, and Director of Investor Relations Brent Miller. Maintain Underperform on MDU given negative total return implied by our valuation.

Juggling several processes as Knife River prepares to spin

MDU's tax-free spin of materials subsidiary Knife River will take effect at the end of the month, with when-issued trading of both the spin and 'RemainCo' tickers effective on May 25. Last week's Investor Day addressed the question of margin improvement, targeting 15% EBITDA margins by 2025 under a new strategy that accelerates ongoing initiatives beyond passing through price increases. We continue to expect Knife River to trade at an EBITDA multiple in the mid-high single-digit range, already largely reflected in the price of the consolidated MDU.

Construction Services Group (CSG) firing on all cylinders

The other substantial data point to be completed in coming weeks is the outcome of the strategic review of the CSG business. Mgmt has not indicated whether one outcome is preferred vs. another – we note that tax consequences are likely to be a meaningful input as basis is in part impacted by historical bolt-on acquisitions. The scale of the business is another key consideration as a standalone CSG would likely be one of the smaller pure-play public peers in the contracting services business. Fundamentals of the segment have continuously remained strong – mgmt noted strength in customer activity and backlog growth in traditional areas of strength including high tech manufacturing, hospitality, and retail distribution centers.

Electric demand set to rise, can rate base follow?

We continue to see rate base growth at a 'pure play' remainco as the key metric to watch for re-rating potential, which remains highly dependent on the outcome of the CSG process. Mgmt noted one particularly strong data point for electric utility fundamentals in the form of a large bilateral interruptible contract with a data services offtaker which is expected to ramp to total demand of 180 MW vs an existing load of 660 MW. While the announced customer is contracting under an interruptible supply agreement and thus MDU does not have to add rate base investment to accommodate higher peaks, the selection of MDU's territory for a sizeable data center offtaker is an important affirmation and potential indicator of future rate base growth. Note that at present MDU does not see rate base growth needs in order to meet growth of data center or other customers. The ability of mgmt to affirm/address long-run rate base growth is expected to take on greater importance as MDU pivots to a pure play model. With affordability as a percentage of wallet share consistently scoring among the best across our coverage, we look for additional data points suggesting acceleration.

MGE Energy (MGEE) Incrementalism here

We met with CFO and Treasurer Jared Bushek and Director of IR Ken Frasetto. We maintain Underperform on shares due to relative valuation considerations.

Capex still skewed toward renewable generation

MGEE recently refreshed its long-term capital plan, targeting over $1B in investment over the 5 years ending 2027. As has been the pattern in recent years, the current renewables buildout accounts for a substantial part of capex over the coming five years, with an incremental contribution from the purchase of a stake in West Riverside. Previously announced renewables projects where MGEE is a 10-33% partner with larger utility peers are accounted for in the current WI rate case, which has forward test years covering 2024 and 2025. Years 2026 and 2027 include white space capex, though we expect that this includes projects with partial line of sight and early-stage development.

Gas utility incrementalism, de-carbonization opportunity

Large-scale infrastructure investment is less of a theme for the gas utility. Management notes that long-term planning and proactive investments have reduced the incidence of leak-prone pipe; thus MGEE's system does not have the same need to replace aging infrastructure as other large urban systems. We expect capital investments to continue to focus on core customer growth and maintenance capex priorities. MGEE Gas has rolled out a renewable natural gas (RNG) tariff program for customers to opt in to, but given pricing tied to the Renewable Identification Numbers (RINS) program, this is likely to remain a small program for less price-elastic customers. A more ambitious target of reaching net zero at the gas utility is expected to accelerate the use of offset programs by its target date of 2035 – for the current 5-year capital plan, we continue to see the balance as weighted toward investment in the electric side of the regulated utility business.

Rate case ask is modest versus 2021-22

Management framed its current electric and gas rate case requests as relatively low risk given the size and tenor of the request. MGEE's requested 9.8% ROE is unchanged and in line with recent outcomes. We see the request for a higher equity layer as somewhat risky given the already-elevated level, though note that equity layer is one area where the commission has shown flexibility to the upside of late. Base rate requests of 3-4% for electric and gas screen favorably versus MGEE's increases in recent years, which were driven partially by the elevated cost of fuel including natural gas. Overall, we see MGEE's rate case as generally low risk and likely to deliver a key data point for the commission's latest views, including some of the first on-record statements from the latest commissioner, who was not part of the bench for the WEC settlement modification.

The mantra remains stick to our knitting

MGEE management was adamant that the company sees continued success and a long runway of opportunity in its stated strategy of focusing on regulated investments in its existing WI service territory. We perceive very little appetite for M&A despite a stock that would be considered valuable currency, either with respect to regulated rate base or unregulated infrastructure investments. MGEE tends to limit the scope of its communication with investors (no earnings call, EPS guidance), though given the persistence of its premium to the peer group, there is little incentive to change the strategy at present.

See our 17 March 2023 report, MGE Energy: Smallest WI utility has strong start in '23, still expensive; Reiterate Underperform.

New Jersey Resources (NJR) Solar is core

We met with New Jersey Resources (NJR) CEO Stephen Westhoven and CFO Roberto Bel. Management emphasized strong visibility to 7-9% EPS CAGR given organic growth at Storage and Transportation (S&T), more normalized earnings at Energy Services due to Asset Management Agreements (AMA), New Jersey Natural Gas (NJNG) rate case in 2024, rate base-like return on solar projects, and long-term contracts at Leaf River. Management characterized earnings as volatile in the near term (i.e., above the high end of the 7-9% guidance range) due in part to AMA. AMA revenue recognition is somewhat "lumpy." However, AMA furthers the company's plan to de-risk Energy Service and strengthens the balance sheet overall. The company did not comment on any incremental M&A plans. We maintain our Underperform rating on NJR, with shares trading at an unfavorable risk/reward skew.

Committed to solar asset ownership and continued solar development

Management doubled down on the benefits of solar asset ownership, specifically given the ability to generate strong cash flow and return on capital. Management targets high-single-digit unlevered returns on solar projects. Project returns are assessed on a project-by-project basis. In other words, individual solar projects must offer strong stand-alone returns for NJR to progress with project development. The company continues to see value from solar ownership and did not detail expectations for solar asset sales, unlike many other utilities pursing renewable M&A. IRA credits are incremental to NJR's earnings outlook.

New Jersey Governor Executive Order, Future of Gas are favorable to NJR

NJR characterized the New Jersey Future of Gas proceedings and the Governor's recent Clean Energy Executive Order as favorable to NJR long term. Despite NJ political goals to transition away from natural gas, NJR believes that its current natural gas infrastructure will enable the energy transition. The Governor's order specifically carves out decarbonized fuel and prioritizes supporting jobs in the pipeline industry. Thus, NJR sees its New Jersey pipelines as a crucial element of NJ's long-term decarbonization plans given the ability to blend in hydrogen or renewable natural gas (RNG). However, the timeline on when NJR can capitalize on these opportunities remains undefined and likely far out.

Organic expansion opportunities across S&T business

Management highlighted potential for the fourth cavern at its Leaf River salt cabin storage facility in Mississippi. While the company has yet to announce a deal to expand the facility, the latest uptick in liquified natural gas (LNG) development activity and focus on reliability in the Southeast supports additional storage capacity. Further, management emphasized organic expansion opportunities at the Adelphia Gateway pipeline. Strong demand remains for pipeline capacity given its location within the refining-heavy Philadelphia region. Organic expansion may be palatable from a permitting perspective, with brownfield expansion and/or small laterals to incremental customers easier to certify. The pipeline is currently fully subscribed.

See our 2 February 2023 report, US Electric Utilities & IPPs: PowerPoints: CMS/UGI/NJR beats, EXC ComEd, PCG US1, Offshore Wind & DUK.

Northwest Natural (NWN) Where policy and practicality on decarbonization meet

We met with CEO David Anderson, CFO Frank Burkhartsmeyer, and SVP Strategy & Business Development & President of NW Natural Water Justin Palfreyman. NWN emphasized that 4-6% EPS growth rate does not assume additional RNG projects or water acquisitions beyond what the company has already announced. Incremental (or unannounced) M&A and/or RNG development opportunities represent upside to the current earnings trajectory. Nevertheless, management expects consolidation will continue across gas and water operations. NWN remains open to both buying and selling utility assets if in the best interest of shareholders. We monitor incremental M&A announcements, although we expect the overall NWN business mix will diversify away from natural gas as RNG and water investment ramps overtime. Maintain Neutral on NWN with shares trading in-line with fair value.

RNG an undefined, ‘clean slate’ growth opportunity

NWN only recently launched its competitive renewable natural gas (RNG) business at its NW Natural Renewables subsidiary. NWN has committed $50Mn to develop two RNG projects, one of which is approaching commercial operations date (COD) while the other facility is expected to reach COD summer 2023. The RNG business remains early stages and the magnitude of potential incremental earnings or capex upside is undefined. Yet, management double-downed on targets to grow the competitive RNG business, citing that the latest RNG projects are not intended to be 'one-off' efforts. Management highlights that the credit backing of NWN supports its competitive advantage in RNG development - offtakers i.e. utilities prefer contracting with credit worthy counterparties. NW Natural Renewables aims to contract a majority of RNG offtake with long-term contracts. This stands-out relative to peers that leave greater uncontracted exposure to sell RNG into Renewable Identification Numbers (RIN) or Low Carbon Fuel Standards (LCFS) markets. However, NWN may increase RIN/LCFS 'spot' exposure slightly as the business scales and risk profile moderates. NWN expects strong RNG demand from utility counterparties although management confirmed commercial counterparties may likely drive RNG growth longer-term. NW Natural Renewables targets double digit unlevered returns for RNG projects. Partnerships were described as a tool to facilitate development of larger-scale RNG projects.

NWN to diversify business, increase Water business mix

'Tuck-in' acquisitions of small, private water companies remains a core component of NW Natural Water business strategy. NWN targets single digit unlevered returns (i.e. 'rate base like’ returns) on water acquisitions. NWN has invested almost $300Mn in water M&A and follow-on capex to-date which could scale to ~$500Mn in time. Management implied objectives to increase the percent business mix attributable to water longer-term. NW Natural Water recently acquired water and wastewater service companies in western Oregon. These acquisitions diversify NW Natural Water business and expand total addressable market of the water business overall by broadening business exposure to the O&M contract services market.

IRP process shows difference ways to invest in decarbonization

The Oregon 2022 natural gas integrated resource plan (IRP) process has been very topical and an area of investor focus after the Oregon Public Utility Commission (PUC) Staff provided comments and recommendations. The Staff in part advocated for what it viewed as less expensive emission reduction compliance solutions. While also within the parameters of Senate Bill 98, the Staff also noted that to date the RNG projects have been out of state. NWN management described intervenor testimony as part of the process and in part representing a difference of opinions in compliance strategies. This did not sound like a total surprise to management given the novel legislation. Management is hopeful that it can achieve lower cost carbon reduction solutions as well as additional in-state resources as well, indicating strong alignment.

NorthWestern Corp (NWE) Dare to Dream

Our meeting was constructive with management describing themselves as among the most bullish on the jurisdiction in nearly twenty years. Our client conversations have shown little receptivity towards shares based on the historical view that NWE has unfavorable regulation and limited growth. These were indeed true in the past and we remain positive on shares because we see and opportunity for the company to see renewed interest. We maintain Buy on shares of NWE due to the discounted valuation and improving backdrop.

Regulatory engagement and strategy starting to bear fruit

Management attributed its recent regulatory progress to the engagement with the Commissioners, Montana Commission Staff, and other stakeholders that was followed-up with strong witness testimony explaining the need for rate relief. Aside from the actual rate case, the underpinning of an improving regulatory climate were further enhanced in December 2022 (winter peak) and January 2023 (Colstrip ownership increase). There had been some uncertainty among parties in the state regarding Northwestern's intention for Colstrip but the agreement to purchase more reaffirmed what management has been advocating for over multiple years.

In December, Northwestern was importing over 40% of its electricity needs from outside the state and was paying up to $900/MWh for purchased power. This was the latest datapoint of the merits of building new ownership that the company believes is further validation of its plans to build new generation. This is also in-line with the Montana's Commission efforts to explore resource adequacy as well. From a financial perspective, the Colstrip acquisition should reduce downside from the power cost adjustment mechanism and overall provide more stability for customers as well.

Our base case is that the multi-party settlement is approved without material modification. While the higher market power prices had an unfavorable impact on customers and shareholders in late 2022, this has further validated management's strategy.

Yellowstone construction set to resume sooner rather than later

Northwestern remained cautiously optimistic that it could resume construction soon as it works with its construction partner to remobilize at the site. It does appear that there could be a small delay to the commercial operations date (COD) but not overly significant. If the rate case settlement is approved, there will be less regulatory lag with cost deferral but the company has been clear that another rate case will be necessary to get cash recovery of the new power plant. It remains possible that 2024 is the test year for the subsequent rate case although there will be multiple variables into that equation still to be finalized.

The swift enactment of legislation is perhaps the strongest datapoint of how far engagement with stakeholders has come.

Growth rate parameters coming into focus

The rate case could conclude in late July or early August which may align with the 2Q23 earnings call. After a final order in the rate case is issued, we expect Northwestern to issue 2023 guidance and provide a long-term rate base/EPS CAGR using 2022 as a base. Currently NWE has a legacy 3-6% EPS and 4-5% rate base growth rate, both of which we anticipate are rebased. We see upside to Consensus for FY23+ EPS even before factoring in incremental transmission & distribution capital that we believe is increasingly probable. As our estimates confirm, the prospective will be somewhat lumpy due to rate case timing, not dissimilar to other peers with less tracked capital spending. The constraints on spending are customer affordability and the balance sheet where management wants to target a 14%+ FFO/Debt.

Management described its transmission system as nearing the edge of its capacity and requiring significant spending increases to support customer growth, power flows, and new generation. This is consistent with renewable developer datapoints which have pointed toward Montana transmission being a constraint.

Prospectively we expect Northwestern to double-down on electric transmission and distribution spending which is lower construction and regulatory risk. Not only does transmission have less regulatory lag from earnings/cash perspective, it expands regulatory diversity on the margin. From management's perspective it is not purely a financial conversation: transmission investments are a critical reliability necessity which is the top focus in the state today. Another areas of upside capital spending is fire mitigation, consistent with regional peers but to a far lesser degree than in California.

The timing of the long-term guidance refresh may not align with the 2Q23 earnings call and may not come until 3Q22 ahead of the Edison Electric Institute (EEI) Financial Conference. Regardless of if the update comes in July or October, we believe that the growth update will surpass relatively low investor expectations.

Earned ROEs set to improve, the question is: how much?

In 2022 NWE had ~200bp of regulatory lag with only a partial year of interim rate case relief. The company has internal targets to improve the rate of underearning and has noted historical ability to earn within ~50bp of its allowed return of return in years with more favorable conditions. While an accelerated rate of distribution and generation spending could bring additional regulatory lag, we would expect this gap could decline below 100bp over time.

Between a higher rate base trajectory, refocus on wires investments, and earned ROE improvement, there is newfound visibility into earnings for the first time in multiple years.

OneGas (OGS) More rate cases to come

Our meeting with OGS management reemphasized the steady nature of the operations, regulatory strategy, and financial approach. Overall, it appears that the business is operating on plan, with no major positive or negative deviations from the last long-term guidance refresh. We maintain our Neutral rating on shares of OGS, which trade approximately at fair value.

Regulatory activity in normal course

The Oklahoma performance-based rate change (PBRC) that Oklahoma filed in March was described as a top priority for management. Under the construct, OGS makes interim filings between rate cases and the March filing requested a +$28Mn annual rate increase, which is up significantly YoY. Other Texas filings that management is working to diligently implement are the +$12Mn Central-Gulf and +$7Mn West-North Gas Reliability Infrastructure Program (GRIP) filings, although these are more routine processes.

We look for rate cases to kick up in 2024 and 2025 following the completion of a full estimated year with elevated costs in 2023. We see timelines as broadly on track to file substantive cases in ~2024. We see abating of fuel costs as helpful to the backdrop for these cases. Regardless, we perceive an improving backdrop, particularly in Oklahoma with the naming of Kim David as Vice Chair of the OCC.

We expect O&M inflation levels to remain a key focus, however, with the company seeing elevated costs on re-staffing post Covid as well as driven by outsized growth. We remain a bit cautious on risk of further inflationary pressures upwards for OGS given its compounding growth plants through the period, while O&M is slated to moderate materially in the near term. We watch this dynamic carefully. Ultimately, it could just result in accelerated rate case activity, but ongoing lag could be outsized versus our EPS.

Another gas pure-play not interested in M&A

OGS management described the strong successes that it has had in steadily growing the company via organic capital investments with its favorable jurisdictions. Given the interest rate backdrop with higher financing costs, management is even less interested in paying a premium to acquire others' assets. The company has more than doubled since its spin-off and is investing $650-675Mn annually on low-risk capital, which the company stated is like adding a modest-sized acquisition every three years. OGS does not believe that it is lacking in scale or has a need to execute a large inorganic transaction. Finally, OGS stated that its simple financing approach without back leverage is more transparent.

Cash taxes should be volatile but not related to repairs tax

Cash taxer payer status has oscillated around Covid losses and securitization proceeds but largely net out. In response to the volatility, management has started providing enhanced quarterly disclosures to aid investors but does not see this as a material driver of performance. Like our conversation with peer Atmos Energy (ATO), OneGas management did not expect any material change to its financial profile from potential repairs tax reforms. Overall, this did not appear to be a focus area for management.

Robust costs that are front end weighted

OGS has had been focused on in-sourcing some spending areas, such as line locations, to become more efficient and improve its internal capabilities. Management is now paying for a training school, as it has an objective to further increase its employee base of talent. Operating and maintenance costs are still increasing at a high-single-digit rate, but the company is hopeful that inflation will moderate over time back towards a more normal level. Consistent with the prior message, cost increases are higher in the five-year plan, so more robust increases above the 6% CAGR embedded in the annual plan.

The higher costs are dampened by continued strong new customer connections, which more than offsets the small annual declines in residential customer usage. Customer growth is the strongest in Texas (+1.6%), multiples higher than in Kansas (+0.3%), which blends toward ~1%, with Oklahoma still solid (+1.2%).

Compensation tied to leak reductions, aligning all stakeholders

Management highlighted its new short-term compensation program, which is tied to emissions. OGS has a -55% 2005-2035 scope one emissions objective from its distribution pipelines leaks, which the company has almost achieved today, with -48% as of year-end 2022.This will require a 50-60bp annual reduction, which the company expects to achieve with its ~100-mile unprotected bare steel and ~30-mile protected bare steel replacement programs.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: Power Point: PEG Beat, LNT Solar, SO Vogtle, LNG, AEP WV, OGS EPS, FTS M&A	Julien Dumoulin-Smith	02 May 2023
US Utilities & IPPs: PowerPoints: WEC beat, AQN activist, FE/CMS, HE, LNT, EXC, power, & OGS	Julien Dumoulin-Smith	01 May 2023

PSEG Corp (PEG) Steady as she goes

Another constructive management meeting with the team laser-focused on affordable rates for customers, supporting economic activity & jobs, and promoting reliability. The latest regulatory settlement and advocacy for reliability are consistent with PEG's operating and investment thesis. We maintain Buy on shares of PEG which continue to offer visible growth with consistent execution and below-average regulatory risk.

Energy efficiency settlement and regulatory overview

Public Service Electric and Gas Company (PSEG) recently filed a stipulation with the New Jersey Board of Public Utilities (BPU) for an extension of its Clean Energy Future Energy Efficiency (EE) program to capture the short nine-month period September 30, 2023-June 30, 2024. The interim period is designed to align with the New Jersey-wide program July-June term which will commence July 1, 2024. Key parties to the stipulation include the BPU Staff, New Jersey Division of Rate Counsel, EE-focused groups, and large energy users. The extension provides $280Mn investment plus 10% administrative costs. BPU Docket No. GO18101112 and EO18101113.

Although small dollars and a limited scope proceeding, this is another constructive datapoint. This sets the stage for the forthcoming general rate case where PEG has a very strong track record of reaching constructive settlements, like this EE filing. Our base case is that PEG can settle the next rate case at some point in the process.

PEG along with the industry are waiting for Internal Revenue Service (IRS) guidance on the nuclear production tax credit (PTC) guidelines, specifically the 'benchmark' that will be used when calculating the PTC level. PEG has been engaged with the IRS and provided its views as well as feedback regarding what a reasonable framework should look like.

Again, it is favorable to see that PEG is viewed as a thought leader by the government as a large well, run nuclear operator. It remains to be seen when the IRS issues its draft guidelines which will likely lead to companies including PEG to continue a fairly ratable hedging program, to the extent that market prices are attractive.

NJ and regional electrification mgmt's key focus

Management continues to meet with PJM Interconnection (PJM) regarding regional reliability, specifically the load forecast. PEG believes that increasing electrification trends, specifically electric vehicle adoption, is an area where the PJM forecast may not be fully reflecting the customer and policy trends. PEG is starting to see electric vehicle adoption tick-up and believes that regional utilities need to be proactive in supporting the growth. While the path of adoption is uncertain, PEG believes that it should be proactive in building the supporting infrastructure to prevent being behind the 'hockey stick' curve.

We will be closely watching PJM's interim and annual load forecast refreshes to see if there is a noticeable increase in PSEG and New Jersey demand from the last refresh. External validation of electrification demand would support stakeholder engagements regarding a need for more electric infrastructure on distribution & transmission.

Public Service Electric and Gas Company and PSEG Power LLC were co-authors to a May 17th letter to PJM "Stakeholder Efforts to Undermine PJM’s Capacity Performance Framework". Other coauthors are Vistra (VST), PPL Electric Utilities (PPL subsidiary), Avangrid Renewables (AGR subsidiary), NextEra Energy Resources (NEE subsidiary), Exelon (EXC), Constellation Energy Generation (CEG), and Calpine Energy Services (CPN - Private). PEG and the parties request that PJM not file for a proposed capacity performance penalty reduction for a variety of reasons, including the potential for negative reliability impacts. The coauthors write " There is simply no justification for submitting Proposed Penalty Reductions that PJM staff has publicly opposed."

It is notable to us that the letter is signed by both PEG's regulated and unregulated affiliates. Other transmission & distribution companies like PEG and PPL writing the request show the importance of the matter to a variety of parties.

Repairs tax is a small opportunity

PEG has been analyzing and tracking the new repairs tax guidance for some time and overall does not expect a material impact. If anything, management described this is an opportunity to deliver additional customer savings.

Latest example of management working to keep its rates affordable and preserve wallet share.

Sempra (SRE) From coast to coast and back to California

Following our AGA meeting with Sempra (SRE), we are even more confident in the company's ability to earn at the top-end of the long-term guidance range. Management conveyed a confident tone on outstanding California General Rate Case (GRC) proceedings. The TX Distribution Cost Recovery Factor (DCRF) bill (SB1015) appears more than likely to pass. We believe this bill would reduce underearning in TX and incentivize incremental Oncor (SRE TX subsidiary) distribution capex. Management highlighted successful DCRF bill passage is contemplated in FY24 capex and earnings guidance range, and we believe the bill would support earnings growth skewed to the high-end of the guidance range. Maintain Buy on shares of SRE given the above-average long-term growth profile backstopped by unique exposure to LNG development projects and favorable TX utility tailwinds.

CA natural gas outlook is 'improving'

Natural gas prices spiked across the Western US in early 2023 due to El Paso pipeline outages and low hydroelectric electricity imports from the Northwest. These events increased customer bills and resulted in elevated scrutiny of CA gas utilities including SoCalGas. Management maintains that SoCalGas did not cause the winter gas issue and gas price spikes impacted the entire Western US. Management does not believe the gas issue will have material read-throughs to 2024 GRC outcome as many stakeholders recognize the winter 2023 event as an anomaly. Rather, the natural gas shortages and price spikes caused by a complication at a single pipeline reflect the need for greater investment in CA gas infrastructure. Management perceives CA's tone on natural gas is improving and CA will support incremental natural gas investment. SRE highlights successful developments across the natural gas business: California Geologic Energy Management Division (CalGEM) may increase Aliso Canyon allowed storage capacity following the 2017 well failure. SoCalGas energy storage and hydrogen investments are aligned with state policy objectives. Lastly, SoCalGas is focused on driving cost efficiencies by absorbing interest rate pressures, implementing new technologies and increasing automation.

Management believes in constructive GRC outcome

Management continues to view likelihood for reasonable GRC outcomes. Intervenor testimony to-date has not deviated from usual areas of intervenor pushback including SG&A forecasts and wildfire spending. Hearings are expected in June and full briefings in August. The 2019 GRC decision supports a constructive precedent for the 2024 electric and gas GRC decisions.

Extension of Cameron 2 FEED not entirely cautionary

Inflationary pressures including cost pressures and longer equipment lead times prompted management to announce (potentially) prolonged timelines for Cameron Phase 2 Front End Engineering Design (FEED) process. Management double-downed that the LNG development industry overall continues to face inflationary challenges, and the issue is unlikely specific to Sempra Infrastructure Partners (SIP - SRE subsidiary). A

prolonged FEED process should buy time for further negotiations with project suppliers. This ensures SIP would capitalize on more favorable project terms, i.e. lowering project costs and potentially expediting COD timeframe. While Final Investment Decision (FID) is critical to advancing development projects, timely COD remains SIP's ultimate project execution benchmark.

Southern Co (SO) Powering up Vogtle

We met with CEO Chris Womack, CFO Dan Tucker, VP of IR and Treasurer Scott Gammill, and Investor Relations Manager Ashley Black.

Vogtle prudency approaching as Unit 3 ramps up

Incremental Vogtle updates were positive, indicating that Unit 3 is on track to be commissioned. After a several-day outage the reactor is up to 75%+ based on the latest Nuclear Regulatory Commission (NRC) data. The company expects to bring it up to 90% before initiating a final round of testing and a forced trip, before once again powering up mid-month. Mgmt indicated that things are on track for a timely commissioning.

Prudency review likely to coincide with Unit 4 load (July)

The Georgia commission will undertake a review of Vogtle capital prudency spending, expected to commence around the time that fuel load begins at Unit 4 which mgmt is targeting around July. The standard of prudence appears to be an achievable bar to clear, but the additional layer of reasonableness may keep the total approved recovery capped at the $7.3B figure previously articulated. Incremental costs such as those incurred to respond to the Covid pandemic appear to be prudent at face value, but layering on additional customer rate increases on top of the estimated +8% associated with both Units 3 and 4 will likely given the commission reason to not approve additional costs.

Election timeline still unclear, most expect 2024

Among the other most-discussed intermediate term considerations for Georgia Power is the Georgia Public Service Commission election(s), the timing of which remains uncertain given the current legal challenge which remains pending before the court of appeals. We note that expectations appear to be shifting to the election potentially being pushed in to 2024, which would result in the Vogtle prudency hearing likely being heard by the existing bench of commissioners

Rate increases layered in for Vogtle, fuel, and new rates

The Georgia Power three-year fuel recovery plan will add a +12% rate increase for recovery of the deferred balance. Additional rate increases that are known and set to go in effect by 2024 include net increases of ~4% associated with each of Vogtle Unit 3 and Unit 4, as well as base rates from the latest GA Power rate case which accounts for an incremental +12%. Mgmt frames the increases as largely out of its control, in particular fuel which is subject to market forces – average customer rates are around average for the US Southeast and still below the national average. Timing of the extended recovery of the deferred fuel balance will likely coincide with the *next* Georgia Power rate case where the fuel roll off should provide bill headroom for updated rates.

Southern Power $3B upside, balanced opportunity set

Mgmt reaffirmed that the $3B upside previously flagged at the unregulated Southern Power segment remains outside of the formal capital plan, and while the company is confident in achieving its long-run 5-7% EPS aspirations *with* the upside, the range is still intact excluding the $3B. IRA benefits for renewables and battery storage have helped to even out the playing field across these generation types. Unlike the unregulated platforms recently monetized by peers including ED and DUK, mgmt remains comfortable with its risk and return profile (utility-like) with discrete projects contracted on a bilateral basis, in contrast to its peers who operated substantial devco models. Regarding the coming Georgia renewables solicitation, look for Southern Power to potentially submit its own projects, though the preferred method would be through rate base at Georgia Power.

Southwest Gas (SWX): ROEs > rate base

Our meeting was constructive, principally around an evolving and improving backdrop regarding a plan for earned ROEs to improve. We see the confluence of potential cost programs from consultants in place and improved processes helping to streamline performance in 2024. Meanwhile, we see prospects of filing rate cases on an accelerated basis versus the historical timeline of waiting 12 months for a full new test year to drive a rate case likely by the end of October, if not broadly in 4Q. In parallel, we look for a rate case by the end of 3Q in Nevada. We look for cost programs backfill here too.

We do see still see risks to the outlook. Challenges on the spin include lumpiness of the Centuri business (spin) as well as clear ongoing and outsized inflationary pressures in 20223 (and likely persisting into 2024 without rate relief). We see management firmly walking back from the prior 8% earned ROE guidance for 2023 as indicative of just how much pressure remains in the 2023 outlook on the O&M front. We stress that inflation remains a persistent theme across the conference with companies, and SWX remains clearly exposed.

On balance, we remain Neutral, but see an improving narrative ahead. The technical dividend cut ahead (even if premised off 2024 or 2025 EPS) as well as further equity raise likely at Centuri to fund debt paydown remain a clear further overhang on shares (20% stake sell-down remains targeted and likely, in our view, given desires to improve credit).

Recovery of deferred fuel balances remains a key input to resolving the outstanding balance sheet trajectory to 14% FFO/debt by 2024. We expect weaker credit quality and a protracted timeline to recovery to remain an overhang, but much of the stock will trade in the interim on improving prospects in Arizona under the new Arizona Corporation Commission (ACC) in place and prospects for improving one of the widest under-earning gaps in the space.

Rate case remains essential to turn around

While much of the attention has been on the shareholder-driven theme of strategic review and Centuri spin, we continue to see the backdrop on shares as firmly around the regulatory process to turn around SWX. We remain fixated on prospects for an improving rate case backdrop. We watch how Tucson and, even more critically, the Pinnacle West cases are resolved for clues. On balance, we are more constructive on prospects for addressing the extent of under-recovery. Management did not endorse any higher earned ROE outlook beyond the former 8%+ level that was articulated for the long term last year. This simply has not been renewed.

New outlook and new CAGR, but what is the baseline?

We look for an updated utility outlook incorporating the latest inputs as soon as late 2023 or early 2024, when the Centuri spin is effectuated. We see the ability to articulate hopefully a more precise turnaround, if not outright better outlook with the bigger utility plan update, as hopefully offsetting the technical dividend-per-share (DPS) cut poised to happen. We see an updated earnings CAGR as potentially rebased off 2022 or 2023 with a lower starting point than previously contemplated, enabling an EPS CAGR driven more by improving ROE than necessarily rate base growth. We expect equity discussion to prove a subtle message that is key to look for in this spin-out discussion, as there remains clear incremental need to address the balance sheet: the question is how and to what extent.

Spire Inc (SR) Searching for a new star

We met with Executive VP and COO Steve Lindsey, VP-Treasurer and CFO of Gas Utilities Adam Woodard, Managing Director of Investor Relations Scott Dudley, and Alabama Gas President Joe Hampton.

Transition: "Strong" internal candidate

The incremental update on management succession is that a strong and well-qualified internal candidate has been identified. The company's board has not given an exact timeline for fully resolving its search process, but we expect an announcement to align with the transition of the outgoing CEO (ahead of year-end).

Business mix remains biased toward regulated

Mgmt indicated a general level of satisfaction with the business mix at present with an approximately 90-10 split in favor of regulated natural gas assets. While technically not regulated, the storage business is characterized as generally low risk as well given long tenor of average contracts. Spire's marketing business has provided a balance of late, in particular in Q1 where volatility helped on the marketing side, but mild weather impacted utility results. Reduced equity needs are another benefit of the cash flow positive marketing business – in summary while mgmt acknowledged some potential for volatility in the non-regulated 'tail' of the company, on balance we did not perceive a strong desire to materially alter the existing business mix.

Non-organic opportunities worth looking at

With the history of the company as one characterized by growth via acquisition, mgmt acknowledged that while they do not feel a sense of urgency to do a transaction, deals are evaluated on an ongoing basis. In addition to financial metrics, SR places heavy emphasis on strategic and cultural integration. Policy and regulatory considerations are key as well – we see a distinct bias toward jurisdictions that have indicated directly or via signaling that natural gas bans are not a risk in the near to intermediate term.

Credit metrics should improve from Q1 low

Recovery of SR's funds from operations (FFO) to debt metric is under way after reaching a low during Q1 on elevated gas pricing. Consolidate metrics averaged 15-16% in the two years before storm Uri, with mgmt expecting to return to this level from around 13% today – the current target is by year-end 2024. One adjustment worth noting is S&P which imputes Asset Retirement Obligations (AROs) into the debt calculation, an adjustment that can cause metrics to move by 100 bps or more in the AL utility in particular. Constructive developments of late including removing the negative outlook from the Missouri utility. The holdco currently has total debt of under $600m which mgmt views as close to the 'normal' level and indicative of typical fluctuations in working capital.

Regulatory outlook in MO and elsewhere

The overall tone of commentary on existing regulatory schemes was relatively constructive, with mgmt seeing the last two MO regulatory outcomes as positive. We note that this tracks with feedback we have heard from regulatory-focused stakeholders in the state of Missouri who indicated that Spire's rate case issues should be considered relatively discrete. While Missouri is known as a state where certain utilities consistently do better in terms of regulatory outcomes than others, we note that the overall tenor of commentary and regulatory outcomes has trended constructive of late, including for Spire. Expect the recent rate increase to be an upside driver in Spire's next annual EPS guidance as well given the full-year impact.

UGI Corp: Balancing AmeriGas refinancing

The management meeting focus on the volume of potential natural gas assets available for sale in the marketplace, next steps in the AmeriGas business improvement process, and international renewable feedstock investment opportunities. The ability to return to sustained growth while also lowering segment/non-utility leverage will be the key to restoring investor confidence in the outlook. We maintain Underperform on shares of UGI which appear relatively expensive despite the discounted relative P/E multiple. The above-average debt balance at AmeriGas (APU) and mix of unregulated assets informs our view of a materially lower consolidated valuation than regulated utility pure-play peers.

Natural gas acquisitions are an opportunistic focus

Management stated that it is focused on growing its natural gas footprint, both at the regulated utilities and in the midstream businesses. The West Virginia Mountaineer acquisition ~18 months ago has met the company's expectations and it sees opportunities for continued favorable regulatory evolution. The Mountaineer purchase was described as ~1.4x EV/rate base multiple, a lower price than other transactions at the time. If an attractive utility acquisition in a favorable jurisdiction arose, management would consider the potential. UGI does not want to use equity to finance any additional utility acquisition so would look at financing options such as partnerships, debt at other segments, by flexing up consolidated leverage, and by using organic cash flow generation between announcement & transaction close.

Similarly, management stated that it would be acquirers of midstream businesses if (1) the right assets; (2) the right geography; and (3) the right valuation/price.

UGI generally has a solid regulatory track record and further utility acquisitions at reasonable valuations would be positive. There is high financing uncertainty but even an EPS dilution transaction that reshapes the business mix could help reposition the company for more visible, sustained success over the long-term.

International customers more willing to pay for low carbon

The additional conservation efforts encouraged by the European governments had a clear impact in the winter of 2022-2023 but management believes that the degree of conservation could be more difficult to sustain if there is a normal cold winter. The company is focused on expanding it renewable dimethyl ether (RDE) offerings with potential plans for significant capital investments at a double-digit unlevered IRR. UGI is still evaluating the price of the blend to customers but has seen a customer willingness to pay for the lower carbon attributes.

Before material capital investments are made for uncontracted assets, we look for further details proving out the consumer demand on a smaller scale first. While a promising opportunity, the high capital costs could make this a longer dated opportunity or require sizable partnerships in our view.

What needs to happen for AmeriGas' recovery?

Despite the recent challenges with customer service, inflation, and financing costs, management continues to believe that the future for AmeriGas is brighter. The strategy is 'back to basics' with billing customers accurately, having on-time deliveries, and providing leading customer service. Management believes that this focus on customers will help to reduce churn and lead to stronger future performance. The most significant driver of the declining adjusted EBITDA profile 2020-2022 was higher employee compensation and benefits as there has been more competition for drivers. The challenges in staffing up the business had the unfortunate impact of leading to lower than desired customer service. Overall management believes that it is past the worst of challenges and is set up to have a full contingent of drivers for winter 2023-2024.

AmeriGas cost of debt has increased

AmeriGas completed a $500Mn 2028 senior note offering at 9.375% which is expected to be used to repay the $675Mn 5.625% 2024 AmeriGas senior notes, along with a $150Mn cash contribution from the parent company UGI Corp.

Fitch Ratings placed AmeriGas Partners LP and AmeriGas Finance Corp entities on negative outlook while placing a BB- credit rating on the new debt. Fitch attributed the negative shift to the leverage and interest coverage ratios with a favorable offset from the UGI Corp equity contribution & cure. Fitch expects AmeriGas adjusted EBITDA to recovery in FY24 to ~$507Mn FY22 levels vs $430Mn 3/31/23 TTM.

The actual cost of debt has increased. UGI recently reduced its FY23 adjusted EPS to $2.75-$2.90 from $2.85-$3.15 and higher financing costs were not cited as a driver at the time.

Until Corp (UTL) Open to scaling up if the puzzle pieces fit well

We met with CEO, Thomas Meissner, Chief Administrative Officer, Robert Hevert, and CFO, Daniel Hurstak during the AGA conference. Key takeaways include: (1) Return to dividend growth in-line with EPS growth. Earnings growth has outpaced dividend growth as management spent the last ~10 years resetting the payout ratio to ~55%-65% target versus 70-80%+ pre-2017. UTL achieved its targeted payout ratio in 2022 (~59%) and is now targeting dividend growth at pace with 5-7% EPS growth. (2) Electric mix likely to increase. Gas represents ~2/3 of UTL's overall rate base and earnings mix. However, incremental solar development and robust electric grid investment opportunities likely increases electric business mix prospectively. (3) Gas M&A is a possibility in certain jurisdictions. Management would assess M&A in 'gas friendly' Northeast jurisdictions. We maintain Underperform on UTL with shares trading at an unbalanced risk/reward skew.

UTL is open to gas M&A ... in the right jurisdictions

UTL management detailed it would assess M&A opportunity. However, the decision to pursue M&A is contingent on price and accretion to overall business profile. Acquisitions would need to complement UTL's current portfolio. For example, UTL is unlikely to pursue M&A in jurisdictions outside its current Northeast utility base. Further, UTL would likely only consider gas M&A opportunities in 'favorable' natural gas jurisdictions i.e. Maine and New Hampshire. Management believes its Massachusetts natural gas infrastructure serves a critical role in facilitating state decarbonization plans and UTL continues to capitalize from synergies between its MA electric and gas business. However, it is less clear the utility would expand its Massachusetts gas portfolio via M&A given the state's political and regulatory construct related to natural gas.

Incremental NH solar development is upside to capex plan

Management highlights incremental solar development beyond the current Kingston project remains a key area of upside to current rate base and capex plans. The lot size of the Kingston solar projects enables up to ~5MW incremental onsite capacity. Management highlighted potential to pair energy storage systems with the Kingston solar farm. UTL did not include energy storage in its initial Kingston solar filing for regulatory approval to avoid complicating the filing. UTL is confident in its ability to continue to ramp utility-owned solar development in New Hampshire through leveraging learnings from Kingston Solar regulatory and development process.

ME rate case: forward looking test year reduces lag

Northern Utilities (UTL subsidiary) recently filed a gas rate case in Maine. Management cites strong relationships with key Maine stakeholders. Northern Utilities proposes to move to forward test year ended January 31, 2025 which mgmt expects will reduce regulatory lag if approved. The utility is encouraged by latest settlement progress across Maine electric utility peers.

Voluntary 'green' tariffs an option to integrate RNG

UTL highlighted potential to offer renewable natural gas via customer supply agreements. RNG unlikely represents an incremental investment opportunity. Rather, management would offer voluntary 'green' tariffs to customers in exchange for delivering renewable natural gas. The opportunity remains early-stages although management expects customer demand and state policies will support voluntary green tariff opportunities.

WEC Energy (WEC) Not melting under weather pressure

We met with Executive Chairman Gale Klappa, WEC CEO Scott Lauber, CFO Xia Liu, and Director of Investor Relations Beth Straka.

Illinois Gas settlement window likely in Oct-Nov

WEC mgmt framed the recent staff and intervener testimony in the People's Gas and North Shore Gas rate cases as constructive, with a relatively narrow bid-ask spread on ROE and total revenue requirement as compared to other cases (and particularly when compared to electric rate cases currently under way in Illinois). Staff also expressed support for ongoing investment in pipe replacement – while previously this had been recovered under an expiring rider, initial testimony supported ongoing investment in the effort. WEC's replacement of aging pipes in the city of Chicago in particular has been the target of negative headlines in recent months, but we note that staff support is an important affirmation of the core need for the program. One area where parties remain somewhat far apart is equity layer with WEC requesting 54% while staff recommended actual equity, which was just below 51% - with the other items aligning relatively constructively, we see this as one area that WEC could conceivably forego in a settlement. Typically settlement discussions take place after the administrative law judge issues a proposal, which is expected around the Oct-Nov timeframe.

Reiterate confidence in 2023 outlook, earnings shaping

Following a cut to its initial Q1 guidance range driven by historically mild weather, mgmt reiterated its confidence in the existing guidance range of $4.58-4.62. Specific drivers are impacting the shaping of EPS this year and with a weighting toward the second half. Mgmt pointed to $52m of earnings sharing expense that was borne partially in Q3 and largely in Q4 of last year, along with some O&M pull forward, and a charitable contribution in the single digit millions of dollars. All told mgmt estimates the absence of these items to drive a 15-18c structural improvement, along with a revision to the O&M increase forecasted from 3-5% to 2-3%, a delta that provides another 4-6c of EPS upside. These items serve to offset 12c of weather drag in Q1 and otherwise build contingency into the year's results.

Undergrounding a small but growing priority

With grid reliability playing an increasingly prominent role in regulators' evaluations of utility performance, WEC noted that its current plan includes $700m over 10 years for undergrounding efforts. While this screens as a relatively modest amount, mgmt expects the total allocated to undergrounding to grow over time given positive results in terms of reliability. Note that while this was framed as a growing bucket in the overall capital plan over time, we do not perceive it as additive to rate base or EPS growth, rather added investment in undergrounding would likely displace other spending. Nonetheless we like the operational de-risking likely to materialize.

Economic development re-accelerates with new anchor

Another trend across utility names has been the addition of substantial load growth via discrete projects with data center customers. MDU highlighted its deal with an off-taker for 180 MW of interruptible supply, which represents a roughly 1/3 increase to its entire electric load. WEC expects to add Microsoft as a customer at the Foxconn industrial park in WI where the ultimate demand may eventually reach 1000 MW. In contrast to the MDU deal, Microsoft is expected to be a firm purchaser which would require additions to the supporting transmission & distribution infrastructure – while mgmt did not offer estimates on the potential size of the capex opportunity, directionally the data point and addition of a strong counterparty is a positive trend. Groundbreaking on the site is expected later this year with staged commissioning potentially as soon as 2025.

Xcel Energy (XEL) Execution stands outs

We met with CFO Brian Van Abel, Treasurer / VP of Investor Relations Paul Johnson, and Assistant Treasurer Patty Martin. We maintain our view that XEL is among the best Buys across our utility coverage: key low-risk, defensive equity with more ahead.

New Mexico settlement contested; financial issues settled

Southwestern Public Service (SPS) announced a contested settlement of its electric rate case late last week. Financial items are largely resolved, with an ROE of 9.5%, up from the current 9.35%, with the main unresolved item around operations at the Tolk coal-fired plant. The forward test year included in the settlement is a particular constructive outcome and should help to offset the expected loss of sales from wholesale customers – we note that in prior years the earned ROE gap has been relatively modest, though the forward test year should be earnings positive and help offset to loss of load.

CO rate case testimony does not preclude a settlement

Staff testimony in the electric rate case came in relatively low at 9.02% – while optically low and below the level currently approved, we note that this is generally consistent with the historical pattern for CO staff. In our meetings, management expressed a willingness to continue to engage with parties and did not preclude the possibility of a settlement despite the relatively low starting point. We expect a rebuttal filing to come relatively soon, with the procedural schedule targeting a mid-June settlement conference.

Legislation introduces smoothing, performance incentives

The gas utility legislation recently passed in Colorado is directly aimed at smoothing the volatility of price increases and aligning procurement via a performance incentive mechanism (PIMS). We expect a proposal for fuel recovery smoothing to come in November – the basic mechanics will result in longer recovery times of above-average spikes in fuel price to mitigate bill shocks of the type seen last winter. At a high level, we see the introduction of additional filings as risky given the potential for additional regulatory/recovery complexity, though over time a smoothed and less volatile track of bill impacts stemming from fuel increases would likely accrue to customers. While the PIMS proceeding is in process, we expect a relatively narrow band, with positive and negative adjustments roughly symmetrical.

Several renewable procurements under way

Requests for proposal (RFPs) for renewable generation assets remain in progress for XEL utilities in MN, CO, and NM. We expect partial visibility into these around the typical November refresh cadence. MN appears the furthest along with 350 megawatts (MW) of solicitations out of an original target of 900 MW filed and XEL proposing to own 250 MW of the submitted projects. The remaining 550 MW will be part of a subsequent RFP, and thus we do not expect visibility here until 2024. CO procurements are also proceeding relatively quickly, with a proposed portfolio expected to be filed in August – management cited levelized cost estimates of $22/kilowatt hour (KWh) for wind and $33 for solar, indicating that winning projects would likely come in at sub-$20 and sub-$30, respectively. On balance, we expect the November refresh to include a combination of high-visibility processes (MN and CO) along with an updated view on upside from renewable procurements (currently $2-4B).

Unclear if minimums will ease on premium balance sheet

XEL maintains a strong balance sheet, with key funds from operations (FFO) metrics in excess of 17% on an adjusted basis, compared to the Moody's minimum of 16%. Moody's requirement of 25% or less parent to total debt remains the other guardrail – while this appears overly conservative given XEL's strong cash flow profile, we do not see an obvious reason that it would be relaxed in the near future. We note, however, that comparable utilities are increasingly positioning themselves as "premium balance sheet" names.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & Clean Tech: PowerPoints: FTCI Positive, HE Bank, Inflation, UGI, XEL/BKH Colorado, & Power	Julien Dumoulin-Smith	10 May 2023
US Utilities & IPPs: PowerPoints: POR CFO, AEP settlement denial, LNT Iowa, XEL Colorado, & SO	Julien Dumoulin-Smith	28 April 2023
US Utilities & IPPs: PowerPoints: SO Vogtle, XEL Beat, NEE Feedback, DUK Settle, VST Nuclear, & CEG	Julien Dumoulin-Smith	27 April 2023
Xcel Energy Inc: Q1 EPS preview: Looking ahead to MN de-risk; reiterate Buy	Julien Dumoulin-Smith	05 April 2023

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

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
LNT	LNT US	Alliant Energy Corp	US$ 52.44	A-2-7
AEE	AEE US	Ameren Corp	US$ 82.71	A-1-7
ATO	ATO US	Atmos Energy	US$ 116.4	A-1-7
AGR	AGR US	Avangrid	US$ 38.42	A-3-7
AVA	AVA US	Avista Corp	US$ 42.61	B-3-7
BKH	BKH US	Black Hills	US$ 62.51	B-3-7
CMS	CMS US	CMS Energy	US$ 58.63	B-1-7
ED	ED US	Consolidated Edison	US$ 93.88	A-2-7
D	D US	Dominion Energy	US$ 52.29	B-3-7
DTE	DTE US	DTE Energy	US$ 109.16	A-1-7
DUK	DUK US	Duke Energy	US$ 90.75	A-1-7
WTRG	WTRG US	Essential Utilities	US$ 40.72	B-2-7
MDU	MDU US	MDU Resources	US$ 29.66	B-3-7
MGEE	MGEE US	MGE Energy	US$ 75.09	A-3-7
NJR	NJR US	New Jersey Resources	US$ 49.46	B-3-7
NWN	NWN US	Northwest Natural	US$ 45.04	B-2-7
NWE	NWE US	NorthWestern Corp	US$ 57.67	B-1-7
OGS	OGS US	ONE Gas, Inc.	US$ 81.64	B-2-7
PNM	PNM US	PNM Resources Inc.	US$ 45.75	B-1-7
SO	SO US	Southern Company	US$ 71.15	A-3-7
SWX	SWX US	Southwest Gas	US$ 58.06	B-2-8
SR	SR US	Spire	US$ 68.03	B-3-7
UGI	UGI US	UGI Corp.	US$ 28.23	B-3-7
UTL	UTL US	Unitil Corp	US$ 55.35	B-3-7
WEC	WEC US	WEC Energy Group Inc	US$ 88.86	A-1-7
XEL	XEL US	Xcel Energy	US$ 65.59	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Alliant Energy Corporation (LNT)

Our $58 PO is based on a sum of the parts analysis employing relative premium and discounts to the large cap regulated peer multiple of 16.4x 2025E 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 an in line P/E premium on IPL as we see the rate case overhang being resolved. We apply a 1.0x 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 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 $99 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2025E ratebase weighted peer multiple of 16.4x for electric and 16.6x for gas. 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. At Ameren Transmission, we apply a 4.0x premium to peers to reflect the FERC ROEs and robust growth outlook. 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 2023 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.

Atmos Energy Corporation (ATO)
Our $120 PO is based on our 2025E sum-of-the-parts (SOTP) analysis, based on the gas LDC peer group multiple of 14.3x.
Our gas peer P/E multiple is grossed up to reflect the group's 5% CAGR (2021-26E) to reflect capital appreciation across the sector. We then apply a 3x premium across jurisdictions to reflect the high-quality nature of the assets given a sustainable runway for capex/EPS underpinned by constructive regulatory mechanisms and jurisdictions.
For the Pipeline & Storage segment we apply a 9.2x EV/EBITDA multiple as a base to our '25E EBITDA. We then apply a 2.0x premium to the assets given their fully regulated nature and unique ability for APT to benefit from the spread differentials.
Upside risks: 1) improving regulatory relationships, 2) decrease in interest rates, 3) incremental capital spending, 4) constructive rate case outcomes, 5) less equity needs.
Downside risks: 1) deteriorating regulatory relationship, 2) increase in interest rates, 3) less or deferred capital spending, 4) poor rate case outcomes, 5) more equity needs.

Avangrid (AGR)
Our $34 PO is based on an 2025E sum of the parts analysis. The core utilities are valued on by applying discounts to the base sector P/E of 16.0x/16.3x 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 10x 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, particularly regarding the pending acquisition of PNM Resources, 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.

Avista (AVA)
Our $39 PO is based on our 2025E sum-of-the-parts (SOTP) analysis, based on the electric group multiple of 16.6x for electric and 17.0x for gas. Both electric and gas peer P/E multiples are grossed to reflect the group's 5% CAGR to reflect capital appreciation across the sector. We then use a blended electric and gas multiple of approximately 80% and 20%, respectively, for AVA's WA and ID jurisdictions given the composition of its

rate base. We apply a -2x discounts to WA, ID, and OR to capture below average-growth, inconsistent execution, and regulatory uncertainty. We apply the gas multiple to its OR jurisdiction as it is entirely comprised of natural gas distribution assets. We apply an electric multiple to its Alaska subsidiary, AEL&P, as it is a vertically integrated electric utility. The Corporate & Other segment is valued with (1) a utility P/E multiple on the HoldCo expenses, (2) fully offset by the disclosed fair market value of other assets & investments.

Risks to achievement of the price objective are changes in: 1) regulatory, political, and legislative, 2) interest rates and commodities, 3) wildfires and natural disasters, 4) phase-out of natural gas, 5) capital expenditures, 6) debt and equity needs, 7) credit ratings, 8) clinical trials, and 9) other investments.

Black Hills Corporation (BKH)
Our $60 per share valuation is based on a sum-of-the-parts analysis. We apply the latest peer average electric (16.0x) and natural gas (17.0x) 2025E P/E multiples. We gross-up +5% the base multiples across the coverage universe to reflect capital appreciation in the sector. We apply a -2x discount for below average EPS and dividend growth prospectively. Coal Mine: We apply an 2x 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 premium 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 $35 using a 2025E sum-of-the-parts methodology. We apply the 16.7x electric and 17.3x gas base multiples. The base multiples are grossed-up +5% to reflect sector capital appreciation, a consistent approach across the coverage universe. We apply a 15% (2.6x) premium due to above-average growth and constructive jurisdictions.

Risks to achievement of the Price Objective are changes in 1) legislative, regulatory, and political outcomes, 2) capital expenditure forecasts and deployments, 3) earned return on equity, 4) asset sales, 5) capital markets access, costs, and needs, 6) interest rates, 7) weather and natural disasters, 8) management changes, and 9) inflation.

CMS Energy (CMS)
Our PO of $67 is based on a SotP relying on 2025E forward P/E multiples for the utility business and a 2025E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 2.0x prem to the average 2025E regulated multiple P/E of 16.6x for the electric segment and of 16.7x for the gas segment, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as continued 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 +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 through 2030 given the plant is no longer expected to be sold to Consumers.

Downside 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 $96 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples 16.4x/16.7x for electric/gas respectively with an in-line multiple for Electric, Steam, & Gas to reflect a combination of historically challenging regulation but above-peer growth and de-risked profile. Both electric and gas peer 2025 P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. For noncore segments we apply a -2x discount to Con Edison Electric Transmission (CET) and a -6x discount to the Wholesale Energy business given elevated risk profiles. For the Mountain Valley Pipeline stake we apply a 5x EBITDA multiple to our 2024 EPS estimate reflecting elevated risk.
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.

Dominion Energy (D)
We value Dominion Energy at $52 using a 2025E sum-of-the-parts analysis. For the utilities we apply the comparable electric (16.4x) and gas (16.7x) peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply -1.5x discount for base Virginia (-9%). 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 at: 13x EV/EBITDA Cove Point, 5x Millstone (13% FCF Yield), and 5x for renewables. 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. We lastly include prospective interest rate exposure that is not impacting near-term estimates due to hedges.

Risk to achievement of the Price Objective are 1) regulatory, legislative, and political actions, 2) ability to earn or exceed the regulatory allowed ROE, 3) capital markets and equity requirements, 4) changes to the capital expenditure and rate base forecast for both regulated & unregulated segments, 5) volatility in interest rates and pension returns, 6) changes in commodity prices, 7) natural disasters, 8) inflation, & 9) offshore wind construction.

DTE Energy (DTE)
We value DTE Energy at $135 using a sum-of-the-parts (SOTP) approach. We value the utility segment on a 2025E 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 16.6x and 16.7x, respectively). Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We value the DTE Vantage segment on a multiple

of 2025 EPS - the grossed-up electric multiple of 17.3x 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 17.5x multiple to both the interest expense and corporate overhead expenses at the parent. Risks are: 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 2025E P/E multiples. We apply a 3x multiple premium to Duke's operations in FL and 2x in IN to reflect more favorable regulatory environments (and potential generation opps in IN). We apply a 2x multiple to the Carolinas given upside to spending in improving regulatory construct combined with latest IRP & wider legislative reforms into 2023.

We value the other regulated electric utilities at 16.3x and the gas utilities at peer group multiples of 16.1x 2025E 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 2025E EV/EBITDA basis. We use 8.0x multiples for midstream and 9.0x for transmission segments. 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.

Essential Utilities (WTRG)
Our Price Objective is based on a 2025 P/E sum-of-the-parts methodology. The base natural gas (16.8x) and water (24.4x) 2025 P/Es are used and grossed up +5% and +7%, respectively, to reflect capital appreciation opportunities across the subsectors. The water utilities are valued at a -2x P/E discount for below average growth. The natural gas utilities are valued at a -1x P/E due to regulatory uncertainty and historically earnings above allowed levels. The parent & other costs are valued at a blended water/natural gas multiple.

Positive and negative risks to achievement of the Price Objective are: 1) regulatory, legislative, judicial, and political outcomes, 2) ability to close pending and future acquisitions, 3) repairs tax guidance, 4) weather, natural disasters, and gas accidents, 5) change in interest/discount rates and pension returns, 6) ability to control costs and earn the allowed rate of return, 7) water contamination and standards, 8) bad debts and macroeconomics factors,

MDU Resources Group, Inc. (MDU)
Our $29 PO is derived from SOTP. At the regulated electric and gas utilities, we use a P/E approach on our 2025 estimates and use peer multiples of 16.1x for electric and 16.4x 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 '24 EV/EBITDA estimate, applying a multiple of 8.8x based on an average of several publicly-traded peers in the cement, asphalt, and aggregates business. We apply a -2.0x discount to reflect margins lower vs.

peers.

We value the Construction Services business using a '24 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 '24 EV/EBITDA est., applying a multiple of 9.1x 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.

MGE Energy (MGEE)
Our $72 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group 2025E multiples (15.8x/16.1x for electric/gas respectively) with a 3.0x premium on WI regulated gas and electric to reflect the constructive regulatory mechanism, and a 4.0x premium on Transmission assets. We note that 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 apply +3.0x utility premiums to the non-regulated Elm Road and West Campus assets as these are leased under long-term contractual arrangements. Downside risks: MGEE, like all utility stocks, is sensitive to changes in the market level of interest rates. Utilities historically underperform if bond yields rise, and outperform when they fall. Further downside risks are the inability to secure further renewable rate base investments, adverse regulatory outcomes, a deteriorating regulatory environment, or adverse weather leading to less consumption of electricity and gas. Upside risks are acceleration of renewable gen investment, legacy coal asset early retirement, and enactment of further pro-renewable state policies.

New Jersey Resources Corp (NJR)
Our $45 PO is off our 2024E SOTP, based on gas peers of 16.9x. For non-reg biz, we apply a 10.0x multiple. For Midstream, we capitalize EBITDA at a base multiple of 9.4x but add a 1x discount to the business as we see less growth potential than the peer set. For CEV, we value CEV PowerCo for existing assets and DevCo assets to be deployed separately. We separately value DevCo assets to be deployed for '21 through '25 at NPV of unlevered FCF including upfront system install cost and ITC value for new deployment. We also value SREC balance that CEV has yet to monetize. We apply a 5.5% unlevered discount rate to project level CFs in-line with our discount rate for resi solar service providers. We incl. three additional years of DevCo NPV ('26-'29) with terminal value based on post-ITC step-down trough volumes/economics in '29 and utilize a 4x terminal value. We also attribute a 75% weighting for the full value of DevCo NPV for '24+. We assume 75% based on a likelihood of some action on ITCs. For parent, we apply a 50/50 weighting for holdco debt/interest expense for re-capitalization purposes.

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

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

Northwest Natural Holdings (NWN)
Our $51 PO is based on our 2025E sum-of-the-parts (SOTP) analysis, based on the gas LDC peer group 2025E P/E multiple of 17.1x applied to WA and OR natural gas distribution and regulated storage assets. We gross up the gas LDC multiple by 5% to

reflect capital appreciation across the group. We use a -1x discount for Oregon and Washington to capture the below-average growth and align with the valuations of peer utilities.
For NWN's gas storage (unregulated), appliance, and asset management business, we apply an 8x EV/EBITDA multiple, in line with comparable asset class, and net out debt. We apply a water utility peer P/E multiple of 27.9x to NWN's water earnings, similarly grossed-up +5%. Finally, we net out corporate & other drag (largely SG&A) using a weighted average multiple of 18.0x on 2025.

Positive and negative risks to the Price Objective are changes in: 1) regulatory, legislative, or judicial rulings, 2) weather and natural disasters, 3) regulated capital expenditures and rate base forecasts, 4) equity and debt needs, 5) inflation and operating costs, 6) execution on renewables and water strategy, 7) commodity prices, and 8) customer growth.

NorthWestern Corporation (NWE)
Our $64 price objective is based 2025E price/earnings (P/E) methodology. We apply the electric utility sector P/E of 16.27 as a base then gross-up +5% to reflect capital appreciation across the sector. We apply a -1x discount to reflect historically challenged regulation, below-average rate base (4-5%) / EPS (3-6%) growth, and inflationary concerns.

Risks to our price objective are changes in 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 rates, 6) natural disasters and wildfires, and 7) management changes.

ONE Gas, Inc. (OGS)
We use a sum-of-the-parts analysis to calculate our $80 price objective for OGS, applying a FY25E Gas LDC peer multiple of 16.0x (grossed up by 5% to reflect capital appreciation across the space). We use a 1x premium to the group for TX to reflect the constructive regulation and growth trends. We apply in-line multiples for Kansas and Oklahoma.

Upside and downside risks are: 1) political, regulatory, and legislative changes, 2) capital expenditures, 3) inflation and operating costs, 4) commodity prices, 5) pandemics, natural disasters, and weather, 6) policy changes for natural gas investments.

PNM Resources Inc. (PNM)
Our $50 price objective is based on a 2024E sum of the parts valuation methodology utilizing P/E multiples for each electric business segment. The electric peer P/E multiple is grossed up for +5% reflect capital appreciation across the sector, consistent with our approach for the coverage universe. We apply a 17.1x 2024E P/E multiples are applied to each subsidiary in New Mexico, Texas, and Federal as well as the parent HoldCo: PNM, FERC PNM, TMNP, Parent.

Risks to the achievement of our price objective and estimates are 1) regulatory, political, and legislative outcomes, 2) ability to control costs and achieve the allowed return on equity - including on AMI capital, 3) interest rates volatility, 4) pending M&A activity, 5) changes in interest rates, 6) natural disasters, and 7) inability to achieve capital expenditure guidance.

Public Service Enterprise Group (PEG)
Our $71 PO is derived from our 2025 sum of the parts valuation. For the regulated utilities we utilize the electric (16.7x) and gas (17.0x) 2025E sector P/E multiples, which we then gross-up by 5% to reflect capital appreciation across the sector. We apply an in-

line group multiple to PSE&G Utility given the utility's below-average growth forecast, which is offset by our view that New Jersey remains a favorable jurisdiction, with PSE&G Utility offering low-risk transmission & distribution (T&D) profile.

Positive or negative risks to achievement of the price objective 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, 6) inflation, 7) interest rates, and 8) pension returns.

Sempra Energy (SRE)
Our $173 PO is based on a sum of the parts valuation of 2025E earnings. The US utilities are valued using the electric (16.5x) and gas (16.7x) 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 11x EV/EBITDA, an implied premium to the Mexican market (5.5x) and select premium US midstream comparable (Williams and TC Energy at approximately 9-10x) 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 our Price Objective are: 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 $64 PO is derived from a sum-of-the-parts analysis (SOTP). We use a P/E valuation approach on 2025 estimates and use peer multiples of 16.3x for electric and 16.2x 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 2025 parent interest expense multiple by an electric P/E peer multiple to reflect parent leverage supporting the utilities. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting.

Upside/downside risks to achievement of the PO are: 1) Vogtle construction timing and costs, 2) regulatory, political, and legislative changes, 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 and sales growth, 7) O&M trends, 8) interest rates, 9) environmental policies and regulations, 10) M&A, and 11) interest rates.

Southwest Gas Holdings (SWX)
Our $62 PO is based on our 2024E/2025E Sum-of-the-parts (SOTP) analysis. We apply a 16.2x our 25E 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 the regulated assets, we apply a -2x discount to reflect below average jurisdiction and lack of consistent execution. For the infrastructure services segment, we apply 8.9x FY24E EV/EBITDA multiple (based on peer consensus multiples), which is a 1.0x discount to the business' closest industrial comps due again to a history of missing guidance. 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 using the same P/E multiple as the regulated utilities.

Upside/downside 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, 9) regulatory, legislative, or judicial outcomes.

Spire (SR)
Our $66 PO for SR is based on a sum-of-the-parts analysis. Consistently across our coverage universe we apply the peer gas 2025 P/E multiple (16.8x) as a starting point and 'gross-up' by five percent to account for growth across the sector. We include a 3x discount for Missouri given a less-constructive regulatory environment and an in-line multiple for Mississippi/Gulf and AL assets given their location and de-risked nature. For the midstream assets, we use a base 9.5x EV/EBITDA multiple with a 4x discount for storage given uncertainty, and a 2x discount for marketing due to volatility. We weight STL pipeline as 75% in our valuation given uncertainty with the pipe's future.

Upside risks: 1) favorable regulatory and/or legislative outcomes, 2) lower interest rates, 3) ability to earn the regulatory allowed rate of return, 4) lower equity needs, 5) higher capital expenditures, 6) Favorable FERC ruling on STL pipeline commercial operations, and 7) favorable unregulated performance.

Downside risks:
1) adverse regulatory and/or legislative outcomes, 2) higher interest rates, 3) inability to earn the regulatory allowed rate of return, 4) higher equity needs, 5) lower capital expenditures, 6) unfavorable ruling from FERC on STL pipeline commercial operations, and 7) natural disaster

UGI Corp. (UGI)
Our $32 PO is derived from our SOTP analysis. We mark-to-market (MtM) our UGI Utilities segment to 2025E peer P/E multiples of 16.7x for gas &16.4x for electric. For U.S. & international LPG, we apply an 8.8x EBITDA base multiple in-line with propane comps & apply a -3x discount to UGI International based on a challenged energy environment in Europe. We apply a -3x discount to AmeriGas based on challenges to customer retention & a slow return to the M&A market. We apply an 8.8x EV/EBITDA multiple to the midstream segment with premiums based on the asset. For the renewables business, we take the NPV of future cash flows, which implies a 7.2x FY25E EV/EBITDA multiple. For parent debt in the Corp & Other segment we net out 50/50 weighting for recapitalization & add back 50% of parent interest expense.

Upside risks: favorable weather, improving propane logistics efficiencies domestically or in Europe, increased conversion rates or faster new home construction within PA, and favorable currency exchange rates. Macroeconomic concerns are declining interest rates, lack of volatility and declining natural gas prices, and a general economic upturn.

Downside risks: unfavorable weather, propane logistics issues and shortages domestically or in Europe, reduced conversion rates or slower new home construction within PA, and unfavorable currency exchange rates. Macroeconomic concerns are rising interest rates, volatile and rising natural gas prices, and a general economic slowdown.

Unitil Corporation (UTL)
We value UTL at a $48 PO based on a 2025e forward P/E basis using a utility group multiple of 14.5x for electric and 15.1x for gas. Both electric and gas peer P/E multiples are grossed up for a year to 2025 by 5% each to reflect capital appreciation across the sector.
Risks to our price objective on the upside are capex updates around MA gas pipeline replacement, regulatory asks around ROEs, and M&A. On the downside, risks are interest rate risk which could reduce the appetite for M&A, regulatory challenges.

WEC Energy Group Inc (WEC)
Our $103 PO is based on 2025E SoTP, with a large cap electric group multiple of 16.2x and gas regulated multiple of 15.8x. 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. 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 $74. 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 2025E forward P/E multiple of 16.0x 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 4x premium to XEL subsidiaries in MN and NM, and 3x in CO 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 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.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR 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
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC 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				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP 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
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC 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
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	86	60.99%	Buy	68	79.07%
Hold	31	21.99%	Hold	23	74.19%
Sell	24	17.02%	Sell	14	58.33%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	78	50.65%	Buy	53	67.95%
Hold	40	25.97%	Hold	28	70.00%
Sell	36	23.38%	Sell	24	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

[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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Industry Overview

EXC: 1Q23 EPS beat on lower O&M drag, Corp. 'Other'

Exelon (EXC) reported $0.70 1Q23 EPS above $0.63 BofA and $0.66 Street. The delta versus BofA was +2c at Baltimore Gas and Electric (BGE) related to flat year-over-year operations and maintenance (O&M) expense, +3c at Pepco Holdings (PHI) from lower-than-expected weather and O&M drag and +4c at Corporate from +2c uplift related to Corporate 'Other'. This was offset by -1c lower distribution rates at both Commonwealth Edison (ComEd) and Philadelphia Electric Company (PECO). We reiterate than O&M management and mitigation remains a key outperformance opportunity especially at PECO where the existing plan has less robust growth between cases. EXC reaffirmed $2.30-$2.42 FY23 adjusted operating earnings guidance in-line with $2.38 BofAe / $2.36 Street. On the earnings call management sounded very comfortable in its ability to offset the ~$0.05 weather headwinds and deliver at or above the full year 2023 guidance midpoint. As expected, EXC maintained 6-8% '21-'25 EPS CAGR and 6-8% 2022-2026 EPS CAGR with expectation to be at midpoint or better.

EXC reiterated 13-14% FFO to Debt and CFO (Pre-WC) to Debt range 2023-2026. The company executed 80% of its debt financing needs in 1Q23 including $2,500Mn Corp and expects remaining $425Mn equity issued by 2025, in-line with previous guidance. We await regulatory updates across EXC's pending rate cases primarily its multi-year plan (MYP) filings in IL where intervenor direct testimony is expected in May. The Nicor datapoint on page 2 is a constructive ROE datapoint. We expect the resolution of its regulatory efforts primarily in IL and across jurisdictions with multi-year plans will de-risk the utility outlook, lending to share outperformance. *Maintain Buy on EXC which trades at an overly discounted valuation despite strong long-term investment outlook.*

ES: Orsted's earnings call focused on US offshore wind

Orsted hosted its 1Q23 earnings call this morning where the question & answer session was nearly unanimously focused on the United States assets and outlook. Orsted is the joint venture partner with Eversource Energy (ES) for its offshore wind projects and has worked with Public Service Enterprise Group (PEG). Orsted is evaluating whether any of its US projects would qualify for the energy community investment tax credit (ITC) incremental incentives but did not definitively affirm this opportunity. Orsted declined to provide project level disclosures and reiterated that the Northeast and Mid-Atlantic are below their return targets but have a path to create value on a 'life cycle basis' which assumes that the company can retain the domestic content requirement incentive tax credits. Orsted is hopeful that New Jersey will be open to sharing tax credits with the developments and the company is having discussions with other states. Orsted described its New York bid as compliant with the new parameters of the IRA. The Rhode Island bid was characterized as creating value as the company attempts to avoid the 'race to the bottom' on pricing. As a result, Orsted expects awarded prices to increase in the United States.

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Equity
United States
Utilities

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O&M: operations and maintenance
IRA: Inflation Reduction Act

PO Change:
VST: $29 from $30

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ES/Orsted: ES offshore strategy review the focus (Cont)

When asked about minority interest asset sales, Orsted management said there was good interest, and they are confident that they can realize gains from these transactions consistent with prior levels. Orsted reiterated that if it does not see value creation from projects, the company 'will do something' and is open to incurring project specific break costs and walking away from projects. See our peers' note on Orsted in detail.

Orsted's earnings call did not provide new major insights into the economics or outlook for the Eversource joint venture. The reliance on favorable Internal Revenue Service (IRS) and state negotiations for tax credits to create value for the projects remains a risk We remain cautious on unregulated US offshore wind (ie not built under a rate base model) where returns have significantly compressed. Maintain Underperform on Eversource (ES) and Avangrid (AGR) which trade at premiums to our view of the fundamentals. We will be closely watching for Eversource's offshore wind strategic review update with 1Q23 earnings.

EXC/WEC/SO: Illnois Staff posts cost of capital

The Illinois Commerce Commission (ICC) Staff posted a cost of capital recommendation in the ongoing Nicor rate case. The Staff recommends 9.89% allowed ROE and a 50.0% equity ratio which compares with 10.35% ROE and 54.5% request. On a comparable basis, assuming the equity ratio remains constant at 54% would imply a 9.1% ROE. This is notable because Exelon (EXC) has a current authorized cap structure of ~49.5%, which would imply a higher ROE rec of around 9.9%. Exelon has proposed a modest increase in ROE to ~51.2%. This remains a closely watched set of proceedings as the ICC has several new members and is in the middle of several rate cases including multiyear rate plans (MYRP) for the electrics and new rate reviews for the gas utilities ahead of the sunsetting of the infrastructure rider at the end of 2023. We view this as particularly relevant for IL utilities including EXC, WEC which has testimony set to come out May 9, and AEE which has electric testimony set to be published May 5.

WEC: ICC poses questions to Peoples in ongoing gas case

The Illinois Commerce Commission (ICC) posed questions to People Gas (WEC Energy [WEC] subsidiary) in an April 17th filing within Peoples Gas ongoing natural gas rate case (Docket 23-0069). The questions included the following:

- How would the proposed rate increase and rate design affect residential customers ($/month), particularly those already having difficulty paying bills or staying connected?

- How have Federal electrification priorities, electrification initiatives like Illinois' 220 ILCS 5/8- 103B(b-27), and the general trend toward electrification been considered in scaling or targeting proposed main replacement investments?

Recall Peoples natural gas rate case requested +$407Mn rate increase (details here: PowerPoints: WEC Illinois 10 January 2023). While the rate case is not projected to increase customer bills given declines in forward natural gas prices, Peoples' proposal has received elevated pushback from IL stakeholders following given the 2022 uptick in natural gas prices which elevated customer bill pressures and Illinois environmental goals which target a shift away from natural gas and thus limited incremental natural gas infrastructure investment. We view the ICC questions as unusual this early in the rate case litigation process. Perceived ICC pushback to natural gas bill pressures and incremental gas infrastructure investment is cautionary for the outlook of Peoples gas rate case outcome. *We closely monitor ICC positioning in the outstanding IL gas rate cases as well as IL electric rate cases especially following recent ICC turnover. Maintain Buy on shares of WEC with shares trading at an attractive risk/reward skew despite regulatory risk.*

WEC Energy Group Inc: Regulatory execution critical in coming months as gas pressure builds 03 May 2023

FE/CMS: Convertible notes priced

FirstEnergy (FE) announced pricing of $1.3Bn, 4% convertible senior notes due 2026. The company expects $1.28Bn net proceeds on $1.3bn issuance after deducting discounts and commissions and offering expenses payable by the Company. The 4% cost of debt represents +40bps spread to US 5-Yr Treasuries and approx. -15bps discount to US 2-Yr Treasury. The conversion rate for the notes will initially be 21.3620 shares common stock per $1,000 principal amount of convertible notes, implying ~$46.81 conversion price per share of common stock or 20% premium over last reported FE share price. FE has cited plans to use a portion of proceeds to voluntarily contribute to its qualified pension plan. FirstEnergy 1Q23 10Q cites +8% return on assets (ROA) related to the pension plan, subject to market conditions. We estimate this creates 4% return spread (8% ROA versus 4% cost of debt). Assuming $1,280Mn net proceeds, this implies +$51Mn pre-tax earnings accretion ($1,280 * 4%) and +$38Mn post-tax earnings accretion, or approximate +7c EPS accretion. **This is a 'high-case' scenario as it remains unclear what portion of FE's ~$1.3Bn convertible offering will be used to fund the pension plan.** (Details here: PowerPoints: FE/CMS Debt 01 May 2023) *Maintain Underperform on shares of FE as we continue to see above-average earnings risk which is underappreciated by Street. Earnings accretion related to the latest convertible note transaction may offset some EPS drag although represents lower quality pension income.*

CMS Energy (CMS) priced $700Mn, 3.375% Convertible Senior Notes due 2028, upsized versus previous offering of $650Mn principal amount of convertible notes. The company expects $688.4Mn net proceeds after deducting discounts, commissions and estimated offering expenses payable by the Company. The note will mature May 1, 2028 and bear interest at a fixed rate of 3.375%. This represents ~24bp discount to the US 5-Yr Treasury. The conversion rate for the notes will initially be 13.5194 shares common stock per $1,000 principal amount of convertible notes, implying ~$73.97 conversion price per share of common stock or 20% premium over last reported CMS share price. CMS has cited opportunistic financing driving FY23 earnings growth as a offset to weak 1Q23 weather and severe storms. *Maintain Buy on CMS with shares trading at discount to fair value despite above-average near-term and long-term earnings profile intact.*

AVA: Wide 1Q23 miss but reaffirm FY23

Avista Corp (AVA) reported $0.73 EPS a wide miss vs $1.19 BofA/$1.16 Consensus. Natural gas utility margin was -$0.11 vs +$0.10 BofA while electric utility margin was +$0.06 vs +$0.23 BofA. Income tax was also a -$0.09 driver vs BofA expectation of neutral. Interest expense and other businesses were each also -$0.02 vs BofAe. In 1Q23 Avista had investment losses compared with investment gains in 1Q22. Despite the large 1Q23 miss, Avista reaffirmed $2.27-$2.47 guidance vs $2.30 BofA and $2.34 Consensus. The segment contributions were unchanged but Avista introduced new quarterly cadence disclosures with 50% of FY23 EPS expected in 4Q23 and 10% in 3Q23. This compares with a 3Q22 small loss. $475Mn annual capex 2023-2025 was unchanged. Avista announced that its CFO Mark Thies is retiring, replaced by Kevin Christie. Thies is one of the longest serving CFOs and one of only two CFOs in our coverage universe who have been in their role since the 2008 financial crisis.

As of 3/31/23 there was $231Mn revolver borrowings outstanding at 5.8% on the $400Mn facility, favorably down from $313Mn at 5.3% as of 12/31/22. Avista issued $30Mn of common stock during the quarter (0.7Mn shares) with Board authority to issue an incremental 1.6Mn. Avista expects issuing an incremental $90Mn for the balance of 2023 with the $120Mn FY23 target unchanged. After the $250Mn long-term debt issuance in 1Q23 (up from $200Mn original plan), AVA does not anticipate further long-term debt issuances in 2023. The Colstrip litigation and arbitration have been stayed to June 16, 2023.

Avista is in the process of determining if it will need to procure additional carbon allowances under the Washington Climate Commitment Act (CCA). Avista estimates that it would have had an additional $5.9Mn cost if it was required to purchase additional allowances. Management did not record the expense because it does not view them as probable given the uncertainty regarding the applicability to electric wholesale operations. Avista ultimately expects to recover any associated costs through its ratemaking.

The wide 1Q23 miss is a disappointing update and the CFO retirement casts additional uncertainty on the long-term outlook. We maintain Underperform on shares of Avista which are expensive relative to our fundamental view.

NI: 1Q23 in line with expectations, LT guidance reaffirmed

NiSource (NI) reported 1Q23 adj. NOEPS (net operating EPS) of $0.77 vs. our estimate of $0.78 and Consensus of $0.76. Adjusted results include a $0.06 net positive impact from weather normalization. NI also reaffirmed 2023 NOEPS guidance of $1.54-1.60 as well as the long-term NOEPS growth guidance of 6-8% through 2027. NI ended the quarter with total debt of $11.6Bn (up from $11.3Bn las quarter) with long term debt at $10.3Bn (up from $9.6Bn last quarter) and a weighted average interest rate of 3.83% (up from $3.72 last quarter). The long term FFO (funds from operations)/debt target of 14-166% was also reaffirmed. With the successful achievement of a rate case settlement at subsidiary NIPSCO (Northern Indiana Public Service Company) in March and a final order expected in August, NI noted the minority interest sale of the subsidiary remains on track for 2023. Lastly, NI continues to target $15Bn in cumulative investments through 2027, further supported the long-term growth outlook.

We reiterate Buy on shares with an attractive valuation and favorable de-risking of its regulatory plan. Investors have focused on the multiple reports of natural gas local distribution (LDC) sales for peer utilities and whether there are any implications for NiSource. Overall remain constructive with renewables on time, and sale ahead to derisk financing plan.

In Indiana House Bill 1420 regarding utility transmission right of first refusal (ROFR) has passed the State legislature and was signed by Governor Holcomb. Industrial users called for the Governor to veto the bill which they described as anti-consumer.

NWE: Montana acts on key legislation

We provide legislative recaps on key bills we are tracking. The following bills passed both legislative chambers: Florida SB250 (natural emergencies & related liability), Montana SB208/SB228 (prohibition on energy choice bans), Montana HB971 (environmental policy), Montana SB176 (committee membership)

The swift drafting and passage of Montana HB971 is favorable for Northwestern Corp (NWE). We maintain Buy on shares of NWE where we see a favorable valuation and among the best rate-of-change opportunities. NorthWestern Corporation: 1Q23 light vs Street on tax but core was strong: Reiterate Buy. Legislature watch. 28 April 2023

AMRC/EIX: Storage project timeline extended further

Southern California Edison's (SCE, subsidiary of Edison International [EIX]) 537.5MW (megawatt) battery storage project was further delayed on force majeure claims by construction contractor Ameresco (AMRC - Buy) citing weather-related damage. As a result, the damaged portion of the project, which represents 225MW, is expected to be delayed beyond early-summer 2023 when the remaining capacity is expected to placed in service (per AMRC). The original agreement, signed in October 21, contemplated a completion date of Aug. 1, 2022 and included consideration for EPC (engineering, construction and procurement) and O&M (operations and maintenance) services of $892Mn. AMRC has already made force majeure claims once under the agreement citing supply delays. EIX and AMRC are still working to determine the extent of the latest delay. Meaningful delays could have implications for summer peak reliability needs, depending

on weather and load. For AMRC, an inability to reach an extension agreement could result in liquidated damages payable to EIX as high as $89Mn based on prior disclosures as well as a loss of cost recovery related to schedule changes. *Maintain Buy on AMRC as we remain constructive on long-term prospects for the Company's biogas project pipeline and an accelerating end market EPC demand. The California storage disclosure is a setback but still relatively small in the context of the company. The possibility of reputational damage among investors and potential counterparties for this high-profile projects is the more important dynamic to watch. Our Underperform rating on Edison International is unrelated to the battery project but rather the below-average growth prospects. See details here:* Edison International: Significant updates pushed to 2Q, EPS risk remains w/ growth concentrated 2026+ 03 May 2023

VST: Feedback on our preview; reframing SotP to illustrate equity value

In our calls with investors, the focus remains on two key elements of the Vistra (VST - Buy) story: 1.) potential for further M&A activity, and 2.) valuation. On the former, we do not believe the Energy Harbor (ENGH - Not covered) acquisition precludes additional M&A in the near-to-medium term. Further, under the right terms, we believe acquisitions in the nuclear and/or renewables space could be viewed favorable by investors. Regarding valuation, the critical debate centers on just how much equity to attribute to Vistra Vision vs. Tradition. While in our preview we illustrated the two segments on an enterprise value basis using an SotP (sum-of-the-parts), below we reframe our valuation to better capture the equity values embedded in our analysis. Additionally, we deduct the 15% minority interest in Vistra Vision. Our reframed SotP implies a 6.7x EV/EBITDA multiple to Vistra Vision (vs. 6.0x previously) as we believe this better reflects the underlying value of the assets after layering in net debt of $3.4Bn and estimated minority interest of ~$2.0Bn. For Vistra Tradition, our implied EV/EBITDA multiple is unchanged at 3.9x. Net, our analysis implies ~$11Bn of equity value at Vistra Vision and ~$(2)Bn to Vistra Tradition. Further clarity and disclosures on the outlook for Tradition could be an opportunity of upside. Our PO moves to $29 from $30. We maintain our Buy rating given what we view is an attractive valuation profile (levered FCF of ~30%) and compelling shareholder return story (we model $2.8Bn in repurchases through 2025).

Exhibit 1: VST SotP
We arrive at a $29 PO

Vistra Sum-of-the-Parts Analysis (2025E)	Adj. EBITDA	Maintenance Capex	FCF	EV/FCF	EV/EBITDA (implied)	Total EV	Value per Share
Nuclear (Comanche Peak)	323	(69)	254	8.0x	6.3x	2,031	7.00
Nuclear (Energy Harbor)	938	(196)	742	8.0x	6.3x	5,935	21.00
Renewables and Storage	416	(75)	341	10.0x	8.2x	3,405	12.00
Retail	771	(38)	733	7.0x	6.7x	5,134	18.00
Total Vistra Vision	**$2,447**	**($378)**	**$2,070**	***8.0x***	***6.7x***	**$16,504**	**$58.00**
Less: Net Debt & Other Adjustments						(3,430)	(12.00)
Less: Minority Interest						(1,961)	(7.00)
Total Vistra Vision Equity Value						**$11,113**	**39.00**
Gas Generation	1,808	(123)	1,684	5.5x	5.1x	9,264	32.00
Coal Generation	739	(30)	709	1.0x	1.0x	709	2.00
Total Vistra Tradition	**$2,547**	**($153)**	**$2,393**	***4.2x***	***3.9x***	**$9,973**	**$35.00**
Less: Net Debt & Other Adjustments						(11,975)	(42.00)
Total Vistra Tradition Equity Value						**($2,001)**	**(7.00)**
Hedges	(500)	0	(500)	1.0x	1.0x	(500)	(2.00)
Corporate	(50)	0	(50)	6.0x	6.0x	(300)	(1.00)
Total Vistra Enterprise Value	**$4,444**	**($531)**	**$3,913**	***6.6x***	***5.8x***	**$25,678**	**$90.00**
Total Vistra Equity Value						**$8,312**	**$29.00**
Share count (Projected - YE25)							286
Dividend Yield - 2023E							3%
Total Potential Return							**22.7%**

Source: Company filings, Bloomberg, BofA Global Research

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
EXC	EXC US	Exelon Corp	US$ 42.57	B-1-7
ES	ES US	Eversource Energy	US$ 76.44	B-3-7
AGR	AGR US	Avangrid	US$ 39.71	A-3-7
WEC	WEC US	WEC Energy Group Inc	US$ 95.25	A-1-7
FE	FE US	FirstEnergy	US$ 38.75	B-3-7
CMS	CMS US	CMS Energy	US$ 61.49	A-1-7
AVA	AVA US	Avista Corp	US$ 43.63	B-3-7
NI	NI US	NiSource Inc	US$ 27.91	B-1-7
NWE	NWE US	NorthWestern Corp	US$ 58.22	B-1-7
AMRC	AMRC US	Ameresco	US$ 44.87	C-1-9
EIX	EIX US	Edison Intl	US$ 73.28	B-3-7
VST	VST US	Vistra Energy	US$ 23.11	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Ameresco (AMRC)
Our $59 price objective is based on a 2025E sum-of-the-parts (SOTP) methodology, with EBITDA multiples for each business segment driven by peer group valuations.

We value the Projects segment at a 5% discount relative to sustainable infrastructure Engineering & Construction (to adjust for Tetra Tech's implied water premium). We apply an average 7.4x EBITDA multiple for the Energy Assets business, with 12.2x multiple for solar and storage, 1x prem to peers. We apply 8.2x multiple for LFG, relative to the group of renewable gas peers.

Within the Energy Assets biz, we value RNG on a discounted cash flow (DCF) methodology with a 10.24% discount rate and apply an 8x exit multiple to the post-2032E terminal FCFE.

For the O&M business, we apply a multiple in line with the Projects segment, given related businesses. For the Other segment, we apply a multiple in line with the Energy Assets business.

Risks are CEO tenure, construction delays, revenue concentration, as c.75% of revenues from from federal, state and local government entities, government contract risk, regulatory risks, merchant exposure, and interest rates.

Avangrid (AGR)
Our $34 PO is based on an 2025E sum of the parts analysis. The core utilities are valued on by applying discounts to the base sector P/E of 16.0x/16.3x 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 10x 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, particularly regarding the pending acquisition of PNM Resources, 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.

Avista (AVA)
Our $39 PO is based on our 2025E sum-of-the-parts (SOTP) analysis, based on the electric group multiple of 16.6x for electric and 17.0x for gas. Both electric and gas peer P/E multiples are grossed to reflect the group's 5% CAGR to reflect capital appreciation across the sector. We then use a blended electric and gas multiple of approximately 80% and 20%, respectively, for AVA's WA and ID jurisdictions given the composition of its rate base. We apply a -2x discounts to WA, ID, and OR to capture below average-growth, inconsistent execution, and regulatory uncertainty. We apply the gas multiple to its OR jurisdiction as it is entirely comprised of natural gas distribution assets. We apply an electric multiple to its Alaska subsidiary, AEL&P, as it is a vertically integrated electric utility. The Corporate & Other segment is valued with (1) a utility P/E multiple on the HoldCo expenses, (2) fully offset by the disclosed fair market value of other assets & investments.

Risks to achievement of the price objective are changes in: 1) regulatory, political, and legislative, 2) interest rates and commodities, 3) wildfires and natural disasters, 4) phase-out of natural gas, 5) capital expenditures, 6) debt and equity needs, 7) credit ratings, 8) clinical trials, and 9) other investments.

CMS Energy (CMS)
Our PO of $68 is based on a SotP relying on 2025E forward P/E multiples for the utility business and a 2025E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 2.0x prem to the average 2025E regulated multiple P/E of 16.6x for the electric segment and of 17.0x for the gas segment, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as continued 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 +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 through 2030 given the plant is no longer expected to be sold to Consumers.

Downside 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.

Edison International (EIX)
Our $59 PO is based on sum of the parts analysis with a peer 16.5x 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.

Eversource Energy (ES)
Our sum of the parts based price objective of $78 uses P/E multiples on 2025E earnings. The valuation is based on a 2025 sum of the parts analysis. We apply the 2025 average peer P/Es of 16.4x electric, 16.4x natural gas, and 24.8x water. For Connecticut electric & gas utilities, we value at -3x discount to 16.4x base multiple to reflect historical and prospective earnings risks. Connecticut water is valued in-line with natural gas. The other utilities are valued at a peer average multiple. Parent net loss per share is valued at an average electric utility multiple.

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 & storms, 6) operational performance and gas incidents, 7) integration of historical and prospective M&A, 8) pension plan performance, and 9) equity issuances.

Exelon (EXC)
Our $47 PO is based on an sum of the parts valuation. Our base electric peer 2025 P/E multiple of 16.3x is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply an in-line multiple across EXC utilities ComEd, PECO, BGE, PHI with above-average growth prospects and below average risks counterbalanced but non-linear growth and inconsistent execution.

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 and interest rates, and 7) changes in credit rating agency metric requirements.

FirstEnergy (FE)
The $39 Price Objective is based on a sum-of-the-parts valuation. Our multiples are driven by relative P/E premiums/discounts to the 16.7x 2025E regulated peer multiple. Peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector, a consistent approach across our coverage universe. We apply -2x discount to reflect rate review risk, below average risk, and pension exposure. We subtract out the holding company debt given the above-average leverage

Upside and downside risks to the Price Objective are: 1) regulatory/political/legislative outcomes, 2) ability to earn the allowed ROEs and/or other changes in regulatory earnings, 3) weather and natural disasters, 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, 8) economic conditions & interest rates, and 9) taxes.

NiSource Inc (NI)
Our $32 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 16.4x for gas and 16.4x for electric. 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 utilize a +1x premium for NIPSCO

Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

Positive and negative risks to our Price Objective are changes in 1) regulatory, political, and legislative outcomes, 2) ability to execute on capital expenditure plan, 3) inflation, operating expense, and interest rates as they influence earned rates of return, 4) customer count and load growth, 5) commodities, 6) natural disasters, 7) pension plan returns, 8) equity and asset sale needs.

NorthWestern Corporation (NWE)
Our $64 price objective is based 2025E price/earnings (P/E) methodology. We apply the electric utility sector P/E of 16.27 as a base then gross-up +5% to reflect capital appreciation across the sector. We apply a -1x discount to reflect historically challenged regulation, below-average rate base (4-5%) / EPS (3-6%) growth, and inflationary concerns.

Risks to our price objective are changes in 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 rates, 6) natural disasters and wildfires, and 7) management changes.

Vistra Energy (VST)
Our $30 price objective is based on a 2025E SOTP valuation. For Vistra Vision, we arrive at a 6.0x blended EV/EBITDA. We apply a 6.5x EV/FCF multiple to nuclear, which we believe fairly represents the risk/reward profile of the assets. For Renewables and Storage, we apply a 10x EV/FCF multiple given the accelerating nature of the end markets. For Retail, we apply a 6.5x EV/FCF multiple, consistent with peers. For Vistra Tradition, we arrive at a 3.9x blended EV/EBITDA multiple. We apply a 5.5x EV/FCF multiple to Gas Generation given favorable spark spreads and end market demand dynamics and a 1.0x EV/FCF multiple to Coal Generation which we believe appropriately captures the limited long-term value of the assets.

Positive and negative risks: 1) changes to regulatory, political, or legislative standards, 2) wholesale power, natural gas, & capacity prices, 3) competitive & regulatory change to retail businesses, principally in Texas, 4) operational performance, 5) development of new renewables and storage assets, 6) natural disasters, 7) interest rates, 8) nuclear fuel access/cost, and 10) retail market attrition.

WEC Energy Group Inc (WEC;A-1-7;$95.25)
Our $103 PO is based on 2025E SoTP, with a large cap electric group multiple of 16.2x and gas regulated multiple of 15.8x. 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. 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.

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
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR 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
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC 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				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP 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
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC 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
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Alternative Energy Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	11	64.71%	Buy	10	90.91%
Hold	4	23.53%	Hold	2	50.00%
Sell	2	11.76%	Sell	2	100.00%

Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	86	60.99%	Buy	68	79.07%
Hold	31	21.99%	Hold	23	74.19%
Sell	24	17.02%	Sell	14	58.33%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	78	50.65%	Buy	53	67.95%
Hold	40	25.97%	Hold	28	70.00%
Sell	36	23.38%	Sell	24	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

[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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From: Dumoulin-Smith, Julien - RSCH AMRS
To: Weisenburger \ Michael \ V
Subject: BofA Utilities: Jan/Feb Weather: Mild winter reduces gas supply risks, but EPS the tradeoff. - United States
Date: Friday, March 10, 2023 4:48:48 PM
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US Utilities & IPPs

Jan/Feb Weather: Mild winter reduces gas supply risks, but EPS the tradeoff.

Industry Overview
Equity | 10 March 2023

Key takeaways

- Warmest Jan/Feb in years likely to weigh on 1Q23 earnings as 25 of 47 electric, 24 of 43 gas utes see >5% decrease in HDDs
- Mild weather exacerbates '23 EPS headwinds as fav '22 weather reverses. An issue for utes w/ little latitude in FY23 guidance
- Jan (-12% HDDs) likely embedded in 4Q updates but Feb (-8%) also weak. Gas LDCs relying on winter gas sales challenged for 23

FULL REPORT

Warmer winter exacerbates 2023 earnings risks

We update our weather analysis for January and February Heating Degree Days (HDDs) by region and utility to assess how electric and gas load has trended year-to-date. Utilities generally benefitted from weather in 2022. We previously highlighted increased risk that earnings growth stagnates if weather normalizes in 2023 as '22 weather benefit would reverse out of 2023 EPS (see 4Q weather analysis here: US Utilities & IPPs: 4Q Weather Report: Cold snap implies yet another quarter of weather benefit 10 January 2023). **This risk is materializing**. The EIA cites that January and February may be close to the warmest on record for the period going back to 1895, and NOAA HDD data supports a much milder start to

2023. Average HDDs across US states decreased by **14%** in the first two months of 2023 vs 2022, **-9%** vs trailing 10-year average and by **10%** vs trailing 20-year average. This implies EPS drag across many utilities relative to 4Q21 *and* utility guidance targets as weather-related load reverses YoY. As a result, utilities may need to further cut costs in an inflationary backdrop to mitigate earnings impacts from declining load and support 2023 earnings guidance. Accelerating O&M and financing costs already create a difficult backdrop for 2023 earnings growth, and less favorable weather versus average may further weigh on growth versus guidance expectations. While utilities likely embedded weak January weather in guidance updates during 4Q earnings, average February HDDs across the US was **-8%** vs 10-year average, signaling further downward earnings pressure relative to expectations. Southeast (**Duke Energy [DUK], Emera [EMA] and Southern [SO]**) and Midwest (**First Energy [FE], NiSource [NI], DTE Energy [DTE] / CMS Energy [CMS]**) electric utilities saw the most significant decrease in HDDs YTD. By contrast, California and Arizona saw **>25%** increase in HDDs versus 2022 and 10-year average. AZ utilities **Pinnacle West (PNW)** and **Fortis (FTS)** are poised to benefit, although CA utilities are decoupled and therefore do not benefit from higher weather-related load. All said, we estimate **33** of **47** electric utilities saw HDDs **decrease** in Jan/Feb relative to 'normal', implying challenged '23 earnings set-up vs guidance & Consensus.

Gas LDCs as mild weather implies a tough 2023 set-up

Milder Jan/Feb weather comes as welcome reprieve for majority decoupled Northeast and California gas utilities given gas supply constraints and elevated natural gas prices that augmented affordability and reliability risks into 2023. While **Eversource (ES)** and **Avangrid (AGR)** did not benefit from 2022 weather-related gas demand growth, mild Jan/Feb weather mitigated winter '23 gas supply concerns across their Northeast jurisdictions and, unlike peers, these utilities will not see earnings drag from lower gas demand due to revenue decoupling. However, we see an increasingly cautious outlook for dedicated gas LDCs (i.e. companies without electric operations): **Spire (SR), Atmos (ATO) and UGI Corp (UGI).** *See unique risks to UGI between weaker European weather trends & US on unregulated propane volume*. Additionally, it is more difficult for dedicated gas LDCs to 'cut' O&M to offset weaker weather given less 'flexible' costs. For example, electric IOUs can flex tree trimming, while gas LDC O&M costs are more fixed. *Overall, milder weather YTD foreshadows a difficult EPS outlook for gas LDCs without decoupling.*



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Read the research report for complete information including important disclosures and analyst certification(s).

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North American Utilities & IPPs

Power Points: VST-ENGH Feedback, ED Clean Energy Hub, NI Indiana, DUK Refresh

Price Objective Change

VST: FERC filing for ENGH transaction. Investor Feedback

Energy Harbor (ENGH - Not Covered) and Vistra Corp (VST) filed a Section 203 request at the Federal Energy Regulatory Commission (FERC) for the previously disclosed merger between the companies (EC23-74). Energy Harbor will be part of the new Vistra Vision subsidiary with a 15% minority ownership by financial investments. The cross-ownership of Nuveen Asset Management and Vistra Vision and Talen Energy Supply (TLN - Private) was disclosed where Nuveen is expected to own 11-16% voting right in Talen. Parties requested approval by July 17, 2023. The filing confirms that the Pleasants coal plant will not be affiliated with Vistra.

We reiterate Buy on shares of Vistra which have given back the relative outperformance vs the S&P 500 since the Energy Harbor acquisition, despite an improvement in wholesale power since early March. Despite the attractive valuation profile, we still hear hesitation from our investor conversations as capital allocation questions linger. Specifically, we believe that additional M&A is a still-viable scenario and believe management would consider various options (including equity) for funding. Potential areas could include further nuclear, retail, and/or renewable deals closely. The increasingly likely probability of the Texas Performance Credit Mechanism (PCM) would be a positive as the backup generation 'Berkshire Hathaway' plan appears to have faced growing opposition.

ED: Clean Energy Hub approved by NY state

The New York State Public Service Commission (PSC) approved Consolidated Edison Company of New York, Inc.'s (CECONY) petition for construction of a transmission substation in northwest Brooklyn. ED projects ~$810Mn capex for the project which has been reframed of late to focus on its need for addressing local electric reliability needs in Brooklyn and Queens. The PSC press release also refers to the hub's ability to support up to 1,500 megawatts (MW) of new clean-energy resources including offshore wind. We do not view the Clean Energy Hub approval as additive to ED's capital plans as the company has already included it in their latest multi-year projections. *Maintain Neutral on ED given valuation and limited upside as capital plans, share buyback, and other drivers are well known and largely priced in at this point.*

NI: FERC filing for NIPSCO reorganization

NiSource (NI) subsidiary Northern Indiana Public Service Company, LLC. filed a Section 203 request at FERC to approve an internal reorganization (EC-23-75). NI states that there will be no change in the ultimate ownership of NIPSCO because of the proposed internal reorganization. The stated rationale is "to improve the flexibility of the intercompany corporate ownership structure." The proposal would create a NIPSCO Holdings I LLC and NIPSCO Holdings II LLC as intermediate entities between NiSource Inc. and Northern Indiana Public Service Company, LLC. *NiSource management publicly disclosed plans to divest a minority stake in NIPSCO at its Analyst Day and this enhanced structure flexibility could be a component. We look for further updates and insight with upcoming earnings. We reiterate Buy with an attractive valuation and lower risk outlook.*

See the full report for more on Duke 1Q preview.

21 April 2023

Equity
North America
Utilities & IPPs

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FERC: Federal Energy Regulatory Commission
NIPSCO: Northern Indiana Public Service Company
CECONY: Consolidated Edison Company of New York

PO Change:
DUK: to $112 from $111

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DUK: Fine tuning our EPS estimate for Q1

We modify our Duke Energy (DUK) Q1 EPS walk as detailed below. The main change for Q1 is reducing the amount of storm cost normalization from 2022 – this had previously been a +13c driver and is now +7c, in line with the level of drag seen last year. As a result, our Q1 EPS estimate moves down to $1.26 from $1.30 previously as we expect some other incremental shifts that will provide a partial offset. For the full year we still see DUK delivering EPS of $5.58, at the lower end of the $5.55-5.75 range provided by mgmt. as Q1 weather is set to start the company off (and many other utilities) on a relatively challenged footing.

Exhibit 1: Duke Energy Adjusted EPS Walk
Tweaking our Q1 estimate lower to $1.26, Street $1.30

DUK 2023 EPS Walk	EPS	Q1	Q2	Q3	Q4
Starting: 2022 EPS	5.27	1.28	1.16	1.78	1.06
Normalizing '22 weather	-0.10	0.03	-0.10	-0.03	0.00
Normalizing '22 storm expense	0.07	0.07	0.00	0.00	0.00
Weather - 2023	-0.17	-0.17	0.00	0.00	0.00
Load growth +50 bps across all classes	0.08	0.02	0.02	0.02	0.02
Rate increases					
Duke Energy Progress North Carolina	0.17		0.03	0.09	0.05
Duke Energy North Carolina (filing in Q1)	0.03			0.02	0.01
Duke Energy South Carolina	0.02		0.01	0.00	0.01
Duke Energy Florida multi-year plan	0.09	0.02	0.02	0.03	0.02
Duke Energy Florida SPP rider	0.04	0.01	0.01	0.01	0.01
Duke Ohio electric	0.03	0.00	0.01	0.01	0.01
Duke Ohio gas rate case	0.01	0.00	0.01	0.00	0.01
Duke Kentucky electric	0.02	0.00	0.00	0.01	0.01
Distribution riders	0.10	0.03	0.03	0.03	0.03
Gas LDC	0.04	0.01	0.00	0.00	0.03
O&M $300m initiative	0.30	0.08	0.08	0.08	0.08
D&A	-0.16	-0.04	-0.04	-0.04	-0.04
AFUDC equity	0.04	0.01	0.01	0.01	0.01
Interest expense	-0.35	-0.09	-0.09	-0.09	-0.09
Parent de-levering from renewables sale	0.04	0.00	0.00	0.00	0.04
Other	0.00	0.00	0.00	0.00	0.00
Share count dilution	0.00	0.00	0.00	0.00	0.00
2023 Adjusted EPS	**5.58**	**1.26**	**1.14**	**1.94**	**1.24**
Guidance	**5.55-5.75**				
Street consensus	**5.63**	**1.30**	**1.18**	**1.90**	**1.28**

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

We tweak our valuation modestly on mark to market of the latest peer multiples. PO moves to $112 from $111. We apply electric/gas multiples of 16.5x/16.3x vs. 16.4x/16.7x previously. Reiterate Buy based on the double-digit total return implied by our valuation.

Exhibit 2: Duke Energy Valuation (DUK) Sum of the Parts Valuation
PO to $112, Reiterate Buy

Duke Energy Sum of the Parts Valuation
2025E
All figures in $Mn except per share

	Metric	P/E Multiple				Equity Value		
	2025 EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric			**16.5x**						
Group EPS '19-'23 CAGR - Electric			**5.00%**						
Electric Utilities			**17.3x**						
Duke Energy Carolinas	$2.50	18.3x		**2.0x**	19.3x	20.3x	$45.82	$48.32	$50.82
Duke Energy Progress/Carolinas	$1.60	18.3x		**2.0x**	19.3x	20.3x	$29.39	$31.00	$32.60
Duke Energy Florida	$1.37	19.3x		**3.0x**	20.3x	21.3x	$26.39	$27.76	$29.12
Duke Energy Indiana	$0.59	18.3x		**2.0x**	19.3x	20.3x	$10.89	$11.49	$12.08
Duke Energy Ohio/Kentucky	$0.38	16.3x		**0.0x**	17.3x	18.3x	$6.21	$6.59	$6.97
Total Electric Utility Value	**$6.44**						$118.71	$125.15	$131.60

Exhibit 2: Duke Energy Valuation (DUK) Sum of the Parts Valuation
PO to $112, Reiterate Buy

Duke Energy Sum of the Parts Valuation

Group Peer Multiple - Gas			**16.3x**						
Group EPS '18-'22 CAGR - Gas			**5.00%**						
Gas Utilities	2025 EPS		**17.1x**						
Duke Energy Piedmont	$0.63	17.1x		**1.0x**	18.1x	19.1x	$10.75	$11.37	$12.00
Duke Energy Ohio/Kentucky Gas	$0.18	16.1x		**0.0x**	17.1x	18.1x	$2.93	$3.11	$3.30
Total Gas Utility Value	**$0.81**						$13.68	$14.49	$15.30
Commercial Segment	2025 EBITDA								
Remaining Midstream assets	$102	7.0x	**8.0x**	**0.0x**	8.0x	9.0x	712	813	915
Transmission Segment	$6	8.0x	**9.0x**	**0.0x**	9.0x	10.0x	49	55	61
Segment Net Debt	-$1,913						-1,913	-1,913	-1,913
Add back Renewable Debt	$1,302						1,302	1,302	1,302
Renewables Segment NPV @ 8% Discount	$0						0	0	0
New Renewables NPV	$0						0	0	0
Net Infrastructure Equity							149	257	364
Net Infrastructure Equity Per Share							$0.20	$0.33	$0.50
Parent	2025 EPS								
NMC (Saudi Chemical JV)	$0.07	10.3x		**-6.0x**	11.3x	12.3x	$0.72	$0.79	$0.86
50% Weighting: Parent Debt Interest Expense	-$0.95	20.1x		**0.0x**	19.1x	18.1x	-$9.58	-$9.10	-$8.62
50% Weighting: Parent Debt	-$30,916						-$20.08	-$20.08	-$20.08
Total Equity Value							-$28.93	-$28.38	-$27.84
Shares Outstanding								770	
Total Equity Value							**$104.00**	**$112.00**	**$120.00**
NTM Dividend Yield								4.3%	
Total Potetnial Return								**18.6%**	

Source: Company Filings, Bloomberg, & BofA Global Research

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Exhibit 3: Primary stocks mentioned in this report
Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
VST	VST US	Vistra Energy	US$ 23.78	B-1-7
ED	ED US	Consolidated Edison	US$ 98.66	A-2-7
NI	NI US	NiSource Inc	US$ 28.59	B-1-7
DUK	DUK US	Duke Energy	US$ 98.22	A-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Consolidated Edison (ED)
Our $96 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples 16.4x/16.7x for electric/gas respectively with an in-line multiple for Electric, Steam, & Gas to reflect a combination of historically challenging regulation but above-peer growth and de-risked profile. Both electric and gas peer 2025 P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. For noncore segments we apply a -2x discount to Con Edison Electric Transmission (CET) and a -6x discount to the Wholesale Energy business given elevated risk profiles. For the Mountain Valley Pipeline stake we apply a 5x EBITDA multiple to our 2024 EPS estimate reflecting elevated risk.
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.

Duke Energy (DUK)
Our $112 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2025E P/E multiples. We apply a 3x multiple premium to Duke's operations in FL and 2x in IN to reflect more favorable regulatory environments (and potential generation opps in IN). We apply a 2x multiple to the Carolinas given upside to spending in improving regulatory construct combined with latest IRP & wider legislative reforms into 2023.

We value the other regulated electric utilities at 16.5x and the gas utilities at peer group multiples of 16.3x 2025E 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 2025E EV/EBITDA basis. We use 8.0x multiples for midstream and 9.0x for transmission segments. 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.

NiSource Inc (NI)
Our $32 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 16.4x for gas and 16.4x for electric. 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 utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

Positive and negative risks to our Price Objective are changes in 1) regulatory, political, and legislative outcomes, 2) ability to execute on capital expenditure plan, 3) inflation, operating expense, and interest rates as they influence earned rates of return, 4)

customer count and load growth, 5) commodities, 6) natural disasters, 7) pension plan returns, 8) equity and asset sale needs.

Vistra Energy (VST)
Our $29 price objective is based on a 2025E SOTP valuation. We assign a discount/premium to the peer group EV/FCF multiple of 7.0x: We include the full $300mn of margin-enhancing initiatives as well as $200mn optimization benefits and the $290mn of synergies related to the DYN acquisition. We 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). We include impact from future bill credits from Uri storm & NPV of ERCOT uplifts. For the pending announced Energy Harbor deal, we apply a peer multiple of 7.0x EV/FCF, consistent with our target multiple for legacy VST nuclear and retail. We also layer in Energy Harbor Synergies at a 2.0x discount to the peer multiple (consistent with our approach for DYN) and an in-line multiple for margin offsets (consistent with our prior approach for offsets).

Positive and negative risks: 1) changes to regulatory, political, or legislative standards, 2) wholesale power, natural gas, & capacity prices, 3) competitive & regulatory change to retail businesses, principally in Texas, 4) operational performance, 5) development of new renewables and storage assets, 6) natural disasters, 7) interest rates, 8) nuclear fuel access/cost, and 10) retail market attrition.

Analyst Certification

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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
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
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	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR 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
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC 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				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP 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
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith

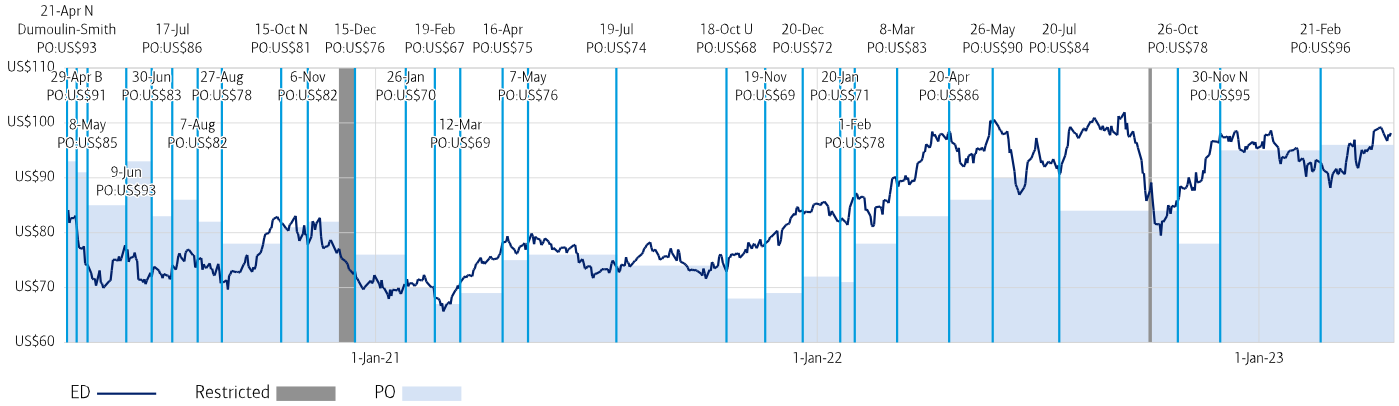
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC 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
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

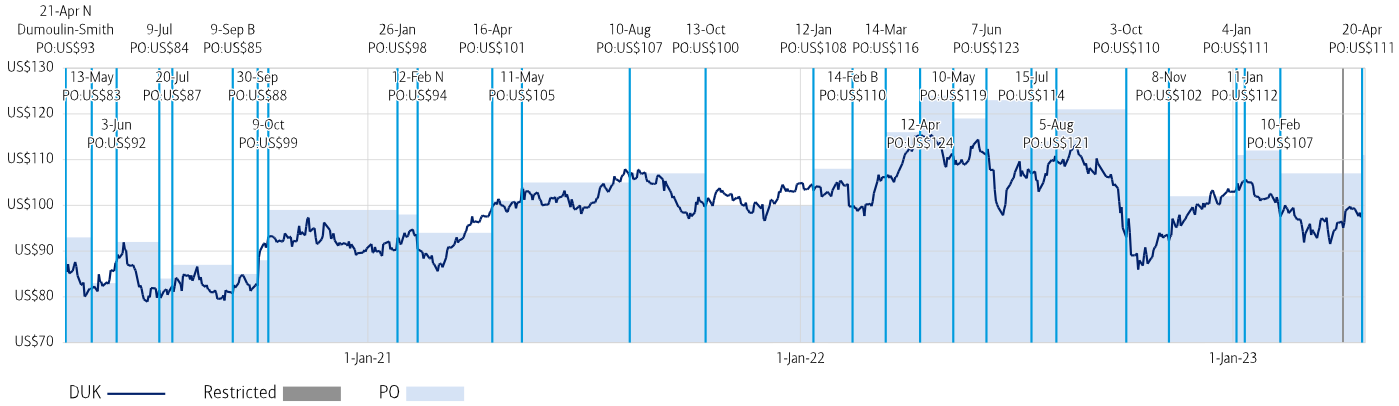
Consolidated Edison (ED) Price Chart



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

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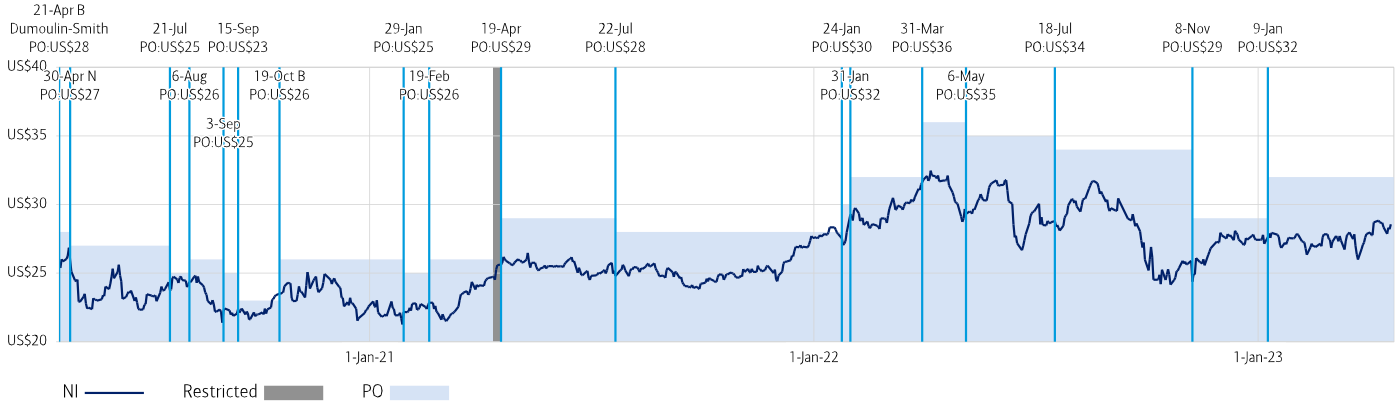
Duke Energy (DUK) Price Chart



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

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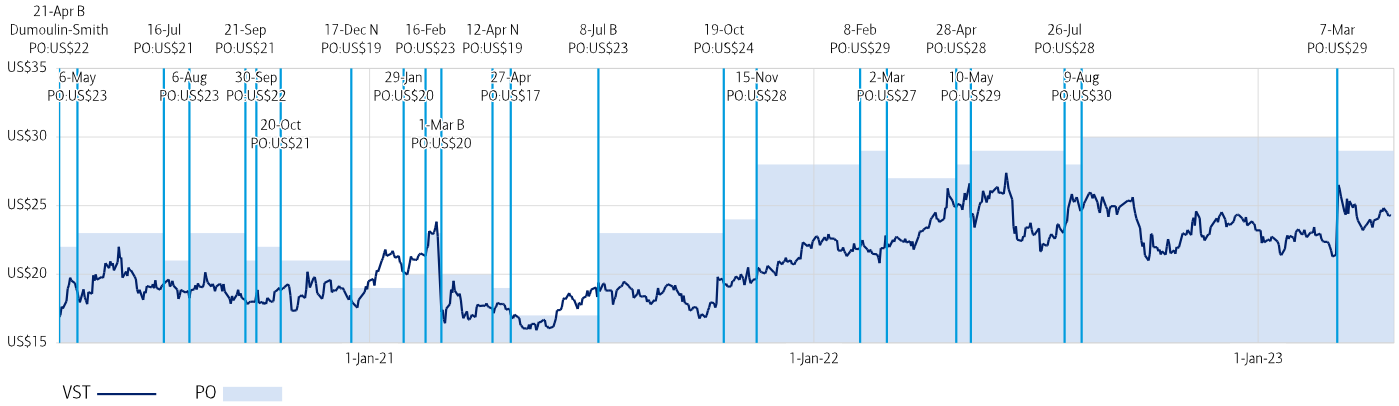
NiSource Inc (NI) Price Chart



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Vistra Energy (VST) Price Chart



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

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Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	86	60.99%	Buy	68	79.07%
Hold	31	21.99%	Hold	23	74.19%
Sell	24	17.02%	Sell	14	58.33%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	78	50.65%	Buy	53	67.95%
Hold	40	25.97%	Hold	28	70.00%
Sell	36	23.38%	Sell	24	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

[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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US Utilities & IPPs

PowerPoints: NIPSCO sale, SO Vogtle, AES, PNM/AGR merger, VST nuclear

Industry Overview

NI: stake sale better than expected; key derisking: Buy

NiSource (NI) announced the sale of a 19.9% stake in its subsidiary, Northern Indiana Public Service Co (NIPSCO), to Blackstone. Under the deal terms, Blackstone would acquire a 19.9% noncontrolling stake in NIPSCO for $2.15B in cash and an additional $250m of equity commitments (at the NIPSCO level) to fund ongoing capex over 3 years. We view the print as very positive. Future ATM needs are unchanged (we watch nuances here for ~$0.25Bn/year in 2025+) for now despite future opco investment, keeping its 19.9% stake intact over time. The deal would imply an equity value of $10.8B and an EV of $14.3B at 100%, per the deal announcement. Disclosed multiples are 32.5x trailing EPS and solid 1.85x EV / 2022 year-end rate base of $7.7B. The transaction would take out equity needs in 2023, which we previously estimated at $2B, so deal valuation is slightly better than anticipated. Management reiterated that it expects to keep financial targets unchanged, including growth in NOEPS of 6-8% and cash flow metrics of 14-16% FFO to net debt. Additional equity is not expected until 2025, when management expects to utilize its ATM. Management reaffirmed 2023 EPS guidance of $1.54-1.60. The deal is subject to normal closing conditions, including FERC approval, which management stated is expected by year-end. We maintain our Buy rating; this removes the clearest impediment to shares, affirms balance sheet, in our view.

SO: Vogtle Unit 3 in-service delayed until July

After market close on Friday, June 16, Southern Co (SO) issued an 8-k that disclosed that in-servicing of Unit 3 of Vogtle has been delayed until July from its previous target of June. The delay is attributed to degradation of the hydrogen seals on the generation during final stages at the 100% level. SO is in the process of replacing the seals and expects to return to 100% testing once the replacements are in place. The target timing for returning to 100% level of testing is the end of the month, with two tests remaining to be done after replacement of the seals. Output at Unit 3 dropped to 0% on June 7 and recovered to 32% for several days and was reported as zero from June 12 through 18. SO's 8-k did not specify a date in July when in-servicing is expected to take place and did not include incremental updates on Unit 4. The update is a clear negative, in our view, though ultimately a minor delay, as SO had previously been targeting in servicing the unit by the end of June. We expect weakness in shares as investors digest the news and evaluate the likelihood for additional delays after SO had been one of the better-performing large cap utility stocks thus far year to date. We maintain our Underperform rating given valuation.

AES: New Board member a positive twist

AES announced that Gerard Anderson was elected to the company's Board of Directors, effective July 17. Investors may remember Mr. Anderson from his time as Executive Chairman and CEO of DTE Energy (DTE) and as chairman of EEI. We view the appointment of Mr. Anderson to the Board as a positive considering his extensive experience in the utility space, especially as AES seeks to rapidly grow its own utility businesses over the next several years. We maintain our Buy rating on AES given attractive risk/reward, though note that cautious data points have begun to emerge as head of the renewables business recently resigned and AES acquired 2GW of backlog from a competitor.

Please see details on PNM/AGR merger, PNW staff, VST Comanche.

20 June 2023

Equity
United States
Utilities

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ATM: at the market program

EEI: Electric Edison Institute

EV: enterprise value

FERC: Federal Energy Regulatory Commission

FFO: funds from operations

GW: gigawatts

NOEPS: non-operating EPS

opco: operating company

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NI: Deal suggests just under 24x on 2025 EPS

The disclosed equity in the NIPSCO sale implies just under 24x on our forecast 2025 earnings – see table below. We note that the management team gave 32.5x on a trailing 12-month basis as the deal multiple, which is based on $333m of adjusted net income for the period ending March 31. We previously had a placeholder assumption of $2B in deal proceeds, which would be a 22x 2025 EPS multiple, or 7% below the deal that was announced. We see this as positive for NI directly but also supporting utility valuations for opco level sales overall as a trend. We expect that this could very well still prove a "high water mark" across the year on contemplated sales. On balance, we could see a modest positive to others seeking to sell.

Exhibit 1: Implied EPS multiple
Our $2B assumed about 7% lower 2025 multiple

	2022E	2023E	2024E	2025E	2026E	2027E
Deal price – equity		2150				
BofAe						
Earnings (NIPSCO)	258	296	435	457	521	534
Implied P/E multiple	41.9	36.4	24.8	23.6	20.7	20.2

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Management indicated that it expects to "turn on" the ATM issuance at a clip of approximately $250m per annum beginning around 2025 – we note that this is equity at the corporate level, and the additional $250mm equity commitment from Blackstone as part of the deal and additional contributions thereafter required to maintain its 19.9% stake would be incremental.

PNM/AGR: Merger agreement extended to December 31

PNM Resources (PNM) and Avangrid (AGR) mutually agreed to an amendment and extension of their merger agreement through December 31, 2023. Under the amended agreement, AGR and PNM may mutually agree to extend the "end date" to March 31, 2024. The merger agreement was previously extended through July 20, 2023 on April 12. However, the New Mexico Supreme Court (NMSC) recently denied AGR's, PNM's, and New Mexico Public Regulatory Commission's (NMPRC) request to remand the merger appeal case to the NMPRC and scheduled oral hearings for a merger appeal case on September 12, 2023. This implied need for further extension of the merger agreement, as the previous agreement stipulated that the merger may be terminated if closing of the merger does not occur by July 20.

The merger extension update is a slight disappointment given that the amended agreement does not include a "go-shop" period or higher AGR bid for PNM shares versus $50.30/share currently, per our latest PNM deep-dive report: PNM Resources Inc.: Refreshing our view on PNM standalone: Attractive story warrants higher premium 12 June 2023. However, the extension is not a surprise. We monitor key stakeholder positioning at NMSC oral hearings in September. We expect PNM/AGR merger uncertainty to remain until year-end 2023 given the prolonged merger timeline. The merger agreement extension suggests company expectations for potential year-end 2023 or 1Q24 merger resolution. We maintain our Buy rating on shares of PNM given our view that share upside potential remains across all scenarios, including that the existing AGR/PNM merger materializes as is – i.e., without a higher AGR bid or potential third-party bid for PNM shares.

VST: Comanche Peak Unit 1 briefly shut down

A feed water pump issue (non-nuclear related) caused Unit 1 of Vistra's (VST) Comanche Peak nuclear generation facility to automatically shut down over the weekend. According to ERCOT (Electric Reliability Council of Texas) public data, the 1,205 MW (megawatt) unit was reported offline beginning Friday, June 16, at 6:32 p.m. and returned to service Sunday, June 18, at 10:00 a.m. This exposes VST to some potential commercial impacts given elevated prices during the heat wave. The impact is likely modest but emphasizes focus on the need to keep reinvestment in plants to ensure availability. As of this writing, NRC (Nuclear Regulatory Commission) data shows the unit as operating at 78% capacity. We are encouraged by the rapid response by VST to return the unit to operations in a timely manner. With the pending acquisition of Energy Harbor, VST's nuclear fleet is ever more relevant to earnings and valuation. We maintain our Buy rating on VST given attractive risk-adjusted free cash flow yield and growing "green" generation portfolio.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Alternative Energy: Through Silicon, and Beyond: Recapping our latest Solar Technologies Conference	Julien Dumoulin-Smith	20 June 2023
US Alternative Energy: Who Owns What? 3/31/23 HF & LO Trends. Clean Energy Crowding Analysis	Julien Dumoulin-Smith	20 June 2023
Evergy, Inc: Latest resource plans out more focus on reliability, renewables pushed back	Julien Dumoulin-Smith	20 June 2023

Exhibit 2: Primary stocks mentioned in this report
Prices and ratings or primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AES	AES US	AES Corp	US$ 21.34	B-1-7
NI	NI US	NiSource Inc	US$ 27.38	B-1-7
PNM	PNM US	PNM Resources Inc.	US$ 46.16	B-1-7
SO	SO US	Southern Company	US$ 71.76	A-3-7
VST	VST US	Vistra Energy	US$ 25.06	B-1-7

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

AES (AES)

Our price objective is $24 and is based on a sum of the parts analysis applying a blended valuation approach which is the summation of: 1) EV/EBITDA approach for US Renewable Generation using an 10.0x 2025E base for US peer 2.) NPV approach for DevCo using a 15% discount on 5.5GW+ of annual renewables beyond '23 given market dynamics, 3.) EV/EBITDA approach for Legacy Southland (US), 4.) NPV for Warrior Run (US) 5.) P/E approach for US Utilities using a 16.3x 2025E base for US peers plus a premium/discount, 6.) EV/EBITDA approach for LATAM non-public subsidiaries using a 7.0x 2025E base for peers plus a premium/discount, 7.) Mark-to-market value of publicly listed LATAM subsidiaries, 8.) Asia Generation is marked to carrying value while the Asian LNG import facility is valued on EPS accretion relative to total build cost, and 9.) EV/EBITDA 2025E multiple for Europe generation (except Jordan, which we mark to sales price). We also credit the company with its investment in Uplight and Fluence.

Risks 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.

NiSource Inc (NI)

Our $32 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 16.4x for gas and 16.4x for electric. 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 utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

Positive and negative risks to our Price Objective are changes in 1) regulatory, political, and legislative outcomes, 2) ability to execute on capital expenditure plan, 3) inflation, operating expense, and interest rates as they influence earned rates of return, 4) customer count and load growth, 5) commodities, 6) natural disasters, 7) pension plan returns, 8) equity and asset sale needs.

PNM Resources Inc. (PNM)
We value PNM Resources at $51 based on a 2025E sum of the parts valuation methodology utilizing P/E multiples for each business segment. We apply the electric utility average 15.8x 2025E which we grossed up for +5% reflect capital appreciation across the sector. This is a consistent approach for the coverage universe. We apply a +1.0x P/E premium to shares to reflect the visibility into growth and potential upside to the outlook. The regulatory and legislative outlooks have improved in both New Mexico and improved

Risks to the achievement of our price objective and estimates are changes in: 1) regulatory, political, judicial, and legislative outcomes, 2) operating and financing costs, 3) interest rates and asset returns, 4) pending M&A activity, 6) natural disasters and weather, 8) commodity prices, 9) capital expenditures, 10) credit rating agency actions.

Southern Company (SO)
Our $67 PO is derived from a sum-of-the-parts analysis (SOTP). We use a P/E valuation approach on 2025 estimates and use peer multiples of 15.5x for electric and 16.0x 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 2025 parent interest expense multiple by an electric P/E peer multiple to reflect parent leverage supporting the utilities. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting.

Upside/downside risks to achievement of the PO are: 1) Vogtle construction timing and costs, 2) regulatory, political, and legislative changes, 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 and sales growth, 7) O&M trends, 8) interest rates, 9) environmental policies and regulations, 10) M&A, and 11) interest rates.

Vistra Energy (VST)
Our $30 price objective is based on a 2025E SOTP valuation. For Vistra Vision, we arrive at a 6.0x blended EV/EBITDA. We apply a 6.5x EV/FCF multiple to nuclear, which we believe fairly represents the risk/reward profile of the assets. For Renewables and Storage, we apply a 10x EV/FCF multiple given the accelerating nature of the end markets. For Retail, we apply a 6.5x EV/FCF multiple, consistent with peers. For Vistra Tradition, we arrive at a 3.9x blended EV/EBITDA multiple. We apply a 5.5x EV/FCF multiple to Gas Generation given favorable spark spreads and end market demand dynamics and a 1.0x EV/FCF multiple to Coal Generation which we believe appropriately captures the limited long-term value of the assets.

Downside risks to our PO are: 1) changes to regulatory, political, or legislative standards, 2) wholesale power, natural gas, & capacity prices, 3) competitive & regulatory change to retail businesses, principally in Texas, 4) operational performance, 5) development of new renewables and storage assets, 6) natural disasters, 7) interest rates, 8) nuclear fuel access/cost, and 10) retail market attrition.

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
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR 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
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC 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				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith

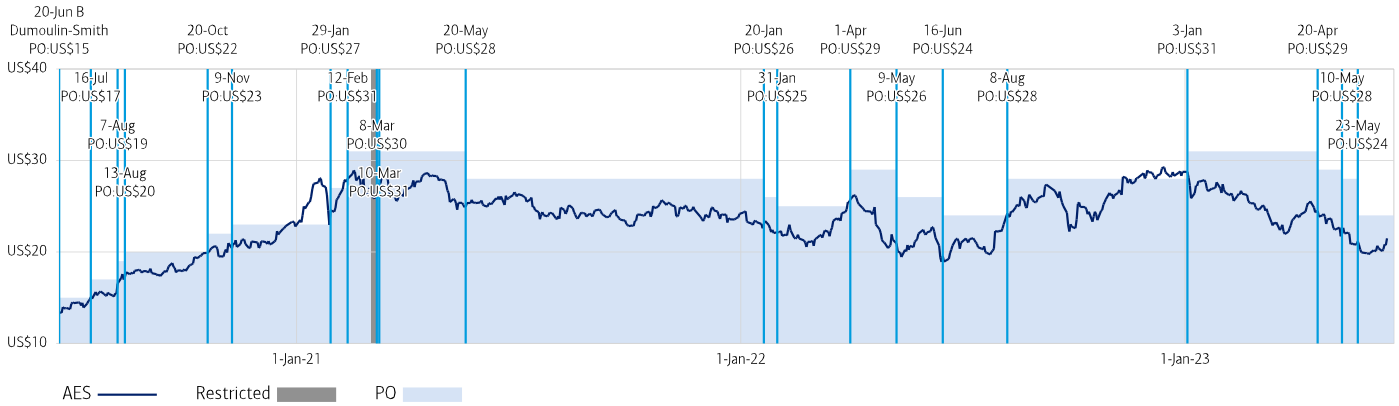
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	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
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC 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
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

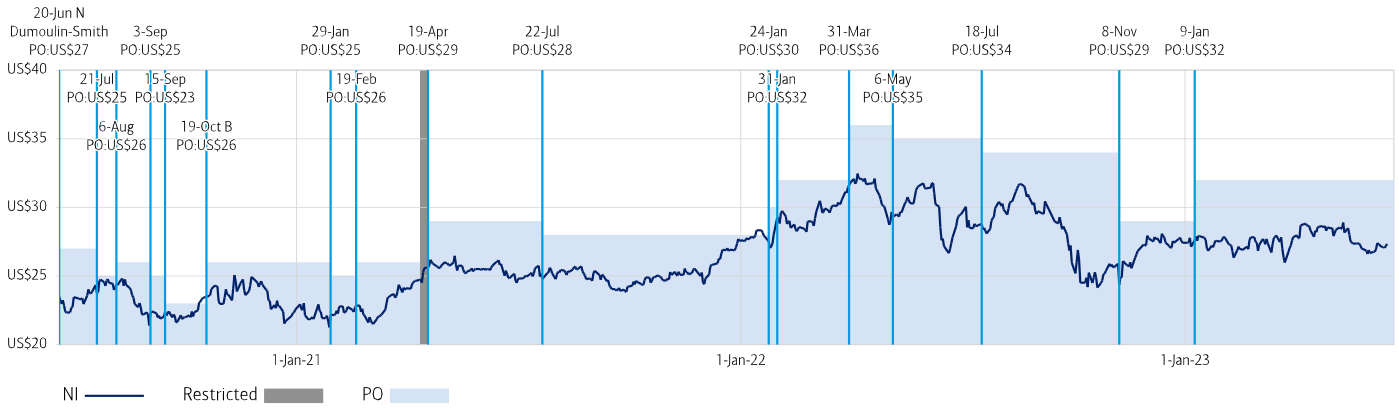
AES Corp (AES) Price Chart



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

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

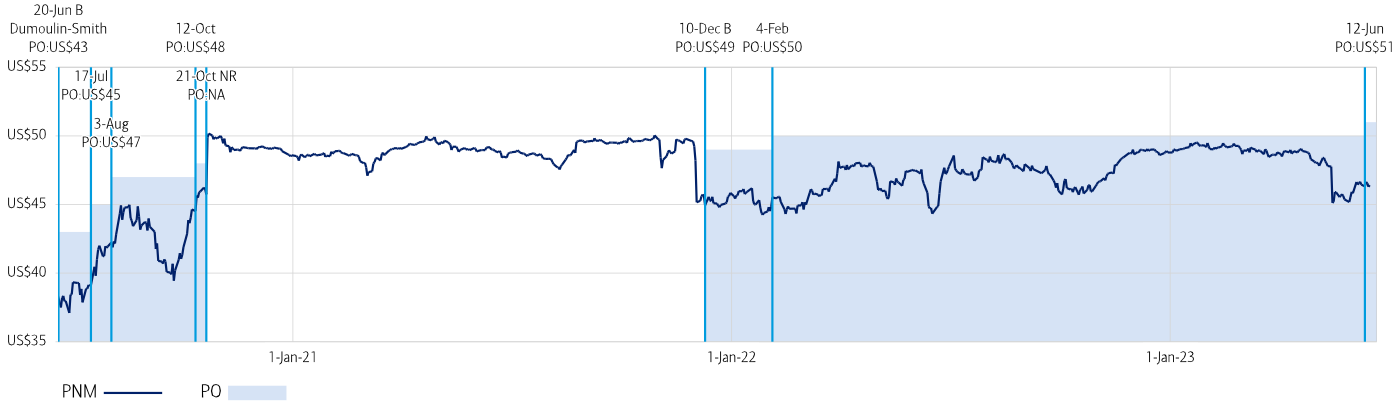
NiSource Inc (NI) Price Chart



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.

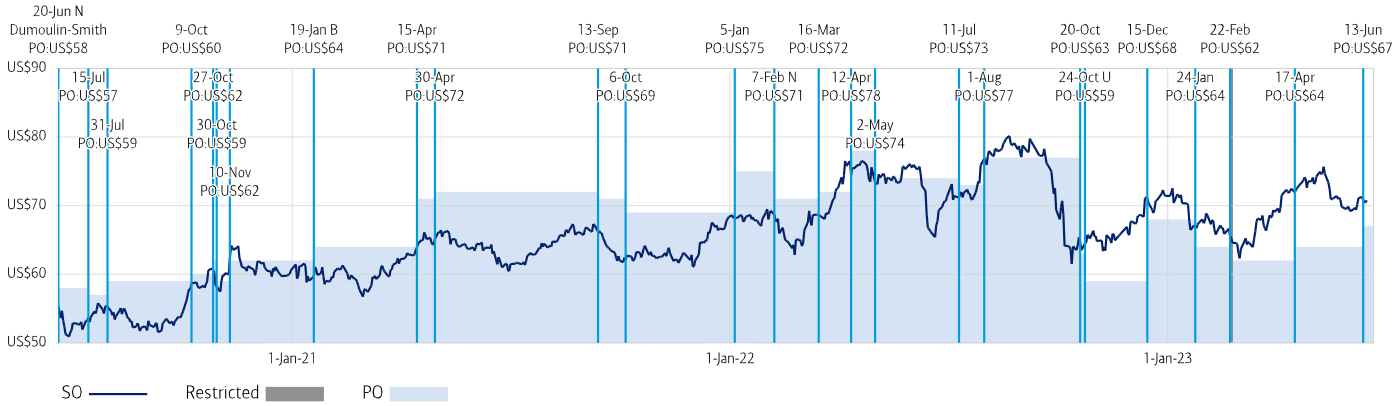
PNM Resources Inc. (PNM) Price Chart



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.

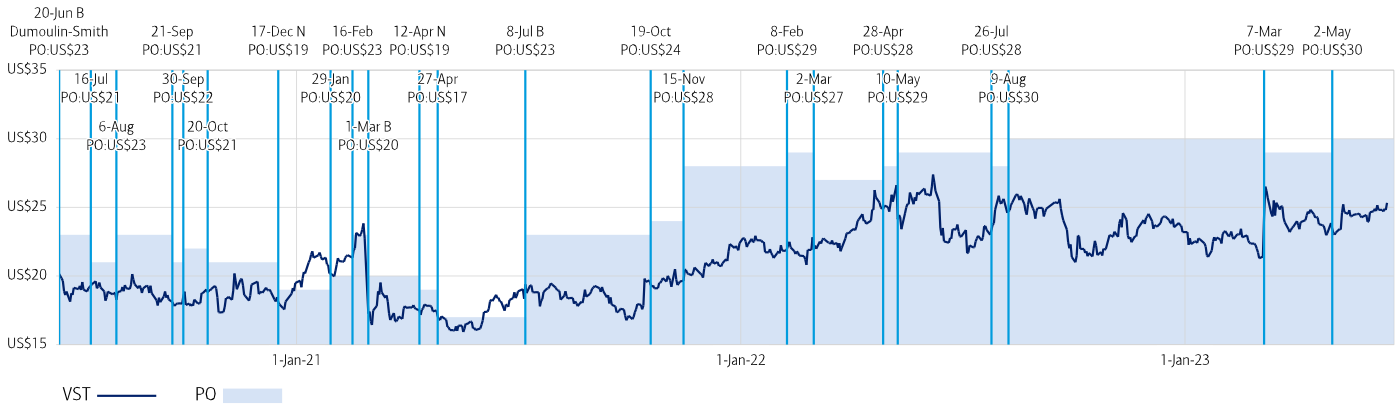
Southern Company (SO) Price Chart



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

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Vistra Energy (VST) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	86	60.99%	Buy	68	79.07%
Hold	31	21.99%	Hold	23	74.19%
Sell	24	17.02%	Sell	14	58.33%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	78	50.65%	Buy	53	67.95%
Hold	40	25.97%	Hold	28	70.00%
Sell	36	23.38%	Sell	24	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

[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]
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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US Utilities & IPPs

Who Owns What? Growing divide between hedge funds and long onlys as utilities lag

Industry Overview

Crowding dynamics remain the critical factor to watch

We provide our latest quarterly analysis of 13-F ownership data in our "Who owns what?" series in which we compile crowding data by examining a broad group of ~45 investment funds, including 21 hedge funds (HFs) and 25 "long-only" (LO) funds. Utilities underperformed the S&P 500 -11% in 1Q23 and have further slumped an incremental -10% in 2Q23. The relative weakness was a factor for us recently shifting to a more constructive orientation on the sector: US Electric Utilities & IPPs: We Think There's a Defensive Angle to be Had Here.... Utilities Looking Cheaper 07 June 2023. Overall hedge fund crowding decreased during the quarter in sharp contrast to long only investors increasing exposure and concentration overall. This creates a cleaner setup overall.

Crowded names are NI, PPL, DTE/CMS vs AGR, ED, & DUK

The most crowded hedge fund names are NiSource (NI), PPL Corp (PPL), and DTE Energy (DTE)/CMS Energy (CMS). Among long-onlys, the highest concentration is in CenterPoint (CNP), Entergy Corp (ETR), WEC Energy (WEC), and Ameren (AEE). The least popular regulated utilities for investors remain Avangrid (AGR), Consolidated Edison (ED), and Duke Energy (DUK). Among these, we see opportunity in Duke Energy. We acknowledge a challenged near-term setup ahead of potential Carolinas M&A, but that appears to be more than priced in after -4% recent relative underperformance.

Where do investor types differ? CNP, ETR, WEC, & AEP

The largest relative ownership deltas between long-onlys and hedge funds are for long-onlys' greater preference for CenterPoint, Entergy, WEC Energy, and American Electric Power (AEP). Among these, CenterPoint is the single best-owned name among long-onlys and has mixed hedge funds support. We believe that CNP can re-rate further with upside to capex and EPS estimates increasingly visible – reiterate Buy. See the full extent of recent Texas legislation as yet to be fully appreciated and disclosed.

What evolved the most QoQ? EVRG, LNT, & WEC

Among hedge funds, Evergy (EVRG) had the most significant QoQ decline in median ownership while Alliant Energy (LNT) had the largest increase. Dominion Energy (D) and CMS Energy also had notable declines in hedge fund ownership. CenterPoint had a notable increase in hedge fund median ownership as well but buying was more significant for long-onlys. WEC Energy had the most significant increase in long only ownership QoQ, while Duke Energy had the least relative long only buying during the period.

Wisdom of the crowds – we tend to agree here

In general, our ratings align with many names with more concentrated ownership including Buy-rated NiSource, PPL, CenterPoint, and CMS. We continue to highlight Duke as one of the better non-consensus long opportunities. See our latest thoughts here: Advancing toward a fully regulated vision following commercial renewables sale 6/13/23.

29 June 2023 Corrected

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WEC: WEC Energy

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46 large investors analyzed

We examine 13-F ownership disclosures for a broad group of 46 representative investment funds. This includes 21 hedge funds (up from 17 previously) and 25 funds with typically longer-term investment horizons ("long only" – up from 23 previously). We believe that this sample captures a diverse group of investor styles and approaches to investing.

Exhibit 1: Investment funds included in our data analysis
We analyze the public holdings of a variety of hedge funds and long onlys

Hedge Funds	Long Only Investors
Adage Capital Management Lp	Amp Capital Investors Ltd.
Alliancebernstein Lp	Capital Research & Management Co. (Global Investors)
Balyasny Asset Management Lp	Columbia Management Investment Advisers Llc
Citadel Advisors Llc	Duff & Phelps Investment Management Co.
Coann Capital Llc	Fidelity Management & Research Co. Llc
Cohen & Steers Capital Management, Inc.	First Trust Advisors Lp
Covalis Capital Llp	Franklin Advisers, Inc.
D. E. Shaw & Co. Lp	Invesco Capital Management Llc
Exoduspoint Capital Management Lp	Jennison Associates Llc
Hite Hedge Asset Management Llc	Jpmorgan Investment Management, Inc.
Holocene Advisors, Lp	Kayne Anderson Capital Advisors Lp
Jane Street Capital Llc	Loomis, Sayles & Co. Lp
Millennium Management Llc	Lord, Abbett & Co. Llc
Point72 Asset Management Lp	Magellan Asset Management Ltd.
Pointstate Capital Lp	Maple-Brown Abbott Ltd.
Schonfeld Strategic Advisors Llc	Mondrian Investment Partners Ltd.
Southpoint Capital Advisors Lp	Neuberger Berman Investment Advisers Llc
Verition Fund Management Llc	Norges Bank Investment Management
W.H. Reaves & Co., Inc.	Nuveen Asset Management Llc
Walleye Capital Llc	Pictet Asset Management Sa
Zimmer Partners Lp	T. Rowe Price Associates, Inc. (Investment Management)
	Tiaa-Cref Investment Management Llc
	Van Eck Associates Corp.
	Voya Investment Management Co. Llc
	Wellington Management Co. Llp

Source: BofA Global Research

BofA GLOBAL RESEARCH

See below for other reports on ownership and crowding dynamics

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Alternative Energy: Who Owns What? 12/31/22 HF & LO Trends. Clean Energy Crowding Analysis	Julien Dumoulin-Smith	27 March 2023
US Utilities & IPPs: Who owns what? Assessing yet another risk factor, crowding, into challenging '23	Julien Dumoulin-Smith	22 March 2023
US Electric Utilities & IPPs: Half time: Who owns what? HF/LO 6/30/22 ownership & crowding trends	Julien Dumoulin-Smith	06 September 2022
US Electric Utilities & IPPs: Who Owns What? The Post-Ukraine HF/LO Ownership Shift (3/31/22 13-F Filing Data)	Julien Dumoulin-Smith	20 May 2022
US Electric Utilities & IPPs: Who Owns What? Analyzing YE21 HF/LO Trading Patterns. Watching Macro Matters	Julien Dumoulin-Smith	28 February 2022
US Electric Utilities & IPPs: Who Owns What? #2: Long-Term Trends, ESG Ownership, and Top 10 Holders	Julien Dumoulin-Smith	02 September 2021
US Electric Utilities & IPPs: Who Owns What? What is Crowded? Analyzing HF/LO Trading Patterns	Julien Dumoulin-Smith	25 August 2021

Below, we show various statistics to assess relative ownership. Due to differing firm sizes, we analyze the data in different ways. This approach is consistent with our prior analyses for comparability. *The concentration approach could be the most meaningful, as it shows the breadth of ownership. This is likely is a better representation of positioning crowding, as it should correlate better with relative performance around events and grossing events. Additionally, it shows whether the investment opportunity has resonated with a wider number of investors, whereas even median ownership can be skewed by larger investor positions.*

- **Median – All:** The median percentage ownership of total utility stock shares outstanding, for *all* funds in the group, including those with no ownership.
- **Median – Owned:** The median percentage ownership of total stock shares outstanding, for only those funds in the group which own shares.
- **Concentration:** The number of funds that own shares in each respective stock.

We caution against overreliance on any one source of crowding when assessing a position, but this information can help, particularly around sizing when constructing a portfolio. PCG remains owned by many HFs but remains a small position for many.

Exhibit 2: Hedge Fund and Long Only 3/31/23
Breakdown of median and concentration of utility ownership for hedge funds and long only investors

		Hedge Funds 3/31/2023			'Long Only' 3/31/2023		
		Median - All	Median - Owned	Concentration	Median - All	Median - Owned	Concentration
Diversified Utilities							
Avangrid	AGR	0.000%	0.006%	9	0.003%	0.013%	15
NextEra Energy	NEE	0.004%	0.010%	16	0.195%	0.307%	22
Sempra Energy	SRE	0.031%	0.076%	14	0.241%	0.311%	22
Regulated Premium							
Ameren	AEE	0.006%	0.099%	11	0.216%	0.563%	18
CenterPoint Energy	CNP	0.036%	0.225%	12	0.425%	0.488%	20
Alliant Energy	LNT	0.052%	0.135%	16	0.133%	0.362%	18
CMS Energy	CMS	0.091%	0.111%	19	0.119%	0.679%	20
Consolidated Edison	ED	0.001%	0.020%	12	0.044%	0.092%	18
WEC Energy	WEC	0.000%	0.040%	9	0.282%	0.503%	17
Xcel Energy	XEL	0.024%	0.038%	16	0.199%	0.259%	20
Regulated Value							
American Electric Power	AEP	0.005%	0.050%	13	0.232%	0.260%	21
Dominion Energy	D	0.005%	0.015%	14	0.199%	0.218%	21
DTE Energy	DTE	0.137%	0.201%	17	0.124%	0.387%	19
Duke Energy	DUK	0.015%	0.036%	16	0.071%	0.129%	20
Edison International	EIX	0.000%	0.033%	11	0.134%	0.249%	19
Eversource Energy	ES	0.017%	0.030%	16	0.101%	0.125%	21
Entergy	ETR	0.026%	0.096%	17	0.346%	0.385%	22
Evergy	EVRG	0.013%	0.030%	16	0.104%	0.400%	18
Exelon	EXC	0.035%	0.124%	15	0.117%	0.273%	19
FirstEnergy	FE	0.030%	0.048%	17	0.070%	0.183%	18
NiSource	NI	0.189%	0.340%	16	0.146%	0.243%	20
PG&E Corporation	PCG	0.034%	0.057%	18	0.137%	0.570%	19
Public Service Enterprise Group	PEG	0.017%	0.101%	13	0.135%	0.320%	20
Pinnacle West	PNW	0.008%	0.170%	12	0.066%	0.233%	18
PPL Corp	PPL	0.139%	0.375%	17	0.066%	0.082%	20
Southern Energy	SO	0.003%	0.020%	12	0.138%	0.228%	20

Source: Company Filings, FactSet, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Among the regulated premiums Consolidated Edison (ED) is the least owned by long-only investors as well as having the one of the lowest concentrations. ED is also generally under-owned by hedge funds across the spectrum. Avangrid continues to be the single least owned utility across all investor types and metrics. *We maintain Neutral on shares of ED which has an approximately balanced risk/reward. We maintain Underperform on shares of AGR which trades at a premium to our view of the fundamentals.*

Exhibit 3: 3/31/23 QoQ Changes for Hedge Funds
LNT had the largest increase in overall median concentration among HFs

		Median - All	Median - Owned	Concentration
Alliant Energy	LNT	0.040%	0.049%	1
Sempra Energy	SRE	0.029%	0.062%	2
Entergy	ETR	0.019%	-0.025%	3
CenterPoint Energy	CNP	0.011%	0.176%	-
Eversource Energy	ES	0.010%	-0.029%	3
Duke Energy	DUK	0.005%	-0.002%	2
American Electric Power	AEP	0.004%	0.034%	2
NextEra Energy	NEE	0.004%	-0.008%	4
Edison International	EIX	0.000%	0.027%	3
Avangrid	AGR	0.000%	-0.005%	-
Consolidated Edison	ED	-0.002%	-0.072%	1
Southern Energy	SO	-0.003%	-0.016%	(2)
WEC Energy	WEC	-0.003%	0.018%	(1)
Public Service Enterprise	PEG	-0.013%	0.026%	-
Xcel Energy	XEL	-0.015%	-0.019%	2
Pinnacle West	PNW	-0.015%	0.119%	(1)
Ameren	AEE	-0.021%	-0.007%	(2)
PG&E Corporation	PCG	-0.034%	-0.045%	3
NiSource	NI	-0.035%	-0.007%	(1)
PPL Corp	PPL	-0.036%	0.083%	-
FirstEnergy	FE	-0.047%	-0.112%	2
Exelon	EXC	-0.050%	0.032%	(2)
DTE Energy	DTE	-0.054%	-0.077%	(1)
Dominion Energy	D	-0.070%	-0.061%	(3)
CMS Energy	CMS	-0.071%	-0.066%	2
Evergy	EVRG	-0.129%	-0.169%	-

Source: Company Filings, FactSet, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 4: 3/31/23 QoQ Changes for Long-Onlys
CNP had the largest median overall increase

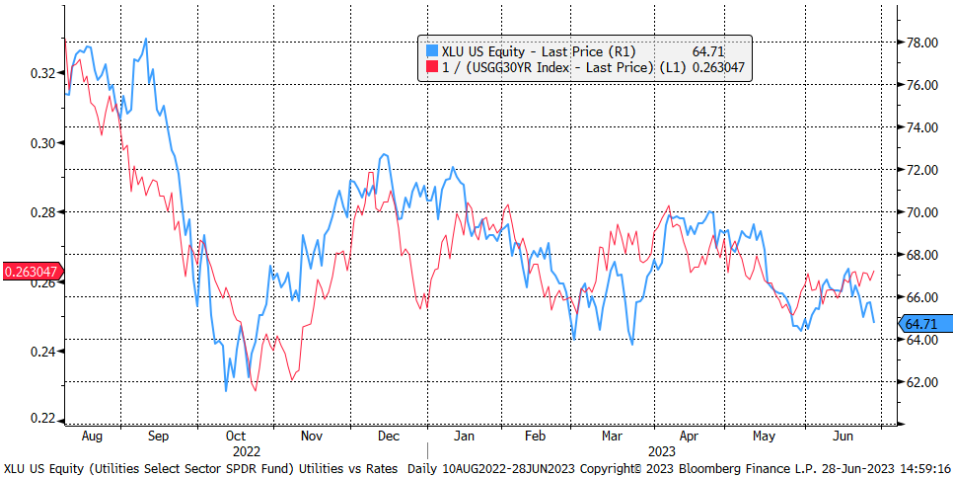
	Median - All	Median - Owned	Concentration
CNP	0.312%	-0.092%	3
WEC	0.246%	0.048%	2
ETR	0.174%	0.033%	2
AEE	0.107%	0.077%	2
SO	0.086%	0.079%	3
EIX	0.086%	0.100%	3
SRE	0.079%	0.073%	3
D	0.066%	0.034%	2
CMS	0.050%	0.197%	3
DTE	0.050%	0.034%	3
EXC	0.047%	-0.061%	4
PNW	0.047%	0.164%	4
PPL	0.042%	0.015%	3
PCG	0.042%	0.326%	3
NEE	0.042%	0.132%	4
EVRG	0.039%	0.213%	2
FE	0.036%	-0.046%	3
ED	0.027%	0.018%	4
PEG	0.021%	0.178%	3
NI	0.021%	-0.065%	4
XEL	0.020%	0.000%	2
AEP	0.017%	0.015%	2
ES	0.014%	-0.011%	3
LNT	0.003%	-0.007%	2
AGR	0.002%	0.001%	3
DUK	0.002%	0.039%	1

Source: Company Filings, FactSet, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Below we show the US utility equity performance relative to interest rates where the relationship has started to break down.

Exhibit 5: Utilities Equities (Blue) vs US 30Yr Treasury Inverse [Rates Proxy]
US Utilities have moved in-line with long-term US Government utilities from Aug 2022 to mid-June 2023



Source: Bloomberg

BofA GLOBAL RESEARCH

Exhibit 6: Primary stocks mentioned in this report
Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
DUK	DUK US	Duke Energy	US$ 90.52	A-1-7
CNP	CNP US	CenterPoint Energy	US$ 29.21	B-1-7
NI	NI US	NiSource Inc	US$ 27.44	B-1-7
CMS	CMS US	CMS Energy	US$ 59.64	B-1-7
ED	ED US	Consolidated Edison	US$ 91.98	A-2-7
AGR	AGR US	Avangrid	US$ 38.08	A-3-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Avangrid (AGR)

Our $35 PO is based on a sum of the parts analysis. The core utilities are valued on by applying discounts to the base sector P/E of 15.7x/15.8x for electric/gas due to below average growth and regulatory jurisdictions. Both electric and gas peer P/Es are grossed up +5% to reflect capital appreciation across the sector. The renewables are valued at approximately 10x 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, particularly regarding the pending acquisition of PNM Resources, 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.

CenterPoint Energy (CNP)

Our CenterPoint Energy PO is $35 using a 2025E sum-of-the-parts methodology. We apply the 16.7x electric and 17.3x gas base multiples. The base multiples are grossed-up +5% to reflect sector capital appreciation, a consistent approach across the coverage universe. We apply a 15% (2.6x) premium due to above-average growth and constructive jurisdictions.

Risks to achievement of the Price Objective are changes in 1) legislative, regulatory, and political outcomes, 2) capital expenditure forecasts and deployments, 3) earned return on equity, 4) asset sales, 5) capital markets access, costs, and needs, 6) interest rates, 7) weather and natural disasters, 8) management changes, and 9) inflation.

CMS Energy (CMS)

Our PO of $67 is based on a SotP relying on 2025E forward P/E multiples for the utility business and a 2025E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 2.0x prem to the average 2025E regulated multiple P/E of 16.6x for the electric segment and of 16.7x for the gas segment, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as continued 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 +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 through 2030 given the plant is no longer expected to be sold to Consumers.

Downside 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 $92 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples 15.6x/15.0x for electric/gas respectively with an in-line multiple for Electric, Steam, & Gas to reflect a combination of historically challenging regulation but above-peer growth and de-risked profile. Both electric and gas peer 2025 P/E multiples are grossed up by 5% to reflect capital appreciation across the sector.

For noncore segments we apply an in line valuation to Con Edison Electric Transmission (CET) given potential for earnings growth and attractive regulatory characteristics. For the Mountain Valley Pipeline stake we apply a 10x EBITDA multiple to our 2024 EPS estimate reflecting recent positive legal and legislative developments.

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. Downside risk lack of approval or modification of the JP by the New York state commission.

Duke Energy (DUK)
Our $104 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2025E P/E multiples. We apply a 2x multiple premium to Duke's operations in FL and 2x in IN to reflect more favorable regulatory environments (and potential generation opps in IN). We apply a 1x multiple to the Carolinas given upside to spending in improving regulatory construct combined with latest IRP & wider legislative reforms into 2023.

We value the other regulated electric utilities at 15.5x and the gas utilities at peer group multiples of 16.0x 2025E 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 2025E EV/EBITDA basis. We use 8.0x multiples for midstream and 9.0x for transmission segments. 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.

NiSource Inc (NI)
Our $31 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 15.7x for gas and 15.5x for electric. 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 utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

Positive and negative risks to our Price Objective are changes in 1) regulatory, political,

and legislative outcomes, 2) ability to execute on capital expenditure plan, 3) inflation, operating expense, and interest rates as they influence earned rates of return, 4) customer count and load growth, 5) commodities, 6) natural disasters, 7) pension plan returns, 8) equity and asset sale needs.

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				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR 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
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC 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				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Southwest Gas Holdings	SWX	SWX 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
UNDERPERFORM				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC 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
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	86	60.99%	Buy	68	79.07%
Hold	31	21.99%	Hold	23	74.19%
Sell	24	17.02%	Sell	14	58.33%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	78	50.65%	Buy	53	67.95%
Hold	40	25.97%	Hold	28	70.00%
Sell	36	23.38%	Sell	24	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

[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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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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Citi Research

ACTION

03 May 2023 13:50:43 ET | 12 pages

NiSource Inc (NI.N)

Slight Beat, NIPSCO Sale Timeline Guidance Unchanged

CITI'S TAKE

Ni modestly beat on EPS, reaffirmed NIPSCO sale and generation buildout timeline, and should modestly benefit from new Indiana law on T&D.

Q1 — Nisource's $0.77 beat consensus's $0.75/Citi's $0.73, driven by new gas rates and weather decoupling mechanism, offset by higher D&A, interest expense, & taxes.

NIPSCO Sale – Timeline Unchanged? — NI talked to a broad range of qualified buyers. They do not anticipate any approval process with the IURC but will engage with the commission by filing after an agreement is reached. The company reiterated the current timeline for the transaction (YE 2023 transaction), but choppy deal markets and lots of assets on the market increases deal execution risk, in our opinion.

Indiana ROFR Bill Signage, Transmission Projects — Under HB1420 (just signed by the Governor), NIPSCO and other incumbent Indiana utilities have the right to build, own and operate transmission projects in their current service territory without going through competitive bidding. This bill gives Nisource more footing to participate in MISO's transmission plan, earliest in service date in 2028 -- tranche 1 outlined 18 projects with $10B cost, and tranche 2 targeted approval in 1H24. Nisource will work with MISO to quantify the capex. Beyond HB1420, SB9 and HB1007 may modestly impact the Company's outlook given impact for generation outside of IRPs and future rates (although doesn't impact our current estimates).

Future of Gas: As the 9th circuit decision in California makes it harder to ban gas hookups, NiSource has laws on the books in 3 of 6 jurisdictions that prevent local governments to ban gas hookups, so the impact is limited for NiSource.

Program Apollo: $40M-$60M Recurring Savings — Management is working on recurring lean program to cut $40-60M/yr in O&M. The current CIO is focused on $1B investment in IT to cut costs in planning, execution, and customer service.

Renewable Projects on Track — Dunns Bridge I Solar and Crossroads Solar are still targeting Q2 COD. Calvary Solar and Dunns Bridge II Solar have started construction, and Crossroads 2 Wind is targeting 2023 COD.

Convert Financing? — Nisource could consider doing a convert with *cash* premium paid in the future (if necessary), in our view, to lower interest expense modestly. In investor dialogue, NI is on a short list of utilities investors focused on this.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2022A	0.75A	0.12A	0.10A	0.50A	1.47A	1.47A	1.70A
2023E	**0.77A**	**0.22E**	**0.28E**	**0.31E**	**1.58E**	**1.55E**	**1.54E**
Previous	0.73E	0.22E	0.28E	0.31E	1.54E	na	na
2024E	**0.75E**	**0.26E**	**0.32E**	**0.36E**	**1.69E**	**1.67E**	**1.65E**
Previous	0.76E	0.25E	0.32E	0.36E	1.69E	na	na
2025E	**na**	**na**	**na**	**na**	**1.80E**	**1.79E**	**1.77E**
Previous	na	na	na	na	1.80E	na	na

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

Click here for Visible Alpha consensus data

Neutral	
Price (02 May 23 16:00)	US$27.91
Target price	US$30.00
Expected share price return	7.5%
Expected dividend yield	3.6%
Expected total return	11.1%
Market Cap	US$11,526M

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



Ryan Levine AC

Xinru Yin

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Prepared for Michael Weisenburger

We adjusted our estimates modestly to reflect Q1 results, and cost cutting initiative.

Prepared for Michael Weisenburger

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NI.N: Fiscal year end 31-Dec						Price: US$27.91; TP: US$30.00; Market Cap: US$11,526m; Recomm: Neutral					
Profit & Loss (US$m)	**2021**	**2022**	**2023E**	**2024E**	**2025E**	**Valuation ratios**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Sales revenue	4,900	5,851	5,410	5,420	5,677	PE (x)	20.4	19.0	17.6	16.5	15.5
Cost of sales	-2,141	-2,931	-2,417	-2,206	-2,313	PB (x)	1.9	1.8	1.8	1.7	1.6
Gross profit	2,759	2,919	2,993	3,214	3,365	EV/EBITDA (x)	14.1	12.4	12.7	12.3	11.9
Gross Margin (%)	56.3	49.9	55.3	59.3	59.3	FCF yield (%)	-5.5	-6.3	-14.0	-9.0	-11.6
EBITDA (Adj)	**1,755**	**2,087**	**2,178**	**2,411**	**2,647**	Dividend yield (%)	3.2	3.4	3.7	3.9	4.1
EBITDA Margin (Adj) (%)	35.8	35.7	40.3	44.5	46.6	Payout ratio (%)	65	64	65	64	64
Depreciation	-748	-821	-816	-898	-1,000	ROE (%)	9.9	12.4	10.6	11.3	11.5
Amortisation	0	0	0	0	0	**Cashflow (US$m)**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
EBIT (Adj)	**1,007**	**1,266**	**1,362**	**1,514**	**1,648**	EBITDA	1,755	2,087	2,178	2,411	2,647
EBIT Margin (Adj) (%)	20.6	21.6	25.2	27.9	29.0	Working capital	-260	-285	-237	-90	-78
Net interest	-341	-362	-469	-540	-610	Other	-281	-380	-544	-697	-780
Associates	0	0	0	0	0	**Operating cashflow**	**1,214**	**1,422**	**1,397**	**1,625**	**1,790**
Non-Op/Except/Other Adj	37	65	32	47	47	Capex	-1,838	-2,203	-3,145	-2,750	-3,250
Pre-tax profit	**703**	**969**	**925**	**1,020**	**1,084**	Net acq/disposals	0	0	0	0	0
Tax	-118	-165	-183	-203	-216	Other	-367	-367	-171	0	0
Extraord./Min.Int./Pref.div.	-55	-55	-55	-55	-55	**Investing cashflow**	**-2,205**	**-2,570**	**-3,315**	**-2,750**	**-3,250**
Reported net profit	**530**	**749**	**687**	**762**	**813**	Dividends paid	-345	-382	-450	-489	-520
Net Margin (%)	10.8	12.8	12.7	14.1	14.3	**Financing cashflow**	**1,011**	**1,196**	**2,061**	**1,213**	**1,548**
Core NPAT	560	649	710	762	813	**Net change in cash**	**21**	**48**	**142**	**88**	**88**
Per share data	**2021**	**2022**	**2023E**	**2024E**	**2025E**	**Free cashflow to s/holders**	**-624**	**-781**	**-1,748**	**-1,125**	**-1,460**
Reported EPS ($)	1.30	1.69	1.53	1.69	1.80						
Core EPS ($)	1.37	1.47	1.58	1.69	1.80						
DPS ($)	0.89	0.94	1.02	1.09	1.15						
CFPS ($)	2.97	3.21	3.11	3.61	3.97						
FCFPS ($)	-1.53	-1.76	-3.90	-2.50	-3.24						
BVPS ($)	14.55	15.61	15.85	16.54	17.31						
Wtd avg ord shares (m)	409	433	439	441	441						
Wtd avg diluted shares (m)	409	443	448	450	451						
Growth rates	**2021**	**2022**	**2023E**	**2024E**	**2025E**						
Sales revenue (%)	4.8	19.4	-7.5	0.2	4.8						
EBIT (Adj) (%)	61.3	25.7	7.6	11.1	8.8						
Core NPAT (%)	10.1	15.8	9.5	7.3	6.7						
Core EPS (%)	3.7	6.9	8.1	6.8	6.5						
Balance Sheet (US$m)	**2021**	**2022**	**2023E**	**2024E**	**2025E**						
Cash & cash equiv.	95	75	148	148	148						
Accounts receivables	826	1,042	766	813	851						
Inventory	499	752	567	598	623						
Net fixed & other tangibles	20,491	22,442	24,783	26,635	28,886						
Goodwill & intangibles	1,486	1,486	1,486	1,486	1,486						
Financial & other assets	761	939	819	841	858						
Total assets	**24,157**	**26,737**	**28,570**	**30,521**	**32,852**						
Accounts payable	698	900	407	411	412						
Short-term debt	618	1,792	2,833	3,894	5,322						
Long-term debt	9,183	9,524	10,940	11,540	12,140						
Provisions & other liab	6,385	6,620	6,305	6,309	6,311						
Total liabilities	**16,884**	**18,835**	**20,484**	**22,154**	**24,184**						
Shareholders' equity	7,273	7,902	8,086	8,367	8,668						
Minority interests	0	0	0	0	0						
Total equity	**7,273**	**7,902**	**8,086**	**8,367**	**8,668**						
Net debt (Adj)	**9,707**	**11,240**	**13,624**	**15,286**	**17,313**						
Net debt to equity (Adj) (%)	133.5	142.2	168.5	182.7	199.7						

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

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NiSource Inc

Company description

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

Investment strategy

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

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $32. We value regulated assets at a multiple of 1.5x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $32 and $29, respectively.

Risks

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

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Appendix A-1

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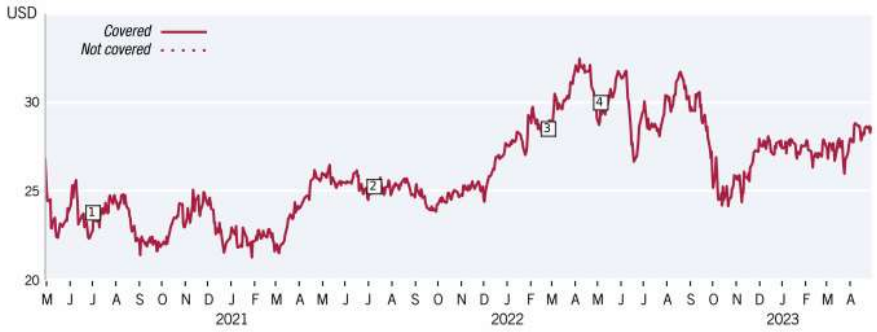
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NiSource Inc (NI)

Ratings and Target Price History
Fundamental Research

Analyst: Ryan Levine



	Date	Rating	Target Price	Closing Price
1	01-Jul-20 14:08:34	2	*24.00	23.46
2	08-Jul-21 15:00:03	2	*27.00	24.95
3	23-Feb-22 23:34:02	2	*28.00	28.21
4	04-May-22 17:57:28	2	*30.00	29.67

*Indicates Change

Rating/target price changes above reflect Eastern Time

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% of companies in each rating category that are investment banking clients	59%	65%	53%	67%	56%	62%

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Prepared for Michael Weisenburger

From: Levine, Ryan (Citi)
To: Weisenburger \ Michael \ V
Subject: US Gas Utes: New Federal Court Decision - A Win for Gas Utilities, Implication for PCG Ahead of Senate Testimony Today
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F L A S H | US Gas Pipelines & Distribution Utilities

New Federal Court Decision - A Win for the Gas Utility Market, Mixed Implication for PCG Ahead of CA Senate Testimony Today

CITI'S TAKE

Berkeley Restaurant Association legal decision released yesterday is a win for the natural gas community, in our view, and should help the valuation for gas utilities when a ban on new gas hookup in a progressive/liberal city such as Berkeley has been unsuccessful in implementing its policy. The decision has broader implications for future cases about gas hookup in other parts of the US given a federal court.

News: In a court case in Berkeley, California, the federal appeals court is the first to weigh in on bans against new natural gas hookups. Link to the 9th Circuit Decision (April 17). This decision indicated that the Energy Policy and Conservation Act preempts the Berkeley ordinance which prevents cities from banning gas hookups since the federal policy was created. The Act expressly preempts state and local regulation concerning the energy use for many gas appliances. Instead of directly banning these appliances in new buildings, Berkeley took a more circuitous route to the same result, so the court decided against the Berkeley Restaurant Association. The Court also noted that there were some conflicting decisions on similar cases, which leaves more issues to be decided in the future.

Industry Implications: The implication of this decision, in our view, is the anti-gas movement will likely slow. We would expect future litigation on this front but this decision creates precedent. This outcome is positive for gas utilities such as Atmos (ATO), Sempra (SRE), NiSource (NI), and CenterPoint (CNP) given their business mix. It is more negative for the electric utility / decarbonization movement. The decision more directly relates to PG&E (PCG) and the company filed information in connection with the case (see 9th Circuit Decision).

PCG Implications: From a PCG perspective, they own both gas and electric utility assets so the outcome may have less impact. In practice, a near-term shift from electric hookup to gas hookup in their service territory actually may be positive, in our view, for the stock. In January, during our field trip to California, almost every expert we met with was focused on the slow pace of electric hookups for PCG (US Diversified Utilities – Top Takes from Annual Ca. Utility & Energy Field Trip—CA Energy Transition Evolving). Since then, there has been a political and company management response due to the problems it created for the community. PCG management on the earnings call, announced a new “play” to their management playbook, and we would expect them to provide additional details at the upcoming analyst day. In Sacramento, there has been a Senate bill to address this issue (https://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml?bill_id=202320240SB83#). In addition, there is a hearing today at noon EST (9am PST) to dive deeper in this issue with the energy, utilities, and communication committee. The company may disclose additional details about PCG’s operational progress, and the opportunity for distributed generation and storage in their service territory. Longer term, we believe a shift from electric to gas is negative for rate base spending for PCG.

Ping us for the dial-in if interested.

Read Full Report



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Atmos Energy Corp

(ATO.N; US$114.1; 2; 17 Apr 23; 16:00)

Valuation

We average our valuation methodologies to derive a $125 target price. (1) Our NAV value is a multiple of 1.6x of rate base for utilities. These values are partially offset by the company's net debt. (2) Our DDM values the company's forecasted cash flows discounted by a WACC/CAPM based discount rate. We calculate a hypothetical dividend, based on regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. (3) Our P/E analysis indicates multiples of 20x for the company's distribution and transmission businesses. For our EV/EBITDA analysis, we use multiples of 12x for the company's distribution and transmission businesses.

Risks

The key risks to our investment thesis on ATO are (1) Capital Investment Recovery – ATO, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery; (2) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably; (3) Capital Markets – ATO is a relatively small utility in terms of market cap and trading volumes, impacting ATO's ability to access capital markets while this type of liquidity may make it difficult for institutional investors to trade in and out of the stock; (4) Derivatives Markets – Volatile markets and dislocated hedges might cause losses on earnings or make ATO occur liability. If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve or exceed our target price.

CenterPoint Energy Inc

(CNP.N; US$30.64; 2; 17 Apr 23; 16:00)

Valuation

We take an average of multiple valuation methodologies to derive our $31 price target. We value regulated assets at a multiple of rate base (2.0x for gas based on the recent LDC transaction price and 1.7x electric utilities). We use the latest public trading prices for the publicly listed securities. Our DDM values the company at $29. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 19x earnings for the company's utility. For our EV/EBITDA analysis, we use multiples of 12.5x EBITDA for the company's electric utility assets. Our P/E and EV/EBITDA analyses yield values of $28 and $32, respectively.

Risks

The key risks to our investment thesis are: (1) Oil and gas production outlook. (2) TX and MN Regulatory Environments: The PUCT or MPUC could reduce delivery rates below what we consider to be a reasonable rate of return. (3) Capital Investment Recovery: CNP, relying on future rates, spends capital to maintain and expand utility systems. A politicized commission could delay or put at risk this recovery. (4) Customer Growth: An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably. (5) Commodity Prices: Equity earnings derived from Enable are highly sensitive to changes in NGL and natural gas prices. (6) Energy Services Exposure: Our estimates are dependent on the future NYMEX costs. Any substantial changes in gas costs could materially impact results, especially if CNP continues to acquire other energy services business in the future. (6) Changes in Interest Rates: Any future upwards or downwards interest rate movement could affect valuation substantially, either favorably or unfavorably. If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to

achieve/exceed our target price.

NiSource Inc

(NI.N; US$28.3; 2; 17 Apr 23; 16:00)

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $32. We value regulated assets at a multiple of 1.5x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $32 and $29, respectively.

Risks

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

PG&E Corp

(PCG.N; US$16.86; 1H; 17 Apr 23; 16:00)

Valuation

Our valuation considered 2024 industry average P/E multiple to PCG's 2024 earnings and then adjusts the valuation lower to account for our assumptions of a future wildfire liability, smaller than peer dividend, and growth prospects. This results in a price target of $19 per share.

Risks

We rate PCG High Risk given the potential for future wildfires even though AB1054 does provide some level of protection.
Regulatory risk – Failure to obtain fair recovery for capital expenditures or increases in operating costs could negatively affect PG&E's earnings and equity value.
Outstanding legal disputes.
Victims Trust second sale could impact the trading price of PCG.
Future political & regulatory impact from prior accident and investigations which carry a risk not only in financial penalties and fines, but more importantly, potentially damaging the standing of the company, in front of the CPUC and stakeholders.
Potential M&A – PCG could be acquired or merged with another utility.
If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price.

Sempra Energy

(SRE.N; US$154.98; 2; 17 Apr 23; 16:00)

Valuation

We average four multiple valuation methodologies to derive our adjusted $171 target price. Our SOTP yields a value of $167. We apply an appropriate valuation metric for each asset in the SOTP approach that varies between P/E, EBITDA multiple, and trading value, based on the business we are valuing. These values are partially offset by the company's net debt and preferred shares. Our DDM values the company at $179. Our P/E and EV/EBITDA multiples are based on analyses of current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we apply multiples to 2023 earnings at the utility and infrastructure segments. Our P/E analysis yields a value of $165. For our EV/EBITDA analysis, we apply multiples to 2023 utility and pipeline EBITDA. Our EV/EBITDA analysis yields a value of $174.

Risks

The key risks to our investment thesis are as follows. (1) The utilities are subject to regulation from federal, state, and local authorities which may impose rulings adverse to Sempra's interests. (2) Uncertainty in the contracting of capacity on expansions at the company's LNG facilities may negatively impact earnings in the coming years, along with changes in the regulatory outlook towards exporting gas. (3) Sempra is exposed to currency issues in Mexico and earnings could be impacted with significant volatility in the value of the Mexican Peso. (4) Ability to access debt or equity markets at a reasonable cost in the future could materially impact growth in the future. (5) Cameron construction delays could further reduce earnings outlook over the next few years. In addition, we view the following risks: 6) Mexico Administration changes the course of energy reform to IEnova's detriment, 7) the City of San Diego and CPUC move forward with community choice aggregation and SDG&E is unable to recover stranded costs, and 8) a fire hits SDG&E and/or there is an unfavorable resolution to the wildfire cases (legislature, courts, CPUC, executive branch). If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving/exceeding our target price.



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Citi Research
VIEWPOINT

30 May 2023 17:00:00 ET | 14 pages

US Diversified Utilities

Utilities Still Most Crowded Sector into Potential Recession

Ryan Levine [AC]
Xinru Yin

CITI'S TAKE

Investor conversations with generalists over the last month of marketing point to the utility/power space becoming very crowded. Citi's quant analysis supports this takeaway as the industry remains the most crowded sector. Due to fundamentals, we have started to become more bullish, but these crowding scores add some worry. DTE, CNP, PPL, NI, and SRE rank as some of the most crowded, while PEG, PCG, and EIX are gaining popularity. Meanwhile NRG, AGR, and SWX remain out of favor.

Largest Increases in Crowding Scores — GNE, NWE, and UGI have some of the biggest increases in crowding scores since the end of Q1 2023. BIPC, BIP, PEG, POR, EIX and PCG also saw relatively large increases. GNE, AWK, PCG, PNW, and POR have some of the biggest increases in crowding scores since the end of Q4 2022. The gas names benefited from an improving regulatory environment (link) and lower commodity prices. The California stocks also benefited from decoupling, improving regulatory environment, and operational execution.

Largest Decreases in Crowding Scores — Stocks that saw some of the largest decreases in crowding scores since the end of Q1 2023 include UTL, PNM, AMPS, PNW, CMS, and ES. SJW, BEPC, PNM, NFG, BKH, and ES saw some of the largest decreases in crowding scores since the end of Q3 2022. There has been a growing concern around the challenging M&A market which has hurt sentiment around PNM, ES, and others. In addition, declining power prices and utility have decreased the outlook for AMPS, and others.

Most Crowded Stocks — DTE is the most crowded name in the space, followed by CNP (the most crowded in Jan and Mar), PPL, NI, SRE, and BIP. We continue to like DTE but remain concerned about the upcoming rate case for CNP. The outlook for NiSource continues to improve while Sempra continues to execute and capitalize on changing gas price environment.

Least Crowded Stocks — NRG is the least crowded stock within our coverage and has been among the least crowded stocks since June 2022. It was not surprising to see the activist campaign start on NRG given the poor investor sentiment. We see value here though. Other names with low crowding scores include OGS, AGR, SWX, and UGI.

Short Interest — We utilize short interest data that is more accurate than the Bloomberg data (less lag) so worth noting. NOVA has the highest short interest in the utility's universe, followed by POR, NRG, ORA, AGR, AMPS, and BIPC.

Changes in Short Interest since December and March — NRG, POR, AMPS, PNW, BIPC, AES, and CMS saw the largest increases in short interest from the end of Q1. Other names with large increases include CMS and OGE. NOVA, BIPC, NRG, SJW, and PNW saw the largest increases in short interest from the end of Q4. CMS and NFG also have large increases since December. On the other end of the spectrum, the largest declines in short interest came from SJW, BKH, PCG, and SWX. ED, BIPC, NFG, and ORA saw relatively large declines in short interest as well. The largest declines in short interest since Q4 2022 came from PCG, ATO, and BKH. UGI, CNP, and PNM also saw relatively large declines.

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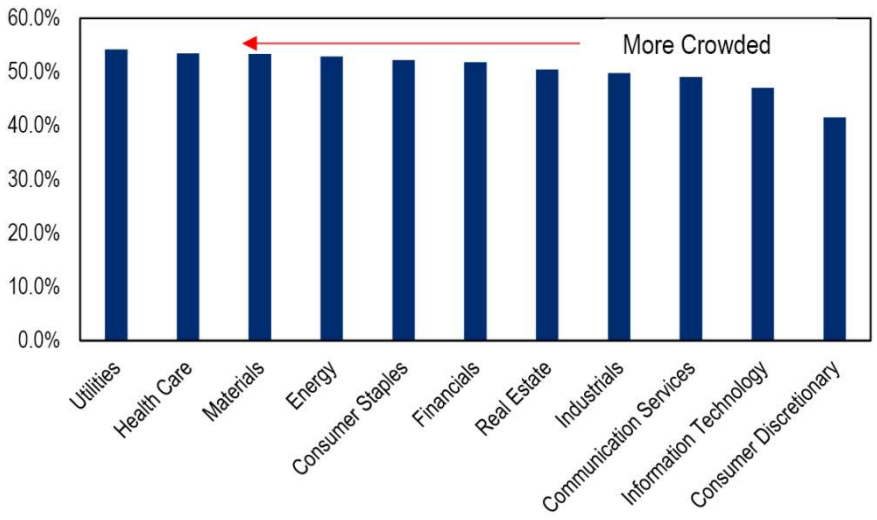
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Utilities Crowding

Utilities remains the most crowded sector in the Citi Quant Research team's May update (link). It was the most crowded as of our last update in March 2023 (link).

Figure 1. Sector Crowding



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Source: Citi Research

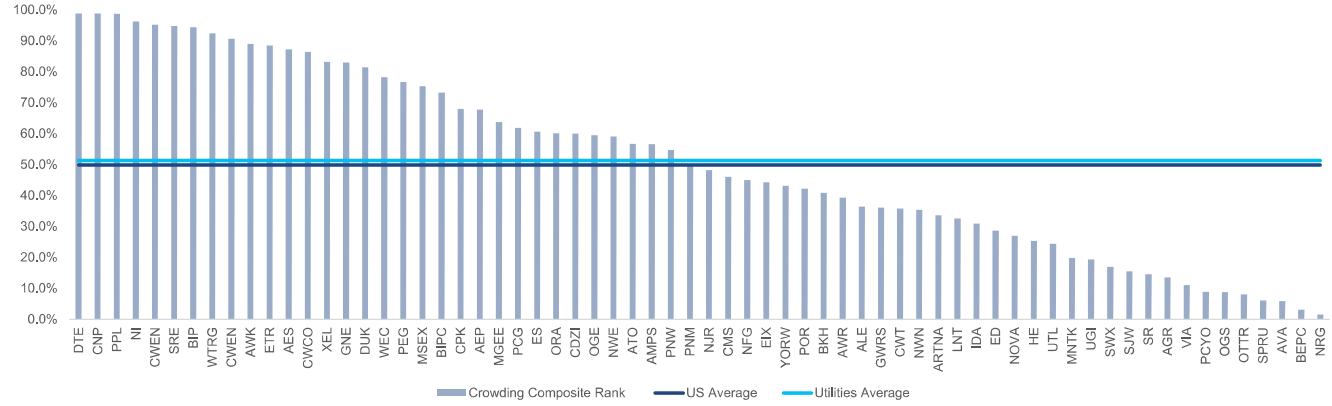
Crowding Scores

DTE is the most crowded name in the space, followed by CNP (the most crowded in Jan and Mar), PPL, NI, SRE, and BIP. It is interesting to see DTE on the top of the charts as the company starts pursuing new unregulated CCUS projects and pursues rate cases in Michigan (recent rate case didn't go great given questions around google mobility data). PPL remains popular among investors but there are longer-term concerns around rate base growth in Kentucky and cost-cutting initiatives. NiSource outlook appears to be improving with new growth initiatives including RNG and Indiana transmission being more certain, but NIPSCO sale process in earlier stages. Sempra continues to perform well operationally with a CoC positive adjustment for 2024 potentially coming in the near future.

NRG is the least crowded stock within our coverage and has been among the least crowded stocks since June 2022. Other names with low crowding scores include OGS, AGR, SWX, and UGI. SWX has been under pressure on concerns around a dividend cut, spin economics, balance sheet, regulatory approvals, and potential shareholder overhang.

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Figure 2. Crowding Scores (5/22/2023)



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Source: Citi Research

Changes in Crowding Since Q1 2023 & Q4 2022

Utilities' rate of improvement in crowding score among all GICS industry groups has slowed down in the last month (1.2% vs. 8.7% in March) but remains the most improved industry in the last quarter, 6.2%.

Figure 3. Changes in Sector Crowding

GICS Industry Group	April	May	1M Chg	3M Chg
Health Care Equipment & Services	48.8%	51.9%	3.3%	4.5%
Insurance	58.5%	61.5%	3.0%	1.5%
Financial Services	48.8%	51.2%	2.3%	0.2%
Consumer Staples Distribution & Retail	52.0%	53.7%	1.7%	2.1%
Household & Personal Products	49.6%	49.2%	1.4%	4.2%
Food Beverage & Tobacco	51.9%	52.9%	1.4%	3.4%
Telecommunication Services	46.9%	46.9%	1.4%	-0.9%
Utilities	53.0%	54.2%	1.2%	6.2%
Media & Entertainment	48.7%	49.6%	0.9%	1.6%
Consumer Discretionary Distribution & Retail	33.8%	34.7%	0.8%	0.1%
Banks	48.5%	49.3%	0.6%	-9.9%
Consumer Services	52.4%	53.1%	0.3%	-3.4%
Automobiles & Components	35.6%	35.9%	0.3%	-3.6%
Energy	52.7%	52.9%	0.2%	-3.1%
Pharmaceuticals, Biotechnology & Life Sciences	54.5%	54.3%	0.2%	1.5%
Real Estate Management & Development	38.8%	39.0%	0.2%	1.8%
Materials	53.4%	53.4%	-0.1%	4.3%
Transportation	39.4%	39.3%	-0.1%	4.6%
Consumer Durables & Apparel	38.9%	38.8%	-0.1%	4.3%
Equity Real Estate Investment Trusts (REITs)	53.3%	52.9%	-0.3%	2.3%
Commercial & Professional Services	49.3%	48.2%	-0.8%	-0.7%
Capital Goods	54.2%	52.8%	-1.1%	0.3%
Software & Services	49.5%	46.7%	-2.5%	0.1%
Technology Hardware & Equipment	51.4%	46.1%	-5.3%	-1.1%
Semiconductors & Semiconductor Equipment	56.6%	49.4%	-7.2%	0.9%

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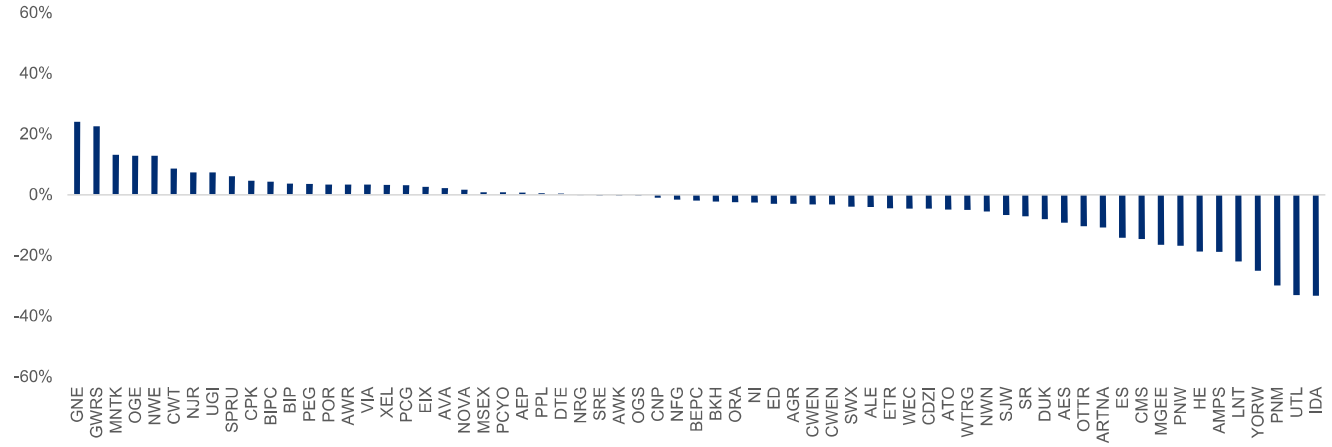
Source: Citi Research

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In general, the California utilities and some the gas utilities seemed to become more crowded as California is decoupled from load and has potential improvement to earnings outlook coming in the near future, while the gas utilities are expected to benefit from "ban on bans," and improving regulatory environments. Atmos is the exception given higher O&M outlook. Looking at specific names in the utilities space, GNE, NWE, and UGI have some of the biggest increases in crowding scores since the end of Q1 2023. BIPC, BIP, PEG, POR also saw relatively large increases.

The stocks that became less crowded are names with M&A risk and power price exposure. Stocks that saw some of the largest decreases in crowding scores since the end of Q1 2023 include UTL, PNM, AMPS, PNW, CMS, and ES.

Figure 4. Changes in Crowding (3/2023 - 5/2023)



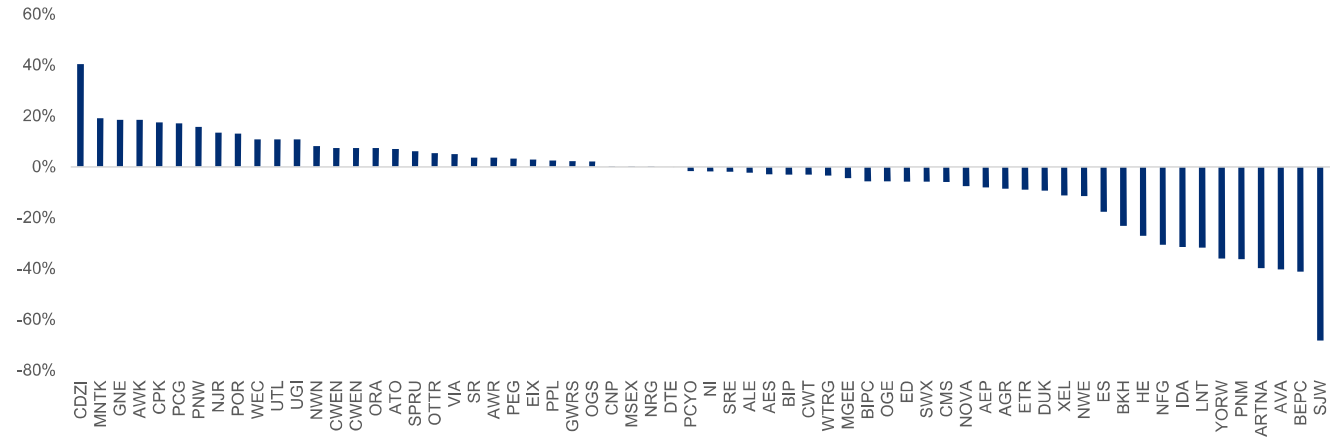
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Source: Citi Research

Similar trends in crowding from recent weeks also apply from late 2022. GNE, AWK, PCG, PNW, and POR have some of the biggest increases in crowding scores since the end of Q4 2022. Stocks that saw some of the largest decreases in crowding scores since the end of Q3 2022 include SJW, BEPC, PNM, NFG, BKH, and ES.

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Figure 5. Changes in Crowding (12/2022 - 5/2023)



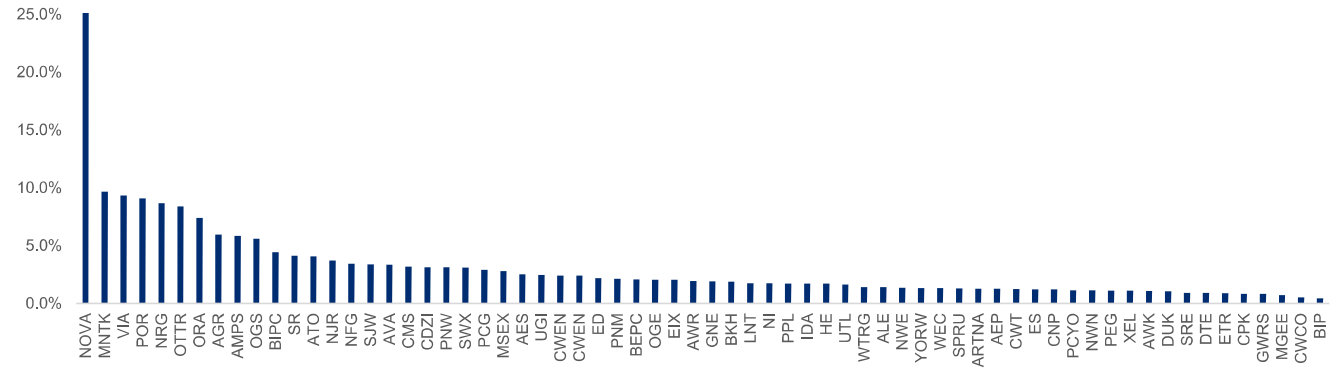
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Source: Citi Research

Short Interest

NOVA continues to have the highest short interest in the utility's universe, followed by POR, NRG, ORA, AGR, AMPS, and BIPC. The lower power curves and changing power development market has weighed on several of these stocks.

Figure 6. Short Interest - % of Float (5/22/2023)



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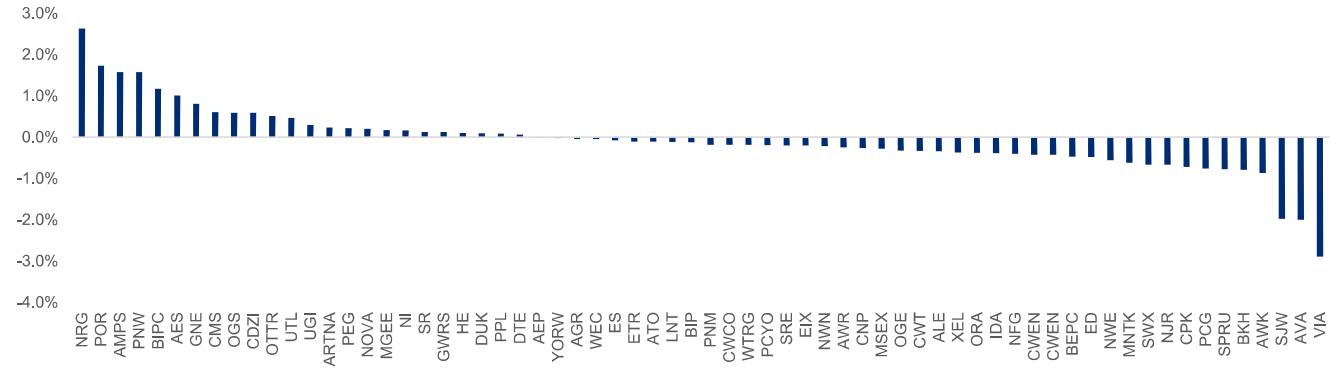
Source: Citi Research, FactSet

Changes in Short Interest Since Q1 2023 & Q4 2022

NRG, POR, AMPS, PNW, BIPC, AES, and CMS saw the largest increases in short interest from the end of Q1. Other names with large increases include CMS and OGE. On the other end of the spectrum, the largest declines in short interest came from SJW, BKH, PCG, and SWX. ED, BIPC, NFG, and ORA saw relatively large declines in short interest as well.

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Figure 7. Changes in Short Interest (3/2023 - 5/2023)

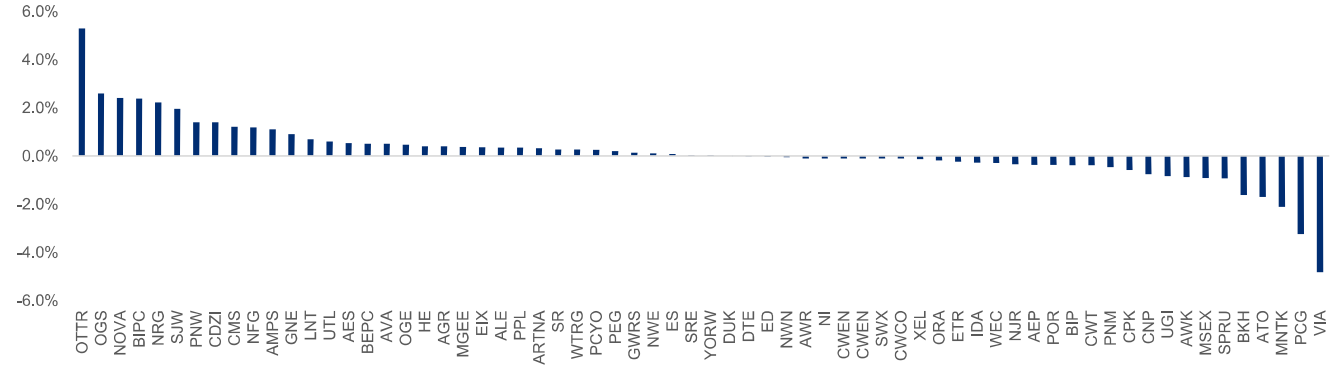


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Source: Citi Research

NOVA, BIPC, NRG, SJW, and PNW saw the largest increases in short interest from the end of Q4. CMS and NFG also have large increases since December. On the other end of the spectrum, the largest declines in short interest came from PCG, ATO, and BKH. UGI, CNP, and PNM also saw relatively large declines.

Figure 8. Changes in Short Interest (12/2022 - 5/2023)



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Companies Mentioned:

NRG (NRG.N; US$33.94; 1; 26 May 23; 16:00) | DTE Energy Co (DTE.N; US$106.51; 1; 26 May 23; 16:00) | CenterPoint Energy Inc (CNP.N; US$28.34; 2; 26 May 23; 16:00) | NiSource Inc (NI.N; US$26.85; 2; 26 May 23; 16:00) | PPL Corp (PPL.N; US$26.01; 2; 26 May 23; 16:00) | Southwest Gas Holdings Inc (SWX.N; US$58.33; 2; 26 May 23; 16:00) | Sempra Energy (SRE.N; US$143.85; 2; 26 May 23; 16:00) | Brookfield Infrastructure Partners (BIP.N; US$36.28; 2; 26 May 23; 16:00) | ONE Gas Inc (OGS.N; US$81.11; Not Rated; 26 May 23; 16:00) | Avangrid, Inc. (AGR.N; US$37.19; Not Rated; 26 May 23; 16:00) | Altus Power Inc (AMPS.N; US$4.74; 1; 26 May 23; 16:00)

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Appendix A-1

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From: Levine, Ryan (Citi)
To: Weisenburger \ Michael \ V
Subject: NiSource Inc (NI.N): Favorable NIPSCO Deal Price; IURC Settlement Increasingly Likely
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F L A S H | NiSource Inc (NI.N) | Neutral

Favorable NIPSCO Deal Price; IURC Settlement Approval Increasingly Likely

CITI'S TAKE

We think today's NIPSCO sale announcement is attractive given the 32.5x LTM P/E and 1.85x rate base multiples, and the merger document language on the IURC settlement was generally constructive, but we note that the $250M equity commitment over 3 years implies $1B of NIPSCO funding needs from NiSource (may come from operating activities). Given the delays we have witnessed for other utility processes YTD, in our view, it is a positive sign around the quality of NIPSCO that this deal was announced at a healthy valuation.

News: NIPSCO announced the 19.9% sale at $10.8B equity value and enterprise value of $14.3B, which is expected by the end of 2023. As part of the transaction, Blackstone is committed to funding its pro rata share of ongoing capital requirements, which is supported by a $250 million equity commitment letter. This deal was quicker than expected and the headline P/E multiple multiple of 32.5x LTM P/E and 1.85x rate base multiples look attractive given non-control stakes.

Commitment Letter, Potential Future Equity Needs?: Blackstone's $250M equity commitment over the next 3 years implies that the business will need about $1.25B of "maintenance" equity to fund NIPSCO over this time period. NiSource continues to indicate it does not need external equity until at least 2025 as the company can utilize internally generated capital to meet its short-term capital needs. In 2025 and beyond, the financing plan may evolve. We note that NiSource hired new operating executive(s) that could help develop new investment opportunities and drive upside to plan (both capex, and funding needs).

Merger Agreement Language Supportive of IURC Settlement: Our view of the disclosed commentary and likely investor diligence is positive formal update on the process. "Neither Parent nor any of its Affiliates has received written notice or any other affirmative indication that the Indiana Utility Regulatory Commission (the "IURC") will not approve that certain March 10, 2023 Settlement Agreement (the "Settlement Agreement") by and between NIPSCO and NIPSCO Industrial Group; NLMK Indiana; United States Steel Corporation; Walmart Inc.; RV Industry User's Group; and the Indiana Office of Utility Consumer Counselor (collectively, the "Settling Parties" and each, a "Settling Party") consistent with the terms provided for in the Settlement Agreement and to the Knowledge of Company, there are not currently any facts or circumstances that would reasonably be expected to cause the IURC not to approve such Settlement Agreement in its entirety without modification of material condition deemed unacceptable to any Settling Party. "

Neutral			
Price (16 Jun 23 16:00)	US$27.38	Expected share price return	9.6%
Target price	US$30.00	Expected dividend yield	3.7%
Market Cap	US$11,310M	Expected total return	13.2%

Read Full Report



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NiSource Inc

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $32. We value regulated assets at a multiple of 1.5x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $32 and $29, respectively.

Risks

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



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Citi Research
VIEWPOINT

25 Apr 2023 17:33:44 ET | 9 pages

US Diversified Utilities

Thoughts into Q1, Ugly Prints, but Fundamentals Improving

CITI'S TAKE

We are more positive on SRE, NI, and PCG on prints but more concerned about AEP, DUK, and CMS. Expect weather, M&A, financing, and costs in focus.

Ryan Levine [AC]

Xinru Yin

Poor Weather — As we walked through Q1 previews with most of our coverage, CMS, AEP (link), and NOVA stuck out on the negative, given mild winter weather and weak seasonality for NOVA's generation portfolio (only ~10% in Q1). Nisource adjusts its weather in EPS, so less of a headwind. These dynamics point to the positive for Sempra (link) higher Cameron volumes, LNG cargo divergence, and Mexico/US gas arb, and PCG (weather allows memo account for large storm costs, so cost saving from an EPS print standpoint). AES restructured contracts to have less TTF/HH exposure (new segments and disclosure on EPS/FFO adds near term risk).

Operational Improvement Focus — With weather and other factors driving weak expected Q1 prints, we expect the utilities to look for ways to improve EPS numbers in the rest of the year which could emphasize more aggressive operational improvements, pushing costs in 2024, and managing deferred gas costs/etc.

Evolving Financing Markets – Converts Hot for Utilities/Power: We witnessed Ormat (link), PPL(link), Duke(link), and 3 others raise convertible notes in the last few months. These deals termed out CP balances and other financing gaps, while helping 2023 EPS given the lower interest rates, but lead to modest potential dilution or cash outflow in the future. The feedback we receive from convert investors is the window is open now for issuers but may not last that long. Companies that investors debate if they will issue converts include NiSource, AEP, Sempra, Edison, and Eversource.

Slowing M&A — With choppy M&A markets and prolonged legal/regulatory processes, we already witnessed PNM merger extension to July 20th and AEP Kentucky deal scrapped, but we expect more delays to come with earnings release. We are concerned about Duke's renewable sale timeline given public peer multiples contracting and think LDC sales may be more attractive (link). We have a positive catalyst watch for MDU into the Knife River spin. We also expect that AEP decides to start a process to sell its retail business in the coming weeks given Kentucky. We also are optimistic that Ormat will look at buying a merchant power portfolio (link).

Supply Chain Starting to Normalize — During our calls, the companies indicated that the supply chain started to ease in March around supplies for transformers and other key inputs. As excitement around permitting reform in Washington starts to pick up again, supply chain improvement helps. We have an expert event on T&D and policy outlook scheduled post earnings on May 31st at 10am. Ping us for details.

Tapping Government Capital — As ratepayer bills start to normalize with gas, we see the utilities/power markets finding ways to access lower cost governments funds, from IIJA and IRA to push energy transition (NOVA made headline, but more to come).

Upcoming Citi Energy/Utility Conference – May 9-10th, Boston — Great lineup with 1x1 meetings available for the utility and energy space.

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Companies Mentioned:

American Electric Power Co Inc (AEP.O; US$94.24; 2; 24 Apr 23; 16:00) | CMS Energy Corporation (CMS.N; US$62.26; 2; 24 Apr 23; 16:00) | Duke Energy (DUK.N; US$98.9; 1; 24 Apr 23; 16:00) | MDU Resources Group Inc (MDU.N; US$29.68; 2; 24 Apr 23; 16:00) | NiSource Inc (NI.N; US$28.53; 2; 24 Apr 23; 16:00) | PG&E Corp (PCG.N; US$17.14; 1H; 24 Apr 23; 16:00) | PPL Corp (PPL.N; US$28.67; 2; 24 Apr 23; 16:00) | The AES Corp (AES.N; US$24.16; 1; 24 Apr 23; 16:00) | Sempra Energy (SRE.N; US$157.85; 2; 24 Apr 23; 16:00) | Ormat Technologies, Inc. (ORA.N; US$88.37; 2; 24 Apr 23; 16:00) | Sunnova Energy International Inc (NOVA.N; US$18.59; 1; 24 Apr 23; 16:00)

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EVERCORE ISI

Energy | Power & Utilities

May 03, 2023

NiSource Inc

NI | $27.91

Outperform | Target Price/Base Case: $31.00

Company Update

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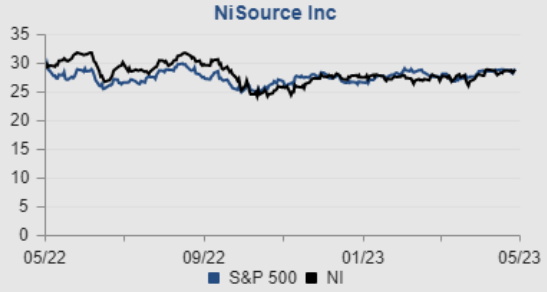
Company Statistics

Market Capitalization (M)	$11,996
Shares Outstanding (M)	413
Dividend	0.94
Dividend Yield	3.2%
Payout Ratio	59.7%
Expected Total Return	9.8%
Fiscal Year End	Dec

Earnings Summary

	2023E	2024E	2025E
EPS	**$1.57**	**$1.69**	**$1.80**
P/E	**18.5**	**17.2**	**16.1**
EPS vs Consensus	**1.5%**	**1.4%**	**0.7%**
Consensus EPS	**$1.55**	**$1.67**	**$1.79**
Consensus P/E	**18.8**	**17.4**	**16.3**

1 Year Price History



Source: FactSet

Effective Execution

Key Takes:

- NI reported Q1 adjusted diluted Net operating EPS (NOEPS) of $0.77 vs. our estimate of $0.77 and street consensus of $0.75. 1Q23 NOEPS is 3% higher than 1Q22 NOEPS of $0.75.
- Reaffirmed 2023 non-GAAP NOEPS guidance range of $1.54-$1.60.
    - Midpoint of $1.57 represents 6.8% growth off 2022 NOEPS. Consensus is at $1.55.
- Reaffirmed annual non-GAAP NOEPS growth of 6-8% through 2027.
    - Off the 2023 earnings guidance range of $1.54-$1.60.
- Reaffirmed $15B 2023-2027 capex plan with ~75% of investments beginning earning in less than 18 months
    - Driving 8%-10% annual utility rate base growth
- Northern Indiana Public Service Company (NIPSCO) minority sale process on track for 2023
- Long-term 14-16% FFO/Debt target reaffirmed
- NIPSCO reached a settlement in the electric rate case on March 10th

Maintaining our Outperform rating and $31TP (details within)

Additional Details:

- **Minority Interest Sale:** Minority interest sale of NIPSCO is still expected to be completed in 2023 and continues to track as expected. The company remains confident in the attractiveness of the asset and has previously stated that there is no decline in interest attributable to higher rates, particularly given the quality of the potential counterparties with ready capital to deploy, bank leverage tools, and long-term investment preference. NiSource has initiated the sale process, and we anticipate an announcement and close by year end. We estimate $1.5-$2B in cash proceeds.

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- **NIPSCO Electric rate case**: On March 10th, NIPSCO and other parties reached a settlement agreement in its electric rate case in Indiana. The settlement proposed a $292M rate increase compared with $395M company requested, including base rate increase and tracker. The parties agreed on an ROE of 9.8% versus current 9.75%, and an equity layer of 51.63% versus current 47.86%. Recall that company requested a 10.4% ROE and a 58.5% equity ratio on a rate base of $5.95B. We view the settlement as constructive if approved. A final Commission order is expected in mid-August with rates going into effect in September.
- **Virginia gas rate case**: On Dec 9th, Columbia Gas of Virginia reached a settlement with $25.8 million rate increase, inclusive of SAVE (Steps to Advance Virginia's Energy Plan) infrastructure tracker ($14.5MM), representing a settlement as to a specific revenue number but not as to a specific ROE. Recall that NiSource requested $40.6MM revenue increase 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. A final order is expected in 2Q23.
- **OH gas rate case**: On Oct 31st, 2022, Columbia Gas of Ohio filed a settlement representing a $68.2M revenue increase with 9.6% ROE and 50.6% equity layer. The company originally requested $221MM with ROE of 10.9%. The equity ratio request of ~51% was not disputed. The commission approved the settlement in January 2023 for new rates effective in March.
- **Indiana ROFR legislation**: HB 1420 was signed by the Governor on May 1st, which gives Indiana utility companies the right of first refusal (ROFR) to build, own, and operate new transmission lines approved by a regional transmission organization in their service area, and prevents new projects from being bid on by other competitive transmission companies. The legislation would solidify NI's position to own and invest in Transmission assets, which could be upside to their current capex plan.
- **Leadership changes:** The company announced several leadership changes on March 15th, link. Notably Shawn Anderson formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer effective Mar 27th. Donald Brown, NiSource's former chief financial officer, assumed the role of executive vice president and chief innovation officer on Mar 27th, replacing Melody Birmingham, who was named as executive vice president, and group president, NiSource utilities.
- **Target Price**: Maintaining our Outperform rating and our target price of $31/share. We keep our 2023/2024/2025 EPS estimates of $1.57/$1.69/$1.80 unchanged. See our base case SOTP valuation of $31 on Exhibit 1. We apply a conservative 5% premium to our peer target 17x multiple 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 16.6x 2025 EPS as we mark to market comparable trading multiples. Our bear case in Exhibit 1 below derives $27/share valuation assuming NI can grow EPS at 6% using low end of 2023 guidance range of $1.54, while our bull case is $33/share assuming the company can grow at 8% using high end of 2023 guide of $1.60.

Exhibit 1: NiSource SOTP Valuation

Base

Base Case	'25 EPS	P/E	Val/Shr
Gas EPS	$1.35	16.6x	$22.53
Electric EPS	$0.75	17.9x	$13.47
Parent/Other	($0.31)	17.2x	($5.27)
Consolidated 2024 EPS	**$1.80**	17.2x	**$31.00**
ETR (including dividend)			15%

Bull 1.86

Bull Case	'24 EPS	P/E	Val/Shr
Gas EPS	$1.39	17.5x	$24.33
Electric EPS	$0.77	17.9x	$13.81
Parent/Other	($0.31)	17.7x	($5.44)
Consolidated 2024 EPS	**$1.86**	17.7x	**$33.00**
ETR (including dividend)			22%

Bear 1.73

Bear Case	'24 EPS	P/E	Val/Shr
Gas EPS	$1.31	15.0x	$19.55
Electric EPS	$0.73	16.1x	$11.74
Parent/Other	($0.31)	15.6x	($4.79)
Consolidated 2024 EPS	**$1.73**	15.6x	**$27.00**
ETR (including dividend)			0%

Source: Evercore ISI, Note: ETR based on closing price as of 5/2/23

VALUATION METHODOLOGY

We use a SOTP analysis to arrive at our price target

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 (2023-03-05)	Evercore ISI Target
AEE	Ameren Corp.	Outperform	$89.11	$94.00
AEP	American Electric Power	In Line	$91.28	$102.00
AES	The AES Corporation	Outperform	$22.60	$30.00
AWK	American Water Works Company, Inc.	Outperform	$146.74	$160.00
AWR	American States Water Company	Underperform	$88.42	$70.00
CEG	Constellation Energy Corp	Outperform	$76.79	$93.00
CMS	CMS Energy Corp.	In Line	$61.49	$68.00
CNP	CenterPoint Energy, Inc.	Outperform	$30.05	$32.00
CWT	California Water Service Group	In Line	$55.81	$50.00
D	Dominion Energy, Inc	In Line	$55.53	$65.00
DTE	DTE Energy Co.	Outperform	$111.60	$126.00
DUK	Duke Energy Corp.	In Line	$97.60	$102.00
ED	Consolidated Edison Inc.	In Line	$98.57	$93.00
EIX	Edison International	In Line	$73.28	$70.00
ES	Eversource Energy	Outperform	$76.44	$92.00
EVRG	Evergy	In Line	$61.44	$62.00
EXC	Exelon Corp.	Outperform	$42.57	$46.00
NEE	NextEra Energy Inc	In Line	$75.94	$90.00
NI	NiSource Inc	Outperform	$27.91	$31.00
NRG	NRG Energy Inc.	In Line	$33.33	$40.00
OGE	OGE Energy Corp	In Line	$36.82	$39.00
PCG	PG&E Corp.	Rating Suspended	$17.26	
PEG	Public Service Enterprise Group	Outperform	$62.81	$68.00
PPL	PPL Corp.	Outperform	$28.50	$32.00
SJW	SJW Group	In Line	$75.71	$67.00
SO	Southern Co.	In Line	$73.15	$69.00
SRE	Sempra Energy	Outperform	$153.20	$175.00
VST	Vistra Energy Corp	Outperform	$23.11	$31.00
WEC	WEC Energy Group, Inc.	In Line	$95.25	$98.00
WTRG	Essential Utilities Inc.	Outperform	$42.28	$55.00
XEL	Xcel Energy Inc.	Outperform	$69.10	$75.00

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Current Ratings Definition

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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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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.

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

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Evercore ISI rating (as of 05/03/2023)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	465	57	Buy	53	11
Hold	296	36	Hold	26	9
Sell	16	2	Sell	0	0
Coverage Suspended	35	4	Coverage Suspended	4	11
Rating Suspended	9	1	Rating Suspended	2	22

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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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From: Durgesh Chopra
To: Weisenburger \ Michael \ V
Subject: NI – Promises Made, Promises Kept
Date: Tuesday, June 20, 2023 6:10:52 PM

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20 June 2023

Energy | Power & Utilities

NiSource Inc

NI | $27.27 | Target Price/Base Case: $30.00 | Outperform

Promises Made, Promises Kept

This morning, NiSource Inc. (NYSE: NI) announced an agreement to sell the 19.9% non-controlling equity interest in NIPSCO for $2.15 billion to an affiliate of Blackstone Infrastructure Partners, Blackstone's (NYSE: BX) dedicated Infrastructure group, with additional equity commitment of $250 million to fund ongoing capital requirements. NiSource intends to use the proceeds to support growth at the utility, strengthen the balance sheet, and fund capital needs consistent with the plan laid out at its Investor Day in November 2022. The transaction is expected to close by year-end 2023, subject to customary closing conditions, including receiving FERC approvals and clearances. In conjunction with the announcement, NiSource reaffirmed its 2023 non-GAAP EPS guidance of $1.54 to $1.60, 6-8% growth through 2027 and its FFO/debt target of 14-16%. The company still projects annual rate base growth of 8-10% is driven by $15 billion of planned capital expenditures during the 2023-2027 period.

Our take – Positive. The $2.15B in proceeds is above the top end of our estimated $1.5B-$2B range. The 32.5x LTM P/E multiple is higher than the 28x LTM P/E multiple of DUK's minority interest sale announced in January 2021, see our note here. As part of the transaction, Blackstone is committed to funding its pro rata share of ongoing capital requirements, which is supported by a $250 million equity commitment letter and contractual obligations. Including the value of the total $2.4 billion equity raise from Blackstone, the company still does not expect new equity in the plan other than the maintenance equity under the ATM starting no earlier than 2025. With this transaction, NI continues to execute strongly on the plan laid out in November. The company raised its 2023 EPS expectations in February (note), announced a constructive NIPSCO electric rate case settlement in March with a final order expected by August for rates effective in September. We are maintaining our EPS projections and lowering TP to $30 from $31. Our lowered TP is predicated on electric utility target P/E of 15x (vs 17x previously) close to where the group is trading today. Rating still Outperform.

Click Here for the Report

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Energy | Power & Utilities

June 21, 2023

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Notes From Our Ohio Road Trip

On June 19-20th, we hosted investor meetings with executives of AEP, AES and NI in Columbus, Ohio. We also met with Ohio State Representative Bill Seitz. See below for takeaways from our meetings.

American Electric Power (AEP), In Line rating, $90 price target

- **Contracted Renewable asset sale**: AEP has now received FERC approval as well as approval from antitrust authorities. The only remaining approval required is from the Committee on Foreign Investment in the United States. The transaction is now expected to close in July or August 2023 (versus Q2 previously). Recall in February 2023, AEP announced the sale of its contracted renewable assets to IRG Acquisition Holdings for enterprise value of $1.5B ($1.3B equity value is in line with our $1.2-1.4B estimate).

- **New Mexico Renewable Development (NMRD) asset sale:** AEP said an announcement could be imminent, with expected closure by year-end 2023. This asset represents a 50/50 joint venture partnership with PNM Resources consisting of eight operating solar projects of 135 MW, one project under construction of 50 MW, six development projects of 440 MW, all located in New Mexico. The book value of AEP's investment as of 3/31/2023 was $102MM. The assets contribute $0.01 EPS in 2023 operating earnings guidance.

- **Divestiture of retail and distributed resources businesses (not including NMRD).** AEP said it plans to launch the process in July/August 2023 with an expected closure date in the first half of 2024. The book value of AEP's investment as of 3/31/2023 was $200MM for the retail and $350MM for distributed resources assets. The expected EPS contributions to 2023 operating guidance are $0.04 retail and $0.02 distributed resources.

- **Strategic review of certain non-core transmission joint venture businesses:** AEP said it intends to complete the strategic review by year-end 2023. As of 3/31/2023, AEP's portion of PP&E was $551M and rate base was $456M.The assets contribute $0.05 EPS in 2023 operating earnings guidance. We estimate ~$1B in total proceeds from the announced strategic reviews/asset sales- NMRD, retail, DER and Transmission. Assuming that the proceeds are used towards lowering future equity needs, we see the transactions as earnings neutral to modestly accretive to our 25E of $6.00.

Continued on next page…

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AEP highlights continued…

- **SWEPCO renewables**: In May 2023, the Public Utility Commission of Texas (PUCT) voted 5- 0 to reject SWEPCO's filing for three new regulated wind/solar projects. AEP's Southwestern Electric Power Company (SWEPCO) filed for approval of 999 MW of wind and solar projects with the Texas, Louisiana, and Arkansas commissions. These projects total $2.2 billion of investment that is included in AEP's current five-year 2023-2027 capital plan of $40 billion. This rejection by the PUCT follows the Louisiana commission's decision in April 2023 to not approve a settlement reached there, with the commission requesting that AEP propose more options for PPAs in a special meeting is being held on June 29th . Note that the settlement in Louisiana approved a flex option to include a portion or all three of the 999 MW of wind / solar projects. In Arkansas, a settlement was approved in June 2023. We estimate these SWEPCO projects would contribute roughly $0.20/share annually starting in 2026 or ~3% of 2025 EPS estimate of $6.00/share. Following the Texas decision, AEP stated to us that all its financial commitments remain intact, and the company still expects to deliver its long-term 6-7% EPS growth target. AEP said that if it ultimately does not move forward with part or all of the $2.2 billion of SWEPCO projects that it could backfill that capital with transmission and/or other renewable generation investment.

- **Kentucky strategy**: In the near-term, AEP will be focused on: 1) filing a base rate case in Kentucky in June 2023 (14% rate increase request) with a six-month expected commission approval process, and new rates taking effect in January 2024; 2) right-sizing its Kentucky rate base to better meet the region's needs and address costs while providing reliable service to customers in the near-term; this includes securitizing retired coal assets through the Kentucky commission's approval to reduce rates for customers.

- **PSO rate case settlement:** On May 5th, AEP reached a settlement in its PSO rate case for a $50MM revenue increase with a 9.5% ROE and 54.6% equity ratio. A final order is expected in 3Q23 to be effective June 1, 2023. Recall on November 22nd, AEP filed a rate case in Oklahoma, requesting a net revenue increase of $103MM with an ROE of 10.4% and equity ratio of 54.6% on a rate base of $4.4B.

- **ApCo Virginia rate case**: On March 31st, ApCo Virginia filed a rate case, requesting a net revenue increase of $160MM with a 10.6% ROE and 48.3% equity ratio on a rate base of $2.9 billion with a 12/31/22 test year. Next step is direct testimony on July 14th, followed by rebuttal testimony on August 11th, then a hearing on August 24th, with an expected commission decision in 4Q23 for rates effective January 2024.

- **Target Price change**: We are maintaining our EPS projections and lowering TP to $90 from $102. Our lowered TP is predicated on electric utility target P/E of 15x (vs 17x previously) close to where the group is trading today

AES Corporation (AES), Outperform rating, $29 price target

- **Feedback from May 8th Investor Day**: AES said it received positive feedback about its new business segment disclosures and on the more granular detail it provided about the utilities. Investors were disappointed about how EPS dilutive the coal retirement process would be over the planning period. Investors also felt negatively about the five-year financing plan, which includes $1,600-1,900 million of equity issuance.
- **Utilities Investment Proposition**: The company highlighted the substantial need for investment in IN and OH due to a significantly older asset base compared to peers (45 to 60% assets depreciated vs peers in the 23-34% range). With bills still materially below peer average, AES is investing ~$5B in capex through 2027 which is projected to grow rate base at 10% CAGR from 2022-2027
- **Ohio ESP 4 filing:** AES said it anticipates a final decision in late summer 2023. Recall in September 2022, AES Ohio filed a new ESP 4 to provide a regulatory foundation to upgrade and modernize its network and settle any outstanding regulatory proceedings. The company is asking for a distribution rider (covers 75-80% of distribution spend) with quarterly updates. Note that the final order in the December 2022 Ohio rate case outcome will take effect once the pending ESP is approved. In that case, AES was granted a $76 million revenue increase with a 10.0% ROE, 53.87% equity ratio on a rate base of $783 million. The ESP will be in effect for three years upon receiving commission approval expected in the August/September time frame. Post the ESP4 implementation the company projects that 90% of the capex (vs 60% currently) will be eligible for recovery under riders/formula rates minimizing regulatory lag.
- **Indiana IRP**: AES spoke about its pending Indiana IRP that it filed in December 2022. Its near-term plan includes the conversion of the utility's last two coal units to gas in 2025 using an existing on-site gas pipeline. It also includes the addition of up to 1.3 GWs of new wind, solar and storage by 2027 and should reduce AES Indiana's carbon intensity by 2/3rds from 2018 to 2030. CCNs to be filed for new projects have a statutory requirement for an order within 120 days.
- **Bellefield project:** On June 7th, AES announced the acquisition of the 2 GW Bellefield project, which is currently in late-stage development, and is the largest permitted solar-plus-storage project in the United States. The project, located in Kern County, California, includes two phases, each with 500 MW of solar and up to 500 MW of four-hour duration battery

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energy storage. Phase one of the project has a 15-year Power Purchase Agreement (PPA) to deliver hourly, carbon-free energy to an existing AES corporate customer. AES expects to contract up to an additional 1 GW of solar-plus-storage in phase two by the end of 2023. The two phases of the project are being developed by the seller, Avantus, and are expected to come online in 2025 and 2026, respectively. Including the Phase one PPA, company's signed backlog now stands at 12.3GW versus 11.3GW as of their investor day in early May. Our take on the transaction is positive - we estimate ~$2B purchase price for project which will be part owned by Alberta Investment Management Corporation (AIMCo), an investor in AES' clean energy business in the US with 25% ownership of the business' growth projects. AES' ~1.5B investment will be predominantly funded by debt and tax equity which is incorporated in company's financial plan laid out on the May 8th investor day (key highlights here). We project ~$500M in ITC's attributed to AES's ownership share and ~$100M in annual EBITDA contribution starting in 2026 (~3% of total 2026 implied EBITDA guidance of $3.1B). This transaction demonstrates AES' leadership position as a top provider of renewable energy solutions for corporates which we think will be a key differentiating factor as AES executes on and grows earnings/cash flow from the multi decade long decarbonization trend.

NiSource (NI), Outperform rating, $30 price target

- **NIPSCO asset sale:** Yesterday, NiSource announced an agreement to sell the 19.9% non-controlling equity interest in NIPSCO for $2.15 billion to an affiliate of Blackstone Infrastructure Partners, Blackstone's (NYSE: BX) dedicated Infrastructure group, with additional equity commitment of $250 million to fund ongoing capital requirements. NiSource intends to use the proceeds to support growth at the utility, pay down debt, and fund capital needs, consistent with the plan laid out at its Investor Day in November 2022. The transaction is expected to close by year-end 2023, subject to customary closing conditions, including receiving FERC approvals and clearances. In conjunction with the announcement, NiSource reaffirmed its 2023 non-GAAP EPS guidance of $1.54 to $1.60, 6-8% growth through 2027 and its FFO/debt target of 14-16%. The company still projects annual rate base growth of 8-10% is driven by $15 billion of planned capital expenditures during the 2023-2027 period.. Our take on the transaction is positive as the $2.15B in proceeds is above the top end of our estimated $1.5B-$2B range. The 32.5x LTM P/E multiple is higher than the 28x LTM P/E multiple of DUK's minority interest sale announced in January 2021, see our note here. As part of the transaction, Blackstone is committed to funding its pro rata share of ongoing capital requirements, which is supported by a $250 million equity commitment letter and contractual obligations. Including the value of the total $2.4 billion equity raise from Blackstone, the company still does not expect new equity in the plan other than the maintenance equity under the ATM starting no earlier than 2025. With this transaction, NI continues to execute strongly on the plan laid out in November. The company raised its 2023 EPS expectations in February (note), announced a constructive NIPSCO electric rate case settlement in March with a final order expected by August for rates effective in September.
- **NIPSCO Electric rate case**: NiSource said a final decision is expected in August 2023 with new rates to be effective in September 2023. Recall on March 10th, NIPSCO and other parties reached a settlement agreement in its electric rate case in Indiana. The settlement proposed a $292MM rate increase compared with $395MM company requested, including a base rate increase and a tracker. The parties agreed on an ROE of 9.80% versus the current 9.75%, and an equity layer of 51.63% versus the current 47.86%. Recall that company requested a 10.4% ROE and a 58.5% equity ratio on a rate base of $5.95B. We view the settlement as constructive, if approved. A final Commission order is expected in mid-August 2023 with rates going into effect in September 2023.
- **Key focuses this year**: NI said its next major milestone is a final decision on the NIPSCO rate case settlement. Second, the company said it remains focused on delivering its 2023 EPS guidance of $1.54-1.60/share. Third, NiSource is focused on closing the announced NIPSCO transaction by year-end 2023.

Meeting with Ohio State Representative Bill Seitz (30th District of the Ohio House of Representatives)

- Our discussion with Bill Seitz focused primarily on four pending bills in the House, including HB79, HB33, HB197 and HB120. Bill also spoke about a rate case reform bill that is expected to be introduced soon.
- **HB79** would reinstate a modified energy efficiency program. The bill applies only to residential customers who can opt out, and commercial customers who would like to opt in. The prior legislation was involuntary. Another key difference in the new bill is that it has more modest attainment goals, including energy efficiency sales reductions of 0.5% per year, as opposed to prior program's 2.0% per year. In addition, the new legislation proposes a 3 to 5 year program, depending on PSC approval.
- **HB33** encourages the extension of electric transmission lines (through $1B state sponsored funding) to select sites with the goal of accelerating future growth.
- **HB197** is a community solar bill that would support developers of small non-utility scale installations in locations such as condo complexes and distressed economic areas. The bill calls for installing community solar equally (based on utility

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customer count) across each of the utilities' territories. A key component of the bill is deciding how the solar developers should get compensated.

- **HB120** would repeal OVEC subsidies (subsidies for coal plants owned by the energy company consortium known as the Ohio Valley Electric Corporation). The proponents of the bill argue that the subsidies extend the life of coal plants and the current bill credits are temporary because of near term power market conditions.
- **Rate case reform bill to be introduced**: the legislation is expected to propose a requirement for rate case filings every 5-7 years with forward-looking test years. It would also propose additional trackers for cost recovery and would be intended to speed up the rate case decision process.

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Company Changes			Rating			Target Price			Estimates Current Year			Estimates Next Year	
Symbol	Company	Price		Curr	Prev		Curr	Prev	Curr	Prev		Curr	Prev
AEP	American Electric Power	$84.54	-	IL	IL	▼	$90.00	$102.00	- $5.30	$5.30	-	$5.65	$5.65
AES	The AES Corporation	$21.01	-	OPF	OPF	-	$29.00	$30.00	- $1.70	$1.70	-	$1.90	$1.90
NI	NiSource Inc	$27.22	-	OPF	OPF	-	$30.00	$31.00	- $1.57	$1.57	-	$1.69	$1.69

Source: Company Data, Evercore ISI Research

Valuation and risks:

AEP:

Valuation: Our new TP is predicated on electric utility target P/E of 15x (vs 17x previously) close to where the group is trading today.

Risks: The perceivable risks to our thesis include unfavorable regulatory outcomes, cost management and sales growth.

AES:

Valuation: We value AES using a sum-of-the-parts analysis.

Risks: Our EPS forecast and target price could be too high / too low if: commodity prices, FX rates, and hydrology in Brazil worsen / recover, and or the proportional FCF falls short of articulated targets, limiting share repurchase potential and debt reduction / FCF meets targets and capital allocation proves more accretive than we assume. Also, their backlog of infrastructure projects could fail to realize / meet ROE targets, causing net income to fall short of / match our estimates.

NI:

Valuation: We value NI using a sum-of-the-parts 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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Time of dissemination: June 21 2023 1:09 PM ET

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage 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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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:

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

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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.

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

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

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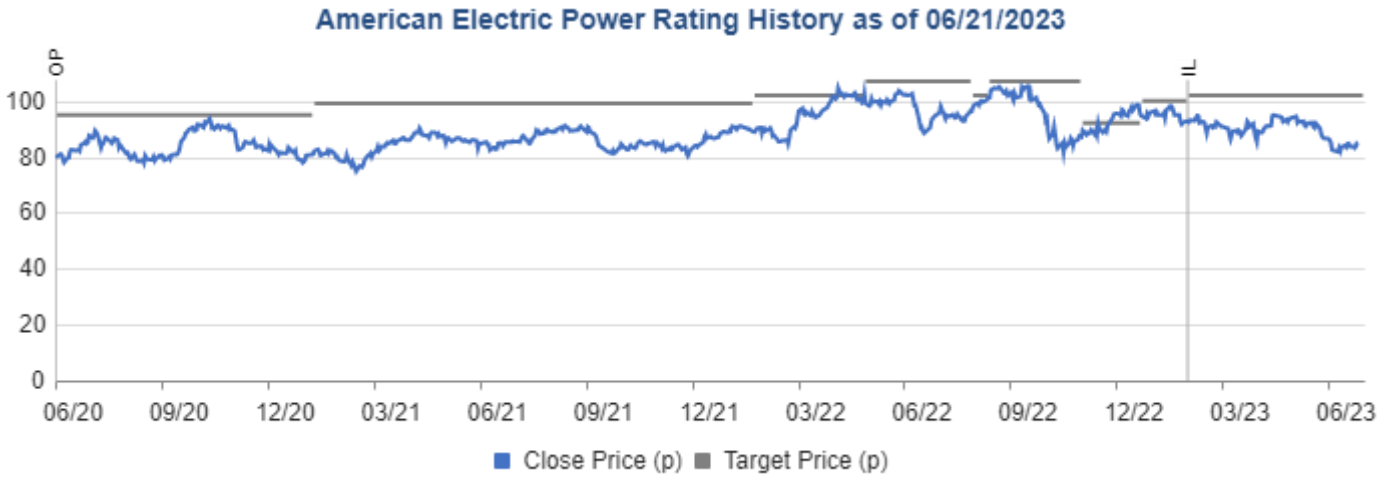
Evercore ISI rating (as of 06/21/2023)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	468	57	Buy	59	13
Hold	291	36	Hold	26	9
Sell	14	2	Sell	0	0
Coverage Suspended	37	5	Coverage Suspended	4	11
Rating Suspended	4	0	Rating Suspended	0	0

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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

Flash Note | **Energy | Power & Utilities**

May 03, 2023

NiSource Inc

NI | $27.91

Outperform | Target Price/Base Case: $31.00

Company Update

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First Crack at 1Q23

We believe NiSource's 1Q23 earnings release has neutral implications for the stock. Q1 EPS slightly beat consensus. The company reaffirmed its 2023 non-GAAP NOEPS earnings guidance and annual non-GAAP NOEPS growth of 6-8% through 2027. NIPSCO minority sale is on track for 2023.

Key Takes:

- NI reported Q1 adjusted diluted Net operating EPS (NOEPS) of $0.77 vs. our estimate of $0.77 and street consensus of $0.75. 1Q23 NOEPS is 3% higher than 1Q22 NOEPS of $0.75.
- Reaffirmed 2023 non-GAAP NOEPS guidance range of $1.54-$1.60.
    - Midpoint of $1.57 represents 6.8% growth off 2022 NOEPS. Consensus is at $1.55.
- Reaffirmed annual non-GAAP NOEPS growth of 6-8% through 2027.
    - Off the 2023 earnings guidance range of $1.54-$1.60.
- Reaffirmed $15B 2023-2027 capex plan with ~75% of investments beginning earning in less than 18 months
    - Driving 8%-10% annual utility rate base growth
- Northern Indiana Public Service Company (NIPSCO) minority sale process on track for 2023
- Long-term 14-16% FFO/Debt target reaffirmed
- NIPSCO reached a settlement in the electric rate case on March 10th
- Shawn Anderson, formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer, effective Mar 27th

NI will host a conference call at 11am ET. Dial-in: 1 (888) 330-2391. Passcode: 28323. We will follow the call with a detailed note.

Additional Details:

- **Minority Interest Sale:** Minority interest sale of NIPSCO is still expected to be completed in 2023 and continues to track as expected. The company remains confident in the attractiveness of the asset and has previously stated that there is no decline in interest attributable to interest rates, particularly given the quality of the potential counterparties with ready capital to deploy, bank leverage tools, and long-term investment preference. NiSource has initiated the sale process, and we expect an announcement by mid-year and close by year-end. We estimate $1.5-$2B in cash proceeds.
- **NIPSCO Electric rate case**: On March 10th, NIPSCO and other parties reached a settlement agreement in its electric rate case in Indiana. The settlement proposed a $292M rate increase compared with $395M company requested, including base rate increase and tracker. The parties agreed on an ROE of 9.8% versus current 9.75%, and an equity layer of 51.63% versus current 47.86%. Recall that company requested a 10.4% ROE and a 58.5% equity ratio on a rate base of $5.95B. We view the settlement as constructive if approved. A final Commission order is expected in mid-August with rates going into effect in September.
- **Virginia gas rate case**: On Dec 9th, Columbia Gas of Virginia reached a settlement with $25.8 million rate increase, inclusive of SAVE (Steps to Advance Virginia's Energy Plan) infrastructure tracker ($14.5MM), representing a settlement as to a specific revenue number but not as to a specific ROE. Recall that NiSource requested $40.6MM revenue increase 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. A final order is expected in 2Q23.

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- **OH gas rate case**: On Oct 31st, 2022, Columbia Gas of Ohio filed a settlement representing a $68.2M revenue increase with 9.6% ROE and 50.6% equity layer. The company originally requested $221MM with ROE of 10.9%. The equity ratio request of ~51% was not disputed. The commission approved the settlement in January 2023 for new rates effective in March.
- **Leadership changes:** The company announced several leadership changes on March 15th, link. Notably Shawn Anderson formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer effective Mar 27th. Donald Brown, NiSource's former chief financial officer, assumed the role of executive vice president and chief innovation officer on Mar 27th, replacing Melody Birmingham, who was named as executive vice president, and group president, NiSource utilities.

VALUATION METHODOLOGY

We use a SOTP analysis to arrive at our price target

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

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

Historical Ratings Definitions

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

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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%

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

ISI Group and ISI UK:

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

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

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

Evercore Group:

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

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

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

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Long- the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
No Position- the stock is not included in the model portfolio.
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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

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

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Evercore ISI rating (as of 03 May 2023)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	465	57	Buy	53	11
Hold	296	36	Hold	26	9
Sell	16	2	Sell	0	0
Coverage Suspended	35	4	Coverage Suspended	4	11
Rating Suspended	9	1	Rating Suspended	2	22

Issuer-Specific Disclosures 03 May 2023

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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Off to a Bumpy Start – Q1 2023 Preview

Following a strong 2022 (UTY/S&P500 -2.4%/-19.4%), utilities have materially underperformed in the first quarter of 2023 (UTY/S&P500 -4.5%/+7.0%) and YTD (UTY/S&P500 -2.9%/+8.2% pg.31). Utilities are now trading at ~18.3x, still above the 15-year average multiple of 17x (NTM) (pg.32). Versus Bond Yields, group valuation remains elevated at 20% expensive (pg.34). NTM P/E relative to S&P500 is 1.00x, lower than the historical average of 1.07x (pg.35). Our sector thesis played out last year (see our Recession read through for Utilities deep dive note published in late March 2022 here) as utilities materially outperformed**.** Against an ongoing challenging macro backdrop (high inflation/rates, elevated customer bills driven by higher fuel costs, regulatory risk rising throughout the year), the group is expensive absolutely and versus bond yields. While Utes outperform in the run-up to a recession, the sector lags during and post the recession. With a recession approaching, we remain cautious and expect reversal of the material outperformance last year.

Q1 2023 Preview (Bumpy Start) – We expect mild weather to be a dominant theme heading into earnings next week. As we point out in our note on April 9th US weather in 1Q 2023 was abnormally warm for utilities vs. the same period last year, and as compared to normal. Based on National Oceanic and Atmospheric Administration (NOAA) heating degree day data, the weather in 1Q 2023 drove -8% lower degree days vs. last year and -10% below normal, on average across the US (pg.36). As we show on pg.38, we expect over 70% of utilities to miss consensus expectations with mild weather being the major driver. For the majority, we expect weather to be a headwind ranging from -0.5% to -7.4% (Average -2.4%) compared to our 23E for each company (pg.37). With that said, we expect many companies to implement cost mitigations, and to reaffirm 2023 EPS targets, for now, until after the third quarter which makes up a substantial portion of annual electric sales. Separately, we hosted Moody's Utilities team in March (link), and they do not currently see material risks for utilities amidst the latest developments in the banking sector. The credit agency stated that the utilities sector is primarily dependent on larger banks (not regional ones) for their credit facilities and that companies currently have strong access to capital markets. Moody's did add that it is thinking more cautiously about utilities with revolver facilities coming due soon. We are positive on NI and PEG going into 1Q prints and cautious on AES and ETR.

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

Within, we include company-specific tear sheets with our / consensus first quarter 2023 EPS estimates along with discussion on key investor debates going into earnings. On page 40, we show trends of short interest by company over two-week, four-week and six-month timeframes.

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Outperform **TP $30**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$0.01 to $0.20. Weather was likely not a major factor during the quarter. Last year in 1Q22, there were +$0.02 of positive nonrecurring items that need to be adjusted out for comparison purposes. In terms of negative YoY drivers, we primarily anticipate lost earnings from asset sales and higher interest expense. In terms of positive YoY drivers, we expect AES to benefit from a Fluence earnings growth, as well as from a small amount from new renewable generation that is typically not a large driver in the first quarter.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: We expect AES to reaffirm its 2023 EPS guidance of $1.65-$1.75, the company also plans to introduce new business reporting segments. We expect the most incremental detail for AES to be provided at its May 8th Investor Day a few days after the earnings call, which could include some further discussion of the 2023 earnings outlook, which does not include up to $0.10 potential EPS upside from 600 MW of new 2023 projects in the US that are currently expected to slip to 2024, but which AES is still working to complete this year and updated/extended EBITDA/earnings growth rate through 2027. AES currently targets long-term EPS growth rate of 7-9% through 2025 (based off of 2020).Below are more topics that could also be discussed on the Q1 call.
  - **Renewable PPAs and backlog:** The company's backlog, which includes projects with signed contracts, but which are not yet operational, is now 12,179 MW, including 5,453 MW under construction. AES is targeting signing a total of 14-17 GW of new long-term renewables PPAs through 2025. Management still expects 4.5-5.5GW of new PPAs each year, on average, but stated that it could be lumpy.
  - **Indiana IRP:** AES filed an Indiana IRP in December 2022. Its near-term plan includes the conversion of the utility's last two coal units to gas in 2025 using an existing on-site gas pipeline. It also includes the addition of up to 1.3 GWs of new wind, solar and storage by 2027 and should reduce AES Indiana's carbon intensity by 2/3rds from 2018 to 2030.
  - **Asset sales:** AES is still targeting $1B in proceeds from asset sales in total from 2022-2025. They received $150MM in 2022 and project $400-$600MM this year.
  - **Coal plant PPA termination:** on April 18th, AES announced an agreement to terminate the PPA for its 205 MW Warrior Run coal plant in Maryland. The off taker, Potomac Edison, a subsidiary of FirstEnergy, agreed to terminate the PPA for a total consideration of $357MM, subject to approval by the Maryland PSC. If approved, the early termination of the PPA is forecasted to save Potomac Edison's customers nearly $80MM over the next seven years and will help the State of Maryland achieve its decarbonization targets. Under the terms of the agreement, AES will continue to operate the Warrior Run plant through at least May 2024. AES will maintain full operational control of the site following decommissioning. AES' $357MM of proceeds is expected to be utilized for its targeted $1B of asset sales through 2025.
  - **Ohio ESP 4 filing:** In September 2022, AES Ohio filed a new ESP 4 to provide a regulatory foundation to upgrade and modernize its network and settle any outstanding regulatory proceedings. The company is asking for a rider with quarterly updates. AES recently reached a settlement and will provide an update on the financial impacts on the Q1 call. A hearing will be held in early May with a final decision expected mid-year 2022 or sometime this summer. Note that the final order in the December 2022 Ohio rate case outcome will take effect once the pending ESP is approved. In that case, AES was granted a $76MM revenue increase with a 10.0% ROE, 53.87% equity ratio on a rate base of $783MM.
  - **Green hydrogen production**: In December 2022, AES and Air Products announced a joint venture to invest ~$4B to build, own and operate a green hydrogen production facility in Texas. This mega-scale renewable to hydrogen project includes 1.4 GWs of wind and solar generation, along with electrolyzer capacity capable of producing >200 metric tons per day (MT/D) of green hydrogen, making it the largest green hydrogen facility in the US. The facility is targeted to begin commercial operations in 2027 and will serve growing demand in the mobility market as well as other industrial markets. AES projects a 10-13% levered after-tax return (or $40-52MM, $0.07 annual EPS at the mid-pt) on their equity portion of the investment ($400MM), with the remaining $1.6B to be funded by debt and/or tax equity. Lastly, Alberta Investment Management Company (AIMCo) is an investor in AES' clean energy business and will fund 25% of AES' capital investment. See our note here.
  - **Exposure to Silicon Valley Bank, Credit Suisse or other**: AES' exposure to SVB is not seen as a material risk because the SVB-sponsored revolving credit is relatively small and should be easy to replace.

- **Positioning into Qtr: Negative.** Our below consensus EPS estimate drives our negative view. Furthermore, AES is expected to introduce new segment and disclosures (EBITDA or cash flow metrics vs EPS previously) at the upcoming Investor Day, which creates some uncertainty in the near team and limits upside in our view.

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$1.52**	**$1.67**	**$0.20**	**$1.70**	**$1.90**	**$2.10**
Consensus			0.27	1.70	1.93	2.10
% diff.			*-26%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

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Outperform **TP $94**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease -$0.02 to $0.95. Last year in 1Q22, weather was $0.02 favorable and this year in 1Q23 we expect it to be -$0.08 unfavorable.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** Ameren typically reaffirms its guidance on its first quarter calls. We expect the company to maintain its 2023 EPS guidance of $4.25-4.45, reiterate its long-term EPS growth target of 6-8% for 2023-2027, reaffirm its $19.7 billion capital plan for 2023-2027, and maintain its rate base growth outlook of 8% for 2022-2027. Below are thematic topics we believe could be discussed.
  - **Missouri electric rate case settlement**: On Mar. 29, 2023, parties reached settlement for a $140MM revenue increase with an unspecified allowed ROE, capital structure and rate base. The annual revenue increase drivers include increased investments made under the Smart Energy Plan, including higher cost of capital and depreciation expense, and increased net fuel expense due to reduced off system sales primarily driven by reduced operations at Rush Island Energy Center. The settlement also includes a continuation of existing FAC, RESRAM and other regulatory mechanisms. A MoPSC decision is expected by June 2023 for new rates effective by July 1, 2023. Recall on March 24, 2023, Ameren Missouri filed true-up testimony requesting a $239MM annual revenue increase with a 10.2% ROE and equity ratio of 51.91%. Also on March 24, 2023, MoPSC Staff filed true-up testimony recommending a $107MM annual revenue increase with an ROE of 9.59% (midpoint of 9.34% to 9.84% range) and an equity ratio of 51.91%.
  - **Illinois multi-year rate case filing**: Staff/intervenor testimony is due on May 11th, and a regulatory decision is required by December 2023. Recall on January 20th, Ameren filed this multi-year electric rate case with the Illinois commission to set distribution rates for 2024 through 2027. For 2024, the company requested a revenue increase of $175MM with a 10.5% ROE and 53.99% equity ratio on a forecasted average annual rate base of $4.3 billion. For 2025, Ameren requested a revenue increase of $91MM with a 10.5% ROE and 53.97% equity ratio on a forecasted average annual rate base of $4.6 billion. For 2026, the company requested a revenue increase of $104MM with a 10.5% ROE and 54.02% equity ratio on a forecasted average annual rate base of $5.0 billion. For 2027, Ameren requested a revenue increase of $79MM with a 10.5% ROE and 54.03% equity ratio on `a forecasted average annual rate base of $5.3 billion. AEE has said it also proposed to defer 50% of the 2024 rate increase of $175MM as a regulatory asset to be collected from customers in 2026. Recall on Sept. 27, 2022, the Illinois commission issued performance incentives for Ameren (see our note).
  - **MISO transmission planning**: Ameren has been assigned $1.8B of the ~$10B of MISO approved Tranche 1 transmission projects. 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. RFPs are due for the $172MM project (Orient-Denny-Fairport) in Missouri on May 2023, for the $560MM project (Denny-Zachary-Thomas Hill-Maywood) in Missouri on November 2023, and for the $22MM project (Skunk River – Ipava) in Illinois on October 2023. The competitive bidding process 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 (current capex plan includes $0.8B of the $1.8B). 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 4Q23. Projects included in Tranche 3 are expected to be located in MISO South, with approval scheduled for 4Q24, while projects identified in Tranche 4 are expected to improve transfer capability between MISO North and MISO South, with approval scheduled for 4Q25.
  - **Solar projects**: Huck Finn's CCN was approved in February 2023, and the project has a targeted in-service date in 4Q24. Ameren's Boomtown CCN was approved this month, and the project has targeted in-service date of 4Q24 as well. Both Huck Finn (200 MW) and Boomtown (150 MW) are already included in the company's capex plan.
  - **Rush Island**: The original March 31, 2024 compliance date remains in effect unless extended by the court. Ameren expects a decision in the nearer term.
  - **Illinois gas rate case**: Staff / intervenor testimony is due May 5th with a decision required by Dec. 2023 for new rates expected to be effective by early Dec. 2023. Recall in Jan. 2023, Ameren requested a $160MM annual base rate increase that includes ~$77MM that would otherwise be recovered in 2024 under QIP and other riders. The request is based on a 10.7% ROE and 54% equity ratio on a $2.9 billion rate base with a 2024 future test year. The rate base is as of year-end 2023 plus estimated average 2024 rate base additions.

- **Positioning into Qtr: Neutral**.

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$3.84**	**$4.15**	**$0.95**	**$4.35**	**$4.65**	**$5.00**
Consensus			0.97	4.36	4.68	5.01
% diff.			*-2%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

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In Line **TP $102**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$0.08 to $1.14/share driven the most by very unfavorable weather. In terms of negative YoY drivers, we also expect higher depreciation and amortization, increased interest expense, and higher property taxes. Positive YoY drivers primarily include rate relief, higher retail load, and the benefit of the TCOS and DCRF riders in Texas.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** AEP typically updates guidance on its third quarter call or for the EEI conference in November. As such, this quarter we expect AEP to reaffirm its 2023 EPS guidance of $5.19-5.39, its long-term 6-7% EPS growth forecast, and its five-year 2023-2027 capital plan of $40B, driving a 7.6% rate base CAGR. We anticipate the company will also reiterate its FFO to debt target of 14-15% and its equity financing plan. Below are thematic items we believe could be discussed on the Q1 call.
  - **Contracted Renewable asset sale:** in February 2023, AEP announced the sale of its contracted renewable assets to IRG Acquisition Holdings for enterprise value of $1.5B ($1.3B equity value is in line with our $1.2-1.4B estimate). The sale is expected to close in 2Q23 and will result in an after-tax GAAP loss of $100-150MM in 1Q23.
  - **Kentucky asset sale**: on February 13th, parties filed a new FERC 203 application requesting expedited approval as they work to close the transaction by April 26, 2023. FERC issued a notice incorporating a shortened 45-day comment deadline related to the application.
  - **Retail business strategic review**: AEP announced at its October 2022 Analyst Day that it had initiated a strategic review of its retail business to be complete in 2Q23; we estimate the company could generate $220-$260MM in net proceeds at 7-8x our estimate for 2023 EBITDA of $32MM.
  - **Credit metrics and equity issuance plan**: AEP's equity issuance plan for 2023-2027 remains $2.8B, including $100MM, $600MM, $700MM, $700MM and $700MM by year, respectively. The company will provide an update following the potential sale of Kentucky in late April. AEP's long-term FFO to debt target remains unchanged at 14-15%. Currently, the company stands at 13.2% on both a Moody's and GAAP basis, reflecting 100bps drag due to $1.7B deferred fuel balance at year-end 2022.
  - **Deferred fuel cost recovery in West Virginia**: AEP continues to work through recovery of ~$500MM in deferred fuel costs in West Virginia. The Commission recently instructed its Staff to finish its prudence review of the 2021-2022 costs. The state legislature passed securitization legislation on March 11th and it became law upon passage. There is a prudency review ongoing, and AEP will file later this year for bonds to be issued in the first half of next year.
  - **Rate case update:** On November 22nd, AEP filed a rate case in Oklahoma, requesting a net revenue increase of $103MM with an ROE of 10.4% and equity ratio of 54.6% on a rate base of $4.4B; a hearing is scheduled for May 9th with an expected Commission order in 2Q23. On March 31st, ApCo Virginia filed a rate case, requesting a net revenue increase of $160MM with a 10.6% ROE and 48.3% equity ratio on a rate base of $2.9 billion with a 12/31/22 test year.
  - **Regulated renewable filings:** For PSO, the company reached a settlement in Oklahoma in April 2023 for the 999.5 MW of wind/solar projects totaling $2.5B of investment; a final order is expected in 3Q23. For SWEPCO, the company also reached settlements in Arkansas and Louisiana in January and March 2023, respectively, in their regulated renewable filings and a decision in Texas is expected in 3Q23; these wind/solar projects total 999 MW and $2.2B of investment. Regardless of what is decided in Texas, Arkansas and Louisiana are expected to flex up their spending to the total $2.2B. For PSO and SWEPCO, these combined $4.7B of investments (SWEPCO $2.2B and Oklahoma $2.5B) are currently reflected in the five-year $40B capital plan. Recall ApCo's 209 MWs of owned solar and wind resources were approved by West Virginia and Virginia, marking a $500MM investment that is also included in the current capex plan.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$4.74**	**$5.09**	**$1.14**	**$5.30**	**$5.65**	**$6.00**
Consensus			1.21	5.27	5.62	5.97
% diff.			*-6%*	*1%*	*1%*	*1%*

Source: Evercore ISI, FactSet as of 4/18/23

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CenterPoint Energy

Outperform **TP $32**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$0.01 to $0.46/share. We expect weather to contribute unfavorably in 1Q23 versus normal. In terms of negative YoY, there will be the loss of earnings from the Arkansas and Oklahoma gas LDC divestitures, higher depreciation & amortization expense, and increased interest expense. In terms of positive YoY drivers, we anticipate positive contributions from rate recovery, sales growth and O&M reductions.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations**: We expect CenterPoint to reaffirm its 2023 EPS guidance of $1.48-1.50 as well as its annual EPS target of 8% in 2024, and its mid-to-high end of 6-8% target for 2025-2030. We anticipate the company will also reaffirm its five-year capex plan of $20.3B for 2021-2025 and its ten-year capex program of $43B for 2021-2030. CenterPoint has indicated it has $3B of potential incremental opportunities from increased and accelerated C&I electrification, accelerated EV adoption, and additional grid modernization projects. We expect CNP to reiterate its organic growth and O&M savings targets (more details below) and its zero external equity issuance plan through 2030. Below are more thematic items we believe could be discuss on the Q1 call.

  - **Texas legislative session**: There are three bills being proposed in the legislative session that could have implications for CenterPoint, including: one that presents an opportunity to file two DCRF riders per year, which would be similar to the TCOS riders; another pertaining to management compensation to ensure utilities have the right management team in place to be incentivized to be the best operators as possible; and a third bill pertaining to cap structure with higher equity layer. The legislative session ends at the end of May.

  - **Rate case schedule**: Texas gas is still expected to file a rate case in mid-2023. In addition, Texas electric is still expected to file in late 2023/early 2024. Indiana electric is also still expected to file in late 2023. Northern Indiana gas and Southern Indiana gas are both still expected to file post-2025. In addition, Louisiana gas is still expected to file post-2025. Mississippi gas is still expected to file post-2025. Lastly, Ohio gas is still expected to file in mid-2024.

  - **Indiana IRP**: CenterPoint received approval for the 130 MW CrossTrack Solar project CPCN in January 2023. The company filed for a wind project in January 2023. The next Indiana IRP is on track to be filed in mid-2023.

  - **Organic growth and O&M reductions**: CenterPoint continues to expect 1-2% annual organic growth and 1-2% annual average O&M savings.

  - **Texas securitization proceeds**: the $1.1B of proceeds were received at the end of March 2023 after several months of delay.

  - **CFO appointment**: In March, CNP announced the appointment of Christopher Foster as Executive Vice President and Chief Financial Officer, effective May 5. Foster joins CenterPoint Energy from PG&E Corporation where he held roles of increasing responsibility over the past 11 years. Most recently, he served as Executive Vice President and Chief Financial Officer overseeing PG&E's financial activities.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$1.64**	**$1.38**	**$0.46**	**$1.49**	**$1.61**	**$1.73**
Consensus			0.48	1.49	1.62	1.73
% diff.			*-5%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

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In Line **TP $68**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$0.53 to $0.67/share. Weather and storms were significant headwinds during the quarter. Warmer than normal weather was similar to the weather in Q1 2020, which contributes to 18-25 cents of drag for gas and electric utilities. We also assume 20 cents of drag from storm costs, which according to the company was planned for in their full-year guidance.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** We expect CMS to maintain its 2023 EPS guidance of $3.06-$3.12 and its long-term EPS growth forecast of 6-8% CAGR for 2023-2027 despite headwinds in the first quarter. We also anticipate the company will reaffirm its five-year capex plan of $15.5 billion for 2023-2027, which is expected to drive rate base growth higher than 7% CAGR. Below are more thematic items that we expect could be covered in the company's Q1 presentation.

  - **Voluntary Refund Mechanism (VRM):** In Dec 2022, the company filed for VRM to use $22 million in excess revenue form 2022 towards 2023 expenses. On April 13th, the commission denied Consumers Energy Company's issuing a voluntary refund pertaining to the $17 million towards incremental electric capital spending, or in the alternative, storm restoration efforts. On the other hand, the commission approved Consumers Energy Company's proposed methodology to issue a voluntary refund in the form of $5 million towards assistance for low-income and payment-challenged gas customers with utility bills and the associated accounting requests

  - **Gas rate case**: Gas rate case was filed in Dec 2022. CMS requested a $212 million rate increase with 10.25% ROE and 51.50% equity ratio. Staff's position came out on April 17th with $89 million rate increase based on 9.7% ROE and 50.5% equity layer. Settlement discussion will continue through the summer for proposed final decision in mid-August. Final decision is expected in September 2023 with rates going in to effect on Oct 1st, 2023.

  - **Commission's storm response review**: The review is going to take place over the course of 2023 and beyond after CMS files its next electric rate case in May this year. The commission is pursuing an external consultant to conduct the review.

  - **Contingency in 2023**: As per the electric rate case settlement agreement approved on Jan 19th, Consumers Energy will provide a $15 million voluntary refund of 2022 revenue through a 12-month bill credit in 2023. The company will also make $10 million contribution towards programs that assist low-income customers. Taking VRM into consideration, these 3 prior year pull-forward items total ~10 cents of EPS contingency in 2023. CMS stated they are working on cost reductions to get back on track to achieve the full-year guidance, including hiring freezes, reducing contractors, taking out consultants, efficient financing, and tax planning, etc.

  - **Legislative bills in Michigan**: Given Michigan's track record and bipartisan energy policy, CMS doesn't see substantial changes to energy policy in Michigan. The legislative session that just started follows the house terms with a two-year cycle.

  - **DIG & Peakers upside in 2025+**: CMS has 50% of the combined capacity (950MW) is contracted which is projected to generate $30MM in pretax earnings from 2023-2025+ (0.08 EPS or 2% of our 25E). Management pointed to $10-$25MM in pre-tax upside ($0.03-$0.07 EPS upside or 1% of our 25E using the mid-pt) from higher power prices utilizing the uncontracted capacity.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.65**	**$2.89**	**$0.67**	**$3.10**	**$3.36**	**$3.65**
Consensus			0.94	3.10	3.34	3.62
% diff.			*-28%*	*0%*	*1%*	*1%*

Source: Evercore ISI and FactSet as of 4/18/23

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conEdison

In Line **TP $93**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to increase by +$0.02 to $1.49/share. Positive YoY drivers primarily include revenue increases under the multi-year rate agreement at O&R. Negative YoY drivers include unfavorable weather impacting steam business, higher O&M, increased interest expense, higher depreciation & amortization, and increased property taxes.

- **What to look for in the earnings report (reminder that ED does not host a conference call):**

  - **Q1 expectations**: We expect Con Ed to maintain its 2023 EPS guidance of $4.75-4.95 and its long-term EPS growth forecast of 5-7% CAGR for 2023-2027. We also anticipate the company will reaffirm its three-year capex plan of $14.6 billion for 2023-2025, which is expected to drive rate base growth of 6.2% CAGR. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **CECONY electric and gas rate case settlement**: On February 16th, CECONY reached a settlement with a three-year ROE of 9.25% (request was 10.0%), equity layer of 48% (versus 50% request) and $11.8 billion in new capital investment authorized. The electric revenue increase totals $442 million in 2023, $518 million in 2024, and $382 million in 2025, for an annual levelized rate increase of $457 million. The gas revenue increase totals $217 million in 2023, $173 million in 2024, and $122 million in 2025, for an annual levelized rate increase of $187 million. A final decision is expected this year with rates retroactive to January 1, 2023.
  - **Steam rate case filing**: On March 24th, Staff recommended a $94MM revenue increase with a 9.0% ROE and 48% equity ratio on a rate base of $1.79B with a 10/31/24 test year. Staff disagreed with the Con Ed's revenue decoupling request. Recall on February 10th, Con Ed's revised request included a $141MM revenue increase with a 10.0% ROE and 50% equity ratio on a $1.812B rate base. As mentioned, the request includes a new revenue decoupling mechanism, in addition to a continuation of full reconciliation of costs for pension and OPEBs and environmental remediation. Con Ed is also requesting full reconciliation of property taxes, municipal infrastructure support costs, and long-term debt cost rate as well as continued reconciliation for uncollectible costs. In addition, the company is asking for symmetrical reconciliation for labor and non-labor inflation rate to the extent that actual inflation rate deviates from what is assumed in the revenue requirement by 50 bps up or down. Con Ed last filed a steam rate case several years ago in 2013 for rates effective in 2014. The business typically represents ~5% of consolidated annual earnings. A final decision expected by year-end 2023.
  - **CEB asset sale closed on March 1st**. Proceeds from the divestiture are being used to repay $1.25 billion of parent debt in 2023, invest in the utilities, and repurchase up to $1 billion of equity.
  - **Shares repurchase plan**: In March 2023, Con Ed commenced an accelerated repurchase plan, for which the company made payments of $1 billion in aggregate to the dealers on March 7, 2023 and received 8.7 million common shares in aggregate on the same day. The final number of Con Edison common shares to be repurchased from the dealers will be based on the volume-weighted average share price of ED's common shares during the term of the applicable transaction, less a discount. The final settlement of the transactions under the accelerated share repurchase agreements is expected to occur no later than 3Q23.
  - **Equity issuance plan**: Con Ed plans to issue up to $900MM of common equity in 2025.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$4.39**	**$4.57**	**$1.49**	**$4.85**	**$5.15**	**$5.45**
Consensus			1.59	4.86	5.19	5.49
% diff.			*-6%*	*0%*	*-1%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

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Outperform **TP $93**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project 1Q23 adjusted EBITDA of $727MM for Constellation versus last year's 1Q22 adjusted EBITDA of $866MM. We expect the primary drivers of the YoY increase to be higher open gross margin, partially offset by lower capacity revenues and higher O&M expense.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations**: We expect CEG to maintain its 2023 EBITDA guidance range of $2.9-$3.3B. Below are more thematic items that we expect could be covered in the company's Q1 presentation.

  - **Capital allocation strategy**: with Q4 results, Constellation announced an initial capital allocation strategy that includes $1.5B in organic growth capital that will exceed its double-digit return threshold, doubling the per share dividend from the 2022 level of $0.5640/sh to $1.1280/sh while targeting growth at 10% annually, and authorizing $1B in share buybacks. The organic growth capex will be allocated to a commercial-scale hydrogen project, nuclear uprates at Byron and Braidwood, and wind repowering and refurbishment. Approximately $2.0B of the additional capital to be allocated in 2023-2024.
  - **M&A:** Management said they will be patient and disciplined in going after inorganic growth opportunities. The company said it prefers dual units instead of single units because the cash flow profile is better. It also applies on a DCF valuation and focuses on the liabilities involved.
  - **December 2022 PJM Performance Bonuses**: On Dec. 23-25, as a result of Winter Storm Elliott, a significant portion of PJM's fossil generation fleet failed to perform as reserves were called, while CEG's operated nuclear fleet performed at 100%. PJM's initial estimate of nonperformance charges ranges from $1-2B and, in accordance with its tariff, funds collected from those charges are redistributed to generating resources that performed above expectations during the event, including nuclear. Leveraging preliminary data from PJM and applying significant judgments and assumptions, CEG recognized an estimated benefit of $109MM (pre-tax) for performance bonuses in Q4 (net of non-performance charges), primarily driven by the over performance of its nuclear fleet that prevented rolling blackouts across PJM. Constellation said that it is confident that number will hold or be better and could present upside this year.
  - **Commercial hydrogen production**: Hydrogen facility will initially use ~250 MWs and produce ~33,450 TPA hydrogen, with the ability to expand to 400 MWs. Constellation said to expect long-term off-take agreements to consume more than 90% of the output. The company is investing total construction capex of $900MM from 2023-2025. Hydrogen will be provided to customers co-located at the facility. Commercial production of hydrogen expected in 2026.
  - **Nuclear uprates**: CEG announced that it was increasing nuclear output by ~135 MWs at Byron and Braidwood and investing ~$800MM from 2023-2029 for needed low pressure turbine replacements, upgrades of the high pressure turbines, and a pull-forward of planned generator maintenance at Byron, of which ~$200MM is growth capital to uprate the plants. The company said to anticipate uprate MWs to be phased in starting in 2026 with full implementation by 2029, based on timing of the turbine installations during planned refuel outages.
  - **Wind repower and refurbishment**: The repowering program totals 315 MWs in initial scope. Constellation is investing $350MM from 2023-2025. The 70 MWs of partial repowering is expected to be in commercial operation in 2023.
  - **CEG plans to apply for license renewals for Clinton and Dresden nuclear plants sometime next year**. On Oct. 31, 2022, Constellation announced its intent to seek renewal of the operating licenses for our Clinton and Dresden nuclear power plants. These renewals, if granted, would allow the plants to operate for an additional 20 years. Clinton could operate until 2047 and Dresden could operate until 2049 (Unit 2) and 2051 (Unit 3).
  - **Hedging**: Percentage of 2023 generation hedged is 94-97%. 2024 generation hedged is 75-78%.

- **Positioning into Qtr: Neutral**

Adj. EBITDA	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2,667**	**$727**	**$3,100**	**$3,300**	**$3,500**
Consensus		767	3,099	3,438	3,574
% diff.		*-5%*	*0%*	*-4%*	*-2%*

Source: Evercore ISI, FactSet as of 4/18/23

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In Line **TP $65**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$0.22 to $0.96. Weather was a materially negative driver during the quarter. We expect other negative YoY drivers to mainly include interest expense, solar ITC, partially offset by regulated investment, higher millstone hedge prices, and sales growth.

- **What to look for in the earnings call (Key debates/themes):**

  - **Q1 call expectations**: Dominion has said they will discuss the recently passed legislations in VA. The VEPCO-related measures were passed as H.B. 1770/S.B. 1265. Both chambers also accepted Youngkin's modifications to the bill addressing legislative oversight of utilities but declined to approve the governor's proposed amendments to a bill intended to accelerate the deployment of offshore wind in the state. Youngkin has until May 15, 2023, to act on the reconvened session bills. The approved bills are effective July 1.

  - **H.B. 1770:** As per the bill, Dominion will move from a triennial to biennial review. The new law requires VEPCO to file its next earnings review on or after July 1, 2023, covering 2021 and 2022. The legislation provides that a 9.70% ROE (vs current 9.35%) and 52.1% equity layer will be authorized in the 2023 review. If the Commission determines that the utility has earned more than 70 basis points above authorized ROE during the 2023 biennial review, the Commission will direct 85% (vs 70% under the prior framework) of the overearnings be credited to customers' bills. The bill requires Dominion Energy Virginia, in its 2023 biennial review, to select a subset of rate adjustment clauses with annual revenue requirement of at least $350 million and combine them with the utility's base rates. The combination of such rate adjustment clauses will be subject to audit by the Commission in the utility's 2023 biennial review filing. The bill states that this combination cannot be used to justify an increase in base rates in the 2023 earnings review; VEPCO will effectively be required to reduce rates by $350 million.

  - **SB 1477 - Electric utility; offshore wind affiliate:** The bill signed into law in March, allows Dominion to sell a passive stake in its ~$10 billion Coastal Virginia Offshore Wind project. Senate Bill 1477 authorizes Dominion Energy Virginia to establish an offshore wind affiliate, subject to approval by the Virginia State Corporation Commission. The bill also includes provisions that allow the affiliate to "construct, own, or operate the project" and enable the affiliate to cost recovery as a public utility. Any premium or purchase price in excess of book value resulting from the sale will be passed onto customers.

  - **Business review update**: D is expected to provide a comprehensive business and financial update at the conclusion of the strategic review process on an investor day to be held in Q3 2023. On the q4 earnings call management reiterated the business review priorities which include focus on premier state regulated utility profile and commitment to current credit profile and dividend.

  - **Regulated offshore wind project**: As expected, the total project costs excluding contingency are currently more than 90% fixed now vs. 80% as of Q4 2022. The company remains on track to complete construction of the project by the end of 2026. Draft Environmental Impact Statement (DEIS) has finished its public comment period. The company has received minimal comments with no red flags, so they are working with agencies to move the permit forward. Next milestone to watch is the Final Environmental Impact Statement (EIS) expected on September 30th and Record of Decision for Final Environmental Impact Statement on October 30th, later than the previously expected mid-2023 but still in support of current project schedule, according to the company.

  - **RPS development program**: On April 14th, the State Corporation Commission (SCC) approved the 2022 Renewable Energy Portfolio Standard (RPS) development plan for Dominion Energy Virginia including nine solar projects, one energy storage project, and PPAs, totaling more than 800 MW. The company is required to submit an annual plan to the SCC to comply with the Virginia Clean Economy Act (VCEA). The SCC also approved a revenue requirement of $89.154 million for the recovery of certain VCEA-related resources for the rate year of May 2023 through April 2024.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$3.86**	**$4.11**	**$0.96**	**$3.53**	**$3.76**	**$4.00**
Consensus			1.06	4.03	3.78	3.89
% diff.			*-9%*	*-12%*	*-1%*	*3%*

Source: Evercore ISI, Capital IQ, Factset as of 4/18/23

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Outperform **TP $126**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$1.11 to $1.20. We expect YoY negative drivers to include materially unfavorable weather versus last year, storm costs, trading margin, depreciation, property taxes and interest, accelerated deferred tax amortization, and parent company drag, partially offset by O&M savings, rate increases, and Vantage revenue.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** We expect DTE to reaffirm its 2023 EPS guidance of $6.09 - $6.40 and its long-term EPS growth forecast of 6-8% CAGR for 2023-2027 despite headwinds in the first quarter. We also anticipate the company will reaffirm its five-year capex plan of $21.6 billion for 2023-2027. Below are more thematic items that we expect could be covered in the company's Q1 presentation.

  - **Storms in Michigan:** We expect DTE's storm costs to be 30 cents of headwind in Q1 2023, which taps out all of its electric contingency. Company said they are going to work on rebuilding electric contingency and better manage the outages. On March 24th, the MPSC's order increased power outage credits to $35 for eligible customers plus $35 more each additional day the power's out and makes the credits automatic, also strengthened rules and technical standards for regulated utilities as the MPSC continues its work to improve the reliability of Michigan's electric grid against more frequent storms due to climate changes.

  - **Commission investigation**: In Nov, the company submitted a report updating the Commission on the efforts to improve the utilities' storm response and restoration times. DTE pointed to its track record and does not view the process as punitive but rather creating more alignment between the two parties and focusing on the additional grid investment. The commission is pursuing an external consultant to conduct the review.

  - **Electric rate case:** On Feb 10th, DTE Electric Company filed a general rate case requesting rate increase of $622M with ROE of 10.25%, equity layer of 50%, and rate base of $22.6B, vs current 9.9% ROE and 50% equity ratio. This rate case primarily supports investments in system reliability, grid modernization, and cleaner generation investments. The requested rate relief is based on a projected test year for the 12-month period ending November 30, 2024, utilizing a historical test year of 2021. In terms of sales forecast, management said DTE will have more stability going into this filing as they saw residential sales down ~3% in 2022 versus 2021 with people returning to work. Company is also proposing an investment recovery mechanism (IRM) focused on certain distribution capital expenditures that will be recovered by means of an IRM surcharge, which will help the company to stay out longer between rate cases. The rate increase request will be $619 million if the IRM proposed by the company is accepted. DTE will start conversations for settlement around the electric rate case later this year. Proposed final decision is anticipated in October and final decision is expected in December.

  - **Future gas rate case**: DTE is still considering the timing to file gas rate case (originally it was planned for early 2023, but now timing could be later this year or early next year).

  - **Clean Vision Plan (IRP) filing**: In early November, DTE filed an updated IRP to support generation transformation to cleaner energy and the modernization of electric grid for resiliency and reliability to prepare for increasing climate extremes and load growth from EV adoption. The plan accelerates 4,100 MW of coal plant retirements and drives 5,400 MW renewables development in 2023 – 2032, and 10,000 MW in 2033 – 2042. Some of the IRP investment could be incremental to current capex in the back end of five-year plan. Proposed final decision is due on July 14th, and final commission decision is expected in 2H 2023. Since they already have staff and intervener testimony, DTE is working towards a settlement with various parties.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$5.99**	**$6.10**	**$1.20**	**$6.25**	**$6.72**	**$7.21**
Consensus			1.52	6.22	6.69	7.17
% diff.			*-21%*	*0%*	*0%*	*1%*

Source: Evercore ISI, FactSet as of 4/18/23

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In Line **TP $102**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project 1Q23 adjusted EPS of $1.20/share, which excludes the Commercial Renewables segment (for the second straight quarter) that is being sold and will be reported as discontinued operations. Weather last year in 1Q23 was $0.03 unfavorable and we expect it to be $0.18 unfavorable this year. In terms of positive YoY drivers, we expect rate cases and riders to contribute favorably, in addition to higher sales growth, lower O&M, lower storm costs, 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 and higher interest expense.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: Duke typically updates its current-year guidance on its third quarter call, so we expect the company to reaffirm its outlooks this quarter. These include 2023 EPS guidance of $5.55-5.75, and a long-term 5-7% EPS growth through 2027 based off the $5.65 midpoint of 2023 guidance. The company has a five-year 2023-2027 capex plan of $65 billion and five-year 2028-2032 capex program of $80-85 billion. The spending is expected to drive rate base growth of 7.1% CAGR for 2022-2027. Below are thematic items we believe could be discussed on the Q1 call.
  - **Commercial Renewables business asset sale**: Duke targets closing its planned sale of its Commercial Renewables business in the second half of this year. The sale is currently presented as discontinued operations. We estimate DUK could fetch $3-3.5 billion in cash proceeds at a 11-13x EV/EBITDA multiple applied to our $360 million of EBITDA estimate less $1 billion of debt. Proceeds will be used to avoid holding company future debt issuance. The Commercial Renewables business comprises of ~5.1 GW of wind and solar in operation (~3.5 GW net ownership, $150MM net income).
  - **North Carolina Carbon Plan**: in February 2023, Duke filed for 2023 solar procurement, with an order expected by year-end 2023. The updated North Carolina Carbon Plan and IRP will be filed by September 1st with an order expected by year-end 2024. Duke will file the CPCNs for gas generation in late 2023 or early 2024 with a final expected order date to be determined. The related capex is included in Duke's plan and will be addressed in future rate cases.
  - **North Carolina DEP rate case Staff recommendation**: On October 6, 2022, 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 $615MM revenue increase with a 10.4% ROE and 53% equity layer and is based on a retail rate base of $12.3B as of December 31, 2021, adjusted for known and measurable changes projected through April 30, 2023. The MYRP includes impacts of approximately $3.8B (NC retail allocation) of capital projects that are projected to go in service over the MYRP period. In late March 2023, Staff recommended a $260MM revenue increase with a 9.25% ROE and 52% equity layer on a $11.6B rate base. Key drivers between Duke's original application and the PSC staff request include ROE ($80MM) and depreciation rates. The rest includes normal adjustments proposed by Staff like incentive, amortization periods, and other. The Q1 supplemental updates are not included in the Public Staff numbers (~$70MM), which accounts for the delta between the original application and the supplemental testimony. Rebuttal testimony is due April 17th and 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 Oct. 1, 2023.
  - **North Caroline DEC rate case**: Duke recently filed for a revenue increase of $833MM with a 10.4% ROE and 53% equity ratio.
  - **Florida cost recovery**: Duke was recently granted recovery of $1.2 billion of 2022 deferred fuel costs and $450 million of storm costs to be recovered over a 12-month period.
  - **Indiana IRP**: final stakeholder meeting on the IRP refresh was held in Q1. Duke plans to file for CPCNs in Q2.
  - **Kentucky rate case**: DUK filed a Kentucky electric rate case in Dec. 2022. Key components of the rate case include a revenue increase request of +$75 million with an ROE of 10.35% and equity ratio of 52.51% on a rate base of $1,177 million with a June 2024 test year. A hearing will be held in May 2023 with a decision expected by the end of June.
  - **Convertible note issuance**: Duke recently announced the offering of $1.5B aggregate principal amount of 4.125% convertible senior notes due 2026 in a private placement. The conversion rate for the convertible notes will initially be 8.4131 shares of common stock per $1,000 principal amount of convertible notes. The notes will mature on April 15, 2026, unless earlier converted or repurchased in accordance with their terms. Conversion could represent $0.07-0.08 annualized EPS dilution, which for example would be ~1% of estimated 2027 EPS if Duke were to deliver the midpoint of its long-term 5-7% EPS growth forecast.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$5.24**	**$5.27**	**$1.20**	**$5.65**	**$6.00**	**$6.35**
Consensus			1.34	5.63	5.98	6.32
% diff.			*-10%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

This report is prepared solely for the use of Michael Weisenburger

EDISON INTERNATIONAL®

In Line **TP $70**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decline -$0.03 to $1.04/share, Positive YoY drivers primarily include GRC revenues benefits. Negative YoY drivers primarily consist of increased depreciation, higher property taxes, increased interest expense, and some share dilution.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: We expect EIX to reaffirm its 2023 EPS guidance of $4.55-4.85 and its targeted long-term growth rate of 5-7% CAGR through 2025, based off of the original 2021 guidance range of $4.42-4.62. We also anticipate the company to maintain its five-year $27-30B capex plan for 2021-2025 (and financing outlook), which is expected to drive a 7-9% rate base CAGR over that time period. Below are thematic items we believe could be discussed on the Q1 call.
  - **Best estimate of expected losses for the 2017/2018 Wildfire/Mudslide events:** With Q4 results, EIX maintained its best estimate at $8.8B; now $900MM of claims remain. SCE targets filing the TKM (2017 Thomas and Koenigstein fires and the 2018 Montecito Mudslides) cost recovery application totaling ~$2B in the third quarter of 2023 with an 18-month decision timeline request. The company also plans to request securitization of approved amounts. SCE will make a separate filing for Woolsey.
  - **Cost of capital triggering mechanism**: EIX's long-term EPS growth forecast does not include upside from the cost of capital mechanism trigger where a 50bps ROE change impacts 2025 EPS by $0.28 (5% of our estimate). The target also does not include potential upside from successful recovery of wildfire claims. The measurement period for the cost of capital mechanism ends September 30th and it would kick into effect in January 2024.
  - **Equity issuance plans**: EIX issued ~$505MM of junior subordinated notes with 50% equity content ($250MM) in early March; the notes are tax deductible. The company has said it plans to issue $300-400MM of equity content securities this year, through a potential combination of hybrids (50% content), $50-100mm of internal programs (100% content), and an ATM program (100% content). EIX has been saying it expects to issue equity content up to $250MM annually, on average, from 2022-2025. The company issued ~$100mm in 2022.
  - **Rate case**: EIX still plans to file a rate case in May for the 2025-2028 period.
  - **Sales growth**: SCE is projecting a 2% average annual sales growth from 2023- 2035. The ramp up to 2% is expected to be gradual with majority of the impact to be in 2025 and beyond. The company will incorporate this growth along with associated capex needs in the 2025-2028 GRC.
  - **Probability of losses from catastrophic wildfire**: As of the Q4 earnings call, Management estimates that its wildfire mitigation and PSPS have reduced probability of losses from catastrophic wildfires by 75-80% from 65-70% previously.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$4.59**	**$4.63**	**$1.04**	**$4.70**	**$5.15**	**$5.50**
Consensus			0.98	4.72	5.11	5.55
% diff.			*6%*	*-1%*	*1%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

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Outperform **TP $118**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$0.02 to $1.30/share. Last year in 1Q22 weather was $0.08 favorable, and this year in 1Q23 we expect it to be $0.16 unfavorable. We estimate that the negative impact of weather will more than offset the benefits driven primarily by sales growth, higher FRP revenue in Arkansas, storm cost recovery, and recovery under the Texas DCRF rider.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: Entergy revisits guidance on every earnings call, but we expect the company to reaffirm its 2023 EPS guidance of $6.55-6.85, as well as its 2024 and 2025 guidance of $7.05-7.35 and $7.50-7.90, respectively. We also anticipate the company will maintain its $16B capital plan for 2023-2025. Below are thematic items we believe could be discussed on the Q1 call.
  - **Resiliency spending:** The current three-year $16B capex program for 2023-2025 includes $0.9B of accelerated "resiliency" spending of the total $1.7B amount that will be recommended to regulators through 2025; the $0.8B balance will be added to the capex plan once regulators approve it. Entergy New Orleans filed for $1.5 billion in investment over ten years in the third quarter with a final decision expected in 4Q23. Entergy Louisiana filed in December 2022 for $9B in investment over ten years and has a hearing scheduled in January 2024. Entergy Texas expects to make its initial regulatory filing in the third quarter of this year after legislative efforts are completed. The company is targeting a decision from the Texas Commission sometime next year.
  - **SERI update**: FERC did not rule on SERI's compliance refund report (order was expected 2/23/23). SERI filed an appeal with the 5th circuit Court on the uncertain tax position and leaseback ruling, and the Court is going to wait for FERC to clarify its order before acting. FERC has no timeline to decide. Recall on December 23rd, the FERC issued orders regarding the SERI sale leaseback and uncertain tax position case. Entergy said that it believes the orders are a positive step toward resolving a number of long-standing issues raised by its retail regulators. The company said that while it disagrees with some elements of FERC's findings, in particular its ruling on the sale leaseback claim, it is pleased that FERC's remedy results in no additional refunds due to customers beyond those already provided in 2021 on the uncertain tax positions taken by SERI.
    - Regarding the uncertain tax position issue, under the remedy specified by FERC, for uncertain tax positions that the IRS fully disallowed, and for which SERI received no tax benefits, no refunds are due. Entergy therefore calculates the remaining refund for the uncertain tax positions issue to be zero dollars. Litigators in the case are calling for $800MM in additional refunds ($450MM additional refunds taking into account SERI's previous settlement with the Mississippi PSC).
    - On the sale leaseback case, the order calls for SERI to refund approximately $149MM, including interest, resulting from the disallowance of $17MM in annual lease payments from 2015 through 2022. Taking into account SERI's previous settlement with the Mississippi PSC, the total sale leaseback refund amount is $89MM. The order also states that SERI can no longer collect $17MM in annual lease payments on a prospective basis. Net of the Entergy Mississippi settlement, the prospective exclusion would be $10MM annually (or $0.03 EPS hit). Regarding the financial impacts of these FERC orders, assuming there are no changes to either order upon rehearing, Entergy reaffirmed its adjusted EPS guidance for 2023-2025 subsequent to receiving the order in December 2022.
  - **Credit metrics**: Entergy's equity needs forecast through 2024 totals just $130MM remaining to be sourced as of 12/31/22. The company has also been saying it expects to issue $1.4B of combined equity for the subsequent 2025-2026 years. Entergy still expects CFO pre-working capital to debt to be in the range or better than Moody's >14% target, and FFO to debt to be in the range or better than S&P's 14-16% target.
  - **Louisiana FRP / rate case**: In Q3, Entergy will file a rate case to be effective Sept. 2024 or for extension request for the FRP, or both. The current FRP will be effective through end of Aug. 2024.
  - **Louisiana storm cost recovery:** Entergy recently received $1.5B of securitization proceeds for the balance of Ida stock cost recovery.
  - **Entergy Texas rate case update:** Parties are currently working to reach a settlement. On July 1, 2022, Entergy Texas filed for a net revenue increase of $131MM with an ROE of 10.8%, equity ratio of 51.21% on a rate base of $4.4B with a December 2021 test year. On November 2, 2022, Staff recommended a net revenue increase of $77MM with a 9.45% ROE and 51.21% equity ratio on a rate base of $4.4B. A final decision is expected in May 2023.

- **Positioning into Qtr: Negative.** Our below consensus EPS estimate drives our negative view into earnings. In addition, SERI concerns still loom, investors will also focus on the Louisiana FRP extension, and there could be a recession that would impact strong C&I load growth.

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$6.02**	**$6.42**	**$1.30**	**$6.70**	**$7.15**	**$7.70**
Consensus			1.50	6.72	7.20	7.73
% diff.			*-13%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

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EVERSOURCE

Outperform **TP $92**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to increase by +$0.07 to $1.37. We expect positive drivers to include rate increase at electric and gas companies, increased transmission earnings, and trackers. Negative drivers include higher depreciation and property taxes, debt interest expense, and pension.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** We expect ES to maintain its 2023 EPS guidance of $4.25 - $4.43 and its long-term EPS growth forecast of 5-7% CAGR for 2023-2027. We also anticipate the company will reaffirm its five-year capex plan of $21.5 billion for 2023-2027, which is expected to drive rate base growth 7.5% CAGR. The company is likely to provide an update on offshore wind strategic review. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **Offshore Wind Strategic Review:** Update on the strategic review of offshore wind assets is expected in Q2 2023 versus original expectation of having the review completed by 2022 year-end. We estimate up to $3-3.5B in proceeds from the sale of Eversource's share. The company anticipates an expedited sale completion post the announcement as early as Q3 or latest by year end. Sale proceeds would be used on day one to pay down parent debt, which will create increased financial flexibility to fund regulated investments in the future.
  - **Additional Details on Offshore Wind:** In terms of capital investment, ES estimates total capex of $5.5-$6B as of the Q4 call versus previous estimate of $5.1-$5.8B. 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, company has locked in 90% of the costs in Feb 2023, vs 82% in Oct 2022. Offshore investment as of the Q4 call totaled $1.95B versus $1.8B in Oct 2022. 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). When asked about Ørsted's impairment charge related to Sunrise Wind on the Q4 earnings call, ES pointed to different accounting standards, and they don't foresee booking a charge under GAAP.
  - **Aquarion Rate Case:** On March 15, 2023, the Public Utilities Regulatory Authority (PURA) ordered a rate decrease of $2M, or approximately 1%, from the company's currently approved revenue requirement for the rate year commencing on March 15, 2023. Recall that company's requested revenue deficiency was $27.5M in year 1 and $22.4M over 2 subsequent rate years. Aquarion Connecticut rate case filed in August 2022 was its first rate review in roughly 10 years. PURA approved an allowed ROE of 8.70% and 50.35% common equity, vs. the requested 10.35% ROE and 53% Equity Layer. ES appealed the rate case decision on March 30th with no timeline for a final decision. According to the company, ES had been significantly under-earning and will likely continue to do so. Since Aquarian earnings make up a small portion of ES's earnings (~3%) we don't see material implications to near and long term EPS growth outlook.
  - **Advanced Meter Infrastructure (AMI).** In November, the MA DPU authorized company's proposed AMI spending of $535M through 2028 (versus ask of $575M) which is now included in the updated five-year plan. In CT, ES targets all customers on AMI during 2023-2027 with capital investment of approximately $475 million awaiting approval, which will be incremental to current capex plan. Decision is expected sometime this year.
  - **Distributed Energy Resources (DER) Projects**: In Massachusetts, Eversource's proposed capital investment in the six solar clusters is ~$980M (included in the five year plan), of which about $310M would be reimbursed over 15 to 20 years by solar developers. Current proposal would enable up to 1 GW of solar, with interconnection upgrades needed to deliver additional clean energy to company's system. One of the six solar cluster is approved, with decision on remaining five projects expected by mid-year. Eversource is targeting completion of the projects 4 years from decision dates.
  - **Senate Bill 7.** An Act Strengthening Protections for CT Consumers Energy" sets conditions for PURA to approve a settlement in a rate amendment proceeding, limits the term of any provision in the settlement to three years instead of four, and brings water companies that have at least 75,000 customers (including Aquarion) under the requirement for a general rate case at least every four years. The bill could have negatively impacted some of the capital trackers that ES has in CT, if adopted. We'll continue to monitor the process on this proposed bill, Connecticut General Assembly 2023 Regular Session adjourns June 7th

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$3.86**	**$4.09**	**$1.37**	**$4.34**	**$4.70**	**$5.10**
Consensus			1.36	4.37	4.67	5.00
% diff.			*1%*	*-1%*	*1%*	*2%*

Source: Evercore ISI, Factset as of 4/18/23

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In Line **TP $62**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to be flat at $0.58/share. Key YoY positive factors are tax timing, retail demand, FERC revenue, O&M reduction, corporate-owned life insurance (COLI), offset by Sibley accounting adjustment, unfavorable weather, higher D&A, and interest expense.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** We expect EVRG to maintain its 2023 EPS guidance of $3.55-$3.75 and its long-term EPS growth forecast of 6-8% CAGR through 2025. We also anticipate the company will reaffirm its five-year capex plan of $11.6 billion for 2023-2027, which is expected to drive rate base growth 6% CAGR. The inflection point that will impact their outlook and perspective on the mix of capital expenditures is going to be IRP update in the second quarter, which would support more owned renewable generation. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **Kansas Rate Cases:** Evergy is preparing to file Kansas Central and Kansas Metro rate cases in late April 2023. We expect to see staff testimony in August. 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.
  - **Annual Update to IRP:** EVRG will file an annual update to its IRP for both states in June this year, which will include the impact of IRA, higher commodity curves, and increased SPP (Southwest Power Pool) capacity margin requirement, these factors can be more supportive of EVRG owning more renewables. Recall that in June 2022, Evergy filed an annual update to its Missouri and Kansas IRP. The Company's preferred plan for the next decade is consistent with the resource plan laid out in 2021 triennial IRP filing and the renewables development discussed during EVRG's Investor Day in Sep 2021. The minor tweaks in the plan reflect updates to the sequencing of near-term investments. 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.
  - **Winter Storm Uri Securitization** (EF-2022-0155): In March 2022, the company initiated the securitization process in Missouri to recover ~ $300 million of Storm Uri cost in Missouri West with recovery period over 15 years, which significantly moderate the impacts on customers. In November 2022, the MPSC issued a revised financing order authorizing Evergy Missouri West to issue securitized bonds to recover its extraordinary fuel and purchased power costs incurred as part of the February 2021 winter weather event. In January 2023, the OPC filed an appeal with the Missouri Court of Appeals challenging the financing order regarding the treatment of income tax deductions, carrying costs and discount rates related to the financing of the extraordinary fuel and purchased power costs incurred. A final non appealable financing order is required prior to the issuance of securitized bonds. In terms of timing, a decision by the Missouri Court of Appeals is currently expected in the second half of 2023. The company has room in the 2023 EPS guidance to absorb the delay in receiving securitization proceeds.
  - **Persimmon Creek Acquisition** (EA-2022-0328): In Missouri, the company had applied for the acquisition of the 199 MW Persimmon Creek Wind Farm. On April 6th, Commission issued an approval of the Certificate of Convenience or Necessity (CCN) but with certain performance guarantees that considerably increase the financial risk associated with the project. EVRG may file for the project to be included in rate base in the upcoming Kansas rate case filing. The acquisition is expected to contribute $0.05 in EPS this year which is included in EVRG's 2023 EPS guidance.
  - **HB 2225**: HB 2225 or "The Electric Utility Cost Recovery through Transmission Delivery Charges" legislation that becomes effective July 1st amends the law authorizing a Kansas Corporation Commission (KCC)-regulated utility to recover costs associated with the transmission of electric power through a transmission delivery charge (TDC). As a result, EVRG voluntarily agreed to an ROE reduction on the elective projects to be from FERC's jurisdictional ROE down to the KCC's authorized ROE, which is roughly a 100bps decrease in ROE, or a 4c headwind to EPS starting in 2024.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$3.54**	**$3.71**	**$0.58**	**$3.65**	**$4.00**	**$4.27**
Consensus			0.57	3.63	3.97	4.24
% diff.			*2%*	*0%*	*1%*	*1%*

Source: Evercore ISI, FactSet as of 4/18/23

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exelon℠

Outperform **TP $46**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to increase by +$0.03 to $0.67. We expect weather to unfavorable (we estimate -$0.03) this year. However, weather is not a major driver of earnings for EXC given that roughly 75% of its earnings are decoupled. Note that last year in 1Q22 there was $0.03 of negative nonrecurring items. In terms of the primary positive YoY drivers, we expect higher rates at Pepco, Delmarva and BGE to contribute positively, in addition to a benefit in Illinois from the increased 30-year Treasury rate and plus lower storm costs. Recall every 50bps increase in the 30-year Treasury rate equates to a $0.04 annual EPS benefit. In terms of negative YoY drivers, we primarily expect increased interest expense and higher depreciation.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: Exelon typically updates its guidance on the third quarter call. This quarter we expect the company to reaffirm its 2023 EPS guidance of $2.30-2.42, as well as its outlook for delivering the midpoint or better of 6-8% EPS growth through 2026 off the midpoint of 2022 adjusted guidance ($2.25).
  - **Illinois multi-year plan rate case filing**: Next step is the intervenor testimony in mid-May. Recall on January 17th, ComEd filed its Illinois electric distribution multi-year rate plan asking for base rate revenue requirements of ~$3.8B in 2024, $3.9B in 2025, $4.1B in 2026 and $4.4B in 2027. ComEd's requested revenue requirements are based on requested returns on common equity of 10.50%, 10.55%, 10.60%, and 10.65% in 2024, 2025, 2026, and 2027, respectively, and on capital structures that reflect between 50.58% and 51.19% common equity. The approved revenue requirements will be reconciled to actual costs incurred during each such year, subject to certain limitations and to ICC review, in accordance with law. In the filing, ComEd will ask the ICC to phase-in the new rates by deferring 35% of the 2024 base rate increase, with that amount being recovered in 2026. The ICC must review the Rate and Grid Plans in a proceeding on a consolidated basis and issue a decision by 12/20/23. On September 27, 2022, the Illinois commission issued performance incentives for Exelon (see our note).
  - **Delmarva rate case**: In December 2022, Exelon filed a Delaware electric rate case, requesting a $60MM revenue increase with a 10.5% ROE and 50.5% equity ratio on a rate base of $1.1B with a test year of 6/30/23. Interim rates will go into effect on July 15th and a final order is expected in 2Q24.
  - **Atlantic City rate case**: In February, Exelon filed an Atlantic City electric rate case, requesting a $105MM revenue increase with a 10.5% ROE and 50.2% equity ratio on a rate base of $2.2B with a 6/30/23 test year. No procedural schedule has been made public yet. As permitted by New Jersey law, Atlantic City Electric may implement full proposed rates on November 17, 2023, subject to refund. Procedural schedule for ACE base rate case is expected to be finalized in 2Q23 with a final decision expected in 1Q24.
  - **BGE rate case**: Next step is intervenor direct testimony in June 2023 with a final decision is expected in December 2023. Recall in February, Exelon filed a Baltimore Gas & Electric rate case, requesting $602MM over a three-year cumulative multi-year plan with a 10.4% ROE and 52% equity ratio. The company proposed incremental revenue requirement increases with rates effective January 1, 2024, January 1, 2025, and January 1, 2026, respectively. The proposed revenue requirement increase in 2024 reflects $84.8MM increase for electric and $158.3MM increase for gas; 2025 reflects $103.3MM increase for electric and $77.0MM increase for gas; 2026 reflects $125.0MM increase for electric and $54.0MM increase for gas. These include a proposed acceleration of certain tax benefits.
  - **Pepco DC rate case**: Pepco DC recently filed its second multi-year plan (upon conclusion of the PSC's stay-out provision) for rates effective 2024-2026. Exelon is requesting a cumulative revenue increase of $191MM with an ROE of 10.5% and equity ratio of 50.5%
  - **Pepco MD rate case**: Exelon has said that it plans to file a Pepco MD rate case in 2Q23.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.08**	**$2.27**	**$0.67**	**$2.35**	**$2.50**	**$2.70**
Consensus			0.66	2.36	2.51	2.73
% diff.			*2%*	*-1%*	*0%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

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FirstEnergy

Outperform **TP $45**
Analyst: Michael Lonegan / Durgesh Chopra

- **Q1 EPS Bridge:** We project year-over-year EPS to increase +$0.05 to $0.65/share. FE's guidance for the quarter is $0.56-0.66/share. In terms of positive YoY divers, we anticipate FirstEnergy will benefit from higher rates from Ohio grid modernization, plus Pennsylvania and transmission rate base growth, reduced O&M, increased Signal Peak earnings, and a benefit from lower Ohio rate credits. In terms of negative YoY drivers, we expect the primary impacts to be lower pension EPS, unfavorable weather, and loss of earnings from the FET asset sale.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: We expect FirstEnergy to reaffirm its 2023 EPS of $2.44-$2.64, long-term EPS, capital, rate base, and balance sheet targets until at least the new CEO is in place, who is said to be committed to the existing plan. Below are thematic topics we believe could be addressed on the Q1 call.
  - **CEO hire**: FirstEnergy recently announced Brian Tierney as the new President and CEO, effective June 1st. He succeeds interim President and CEO John Somerhalder II. Tierney joins FirstEnergy from Blackstone where here he serves as the global head of Portfolio Operations and Asset Management for the Infrastructure group. He previously spent 23 years at AEP, where he held a number of leadership positions, including most recently serving as executive VP of Strategy following more than 11 years as its CFO.
  - **Balance sheet**: FirstEnergy paid down roughly $3 billion of long-term debt in 2022 and achieved its targeted 11% FFO to debt for the year. FE lowered holding company debt as a percentage of total debt to 24% at year-end 2022 from 33% at year-end 2021. As disclosed with its announced FET asset sale on February 2nd, the company is now targeting 14-15% FFO to debt in 2024 and 2025, solidly in line with investment grade peers.
  - **Dividend expected to resume growth later this year for first time since 2020**: The Board approved a new dividend policy that raises FE's targeted payout ratio to 60-70%, up from 55-65% previously. FirstEnergy said it expects to resume dividend growth (current annual dividend is $1.56/share) subject to Board approval for dividends payable late this year. Its new payout ratio is more in line with peers and reflects the steps the company has taken to improve its credit profile and its commitment to enhancing value for investors.
  - **Rate cases**: FirstEnergy filed rate cases in New Jersey and Maryland on March 16th and 22nd, respectively. A good summary of the filings is in the IR Summary of the Regulatory Corner section on FE's website here. The company plans to file in West Virginia in second quarter 2023. In New Jersey, the last case was filed a case in 2020, and for West Virginia and Maryland, the last base rate case was filed in 2014 and 2018, respectively. In 2024, FirstEnergy is required to file a rate case for its Ohio utilities, and the Company stated it will also potentially file a rate case in Pennsylvania in 2024. Finally, in these regulatory filings, FE plans to adjust recovery of regulatory asset balances such as the first storm costs, which currently amount to approximately $680 million across all its jurisdictions.
  - **Strong mining results**: FirstEnergy's coal mining legacy investment in Montana dates back to the late 2000s with the Company as a minority investor with a 33% share in the facility. Historically, the mining business has not been a significant driver of earnings. However, given higher commodity prices, the mine is outperforming expectations for 2022-2023 with both earnings and cash distributions, which provides significant flexibility to accelerate reliability and maintenance work in the distribution business. Signal Peak and pension comprised roughly 30% of total operating earnings for the full-year 2022 (we estimate Signal Peak was $0.20-0.25/share EPS or 10% of the consolidated $2.41/share). The Signal Peak and pension combined earnings contributions are expected to be 15% of consolidated EPS guidance this year and 10% for both 2024 and 2025. FirstEnergy has generally been looking at exploring how to transition out of the facility over time, but it is a challenge to do given lack of interest in coal.
  - **Planned consolidation of Pennsylvania and Ohio operating companies**: FirstEnergy filed an application on March 6th to consolidate its Pennsylvania utilities, requesting a decision by year-end 2023. This company views this as an important step to align with its new state operating model, to simplify its legal entity structure and to increase the flexibility and efficiency of its financing strategy. This consolidation will not represent any changes in current electric rates for its Pennsylvania customers; those will be combined as appropriate over time through future rate case activity. Next, the company plans to file for consolidation of its Ohio utilities.
  - **Ohio audits and SEC investigation**: The four Ohio audits are stayed another six months as of February 2023.The SEC investigation remains ongoing with no timeline for a decision.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.60**	**$2.41**	**$0.61**	**$2.55**	**$2.63**	**$2.80**
Consensus			0.62	2.53	2.67	2.84
% diff.			*-2%*	*1%*	*-1%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

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In Line **TP $38**
Analyst: Michael Lonegan / Durgesh Chopra

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease -0.08 to $0.55/share. Recall last year in 1Q22 there was a $0.06 gain on sale of investment in EverCharge at Pacific Current. In terms of negative YoY drivers, we primarily expect bank provisioning expense, higher interest expense, increased O&M, higher depreciation, and increased property taxes. In terms of positive drivers, we primarily anticipate higher ARA revenues.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** We expect Hawaiian to reaffirm its 2023 utility EPS guidance of $1.75-1.85, but potentially revisit its bank guidance of $0.75-0.85 which could be hard to predict for the company due to all of the economic uncertainty. Given the supply chain issues that HE has been facing, we are uncertain if it will update its 2023-2025 capital plan or wait until later in the year to do so, if necessary. Below are more thematic items we believe could be discussed on the Q1 call.
  - **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. American Savings Bank's 15% loan growth last year reflected its solid credit quality and a still-healthy Hawaii economy. Loan growth is expected to return to more normalized low single-digit growth levels in 2023. In order to fund the strong loan growth in 2022 given flat deposit growth, ASB increased its wholesale borrowings and CD balances, which reduced its balance sheet asset sensitivity to be essentially neutral. As a result, the company said that although additional Fed rate increases should continue to benefit the bank, it will also have to manage its funding costs to see improved net interest margin. HE stated that is already taking measures to manage its funding costs, including focusing on paying down higher cost wholesale borrowings as those costs have come up considerably as short-term rates have risen. Note that the average cost of funds was 16 basis points for the full-year 2022, 10 basis points higher than the prior year. American Savings Bank saw a larger increase in the fourth quarter as the bank utilized the wholesale borrowings to support its strong loan growth. As a result, the company saw an increase in its funding costs in the fourth quarter to 38 basis points, up 25 basis points from the prior quarter. Hawaiian said that it expects higher funding costs to continue throughout 2023 as market interest rates continue to increase and to the extent its level of wholesale funding remains elevated. However, ASB believes the strength of its core deposit base will allow it to maintain its funding cost advantage in comparison to its peers throughout 2023.
  - **Utility EPS growth and regulatory lag**: Hawaiian now expects to deliver long-term EPS growth of 5% "including $4-5 million of net PIM rewards annually," a forecast that was lowered from the most recent 5% expected for 2022 through 2024 "with upside from PIMs." New guidance reflects continued higher generating station maintenance moderating in the coming years as the company brings new generation and storage resources online and as units are retired. It also accounts for higher O&M expenses due to the inflationary environment and increased bad debt expense, updated timelines for placing EPRM-recovered projects in service, and higher interest expense. PBR and its associated PIMs are expected to materially improve regulatory lag, a persistent problem for the Company.
  - **PIMs:** Hawaiian has stated that there is the potential for $4 million of PIM rewards this year, mostly driven by RPS-A. The company is guiding to $4-5 million of PIM rewards per year in its long-term EPS growth forecast.
  - **Cost management**: HE has been implementing aggressive cost management to respond to the inflationary and interest rate environment. Higher generation cost is being offset by savings in labor, outside services, and leased space expense. For the utility, 2023 adjusted O&M excluding pension is expected to be below ARA allowed levels.
  - **Oil price impact on customer bills**: While HE has aggressive renewable and decarbonization targets to 100% renewables by 2045, currently about 50% of its generation is derived from conventional oil-fired steam units. While oil prices have come down some, they remain elevated and electric bills are higher than have been in recent years, which could potentially result in higher bad debt expense than normal.
  - **Capex and supply chain**: Utility capex in 2022 totaled $357 million, towards the low end of the guidance range of $350-375 million. Capex was lower than originally anticipated due to supply chain disruptions, customer work delays, project rescoping, resource availability and permitting delays.
  - **Stage 3 RFPs**: Bids are expected this month with projects expected to be chosen by July 2023.
  - **Major projects:** HE has pending filings for major projects as it relates to public EV charging, self-build storage and resiliency, for which decisions are expected in 2023.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.25**	**$2.20**	**$0.55**	**$2.25**	**$2.40**	**$2.55**
Consensus			0.49	2.28	2.45	2.60
% diff.			*11%*	*-1%*	*-2%*	*-2%*

Source: Evercore ISI, FactSet as of 4/18/23

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In Line **TP $90**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We expect year-over-year EPS to decline -$0.06 to $0.68. We anticipate that Florida Power & Light will grow rate base by 9% and utilize part of its depreciation reserve ($1.45 billion) to earn towards the top end of its 9.8-11.8% allowed ROE band. In the NEER segment, we anticipate growth to be driven by new projects added, plus existing projects, though wind resource could be weaker YoY after a strong 1Q22 at 107%. We expect some drag from a planned outage at Point Beach unit 2 nuclear plant for 20 days in 1Q23 versus an outage at the same unit for five days during the same period last year. We also anticipate higher interest expense and share dilution from the 33.3 million shares issued in March 2023.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** We expect NextEra to reiterate its 2023-2026 EPS guidance ranges with the expectation that it will deliver at or near the top end of the range for all years. We anticipate the company will reaffirm its renewable development expectations as well. We expect some commentary on NEE's plan to file for dismissal of the FEC complaint. We anticipate some messaging from Armando Pimentel, who replaced Eric Silagy in mid-February as President and CEO of FPL. Pimentel previously served in several senior executive roles with NextEra. Below are additional thematic items we believe could be discussed on the Q1 call.
  - **NEER origination:** Energy Resources' origination amount increased at a slower pace in 4Q22 than the prior sequential quarter in 3Q22. In total, the origination amount for 4Q22 was ~1,700 MW versus last quarter's 2,345 MW increase. It included: 730 MW of solar, 670 of battery storage, 300 MW of wind MW of battery storage. Energy Resources now has ~19,000 MW in its year-end record backlog.
  - **NEER renewable development:** with Q4 results, NextEra rolled forward its NEER renewable development program by one year and raised it 15% at the midpoints. New expectations for the 2023-2026 period total 32,700-41,800 MW, which includes guidance for 14,900-19,000 of solar, 12,000-14,600 MW of wind, 5,100-6,800 MW of storage, and 700-1,400 of wind repowering.
  - **NextEra has said it plans to file for dismissal of the complaint to FEC.** Recall the FEC complaint was filed by a special interest group and primarily relies on media articles to allege certain violations of the Federal Election Campaign Act by various parties, including, by implication, FPL. The FEC process is a confidential, civil administrative process, with an investigation only commencing if the FEC votes to do so, which decision likely will not occur until late this year. After an internal investigation, NEE has said it is confident there was no wrongdoing by the company and plans to file its response seeking dismissal of the complaint and does not believe it is appropriate for a complaint such as this to move forward. Some investors were concerned about the timing of Eric Silagy's retirement, announced on the 4Q22 call. The total amount of contributions referenced in the complaint is less than $1.3MM and NextEra does not expect that allegations of federal campaign finance law violations taken as a whole would be material to them.
  - **Florida PSC approval of fuel and storm cost recovery**: FPL filed to recover approximately $2.1B of incremental fuel costs incurred in 2022. Based on the drop in projected natural gas prices, FPL is now expected to benefit customers by offsetting the 2022 fuel cost recovery by approximately $1.4B this year. FPL also received approval of approximately $1.3 billion of storm costs incurred in 2022. Taking both proposals together, FPL anticipates that its typical 1,000-kilowatthour residential customer bills as of May 2023 will remain well below the projected national average and the projected average for Florida investor-owned utilities.
  - **Solar projects and supply chain**: FPL completed 13 different solar projects totaling 1 GW in the first quarter 2023. The company stated that the supply chain has been improving.
  - **Construction on FPL's green hydrogen pilot at Okeechobee remains on schedule** as it continues to advance toward its projected commercial operation date later this year.
  - **Treasury guidance on clean energy tax credits**: Expected late Q2 or early Q3 this year.
  - **NEP**: Addressing investor concerns, NextEra has stated that NEP is well-positioned with $3 billion of liquidity, $6 billion of forward swaps and room in credit metrics.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.55**	**$2.90**	**$0.68**	**$3.10**	**$3.40**	**$3.65**
Consensus			0.70	3.11	3.40	3.68
% diff.			*-4%*	*0%*	*0%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

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Outperform **TP $31**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to increase $0.02 to $0.77. Recall that NiSource adjusts weather out of its non-GAAP EPS results. In terms of positive YoY drivers, we expect riders and rate increases partially offset by increased depreciation & amortization, higher interest expense, pension, and share dilution.
- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** We expect NI to maintain its 2023 EPS guidance of $1.54-$1.60 and its annual NOEPS growth of 6-8% through 2027. We also anticipate the company will reaffirm its five-year capex plan of $15 billion for 2023-2027, which is expected to drive 8%-10% annual utility rate base growth. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **Minority Interest Sale:** Minority interest sale of NIPSCO is still expected to be completed in 2023 and continues to track as expected. The company remains confident in the attractiveness of the asset and stated that there is no decline in interest attributable to interest rates, particularly given the quality of the potential counterparties with ready capital to deploy, bank leverage tools, and long-term investment preference. NiSource has initiated the sale process, and we expect an announcement by mid-year and close by year-end. We estimate $1.5-$2B in cash proceeds.
  - **NIPSCO Electric rate case**: On March 10th, NIPSCO and other parties reached a settlement agreement in its electric rate case in Indiana. The settlement proposed a $292M rate increase compared with $395M company requested, including base rate increase and tracker. The parties agreed on an ROE of 9.8% versus current 9.75%, and an equity layer of 51.63% versus current 47.86%. Recall that company requested a 10.4% ROE and a 58.5% equity ratio on a rate base of $5.95B. We view the settlement as constructive if approved. An IURC settlement hearing is scheduled to start on Apr. 26, 2023. A final Commission order is expected in mid-August with rates going into effect in September.
  - **Virginia gas rate case**: On Dec 9th, Columbia Gas of Virginia reached a settlement with $25.8 million rate increase, inclusive of SAVE (Steps to Advance Virginia's Energy Plan) infrastructure tracker ($14.5MM), representing a settlement as to a specific revenue number but not as to a specific ROE. Recall that NiSource requested $40.6MM revenue increase 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. A final order is expected in 2Q23.
  - **Leadership changes:** The company announced several leadership changes on March 15th, link. Notably Shawn Anderson formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer effective Mar 27th. Donald Brown, NiSource's former chief financial officer, assumed the role of executive vice president and chief innovation officer on Mar 27th, replacing Melody Birmingham, who was named as executive vice president, and group president, NiSource utilities.
- **Positioning into Qtr: Positive.** Despite our below consensus EPS projection for the quarter, we expect NiSource to reaffirm EPS guidance for 2023. Recall that NI adjusts weather out of its non-GAAP EPS results. NiSource has been a relative underperformer over the past month (+2.6% vs peers +3.6%), and we see reversal of the underperformance going into earnings supported by the constructive settlement filed last month in Indiana and NI's ability to meet/exceed 2023 EPS guidance given that they don't have a weather-related headwind to start the year like majority of their peers.

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$1.37**	**$1.47**	**$0.77**	**$1.57**	**$1.69**	**$1.80**
Consensus			0.81	1.55	1.67	1.79
% diff.			*-5%*	*1%*	*1%*	*1%*

Source: Evercore ISI, FactSet as of 4/18/23

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In Line **TP $40**
Analyst: Durgesh Chopra

- **Q1 EBITDA Bridge:** We project year over year EBITDA to increase by +$81MM to $590MM. We primarily expect the benefits of the VVNT contribution starting in March 2023 and Direct energy synergies to be partially offset by lost EBITDA from asset sales.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** We expect NRG to discuss combined company guidance (post VVNT) with VVNT included as a separate segment. NRG targets $2.27-2.47B legacy business EBITDA this year with $770M EBITDA contribution from VVNT. We also anticipate the company will reaffirm its targeted 15-20% free cash flow per share growth through 2025. NRG has plans of hosting an investor day later in the year with a final date to be determined. Below are thematic topics we believe could be addressed on the Q1 call.

  - **VVNT acquisition:** On March 13th, NRG completed the announced acquisition of VVNT. In December 2022, NRG announced that they have entered into a definitive agreement to acquire Vivint Smart Home, Inc (NYSE: VVNT) for $2.8B or $12/share in an all-cash transaction ($5.2B Enterprise Value including VVNT's debt). The acquisition price of $12/share represented a ~33% premium to VVNT's closing price of $8.99 on 12/05/22. NRG's expected annual run-rate EBITDA is $835mm (including $100mm of assumed synergies to be realized by 2025), representing a transaction multiple of 6.3x EV/EBITDA with a 16% FCF Yield (or 7.2x EV/EBITDA pre-synergies). The acquisition was financed with a mix of debt, hybrid securities ($2,290mm), and cash on hand ($600mm).

  - **$1 Billion Share Repurchase Program.** As of the Q4 call, NRG had completed NRG has completed $645mm (vs $640mm as of Nov 2022) in share repurchases with $355mm remaining to be executed in 2023.

  - **Parish Unit 8 Fire.** On May 9, 2022, 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 still targeting to return the unit to service by the end of the second quarter of 2023.

  - **PJM Plant Outage:** PJM said on January 11th that it had an "unacceptably high" level of power generation resources unavailable for the December 24, 2022, morning peak amid extremely cold weather. For those that did not perform as promised when called upon to do so, the grid operator said it expects to levy between $1-2 billion in fines. NRG booked a $80mm charge in Q4 last year.

- **Positioning into Qtr: Neutral.**

Adj. EBITDA	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2,423**	**$1,754**	**$590**	**$2,900**	**$3,100**	**$3,150**
Consensus			624	2,844	2,959	3,027
% diff.			*-6%*	*2%*	*5%*	*4%*

Source: Evercore ISI, FactSet as of 04/18/23
Note: We do not incorporate EBITDA contribution from VVNT acquisition in our estimates.

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OGE

In Line **TP $39**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year (utility plus parent) EPS to decrease -$0.03 to $0.22/share. We expect weather to be a drag this year, with heating degree days down 10% versus normal and 16% versus last year. Negative drivers include hold co drag, O&M and D&A, weather drag, interest expense, partially offset by customer growth, AFUDC, rate increase, other income and recovery of URI cost.
- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** We expect OGE to maintain its 2023 EPS guidance of $1.93-2.07 and its long-term EPS growth forecast of 5-7% CAGR through 2027. We also anticipate the company will reaffirm its five-year capex plan of $4.75 billion for 2023-2027, excluding potential investments associated with 2021 IRP. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **Fuel recovery:** Fuel clause under-recovery balance was $515 million as of December 31, 2022.
    - Oklahoma $474 million being recovered with 21 months left as of January 1, 2023.
    - Arkansas $41 million being recovered with 15 months left as of January 1, 2023
  - **Limited interest rate exposure:** OGE is targeting FFO to debt ratio of 17.5%-18%. With no equity issuance need in current 5-year plan, OGE expects to issue in Q2 up to $400 million of long-term debt at OG&E to support capital investments. Due to Energy Transfer unit exit and increased capital plan, the company will start to grow Holdco Debt over the years. OGE has less than $200 million of floating-rate debt and no fixed-rate debt maturities through 2026, excluding Uri-related debt that matures in May 2023.
  - **Re-issued solar RFP:** OGE re-issued the solar RFP last year to incorporate favorable opportunities from the Inflation Reduction Act. The company received multiple bids in early November. Decision is expected in May 2023. Management said they will review the three active RFPs (solar, CT units, and existing resource) for long-term generation holistically as their service area continues to grow combined with the increased reserve margin requirements, and they will provide an update once they review the results from all the RFP's.
  - **Uri proceeds.** Winter Storm Uri bond proceeds of $750MM in Oklahoma were received in July 2022. In Arkansas, the Company had filed a request to recover $80MM of Uri costs over ten years at a weighted average cost of capital (WACC). On Jan 2nd, 2023, commission authorized OGE to recover the remaining balance of ~$64 million at WACC over eight years.
  - **Natural gas storage plan:** Following storm URI in 2021, OGE started to build up and acquire more physical gas storage capabilities. The company said they will continue to take the opportunities to build and fill their physical storage capability which can help with supply shortages caused by extreme weather or outages.
- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.36**	**$2.19**	**$0.22**	**$2.03**	**$2.17**	**$2.30**
Consensus			0.33	2.01	2.12	2.27
% diff.			*-33%*	*1%*	*3%*	*2%*

Source: Evercore ISI, FactSet as of 4/18/23.

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PINNACLE WEST CAPITAL CORPORATION

Underperform **TP $75**
Analyst: Michael Lonegan / Durgesh Chopra

- **Q1 EPS Bridge:** We project year-over-year EPS to be flat at $0.15/share. Last year in 1Q22, weather was relatively neutral. This year in 1Q23, weather was beneficial as shown on the company website here**).** In terms of positive YoY drivers, we primarily expect sales growth and higher AFUDC. In terms of negative YoY drivers, we expect Pinnacle West to see pension impacts, higher O&M expense (even though full-year is expected to be flat), increased D&A, higher property taxes, increased interest expense, and a small TCA drag.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**:. Given the pending rate case and not yet finalized reversal of the SCR disallowance and ROE penalty, we expect PNW to reaffirm its 2023 and long-term EPS growth forecasts, as well as its capex plan, rate base growth and financing outlook. Below are additional thematic items we believe could be discussed on the Q1 call.
  - **Arizona rate case**: Pinnacle West filed its Arizona rate case on October 28th and key highlights include: Requested net revenue increase of 460 million; Equity ratio of 51.93% (versus current 54.67%); ROE of 10.25% (versus current 8.7%); ACC adjusted rate base of $10.5 billion with test year ended June 30, 2022; A 1% return on the increment of fair value rate base above APS's original cost rate base, as provided for by Arizona law; Modification of its adjustment mechanisms including the elimination of the Environmental Improvement Surcharge and collection of costs through base rates; Eliminating the Lost Fixed Cost Recovery mechanism and collecting costs through base rates and the Demand Side Management Adjustment Charge ("DSMAC"); Maintaining as inactive the Tax Expense Adjustor Mechanism; Maintaining the Transmission Cost Adjustment mechanism; Modifying the performance incentive in the DSMAC; Modifying the Renewable Energy Adjustment Charge to include recovery of capital carrying costs of APS owned renewable and storage resources; Changes to its limited-income program, including a second tier to provide an additional discount for customers with greater need; using a Twelve months of post-test Year plant to reflect used and useful projects that will be placed into service prior to July 1, 2023. Staff testimony is due May 22nd and hearings are set for August 2nd. APS requested that the increase become effective December 1, 2023.
  - **Court of Appeals' decision to vacate the SCR disallowance and ROE penalty presents potential upside.** The Court of Appeals issued its decision vacating the Commission's decision on the SCR disallowance and remanding it back to the Commission for further process. In addition, the Court vacated the Commission's 20 basis point "penalty" on ROE. The other parties have 30 days from the date of the decision on March 7th to appeal the Court of Appeals decision to the Supreme Court. The Supreme Court has discretion over whether it wants to take up the case or not. There is not a statutory timing requirement for when the Supreme Court makes that decision, however it is expected within a few months. If the decision gets appealed, Pinnacle West will need to wait for that process to conclude. If it does not get appealed, then PNW will need to figure out with the Commission the next steps. That can come in a few different forms, including folding into the current pending case, or keeping it in its own separate process. Either could happen, and it is unknown what will happen. As for the impact, the disallowed SCR portion was $216 million, which combined with the 20 basis point ROE benefit presents an opportunity for $0.20-0.30/share upside to our forecast. But again, it depends on how it is ultimately addressed by the Commission to know the actual earnings impact. Pinnacle West has not assumed any impact from the SCR in its current guidance and numbers, so obviously any impact would be in the positive unless the Supreme Court reversed the Court of Appeals' decision.
  - **Strong sales growth**: This year, PNW forecasts steady customer growth and robust weather-normalized sales growth of +1.5-2.5% and +3.5-5.5%, respectively. The company's long-term forecast now assumes retail customer growth of +1.5-2.5% for 2023 through 2025 and weather-normalized sales growth of +4.5-6.5% over the same period.
  - **O&M expense**: Pinnacle West continues to target declining adjusted O&M per kWh (with respect to 2021 levels) over its long-term plan and flat nominal adjusted O&M this year.
  - **IRP**: Pinnacle West plans to file an IRP in August 2023. It is typically a two-year process.
  - **Equity issuance plan**: PNW plans to continue to defer any equity issuance until the current rate case is resolved. The plan still includes $400-500 million of equity/alternatives. PNW's credit metric target remains 16-18% FFO to debt.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$5.47**	**$4.26**	**$0.15**	**$4.10**	**$4.65**	**$4.85**
Consensus			0.05	4.08	4.76	4.89
% diff.			*-100%*	*1%*	*-2%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

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Outperform **TP $32**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year ongoing EPS to increase by $0.05 to $0.46, driven by addition of Rhode Island Energy and incremental transmission investment, O&M savings in PA, partially offset by less favorable weather than last year, and higher interest expense.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** We expect PPL to maintain its 2023 EPS guidance of $1.50-$1.65 and its long-term EPS growth forecast of 6-8% CAGR through 2026. We also anticipate the company will reaffirm its five-year capex plan of $11.9 billion for 2023-2026, which results in 5.6% average annual rate base growth through 2026, with greater than 7% rate base growth in back half of the plan. Below are more thematic items that we expect could be covered in the company's Q1 presentation.

  - **KY CPCN filling** (No. 2022-00402): In Dec, PPL subsidiaries Kentucky Utilities Company and Louisville Gas and Electric Company announced their plan to replace 1,500 MW of aging coal-fired generation by 2028. LG&E and KU are seeking approval of the Certificate of Public Convenience and Necessity (CPCN) filing from the KPSC (Kentucky Public Service Commission) by Oct.1, 2023. If approved, the proposed replacement plan represents ~$2.1B of investment in Kentucky from 2023-2028. PPL's Jan 11th updated capex plan through 2026 includes $1.6 billion out of the total $2.1 billion KY replacement generation spend and ~$1B of higher transmission spend in PA and RI. Next steps are intervener testimony in May and hearings scheduled in late August. Final decision is expected by Nov 6th.

  - **Additional details on the coal replacement strategy.** The proposal includes building two new 621 MW combined-cycle natural gas plants, building a 120 MW solar array, acquiring another 120 MW array to be developed by a third-party and constructing 125 MW of battery storage. LG&E and KU also plan to secure PPA (Power Purchase Agreement) for over 600 MW of additional solar generation and adding 14 new energy efficiency programs, which would reduce LG&E and KU's overall need for future generation by nearly 200 MW. PPL is also seeking permission to book AFUDC (Allowance for Funds During Construction) on these projects while under construction.

  - **Senate Bill 4:** Senate Bill 4 became law on March 29th, which requires Kentucky Public Service Commission (KPSC) approval of the retirement of fossil fuel-fired electric generating units in the state. PPL does not expect this bill to alter its KY generation investment plans as filed with the KPSC, or the timing of a KPSC decision on the filing. The Company also does not expect the new law to materially impact its business outlook and reaffirmed its earnings forecast and growth targets subsequent to the bill becoming effective in March.

  - **Rhode Island ISR**: On March 29th, the Rhode Island Public Utilities Commission ("RIPUC") approved $290 million (vs $352 million proposed) to improve Rhode Island's electric and gas networks in connection with the latest Infrastructure, Safety, and Reliability ("ISR") plans proposed by PPL subsidiary Rhode Island Energy for the period from April 1, 2023 to March 31, 2024. Proposed investments not approved (~$60million) may be considered in future proceedings.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$1.05**	**$1.41**	**$0.46**	**$1.59**	**$1.68**	**$1.80**
Consensus			0.46	1.59	1.70	1.82
% diff.			*0%*	*0%*	*-1%*	*-1%*

Source: Evercore ISI, Factset as of 4/18/23

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Outperform **TP $68**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year adjusted EPS to decrease by -0.04 to $1.29/share. PEG is decoupled, so weather will not impact results. Negative YoY drivers should primarily be driven by higher interest expense and pension/OPEB impacts. In terms of positive YoY drivers, we primarily anticipate growth from T&D investment programs and lower O&M.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: We expect PEG to reaffirm all of its guidance and messaging that it provided at its March 10th Investor Conference (highlights below).
  - **Quiet quarter following PEG's March 10th Investor Conference.** The company reaffirmed its 2023 EPS guidance of $3.40-3.50 and its long-term consolidated growth forecast of 5-7% EPS CAGR for 2023 through 2027, which includes a matching growth rate at the utility, and is driven by rate base growth and the PTC threshold for nuclear. In addition, PEG reaffirmed its five-year 2023-2027 utility capex program of $15.5-18.0B, which is still expected to drive a 2022-2027 rate base CAGR of 6.0-7.5%. The company also initiated a ten-year $34-40B capex program for 2023-2032 with the potential for $3-7B of incremental opportunities linked to NJ's accelerated electrification goals per Governor Murphy's Feb. 2023 executive order. PEG still does not plan to issue equity over its forecast period through 2027 and is targeting mid-teens FFO to debt. As previously known, PEG plans to exit offshore wind generation to eliminate large project risk (see our note) but will continue to pursue regulated offshore transmission projects. The company has said the 2023 EPS pension impacts are a $0.25-0.30 headwind. The New Jersey BPU recently approved its request to overlay a regulatory mechanism that reduced 20% of the headwind which is incorporated into PEG's 2023 EPS guidance range. PEG is also pursuing a lift-out approach which could mitigate another 20-30% of volatility moving forward. The lift-out pension expense mitigation strategy (transferring some pension related assets and obligations to a third party thereby reducing pension expense volatility) being considered is expected to be completed by year-end. As a reminder, 70% of the company's pension is recoverable through future rate cases.
  - **Rate case**: PEG plans on filing a rate case by year-end 2023 for rates effective in late 2024/early 2025. The rate case combined with the lift-out strategy should materially de-risk PEG's pension related earnings exposure in 2025 and beyond.
  - **PJM Outage:** An unplanned outage at Salem unit 2 in late Dec. 2022 occurred during a PJM region-wide generation emergency action and resulted in capacity performance penalties. The financial impact of the outage, including replacement power, penalties, as well as bonuses earned by the other operating PEG units, is not expected to be material.
  - **Offshore wind generation**: In Jan. 2023, PSEG announced it would sell its 25% equity interest in the Ocean Wind 1 offshore wind generation project to Ørsted (~$200MM in proceeds expected this year). PSEG has also decided not to exercise its option to purchase 50% of Ørsted's two Skipjack generating projects in Maryland or pursue an ownership interest in Ørsted's Ocean Wind 2 project or other offshore wind generation projects. PSEG is evaluating its options for the potential sale of its 50% interest in Garden State Offshore Energy, which holds rights to an offshore wind lease area south of New Jersey which we estimate could fetch $150MM. In total, the $350MM of potential cash inflow would be incremental to PEG's current earnings and financing plan through 2027. Assuming the company uses $350MM in excess cash to pay down debt at 4%, or lower future debt issuances in the plan, we see a small $0.02/share (or less than 1% of our 25E) EPS benefit. While we see a modest EPS benefit, we believe PEG's strategic decision to exit offshore wind and focus on its core utilities and nuclear generation business will be well perceived by investors
  - **Offshore wind Transmission investment**: On October 26th, PEG was awarded just ~$40MM of offshore wind transmission projects by the NJ BPU; the Company had been expecting a much higher $1-3B, however, the BPU also indicated an additional solicitation to consider the state's increased offshore wind generation targets. PEG has said that it remains optimistic that the Coastal Wind Link's emphasis on reliability and resiliency will keep it as a strong contender for any future transmission solicitations to bring regional offshore wind projects onshore.

- **Positioning into Qtr: Positive**. Our above-consensus EPS estimate drives our positive view into earnings. PEG is decoupled, so weather will not impact results unlike the majority of peers. We expect the stock to build on the YTD momentum (+9% vs peers +3.6%) as PEG is strongly positioned with first quarter results to deliver on 2023 targets with a light regulatory calendar for the balance of the year. PEG is expected to file its NJ rate case by year-end 2023.

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$3.65**	**$3.47**	**$1.29**	**$3.45**	**$3.75**	**$4.00**
Consensus			1.19	3.44	3.69	4.05
% diff.			*8%*	*0%*	*2%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

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Sempra Energy®

Outperform **TP $175**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease -$0.06 to $2.85/share. We expect weather to be favorable (+$0.04 estimate) this year, driven by Texas. In terms of negative YoY drivers, we primarily anticipate lower Infrastructure business earnings, higher interest expense, and the negative impact of the cost of capital decision in California. In terms of positive YoY drivers, we expect benefits in Texas from higher rate base and sales growth, and increased earnings from a step-up in FERC rate base in California.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** Sempra has said it will issue 2024 EPS guidance and extend its capex forecast by a year to 2027 on the 1Q23 earnings call, now that it has received a final outcome in the Texas rate case and has made a positive FID on Port Arthur Phase 1. We expect the company to reaffirm 2023 EPS guidance of $8.60-9.20 and extend its long-term 6-8% growth forecast through 2027 based off of 2023 guidance. Below are thematic items that we believe could be discussed on the Q1 call.
  - **On March 20th, Sempra announced that its 70%-owned subsidiary Sempra Infrastructure Partners (SIP) reached a positive final investment decision (FID) for the development, construction, and operation of the Port Arthur LNG Phase 1 project**. Total capex for the Phase 1 project is estimated to be $13 billion which includes previously announced EPC contract with Bechtel of $10.5 billion. SIP also announced an agreement whereby KKR will acquire indirect, non-controlling interest in the Port Arthur LNG Phase 1 project. Using the 25% midpoint of SIP's targeted 20-30% project ownership, KKR/ConocoPhillips (NYSE: COP, covered by Stephen Richardson) will own 45%/30% respectively. Sempra stated that if SIP's indirect ownership interest is at 25% ($3.3 billion capex), Sempra Infrastructure would expect its share of average adjusted EBITDA after full commercial operations to be ~$410MM annually which after taxes translates into ~$330MM annually or 10% unlevered return, in line with company's high single digit to low double digit targeted returns. The Port Arthur LNG Phase 1 project located in Texas, is fully permitted and is designed to include two natural gas liquefaction trains, two LNG storage tanks and associated facilities with a nameplate capacity of 13 Mtpa. The expected commercial operation dates for Train 1 and Train 2 are 2027 and 2028, respectively. The long-term contractable capacity of 10.5 Mtpa is fully subscribed under binding long-term agreements with the following counterparties: ConocoPhillips, RWE Supply and Trading, PKN ORLEN S.A., INEOS and ENGIE S.A., all of which became effective upon reaching FID. Sempra Infrastructure also announced the closing of the project's $6.8B non-recourse debt financing and the issuance of the final notice to proceed under the project's engineering, procurement and construction agreement. Finally, SRE is actively marketing and developing the competitively positioned Port Arthur LNG Phase 2 project, which is expected to have similar offtake capacity to Phase 1. See our note.
  - **Credit metrics**: Moody's stated that the positive FID in the Port Arthur LNG Phase 1 project is credit negative, but the credit agency has maintained its Stable outlook for its Baa2 rating. Moody's said on our March 21st webinar (see note) that it was waiting to see how the Oncor rate case played out (positively, in our view). Recall that Sempra does not currently have any equity issuance in its plan.
  - **Oncor rate case**: On April 5th, the Texas commission issued an order granting Oncor a ~$150MM revenue increase (ask was ~$250MM) with a 9.7% ROE (request 10.3%) and equity ratio of 42.5% (ask was 45%).
  - **Cost of Capital potential trigger**: For the 2023-2025 cost of capital, a final decision lowered the ROE by 25bps to 9.95% for SDGE and to 9.80% for SCG, with the equity layer for both maintained at 52%. The CCM mechanism is still in place and if the current interest rate environment holds, could trigger to the upside in 2024 and increase ROE.
  - **California rate cases**: Sempra has a pending rate case in California for new rates effective in 2023 and 2024, respectively. A proposed decision is expected in 2Q24.
  - **Cameron LNG**: the FID decision is expected this summer 2023.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$8.43**	**$9.21**	**$2.85**	**$8.95**	**$9.65**	**$10.10**
Consensus			2.84	8.97	9.59	10.15
% diff.			*0%*	*0%*	*1%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

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Southern Company

In Line **TP $69**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease -$0.27 to $0.70/share. Company guidance for 1Q23 is also $0.70, which includes -$0.13 of unfavorable weather as of the first half of the quarter when the outlook was issued. Weather last year in 1Q22 was -$0.02 unfavorable. In terms of negative YoY drivers, we primarily expect the Company to see higher O&M, increased interest expense, higher depreciation & amortization, increased taxes other than income, and share dilution from the mandatory convertible that converted in August 2022. For positive YoY drivers, Southern should benefit primarily from new electric rates and higher sales growth at the utilities.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations**: We expect Southern to reaffirm its 2023 EPS guidance of $3.55-3.65, its 2024 EPS guidance of $3.95-4.10, and its long-term 5-7% EPS growth forecast. We anticipate the company will also maintain its $43 billion capital plan for 2023-2027 and its 6% total rate base growth for 2022-2027, including 5% electric and 10% gas. Below are additional thematic items that we believe could be discussed on the Q1 call.
  - **Management change:** Chris Womack recently became the new President and CEO of Southern Company. Womack has served as president of Georgia Power since 2020 and chairman, president and CEO since 2021. Womack is expected to host the 1Q23 earnings call, so investors will be keenly focused on any new messaging from the company.
  - **Vogtle project update:** Georgia Power recently announced that the generator at Vogtle Unit 3 has generated electricity for the first time, and the unit has successfully synchronized and connected to the electric grid. Connecting to the electric grid is part of ongoing startup testing for Vogtle Unit 3, and operators will continue to raise reactor power for electricity generation while performing tests at various power levels. This Unit 3 milestone follows initial criticality, reached on March 6th, when operators safely started the nuclear reaction inside the reactor, generating nuclear heat to produce steam. Once all startup testing is successfully completed and the unit is available for reliable dispatch, Unit 3 is expected to enter commercial operation in May or June 2023. As it pertains to Unit 4, Georgia Power recently announced that hot functional testing has begun. Hot functional testing marks the last series of major tests underway for the new nuclear unit ahead of initial fuel load. As part of the testing process, nuclear operators will use the heat generated by the unit's four reactor coolant pumps to raise the temperature and pressure of plant systems to normal operating levels. Once normal operating temperature and pressure levels are achieved and sustained, the unit's main turbine will be raised to normal operating speed using steam from the plant. During these series of tests, nuclear operators will be able to exercise and validate procedures as required ahead of fuel load. Vogtle Unit 4 is projected to enter service in late 4Q23 or 1Q24. The total cost of the Vogtle unit 3 and unit 4 remains $10.5B.
  - **Vogtle prudency filing**: Southern will make its prudency filing in the summer or fall of 2023 and it should take six months for approval. Any cost recovery above the $7.3 billion (of the total $10.5 billion) of Vogtle costs would be additive to the financial plan as SO has already written of ~$3.2 billion. Roughly $3.6 billion of total costs has already been deemed prudent.
  - **Incremental capex opportunities:** with Q4 results, Southern rolled forward and raised its five-year capex program by 5% to 43 billion for 2023-2027 versus $41 billion for the 2022-2025 period. The company reiterated is previous disclosure (but for this new extended plan) that there could have incremental opportunities totaling $3 billion for Southern Power growth projects and additional regulated investments. That could bring this program to $46+ billion. SO still does not have any plans to issue equity.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$3.41**	**$3.60**	**$0.70**	**$3.60**	**$4.05**	**$4.30**
Consensus			0.77	3.61	4.03	4.31
% diff.			*-9%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

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Outperform **TP $31**
Analyst: Durgesh Chopra

- **Q1 EBITDA Bridge:** We project VST's 1Q23 EBITDA to be $550MM, which would be relatively flat versus the $547MM from the same period last year. In terms of positive YoY drivers, we primarily expect the company to benefit from higher power prices with lower capacity revenues. In terms of negative YoY drivers, we expect a NOPEC-related headwind.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** We expect VST to reaffirm its 2023 legacy business EBITDA guidance range of $3.4-$4.0B. We also expect affirmation of the $3.5-3.7B targeted annual EBITDA range for 2024 and 2025. VST is likely to provide a combined company (Pro Forma Energy Harbor acquisition) EBITDA guidance/disclosures after the transaction closes, which is currently expected in second half of this year. Below are thematic topics we believe could be addressed on the Q1 call.
  - **Energy Harbor Acquisition**. On March 6th, VST announced acquisition of Energy Harbor for $3B in cash and 15% equity interest in Vistra Vision, a newly found subsidiary, which will include Energy Harbor's nuclear and retail businesses and Vistra's nuclear, retail businesses and renewables/storage projects. The expected annual run rate EBITDA is $900mm (including $125mm of assumed synergies to be realized by 2025 and excluding ~$150mm average annual impact of out-of-the money generation hedges), representing a transaction multiple of ~7.5x EV/EBITDA. The implied valuation for Vistra Vision is ~9.5x EV/EBITDA. The company plans to finance the $3.2B (including fees) cash payment with a mix of senior secured, unsecured and term loan ($2.6B) and cash on hand ($0.6B) Management continues to target long-term net Debt/EBITDA of sub 3x. The transaction is expected to close in second half of 2023 and subject to customary approvals, including from the Nuclear Regulatory Commission (NRC); the Federal Energy Regulatory Commission (FERC), and the Department of Justice (DOJ) under HartScott-Rodino Act. We view the transaction as the right strategic move which gives VST diversification and scale across multiple carbon-free technologies, making them the second largest merchant operator of nuclear assets in the US. We have run a simple accretion/dilution analysis on Exhibit 2 to gauge the economic value of this transaction which we estimate to be 16% to 28% value accretive, see our note here.
  - **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. The company's 2023 guidance incorporates a continued headwind this year, which we estimate to be $50MM through May 2023 (VST's obligation as a default service provider ends in May 2023) .
  - **Capital Allocation Update**: VST had completed~$2.45 billion of share repurchases as of 02/23/23. The remaining~$0.8 billion of the upsized $3.25 billion authorization is expected to be executed by year-end 2023. Through 2026 the company projects a total of $3B in additional repurchases
  - **VST Zero**: 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 Texas. With these announcements, VST Zero has >1GW of renewable assets (solar and storage) in operation versus their target of ~5 GWs by year-end 2026 with the ~$5B in development capital (generating $450-500MM EBITDA) funded by project debt and other financings ($3.5B), Vistra Zero projects cash flow($0.5B) and $1B preferred stock offering proceeds.
  - **Hedge update:** As of the Q4 call, VST had hedged approximately 73% of its expected generation volumes on average for the three-year period 2023 to 2025, with 2023 hedged at approximately 92% (vs. 87% as of Q3 call) and 2024 hedged at approximately 73%.

- **Positioning into Qtr: Neutral**

Adj. EBITDA	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$1,941**	**$3,115**	**$550**	**$3,500**	**$3,600**	**$3,600**
Consensus			671	3,588	3,880	3,836
% diff.			*-18%*	*-2%*	*-7%*	*-6%*

Source: Evercore ISI, FactSet as of 4/18/23

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WEC Energy Group

In Line **TP $98**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease $0.22 to $1.57 in Q1 2023. Weather is roughly a 15c hit YoY (13c vs normal). Other negative drivers include higher interest expense, D&A, fuel expense, reversal of one-time items at WEC Infrastructure partially offset by new rate increase.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** On March 27th, WEC reaffirmed its 2023 annual earnings guidance of $4.58 to $4.62 per share, assuming normal weather for the remainder of the year. In light of one of the warmest winters in history in the Upper Midwest, the company lowered its Q1 guidance to $1.56-$1.58 from $1.68-$1.72 per share. We expect WEC to maintain its 2023 EPS guidance of $$4.58 to $4.62 and its 6.5-7% long-term EPS growth target. We also anticipate the company will reaffirm its five-year capex plan of $20.1 billion for 2023-2027. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **Limited Reopener**: WEPCO will file for a limited reopener in May 2023 to address the revenue requirements associated with recovering new capital investments that will achieve commercial operation in 2023 and 2024, as well as to address reduced O&M expenses from future coal plant retirements. WEC will also seek limited 2024 rate reopeners for WEPCO gas and WG to address the additional revenue requirements associated with a new facility being place in service for a full year and a liquefied natural gas facility that will achieve commercial operation during 2024.
  - **Illinois Rate Reviews**: In January, Peoples Gas and North Shore Gas filed applications with the Illinois Commerce Commission for rate increase of $194.7 million and $18.7 million, respectively. Peoples Gas proposed ROE is 9.9% vs current 9.05%, and North Shore Gas proposed ROE is 9.9% vs current 9.67%. Proposed equity ratios for both are 54% vs Peoples Gas current 50.33% and North Shore Gas current 51.58%. Final Order is expected by the November timeframe for new rates effective January 1, 2024.
  - **MERC Rate Case**: In Nov, WEC filed a rate review at one of their smaller utilities, Minnesota Energy Resources Corporation (MERC). The company is seeking an adjusted increase in revenues of $32.8M with a 10.3% ROE and a 53.0% equity layer, leading to an overall bill increase of 7.9% primarily driven by capital investment. Decision is expected in Q4 2023 with new rates going into effect on January 1, 2024.
  - **Samson Solar Energy Acquisition**: On Feb 24th, 2023, WEC purchased an 80% ownership interest in Samson I from Invenergy with ~$250M investment, which is a 250-megawatt solar project located in northeastern Texas. The total 1,300 MW Samson is the largest solar project under construction in the United States, and the second solar investment announced in WEC's Infrastructure segment. In early March, Samson I was damaged by a windstorm. Certain sections across 40% of the project have incurred some amount of damage. Company is continuing to assess the extent of the damage at the site. We don't expect material earnings drag from it with insurance and warranties in place.
  - **MISO Transmission Capex**: In July 2022, MISO awarded roughly $900 million investment opportunity out of the total $10.3B MISO transmission capex in the first tranche of Phase 1 projects to ATC (American Transmission Company), in which WEC has an approximately 60% equity ownership interest. Investment in these projects is expected to start as early as 2024 (portion of $900m is included in WEC's 2023-2027 plan). 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 4Q23. Projects included in Tranche 3 are expected to be located in MISO South, with approval scheduled for 4Q24, while projects identified in Tranche 4 are expected to improve transfer capability between MISO North and MISO South, with approval scheduled for 4Q25.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$4.11**	**$4.45**	**$1.57**	**$4.60**	**$4.90**	**$5.25**
Consensus			1.68	4.61	4.90	5.25
% diff.			*-7%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

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Outperform **TP $75**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to increase $0.02 to $0.72/share. Weather impact is expected to be slightly favorable YOY for XEL. Positive YoY drivers include higher electric and gas sales volumes, riders, and new rates, partially offset by O&M increase and share dilution.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** We expect XEL to maintain its 2023 EPS guidance of $3.30 to $3.40 and its long-term annual EPS growth of 5%-7%. We also anticipate the company will reaffirm its five-year capex plan of $29.5 billion for 2023-2027. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **MN electric rate case**: NSPM filed a three-year electric rate case requesting rate increase of $677M (revised to $498M) over three years, with ROE of 10.2% and equity ratio of 52.5%. On March 31, 2023, the Administrative Law Judge (ALJ) recommended a rate increase of $384M based on a ROE of 9.87% and an equity ratio of 52.5%. In addition, it also reflects rate reductions associated with certain wind and nuclear generation life extensions and Midcontinent Independent System Operator, Inc. (MISO) capacity revenues and related tracker, as proposed in NSP-Minnesota's revised rate request. We see it as a constructive recommendation and will look for final decision in Q2 2023.
  - **MN gas rate case**: In October, XEL filed a constructive settlement in the gas rate case for a $20.5M revenue increase (vs $36M requested) with a 9.57% ROE (vs 10.5% requested) and 52.5% equity ratio (same with requested). In March 2023, Minnesota commission approved the settlement without modification.
  - **CO electric rate case**: In Nov, XEL filed Colorado electric rate case requesting revenue increase of $312 million, with 10.25% ROE and 55.7% equity layer. Intervenor testimony is due on May 3rd and hearings will start on July 6th. Final decision is expected in Sep 2023.
  - **New Mexico electric rate case**: In Nov, XEL also filed New Mexico electric rate case, requesting rate increase of $78 million with 10.75% ROE and 54.7% equity layer. Final decision is expected in Sep 2023.
  - **South Dakota electric rate case**: In June 2022, NSP-Minnesota filed a South Dakota electric rate case seeking a revenue increase of ~$44M, based on a ROE of 10.75 and an equity ratio of 53%. A final decision is expected in mid-2023.
  - **Texas electric rate case filing**: In Feb 2023, XEL filed Texas electric rate case requesting revenue increase of $158 million, based on a 10.65% ROE and a 54.68% equity layer. We expect the final decision to be in the first quarter next year.
  - **Generation RFPs of approved resource plans:** RFPs for 7.5GW of generation opportunities are issued in MN and CO. Company expects a decision in Minnesota in Q3 timeframe. Commission decision in Colorado is anticipated to be filed in 2H 2023.
  - **MISO**: XEL still estimates ~$1.2 billion investment opportunity (included in the current plan) out of the total $10.3 billion MISO transmission capex in the first tranche of Future 1 projects awarded by MISO in July 2022. The total $30B spending in all of Future 1 should be awarded over the next 10-15 years, which could mean potential for up to $4-$5 billion incremental investment for XEL, ~$0.15 annual EPS upside or 4% of our 25E.

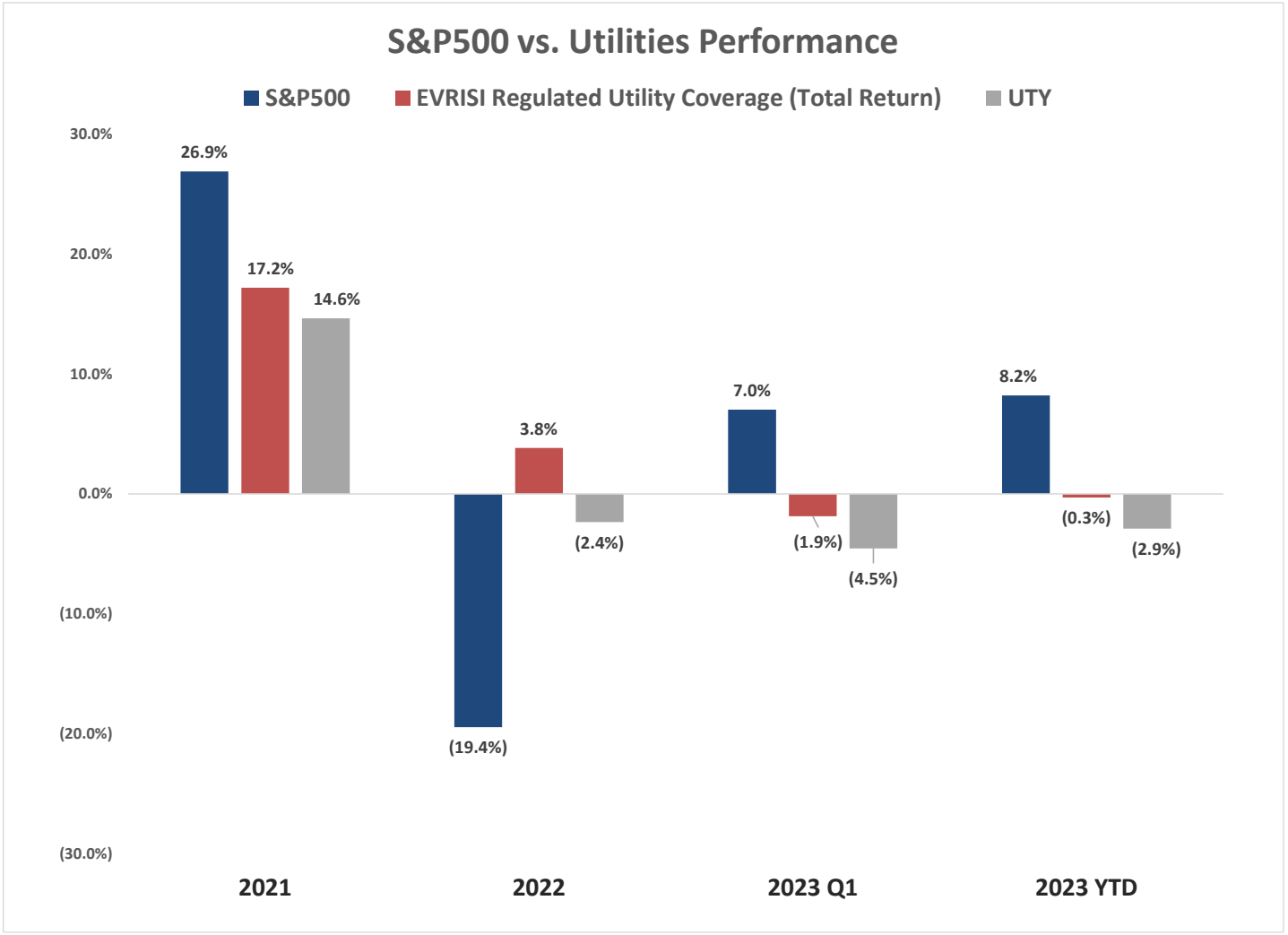
- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.96**	**$3.17**	**$0.72**	**$3.37**	**$3.59**	**$3.84**
Consensus			0.73	3.38	3.61	3.85
% diff.			*-1%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

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After a Strong 2022, Utes Have Underperformed YTD



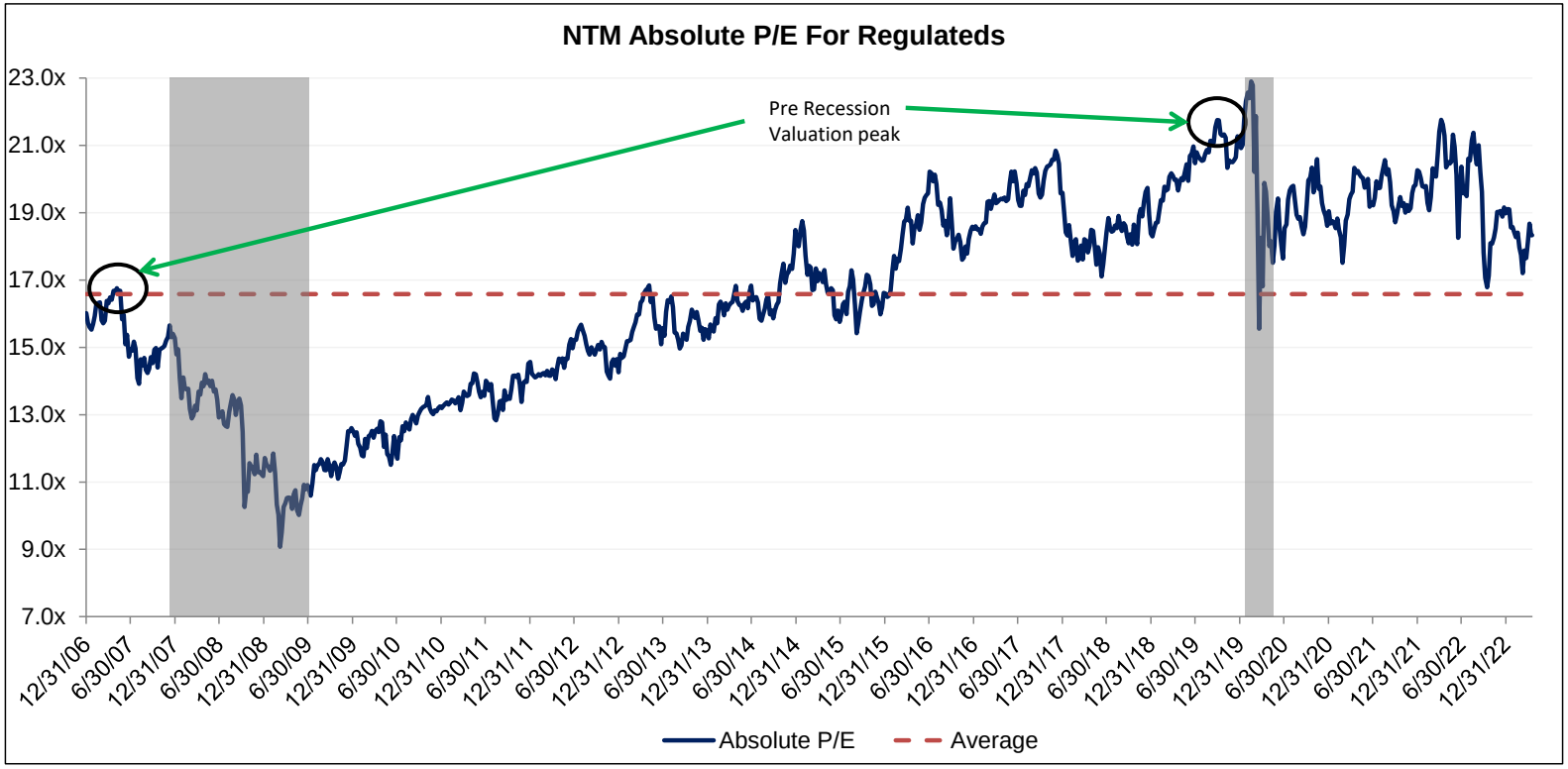
Updated as of 4/18/23

Source: FactSet, Evercore ISI Research

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Absolute valuation is higher than historical average

- The group is now trading at ~18.3x, higher than the 15-year average multiple of 16.6x (NTM)
- 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 26% upside from current levels at ~18.3x.



Updated as of 4/18/23

Source: FactSet, Evercore ISI Research

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Utilities Are 20% Expensive on '24 Yields Assuming Yields Remain Unchanged

Utility Valuation			10 YR	3.58%
4/18/23			Baa	5.62%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2023 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	2.76%	2.60%	24.3x	33.3%
	2.98%	2.75%	23.0x	25.9%
	3.20%	2.91%	21.8x	19.3%
	3.42%	3.06%	20.7x	13.4%
	3.64%	3.21%	19.7x	8.1%
	3.86%	3.36%	18.8x	3.2%
- 68% Confidence Interval	4.08%	3.51%	18.0x	-1.3%
	4.30%	3.66%	17.3x	-5.4%
	4.52%	3.82%	16.6x	-9.1%
	4.74%	3.97%	16.0x	-12.6%
	4.96%	4.12%	15.4x	-15.8%
	5.18%	4.27%	14.8x	-18.8%
	5.40%	4.42%	14.3x	-21.6%
Predicted Valuation	5.62%	4.57%	13.8x	-24.2%
	5.84%	4.73%	13.4x	-26.6%
	6.06%	4.88%	13.0x	-28.9%
	6.28%	5.03%	12.6x	-31.1%
	6.50%	5.18%	12.2x	-33.1%
	6.72%	5.33%	11.9x	-35.0%
+ 68% Confidence Interval	6.94%	5.49%	11.5x	-36.8%
	7.16%	5.64%	11.2x	-38.5%
	7.38%	5.79%	10.9x	-40.1%
	7.60%	5.94%	10.7x	-41.6%
	7.82%	6.09%	10.4x	-43.1%
	8.04%	6.24%	10.1x	-44.5%
+ 95% Confidence Interval	8.26%	6.40%	9.9x	-45.8%

Regulated utilities now look ~24% expensive on current yields

Utility Valuation			10 YR	3.58%
4/18/23			Baa	5.62%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2024 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	2.76%	2.60%	24.0x	40.0%
	2.98%	2.75%	22.6x	32.3%
	3.20%	2.91%	21.5x	25.4%
	3.42%	3.06%	20.4x	19.2%
	3.64%	3.21%	19.4x	13.5%
	3.86%	3.36%	18.6x	8.4%
- 68% Confidence Interval	4.08%	3.51%	17.8x	3.7%
Current Valuation	4.30%	3.66%	17.0x	-0.6%
	4.52%	3.82%	16.3x	-4.5%
	4.74%	3.97%	15.7x	-8.2%
	4.96%	4.12%	15.1x	-11.6%
	5.18%	4.27%	14.6x	-14.7%
	5.40%	4.42%	14.1x	-17.6%
Predicted Valuation	5.62%	4.57%	13.6x	-20.4%
	5.84%	4.73%	13.2x	-22.9%
	6.06%	4.88%	12.8x	-25.3%
	6.28%	5.03%	12.4x	-27.6%
	6.50%	5.18%	12.0x	-29.7%
	6.72%	5.33%	11.7x	-31.7%
+ 68% Confidence Interval	6.94%	5.49%	11.4x	-33.6%
	7.16%	5.64%	11.1x	-35.4%
	7.38%	5.79%	10.8x	-37.1%
	7.60%	5.94%	10.5x	-38.7%
	7.82%	6.09%	10.2x	-40.2%
	8.04%	6.24%	10.0x	-41.7%
+ 95% Confidence Interval	8.26%	6.40%	9.7x	-43.0%

If rates stay unchanged for the next 12 months, regulated utilities now ~20% expensive

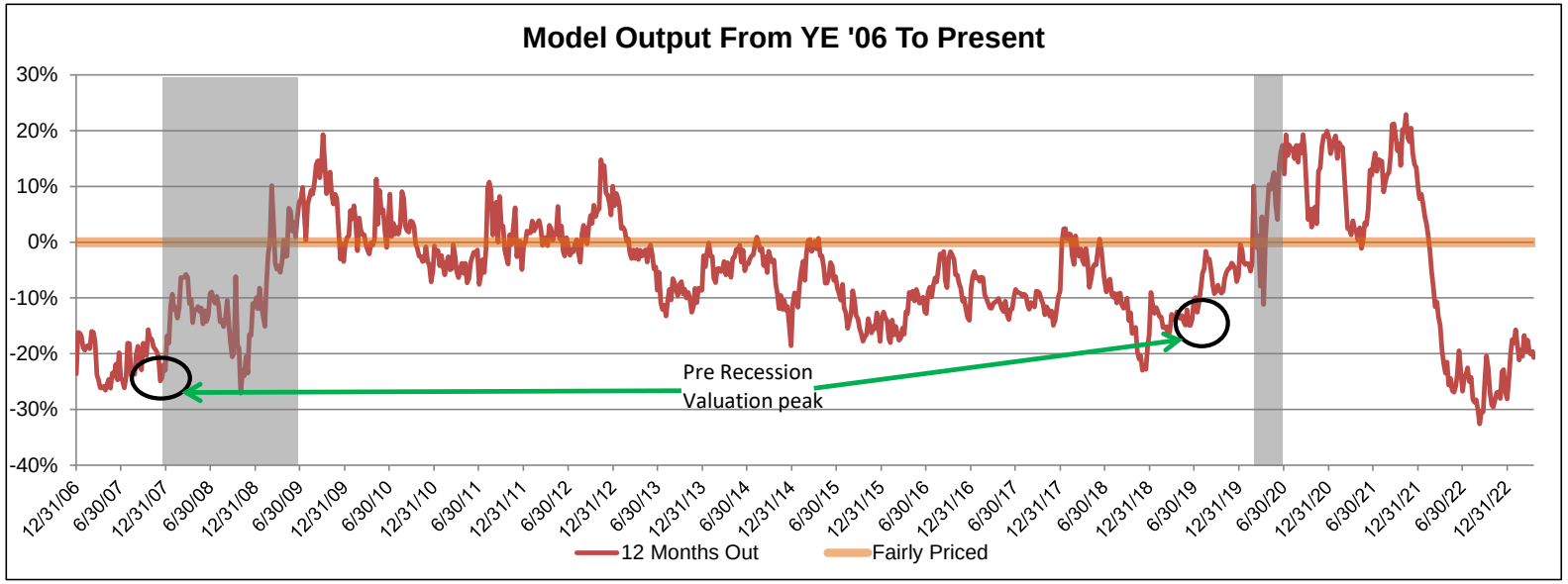
Updated as of 4/18/23

Source: FactSet, Evercore ISI Research

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Versus Bond Yields, group valuation remains elevated, 20% expensive

- 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 20% expensive in our bond model, 4% below 08/09 pre-recession peak.



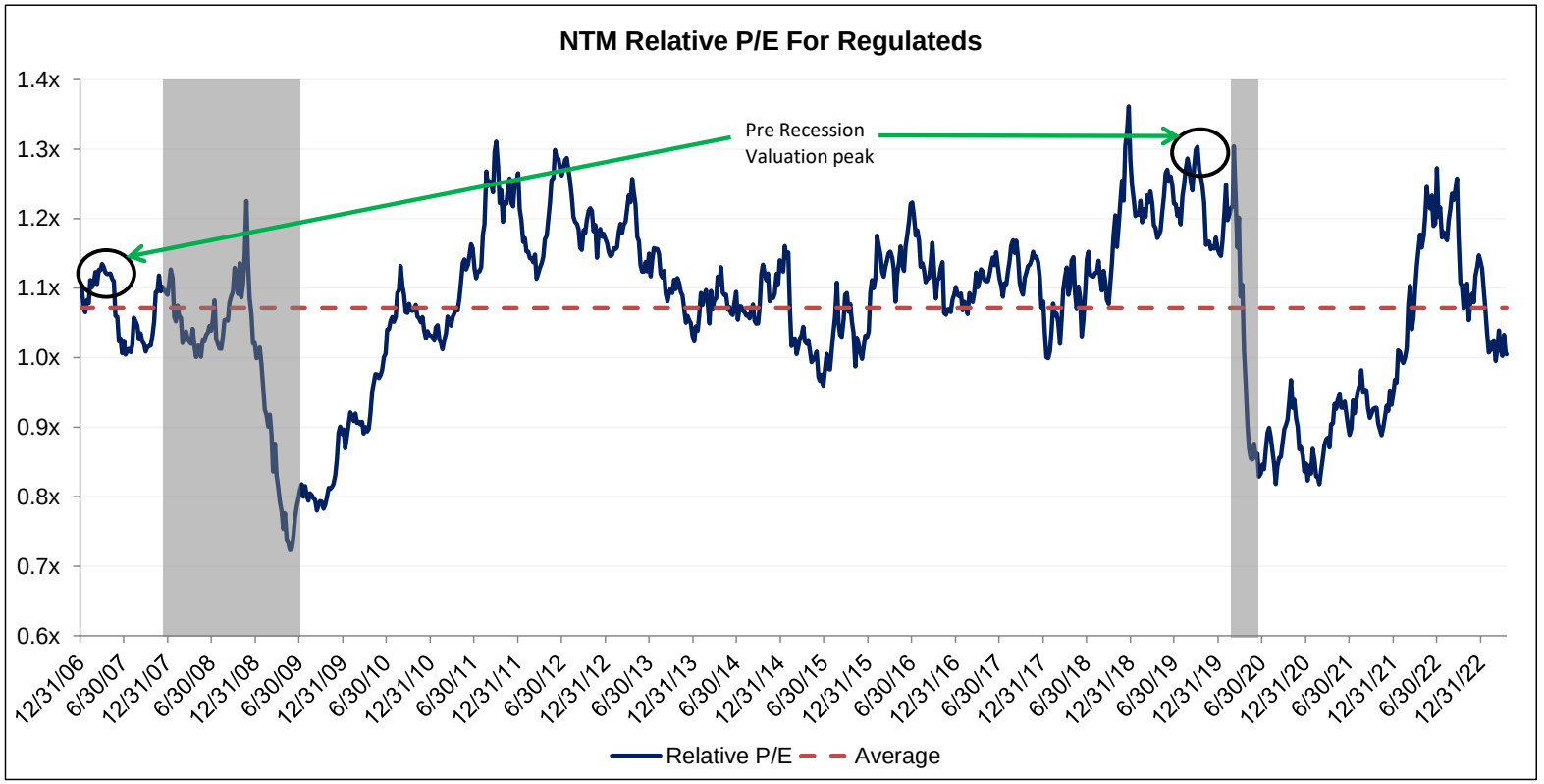
Updated as of 4/18/23

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Group's NTM P/E relative to S&P 500 is lower than the historical average

- NTM P/E relative to S&P 500 is 1.00x, lower than the historical average of 1.07x.
- NTM relative PEs for Utes averaged 1.07x 12mths leading up to the 08/09 recession peaking at 1.13x, 13% higher than 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 ~30% upside from current levels at 1.00x assuming S&P500 stays flat.



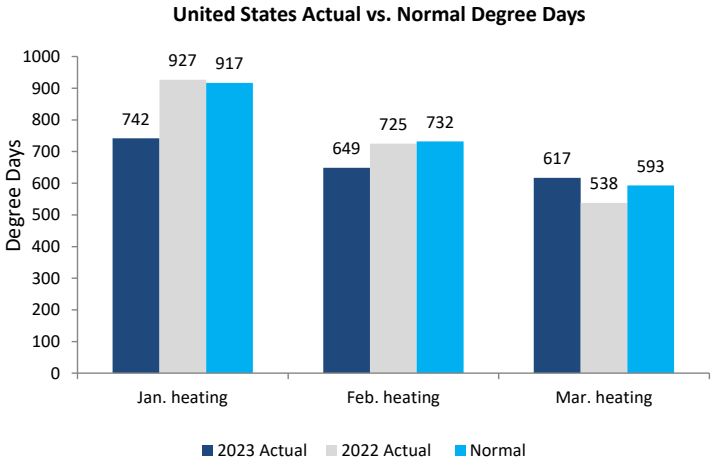
Updated as of 4/18/23

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US weather in 1Q 2023 was unfavorable for utilities versus the same period last year and as compared to normal.

- **US weather in 1Q 2023 was unfavorable for utilities versus the same period last year and as compared to normal.** Based on National Oceanic and Atmospheric Administration (NOAA) heating degree day data, the weather in 1Q23 drove -8% lower degree days versus last year and -10% below normal, on average across the US. Most of the regions were meaningfully lower when compared to the same period last year in 1Q22, with the SW Central having the largest decrease. Relative to normal, most of the regions had unfavorable weather, with South Atlantic having the most unfavorable weather. In March, WEC Energy lowered its Q1 guidance in light of one of the warmest winters in history in the Upper Midwest, based on our Q1 preview conversations with several companies to date, weather has also been communicated as unfavorable versus guidance (normal weather), but the impact does vary on a company-by-company basis versus the prior year.



	Q1 2023	Q1 2022	Norm	% change vs. year-ago	% change vs. norm
New England	2,754	3,131	3,219	-12%	-14%
Middle Atlantic	2,447	2,882	2,968	-15%	-18%
NE Central	2,751	3,208	3,227	-14%	-15%
NW Central	3,201	3,456	3,326	-7%	-4%
South Atlantic	1,133	1,369	1,523	-17%	-26%
SE Central	1,419	1,817	1,895	-22%	-25%
SW Central	1,024	1,334	1,270	-23%	-19%
Mountain	2,667	2,360	2,321	13%	15%
Pacific	1,783	1,317	1,419	35%	26%
U.S.	2,008	2,190	2,242	-8%	-10%

Region	Jan. heating 2023 actual	Jan. heating 2022 actual	Jan. heating norm	%change vs. year-ago	%change vs. norm
New England	945	1,299	1,246	-27%	-24%
Middle Atlantic	849	1,224	1,158	-31%	-27%
NE Central	1,007	1,355	1,302	-26%	-23%
NW Central	1,196	1,419	1,390	-16%	-14%
South Atlantic	469	654	643	-28%	-27%
SE Central	577	838	820	-31%	-30%
SW Central	433	561	593	-23%	-27%
Mountain	993	906	951	10%	4%
Pacific	613	507	564	21%	9%
United States	**742**	**927**	**917**	**-20%**	**-19%**

Region	Feb. heating 2023 actual	Feb. heating 2022 actual	Feb. heating norm	%change vs. year-ago	%change vs. norm
New England	955	995	1,060	-4%	-10%
Middle Atlantic	811	920	983	-12%	-17%
NE Central	887	1,067	1,061	-17%	-16%
NW Central	1,040	1,182	1,078	-12%	-4%
South Atlantic	327	420	507	-22%	-36%
SE Central	428	597	623	-28%	-31%
SW Central	362	501	414	-28%	-13%
Mountain	863	825	737	5%	17%
Pacific	573	440	439	30%	31%
United States	**649**	**725**	**732**	**-10%**	**-11%**

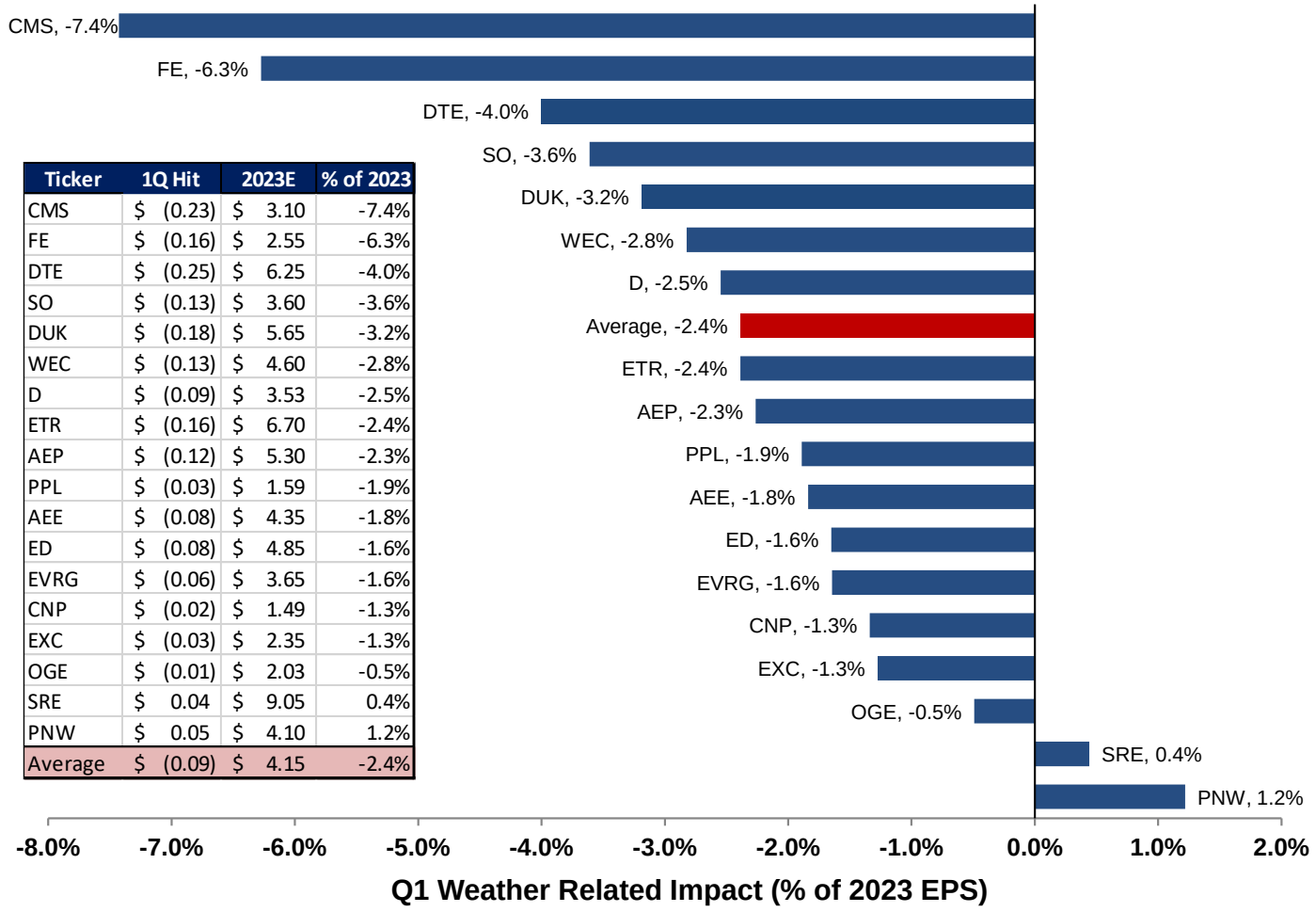
Region	Mar. heating 2023 actual	Mar. heating 2022 actual	Mar. heating norm	%change vs. year-ago	%change vs. norm
New England	854	837	913	2%	-6%
Middle Atlantic	787	738	827	7%	-5%
NE Central	857	786	864	9%	-1%
NW Central	965	855	858	13%	12%
South Atlantic	337	295	373	14%	-10%
SE Central	414	382	452	8%	-8%
SW Central	229	272	263	-16%	-13%
Mountain	811	629	633	29%	28%
Pacific	597	370	416	61%	44%
United States	**617**	**538**	**593**	**15%**	**4%**

Source: NOAA, Evercore ISI Research

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Q1 Weather Related Impact (% of 2023 EPS)*

Ticker	1Q Hit	2023E	% of 2023
CMS	$ (0.23)	$ 3.10	-7.4%
FE	$ (0.16)	$ 2.55	-6.3%
DTE	$ (0.25)	$ 6.25	-4.0%
SO	$ (0.13)	$ 3.60	-3.6%
DUK	$ (0.18)	$ 5.65	-3.2%
WEC	$ (0.13)	$ 4.60	-2.8%
D	$ (0.09)	$ 3.53	-2.5%
ETR	$ (0.16)	$ 6.70	-2.4%
AEP	$ (0.12)	$ 5.30	-2.3%
PPL	$ (0.03)	$ 1.59	-1.9%
AEE	$ (0.08)	$ 4.35	-1.8%
ED	$ (0.08)	$ 4.85	-1.6%
EVRG	$ (0.06)	$ 3.65	-1.6%
CNP	$ (0.02)	$ 1.49	-1.3%
EXC	$ (0.03)	$ 2.35	-1.3%
OGE	$ (0.01)	$ 2.03	-0.5%
SRE	$ 0.04	$ 9.05	0.4%
PNW	$ 0.05	$ 4.10	1.2%
Average	$ (0.09)	$ 4.15	-2.4%



**EIX, ES, HE, PEG, and NEE have regulatory mechanisms which mitigate the impact of milder weather.*
NI adjusts weather out of its non-GAAP EPS results
AES, CEG, NRG, VST and XEL are not projected to have meaningful impact from milder weather in the quarter

Updated as of 4/18/23

Source: FactSet, Evercore ISI Research

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Q1 Estimates vs. Consensus and Positioning for Quarter

Q1'23 EPS Estimates vs. Consensus

Ticker	Evercore ISI	Consensus	% Diff	Positioning for Q1	
AES	0.20	0.27	-26.5%	Cautious	✓
AEE	0.95	0.97	-1.9%	Neutral	
AEP	1.14	1.21	-5.6%	Neutral	
CMS	0.67	0.94	-28.4%	Neutral	
CNP	0.46	0.48	-4.9%	Neutral	
D	0.96	1.06	-9.1%	Neutral	
DTE	1.20	1.52	-20.9%	Neutral	
DUK	1.20	1.34	-10.2%	Neutral	
ED	1.49	1.59	-6.2%	Neutral	
EIX	1.40	0.98	42.4%	Neutral	
ES	1.37	1.36	0.8%	Neutral	
ETR	1.30	1.50	-13.2%	Cautious	✓
EVRG	0.58	0.57	2.4%	Neutral	
EXC	0.67	0.66	1.5%	Neutral	
FE	0.61	0.62	-2.3%	Neutral	
HE	0.55	0.49	11.5%	Neutral	
NI	0.77	0.81	-4.7%	Positive	✓
NEE	0.68	0.70	-3.4%	Neutral	
OGE	0.22	0.33	-32.5%	Neutral	
PEG	1.29	1.19	8.7%	Positive	✓
PNW	0.15	0.05	207.2%	Neutral	
PPL	0.46	0.46	-0.3%	Neutral	
SO	0.70	0.77	-8.5%	Neutral	
SRE	2.85	2.84	0.3%	Neutral	
WEC	1.57	1.68	-6.4%	Neutral	
XEL	0.72	0.73	-1.2%	Neutral	
Average			**3.4%**		

Q1'23 EBITDA Estimates vs. Consensus ($mm)

Ticker	Evercore ISI	Consensus	% Diff	Positioning for Q1
CEG	727	767	-5.2%	Neutral
NRG	590	624	-5.4%	Neutral
VST	550	671	-18.0%	Neutral
Average			**-9.6%**	

Q1' 23 EPS/EBITDA Estimates vs Consensus		
Beats	8	28%
Misses	21	72%
Total	**29**	

Source: Everocre ISI, FactSet. Consensus as of 4/18/23

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Our Coverage Universe Comp Sheet

Regulated Utilities

Ticker	Company Name	4/18/23 Price	ISI Rating	Shares Out	Market Cap	2023 Div Yld	2023 Payout	ISI EPS Estimate 2023	2024	2025	P/E Multiple 2023	2024	2025	Price to Book	Prem. to Group
WEC	WEC Energy Group	$95.74	In Line	316	30,273	3.2%	67%	4.60	4.90	5.25	20.8x	19.5x	**18.2x**	2.4x	14%
XEL	Xcel Energy Inc	$69.76	Outperform	537	37,444	2.8%	58%	3.37	3.59	3.84	20.7x	19.4x	**18.2x**	2.0x	13%
ED	Consolidated Edison Inc	$97.52	In Line	362	35,287	3.3%	66%	4.85	5.15	5.45	20.1x	18.9x	**17.9x**	1.5x	12%
AEE	Ameren Corp	$88.29	Outperform	267	23,567	2.8%	57%	4.35	4.65	5.00	20.3x	19.0x	**17.7x**	1.9x	10%
CNP	CenterPoint Energy Inc	$30.23	Outperform	635	19,183	2.1%	43%	1.49	1.61	1.73	20.2x	18.8x	**17.5x**	2.1x	9%
SO	Southern Company Inc	$72.58	In Line	1,088	78,967	3.8%	77%	3.60	4.05	4.30	20.2x	17.9x	**16.9x**	2.1x	5%
CMS	CMS Energy Corp	$60.52	In Line	297	17,946	3.2%	63%	3.10	3.36	3.65	19.5x	18.0x	**16.6x**	2.2x	4%
PNW	Pinnacle West Capital Corp	$79.01	Underperform	123	9,701	4.4%	85%	4.10	4.65	4.85	19.3x	17.0x	**16.3x**	1.4x	2%
OGE	OGE Energy Corp	$37.24	In Line	201	7,482	4.5%	83%	2.03	2.17	2.30	18.3x	17.2x	**16.2x**	1.7x	1%
EXC	Exelon Corp	$42.85	Outperform	999	42,793	3.3%	61%	2.35	2.50	2.70	18.2x	17.1x	**15.9x**	1.6x	-1%
PPL	PPL Corp	$28.49	Outperform	737	20,999	3.3%	60%	1.59	1.68	1.80	18.0x	17.0x	**15.8x**	1.4x	-1%
NI	NiSource Inc	$28.19	Outperform	451	12,725	3.5%	63%	1.55	1.65	1.80	18.2x	17.1x	**15.7x**	2.2x	-2%
DTE	DTE Energy Co	$112.04	Outperform	195	21,883	3.2%	58%	6.25	6.72	7.21	17.9x	16.7x	**15.5x**	2.2x	-3%
SRE	Sempra Energy	$156.02	Outperform	319	49,714	3.3%	58%	8.95	9.65	10.10	17.4x	16.2x	**15.5x**	1.7x	-4%
AEP	American Electric Power Co Inc	$92.47	In Line	531	49,098	3.5%	61%	5.30	5.65	6.00	17.4x	16.4x	**15.4x**	1.7x	-4%
ES	Eversource Energy	$78.38	Outperform	353	27,687	3.5%	62%	4.34	4.70	5.10	18.0x	16.7x	**15.4x**	1.6x	-4%
DUK	Duke Energy Corp	$97.41	In Line	779	75,873	4.2%	72%	5.65	6.00	6.35	17.3x	16.2x	**15.3x**	1.4x	-4%
HE	Hawaiian Electric Industries, Inc	$39.04	In Line	111	4,327	3.6%	61%	2.30	2.45	2.55	17.0x	15.9x	**15.3x**	1.6x	-4%
FE	FirstEnergy Corp	$40.48	Outperform	552	22,348	4.0%	64%	2.55	2.63	2.80	15.9x	15.4x	**14.5x**	2.5x	-10%
EVRG	Evergy	$61.74	In Line	231	14,237	4.0%	67%	3.65	4.00	4.27	16.9x	15.4x	**14.4x**	1.8x	-10%
D	Dominion Resources Inc	$57.36	In Line	822	47,136	4.8%	79%	3.53	3.76	4.00	16.2x	15.2x	**14.3x**	1.5x	-11%
ETR	Entergy Corp	$108.58	Outperform	211	22,900	3.8%	61%	6.70	7.15	7.70	16.2x	15.2x	**14.1x**	1.6x	-12%
EIX	Edison International	$72.11	In Line	391	28,213	3.8%	58%	4.70	5.15	5.50	15.3x	14.0x	**13.1x**	1.1x	-18%
PCG	PG&E Corp	$16.90	Rating Suspended	1,988	30,551	0.0%	0%	1.10	1.23	1.36	15.3x	13.7x	**12.5x**	1.4x	-22%
Regulated Group Average (Excludes PCG for Div Values)						**3.6%**	**64.5%**				**18.1x**	**16.8x**	**15.8x**	**1.78x**	
Regulated Group Average (Excluding Stocks: EIX and PCG)						3.6%	64.7%				18.4x	17.1x	16.0x	1.83x	
Regulated Group Max (Excludes PCG for Div Values)						4.8%	85.0%				20.8x	19.5x	18.2x	2.5x	
Regulated Group Min (Excludes PCG for Div Values)						2.1%	42.6%				15.3x	13.7x	12.5x	1.1x	

Diversified Utilities

Ticker	Company Name	4/18/23 Price	ISI Rating	Shares Out	Market Cap	2023 Div Yld	2023 Payout	ISI EPS Estimate 2023	2024	2025	P/E Multiple 2023	2024	2025	Price to Book	Prem. to Group
NEE	NextEra Energy, Inc.	$78.30	In Line	2,004	156,876	2.4%	60%	3.10	3.40	3.65	25.3x	23.0x	**21.5x**	3.6x	36%
PEG	Public Service Enterprise Group	$63.81	Outperform	500	31,905	3.5%	65%	3.45	3.75	4.00	18.5x	17.0x	**16.0x**	2.2x	1%
AES	AES Corp	$24.42	Outperform	668	16,313	2.7%	39%	1.70	1.90	2.10	14.4x	12.9x	**11.6x**	2.6x	-26%
Diversified Group Average						**2.9%**	**55%**				**19.4x**	**17.6x**	**16.4x**	**2.8x**	
Diversified Group Max						3.5%	65%				25.3x	23.0x	21.5x	3.6x	
Diversified Group Min						2.4%	39%				14.4x	12.9x	11.6x	2.2x	

Independent Power Producers (IPP's)

Ticker	Company Name	4/18/23 Price	ISI Rating	Shares Out	Market Cap	2023 Div Yld	EV	ISI EBITDA Estimate 2023	2024	2025	EV/EBITDA Multiple 2023	2024	2025	Price to Book	Prem. to Group
CEG	Constellation Energy Corporatio	$74.48	Outperform	328	24395	1.5%	30,207	3,100	3,300	3,500	9.7x	9.2x	**8.6x**	2.6x	25%
VST	Vistra Corp.	$24.31	Outperform	381	9273	3.3%	25,113	3,500	3,600	3,600	7.2x	7.0x	**7.0x**	3.1x	1%
NRG	NRG Energy, Inc.	$34.66	In Line	230	7964	4.3%	16,118	2,900	3,100	3,150	5.6x	5.2x	**5.1x**	1.9x	-26%
IPP Group Average						**3.0%**					**7.5x**	**7.1x**	**6.9x**		
IPP Group Max						4.3%					9.7x	9.2x	8.6x		
IPP Group Min						1.5%					5.6x	5.2x	5.1x		

Updated as of 4/18/23. Note: PCG estimates above reflect consensus view from FactSet. NRG EV and EBITDA includes VVNT.

Source: FactSet, Evercore ISI Research

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Coverage Universe - Short Interest

		Short Interest Ratio (Days to Cover)				Absolute Shares Short				Shares Short
		Current	vs Prior	1-Month Chg	6-Month Chg	Current (MM)	Chg vs. Prior	1-Month Chg	6-Month Chg	(%Float)
	Ticker	3/31/23	3/15/23	2/28/23	9/30/22	3/31/23	3/15/23	2/28/23	9/30/22	Current
Regulated Utilities										
Consolidated Edison, Inc.	ED	**4.1**	-13%	74%	-1%	**9.0**	-5%	55%	25%	**2.5%**
Edison International	EIX	**4.0**	-8%	33%	54%	**9.3**	10%	19%	49%	**2.4%**
PG&E Corporation	PCG	**4.0**	2%	-15%	172%	**65.9**	3%	-3%	-20%	**3.7%**
CMS Energy Corporation	CMS	**4.0**	-1%	-8%	51%	**7.4**	-1%	9%	43%	**2.6%**
Pinnacle West Capital Corporation	PNW	**3.6**	137%	83%	44%	**3.6**	104%	73%	86%	**3.1%**
OGE Energy Corp.	OGE	**3.3**	-23%	13%	38%	**4.4**	-6%	-5%	49%	**2.2%**
Ameren Corporation	AEE	**3.2**	-13%	11%	18%	**4.4**	-4%	12%	2%	**1.7%**
Hawaiian Electric Industries, Inc.	HE	**3.2**	9%	-21%	13%	**1.8**	1%	-11%	45%	**1.6%**
Southern Company	SO	**2.7**	14%	35%	9%	**15.7**	36%	53%	45%	**1.4%**
WEC Energy Group Inc	WEC	**2.6**	-4%	-29%	-11%	**4.3**	1%	2%	5%	**1.4%**
Entergy Corporation	ETR	**2.3**	47%	49%	-45%	**2.8**	37%	13%	-47%	**1.3%**
American Electric Power Company, Inc.	AEP	**2.2**	-2%	-5%	4%	**7.8**	20%	6%	12%	**1.5%**
PPL Corporation	PPL	**2.1**	8%	34%	1%	**13.1**	9%	10%	18%	**1.8%**
Sempra Energy	SRE	**2.0**	-15%	9%	5%	**3.4**	-2%	23%	14%	**1.1%**
CenterPoint Energy, Inc.	CNP	**1.9**	0%	-29%	-31%	**8.5**	-7%	-10%	-41%	**1.4%**
Duke Energy Corporation	DUK	**1.8**	-18%	-42%	-25%	**6.3**	-13%	-21%	-10%	**0.8%**
Eversource Energy	ES	**1.8**	-9%	-21%	-22%	**3.8**	-14%	-6%	-13%	**1.1%**
NiSource Inc	NI	**1.7**	14%	44%	-32%	**6.5**	2%	3%	-41%	**1.6%**
Xcel Energy Inc.	XEL	**1.7**	-30%	-43%	-9%	**6.1**	-24%	-16%	-5%	**1.1%**
Evergy, Inc.	EVRG	**1.7**	1%	10%	-21%	**2.4**	-3%	18%	-9%	**1.1%**
Dominion Energy Inc	D	**1.6**	16%	44%	-18%	**6.7**	-2%	25%	-26%	**0.8%**
Exelon Corporation	EXC	**1.5**	-15%	22%	7%	**14.2**	6%	30%	16%	**1.4%**
DTE Energy Company	DTE	**1.5**	37%	12%	-13%	**1.9**	13%	3%	-26%	**1.0%**
FirstEnergy Corp.	FE	**1.3**	-37%	-53%	-3%	**5.3**	-29%	-45%	-27%	**0.9%**
Regulated Utilities Average		**2.5**	**4%**	**9%**	**8%**	**8.9**	**5%**	**10%**	**6%**	**1.6%**
Diversified Utilities										
AES Corporation	AES	**2.3**	2%	14%	14%	**11.2**	12%	9%	-12%	**1.7%**
NextEra Energy, Inc.	NEE	**1.8**	10%	-7%	-14%	**13.4**	-14%	-26%	-30%	**0.7%**
Public Service Enterprise Group Inc	PEG	**1.3**	-11%	-32%	-44%	**3.7**	-17%	-32%	-38%	**0.7%**
Diversified Utilities Average		**1.8**	**0%**	**-8%**	**-15%**	**9.4**	**-7%**	**-16%**	**-27%**	**1.0%**
Independent Power Producers (IPP's)										
Constellation Energy Corporation	CEG	**2.6**	-7%	43%	84%	**6.0**	-5%	15%	45%	**1.8%**
Vistra Corp.	VST	**2.4**	142%	-6%	5%	**9.1**	20%	6%	-16%	**2.5%**
NRG Energy, Inc.	NRG	**2.3**	-27%	-8%	-64%	**11.2**	-17%	-9%	-30%	**5.0%**
IPP's Average		**2.4**	**36%**	**9%**	**8%**	**8.8**	**-1%**	**4%**	**0%**	**3.1%**
Our Coverage Universe Average		**2.4**	**7%**	**7%**	**5%**	**9.0**	**4%**	**7%**	**2%**	**1.7%**

Updated as of 4/18/23. Orange indicates top moves higher in short interest. Yellow indicates top moves lower in short interest.

Source: FactSet, Evercore ISI Research

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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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Hold	298	36	Hold	28	9
Sell	15	2	Sell	0	0
Coverage Suspended	35	4	Coverage Suspended	4	11
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From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: AGA 2023 Recap: Acquisitions, Guidance and Growth Dominate Discussion - Guggenheim Securities, LLC
Date: Thursday, May 25, 2023 4:53:56 PM

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AGA 2023 Recap: Acquisitions, Guidance and Growth Dominate Discussion

Power & Utilities May 25, 2023

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Access This Report

Key Message: We are combining our 3 days of meetings at the AGA conference in FL and providing stock-by-stock takes below as well as highlighting the most interesting meetings we had where we received some incremental datapoints. While many of our meetings focused on company-specific issues, broader themes across the three days included the impacts of falling natural gas prices on bill headroom, ongoing inflation, high interest rates, overcoming 1Q23 weather headwinds, and potential LDC M&A. Companies often took clear stances in our meetings on potential interest in acquisitions. **Interesting Meetings to flag: CNP dinner, D, DUK, ED, NWE, SO, SR, WEC.**

Key Takeaways:

- **AEE:** All about Illinois Staff recommendation. Message similar to EXC – Mgmt. was surprised, early in the process, and believes they have a strong argument around capex reduction (i.e., could be solved with incremental documentation) and won't spend without recovery; ROE recommendation pegged to 30-year was just setting a floor – in the end, they said it won't sway their guidance. Watch for rebuttals on 6/14.

- **AVA:** Roll-off of tax credits from prior rate agreements and recovery of ERM & PGA balances to reduce equity needs post-2023. We like the new CFO.

- **BKH:** 2023 equity need of $140M-$160M is focused on B/S repair; mgmt. expects to be above BBB credit metric thresholds by YE23.

- **CMS:** Company is confident in O&M offset measures to remain within guidance – detailed some tactical and perpetual savings including IT, voluntary separations, return to office policies; storm audits kick off in September – key event to watch for confidence in regulatory relationships/construct as MI remains a concern for investors given mixed datapoints.

- **CNP:** We hosted a well-attended dinner – higher capex coming in 2Q from the incremental $3bn identified (a portion will go into plan) with DSIC approved in TX; per the company, more asset sales could be utilized to fund higher growth; upcoming Houston case is expected to remain non-contentious. CFO Foster remains big win for CNP.

- **CPK:** From a guidance perspective, management noted a continuous 5-year planning update cycle internally, despite providing a simple 2025 guidance reiteration for investors; remains focused on organic growth; despite a history of growing through regulated and unregulated acquisitions, management doesn't see any attractive valuations or accretive opportunities.

- **D:** No change in message regarding strategic review; the company expects an announcement in July–Sept timeframe with analyst day following shortly thereafter. Investors should have all questions answered with only remaining items being closure of deals – as we have highlighted, D could be solely left with VEPCO, Millstone, Scana with modest O/S ownership as we believe the company is looking for a simpler story and all gas LDCs could be on the block (i.e., Questar, NC, etc.) including potentially Cove Point… the O/S wind vessel potentially being second phase of a sale post initial strategic review.

- **DTE:** Continues to restore confidence in management's ability to execute against headwinds; noted progress in settlement talks around the IRP as well as constructive datapoints on the voluntary renewables program approval; Vantage remains a source of upside potential from higher-return projects; management noted vastly increased conversations with the MPSC as well as the MPSC's recognition of the negative optics of the prior litigated outcome for DTE Electric.

- **DUK:** 2023 firmly on track; management noted interest in M&A in states DUK already operates in, as long as credit positive and earnings accretive. Remains confident around '23 guide; rate cases could be key driver year-over-year with opportunities to diminish lag, earn above allowed returns.

- **ED:** An interesting potential upside also exists on the side of NY Transco – there is Long Island transmission debottlenecking, where NY Transco and NYPA put out several solutions. NYISO will evaluate the ultimate recommendation, but staff has recommended the top 3 solutions as those coming from Transco. The project's $3bn investment by 2030 would be about 30% attributed to ED, and for financing there would be some project-level debt and push-down equity (incremental to guidance); in settlement talks on CECONY Steam; items outside the base rate case include the Brooklyn clean energy hub, which is now approved and in plan, but needs around new capacity are emerging outside of plan, such as new substations and transmission (~2028 timeframe, $1.1bn in capex).

- **LNT:** Wisconsin process just kicking off, but management strikes an upbeat tone

as the core of the regulatory asks remain straightforward (fuel, capital, and ROE/equity layer); noted that transparency with the PSCW and Staff has been a priority in the new case, with management acknowledging subtle changes in approach; IPL case remains a longer-dated item to monitor as management continues to work through advanced ratemaking efforts in the near term. The financing plan remains partially dependent on guidance from the treasury on transferability, with management reiterating several familiar points and introducing incremental ones. The company now expects that transferability guidance could come as soon as later this quarter, with the team conducting several RFIs to evaluate the optionality – the company could start selling some credits by the second half of the year, with the team laying out expectations to earn in the mid-90% range on the transfers, with the delta passed on to customers.

- **MDU:** We caught up with the company on the strategic direction (including the imminent separation of Knife River materials business) and thoughts around business fundamentals related to construction, regulated utilities, and pipelines. We are focused on the post-separation RemainCo and any further optimization between the regulated businesses and construction services (currently under strategic review; management targeting end of 2Q outcome).

- **NI:** NIPSCO sale reiterated by YE23; we came away with increased confidence in continued 6%-8% annual NOEPS growth beyond existing plan through 2027.

- **NJR:** Management still expects ‘23/‘24 EPS to be top of range, regardless of level of CEV capital investment.

- **NWE:** Came away incrementally positive on prospects post-MT GRC outcome; could see LT CAGR tightened higher on expected rebase off 2022.

- **NWN:** Conversations focused on water opportunities and as scale is built, management will look to break this segment out, likely when ~10% of the mix. We also asked about gas M&A more broadly, given the current industry backdrop,

with the team noting that they remain focused on water and renewables growth as an adjunct to the core utility – the bar for both regional and national LDC M&A remains high.

- **OGS:** 1.0% customer growth target will likely prove overly conservative, we believe; targeting 19%-20% FFO/D & 58%-59.5% equity to keep A3/A- rating.

- **PEG:** PEG continues to enjoy reduced volatility from the 2022 reset on pension, interest, and other guidance assumptions. Messaging was exactly consistent with 1Q23 earnings call disclosures and the only volatility we anticipate is the late 2023 rate case filing.

- **SO:** Vogtle Unit 3 in service in June; prudency review request may be above $7.3bn but won't be close to $10.5bn potential ask; no M&A interest and happy with existing portfolio of businesses.

- **SR:** Company expects new CEO announcement well in advance of YE23. Potential for additional natural gas asset/system acquisitions (including LDCs), in our view.

- **SRE:** Continued strong messaging around long term earnings growth (not linear but pointing to the high end of 6-8%); remains muted on acquisition strategy, and management prefers organic regulated investments to support business mix while LNG growth provides upside on earned returns; overall, management plans to optimize the business mix to 80/20 with LNG project equity sell-downs.

- **WEC:** Potential MSFT data center capacity need could be incremental 1 GW; Nov. '23 capex update could be accompanied by growth-driven equity.

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Power & Utilities

April 10, 2023

The Guggenheim Daily Transmission: AEE, NWE, FE, TX, IN, CMS/DTE/MI, EVRG/MO, PJM/FERC, ED, ES/MA

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Ticker	Price	Rating
AEE	90.07	Neutral
CMS	62.31	Neutral
DTE	113.85	Buy
ED	98.97	Neutral
ES	80.82	Buy
EVRG	63.29	Buy
FE	41.70	Buy
NWE	61.07	Sell

SAVE THE DATE: We are hosting a dinner with CNP's COO, new CFO, and others on May 22nd...

For our AGA conference (May 20-23) meeting schedule, please scroll down...

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our EXC NDR, ETR NDR, PNW NDR, DTE NDR, PCG NDR, ES NDR, SMR NDR, LNT NDR, AWK NDR, CMS NDR, SO NDR, POR NDR, and other events, scroll down...

Forward Power Curves, Genco MtM, and Weekly Commentary (see our note HERE)

AEE – Details of Missouri settlement released

NWE – NorthWestern to appeal district court order vacating air quality permit for Yellowstone facility

FE – West Virginia regulators to hear proposal to keep Pleasants Power Plant on April 23rd

TX – Multiple energy bills advance through legislative process

IN – Indiana legislation aimed at greater consideration of reliability and resiliency in utility resource plans signed by the House Speaker

CMS/DTE/MI – MI lawmaker to introduce bill for elected commission

FE – Solar generation rider docket opened for comment following review of Ohio Supreme Court decision

EVRG/MO – MO PSC grants CCN for Persimmon Creek wind farm

PJM/FERC – Storm penalties draw multiple complaints at FERC

ED – Evidentiary hearing on joint proposal to be held 4/18

ES/MA – DPU issues clarifications on Phase 2 EV requests

AEE – Details of Missouri settlement released

- AEE MO has released the details of its settlement with the PSC Staff, OPC, CCM, and various other stakeholder groups (MECG, MIEC) calling for a $140m revenue increase with new rates effective 7/1/23.
- "On April 7, 2023, Ameren Missouri, the staff of the MoPSC, the Missouri Office of Public Counsel, and certain other intervenors filed a nonunanimous stipulation and agreement with the MoPSC. The stipulation and agreement, which is subject to MoPSC approval, would result in a $140 million increase to Ameren Missouri's annual revenue requirement for electric service compared to its prior revenue requirement established in the MoPSC's December 2021 electric rate order. The stipulation and agreement did not specify an allowed return on equity or common equity ratio. The stipulation and agreement also did not specify a rate base amount or any rate base disallowances." – filing

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- "As a result of these discussions, the Signatories have agreed to a series of compromises to determine mutually acceptable resolutions to all issues relating to the revenue requirement and certain other issues as set forth in more detail below. The Signatories agree that resolution of these issues will shorten the forthcoming hearing, and only certain issues (i.e., Issue 4 (and all subparts), 24.B, and 30) will require a hearing. The Signatories agreed to the settled "black box" revenue requirement increase amount using their own assumptions." – filing
- More in docket HERE.
- Hearings on issues 24B and 30 were previously proposed to be rescheduled for 4/13.
- Earlier Position Statement from AEE with issues HERE.

Guggenheim takeaway: *Generally as-expected coming off the 3/29 motion (see our note HERE), with the remaining issue items appearing unchanged from that initial filing. The black box outcome is consistent with prior MO processes and not a surprise coming off our very recent NDR (see our note HERE) where this route was raised as a potential pathway forward. As a reminder, AEE MO's most recent trued-up ask was ~$239m, while Staff on the same date put forward a $107m recommended increase. As we noted previously, the major drivers of $120mm in variance between Staff and the company were threefold:* ***1)*** *ROE of 9.59% vs. requested 10.2% (~$50mm of the difference),* ***2)*** *High Prairie curtailments (~$30m), and* ***3)*** *Rush Island availability (~$40-50m). We continue to model approximately average earned ROEs of 9.5% through 2027 for Ameren MO. We see AEE's ongoing ability to reach settlements in MO as further underscoring what we see as the name's premium attributes (management, growth, execution, etc.).*

NWE – NorthWestern to appeal district court order vacating air quality permit for Yellowstone facility

- The judge supported the majority of the state-issued air quality permit but vacated the permit after taking issue with certain elements of the Montana DEQ analysis, the company said.
- The Montana DEQ originally issued NorthWestern an air quality permit on Sept. 8, 2021, which enabled the commencement of construction of the project.
- The current ruling "appears to require new criteria to be analyzed," according to a company spokesman.
- NorthWestern is seeking an immediate stay and will appeal the decision.
- Company statement HERE.

Guggenheim takeaway: *We continue to expect the Yellowstone County Generating Station to be constructed as planned and will be monitoring the appeals process, with more details expected as it gets underway.* ***Based on our current expectation of construction still proceeding on schedule, we do not expect this to be impactful to NWE's capital plan or CAGR at this time.***

FE – West Virginia regulators to hear proposal to keep Pleasants Power Plant on April 23rd

- The WV PSC has scheduled an April 23, 2023, evidentiary hearing on the request by Monongahela Power and Potomac Edison.
- Recall that the West Virginia PSC reopened a docket to consider an interim solution and proposed surcharge relating to FE's potential acquisition of the Pleasants Power Station.
- On March 31, 2023, the companies filed a report on the possibility of acquiring Pleasants.
- In order to provide time for the companies, interested parties, regulatory bodies, and others to further review a possible acquisition of Pleasants, the companies proposed an interim solution to preserve Pleasants' operations in 2023 while the companies complete their analysis. The interim solution proposal includes a temporary surcharge of $3 million per month.
- Docket 22-0793-E-ENEC

Guggenheim takeaway: *For your calendar. The 1,300 MW Pleasants plant was last owned by Energy Harbor (ENGH), which acquired it as part of the FirstEnergy Solutions bankruptcy proceedings. Various parties in WV support FE acquiring the plant, potentially as a replacement for Ft. Martin Power Station, which lacks selective catalytic reduction (SCR) technology. During the 2023 WV legislative session, both WV's Senate and House passed resolutions which encouraged Mon Power to buy Pleasants (i.e., HR12 and*

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SB29, respectively). The legislature also passed HB 3308, allowing securitization of the undepreciated book value of retired coal plants. The timeline for a decision to be made has been accelerated due to falling market prices causing Energy Harbor to move up the plant's planned retirement date from 4Q23 to May 31, 2023. We continue to monitor.

TX ─ Multiple energy bills advance through legislative process

- Several pieces of legislation advanced or stalled in their respective chambers at the end of last week.
- A committee report for SB1076, which deals with deadlines for transmission CPCN deadlines has been printed - see HERE
- SB1015, related to distribution system cost recovery (DCRF) has been transmitted to the House - HERE
- HB2555, pertaining to T&D resiliency planning, was left in committee last week – see HERE
- SB6 and SB7 were transmitted to the House and marked as received – see HERE

Guggenheim takeaway: *Another legislative roundup for your awareness as several of the bills in focus have now been transmitted to the House for their own deliberations. Aside from SB6, pieces of utility legislation above are generally tertiary relative to our focus on the more impactful rate-specific bills such as HB3042 (cap ratios). While some bills have been marked as left in committee, we note that this is not necessarily an indication they have been discarded – it remains possible that they were appended to another bill in that particular chamber. Finally, we continue to believe SB6 and SB7 will face more resistance in the House following their successful navigation of the Senate last week – see our recent note HERE for more on the ERCOT side.*

IN ─ Indiana legislation aimed at greater consideration of reliability and resiliency in utility resource plans signed by the House Speaker

- Recall that the Senate previously passed the House bill and returned it to the House with amendments.
- The bill includes guidance for the regulators to consider reliability and resiliency of resources in IRPs.
- The process saw Senate add co-sponsors to the bill.
- Regulators would need to consider the ability of resources to provide dispatchable power.
- The guidance from the bill also includes affordability and competitive rates as a goal for the IURC.
- Bill text here: HB1007

Guggenheim takeaway: *FYI. The bill tries to bring a legislated balance to Indiana's decarbonization focus (i.e., balancing reliability with intermittent resources like solar and wind). While the changes to the framework are open-ended, we could see a change in IRP approach from CNP, DUK and NI as the state's electric IOUs.* ***Ultimately, we see this as neutral to slightly positive for the state's utilities, as it should serve to enhance reliability.***

CMS/DTE/MI ─ MI lawmaker to introduce bill for elected commission

- Sen. Jim Runestad reportedly plans to introduce 'transparency and accountability' legislation this week with a focus on utility lobbying and the selection of the PSC.
- More HERE.

Guggenheim takeaway: *Efforts to transition to elected commissions are a periodic occurrence across this space, however, in this case we believe some of the recent storm frustration has driven the push here, as indicated by media above. We continue to monitor these kinds of efforts as they arise, but in many cases, they do not advance past committee – stay tuned for more this week.*

FE ─ Solar generation rider docket opened for comment following review of Ohio Supreme Court decision

- The Attorney Examiner made a filing requiring all comments be filed in this docket on or before **May 7, 2023**, and reply comments be filed on or before **May 22, 2023**.
- Recall that this docket was created due to legislation which requires PUCO to establish a rate mechanism for the retail recovery of costs related to the solar generation fund for the period up to December 31, 2027.

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- PUCO was tasked with determining the proper rate design for recovering $20m annually for total disbursements required under the new law from the solar generation fund.
- Case 21-447-EL-UNC

Guggenheim takeaway: *For your calendar. Recall that the matter made its way to the Ohio Supreme Court, which remanded it for clarification on December 7, 2022. The Supreme Court had instructed PUCO to "expressly determine whether the revenue recovered by Rider SGF is subject to the CAT and billable to customers." In the current filing, the attorney examiner states that after reviewing the Supreme Court's remand, the issue is being opened for comment.*

EVRG/MO ─ MO PSC grants CCN for Persimmon Creek wind farm

- The PSC has granted a CCN for the wind project alongside a series of conditions regarding costs and benefits.
- "EMW is authorized to acquire and is granted a certificate of convenience and necessity to own, operate, maintain, and otherwise control and manage Persimmon Creek with the conditions set out below." – filing
- "The Commission finds it necessary to condition the grant of a certificate on some added protection for those

  captive ratepayers. The benefits in conjunction with the conditions, outlined below, promote the public interest." – filing
- "Any costs associated with owning and operating Persimmon Creek, including but not limited to those related to PISA treatment and any required wildlife mitigation, that exceed the ratepayer realized market revenues and ratepayer realized tax benefits shall be shared equally between EMW shareholders and rate payers including the market value of energy serving EMW customers." - filing
- More HERE.

Guggenheim takeaway: *Welcome closure on the process that had seen some back and forth between Staff, OPC, and the company over the benefits of the project. We see the successful navigation of this process as a minor positive for our perception of the stakeholder/regulatory environment in MO (coming on the heels of AEE's recent settlement). As a reminder, the asset is included in the 2023 guide (~$0.05).*

PJM/FERC ─ Storm penalties draw multiple complaints at FERC

- A group of gas generators and a solar generator have filed different complaints at FERC over their perceived grievances stemming from the 2022 storm charges.
- "As described further below in Section IV.C, during Winter Storm Elliot on December 23-24, 2022, as a result of PAIs called by PJM during two evenings, the Solar Projects' are being assessed an amount of Non-Performance Charges, with approximately 87% of such Non-Performance Charges accruing during Evening Hours when the Solar Projects are incapable of operating no matter how much investment is made to improve those resources' operational performance. The first of the Non-Performance Charges are scheduled to be invoiced to SunEnergy1 on April 7, 2023. This is not a just and reasonable result." - filing
- EL23-58 HERE
- "PJM now intends to assess $1 to $2 billion in Non-Performance Charges to those generators that were not operating during Winter Storm Elliott, notwithstanding the load forecasting errors, PJM's failure to adhere to its emergency procedures in violation of the Tariff, and the general failure on PJM's part to identify what generation was needed and to communicate that need in a timely and compliant manner." - filing
- EL23-55 HERE

Guggenheim takeaway: *Zero surprise to see more complaints as the penalties are finalized by the RTO – as a reminder, this event was one of the bigger PAI tests since the 2014 polar vortex. The sheer size of the penalties has driven several smaller single-asset entities toward bankruptcy, so not a surprise to see significant legal action at FERC ahead of the payment deadlines. We expect this to remain a noisy process in the near term and a significant policy/reform area for the RTO as the Board sets out on a new examination of the RPM.*

ED ─ Evidentiary hearing on joint proposal to be held 4/18

- The PSC will hold an evidentiary hearing on 4/18 regarding the 2/16 joint proposal.

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- "The purpose of the hearing is to receive into evidence and evaluate, through the presentation of evidence and cross-examination of witnesses, a Joint Proposal filed in these proceedings on February 16, 2023." - filing
- More HERE.

Guggenheim takeaway: *For your calendars.*

ES/MA – DPU issues clarifications on Phase 2 EV requests

- The DPU has issued a lengthy response to both requests for reconsideration, requests for clarification, and a motion from the AG to reopen the record in the DPU's ongoing EV docket.
- More HERE.

Guggenheim takeaway: *Very minor heads up – most of the items in the DPU's combined filing appear to be relatively minor and procedural as all parties continue to finalize the earlier (Dec) order from the DPU.*

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Equity Research | Corporate Access

Exelon Corporation (EXC)

Calvin Butler, *President & Chief Executive Officer*
Jeanne Jones, *Chief Financial Officer*
Andrew Plenge, *VP, Investor Relations*

Dates & Location

May 15 – 16, 2023
New York

Meeting Format

NDR - 1:1 Meetings, Group Meeting & Small Group Dinner

Company Information

Market Cap: $42.4bn

Exelon Corporation (EXC) operates as a utility services holding company, which engages in the energy generation, power marketing, and energy delivery business. It operates through the following segments: Mid Atlantic, Midwest, New York, Electric Reliability Council of Texas (ERCOT) and other Power Regions. The Mid-Atlantic segment represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina. The Midwest segment operates in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky. The New York (NY) segment provides operations within ISO–NY, which covers the state of New York in its entirety. The ERCOT segment includes operations within the Electric Reliability Council of Texas, covering most of the state of Texas. The Other Power Regions consist of the operations in New England, South, West, and Canada. The company was founded in February 1999 and is headquartered in Chicago, IL. (Source: FactSet)

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CenterPoint Energy, Inc. (CNP)

Jason Wells, *Chief Operating Officer*
Chris Foster, *Chief Financial Officer*
Jackie Richert, *VP Investor Relations & Treasurer*
Ben Vallejo, *Director Investor Relations*

Dates
Monday, May 22, 2023
6:00 PM

Location
Restaurant TBD
Fort Lauderdale, Florida

Company Information
Market Cap: $18.6bn
CenterPoint Energy, Inc. (CNP) is a holding company that engages in the business of power generation and distribution. It operates through the following segments: CenterPoint Energy, Houston Electric, and CERC. The CenterPoint Energy segment consists of electric transmission and distribution services in the Texas gulf coast area in the ERCOT region and electric transmission and distribution services primarily to southwestern Indiana and includes power generation and wholesale power operations in the MISO region. The Houston Electric segment consists of electric transmission services to transmission services customers in the ERCOT region and distribution services to REPs serving the Texas gulf coast area. The CERC segment covers the Restructuring consisting of intrastate natural gas sales to, and natural gas transportation and distribution for residential, commercial, industrial and institutional customers in Indiana, Louisiana, Minnesota, Mississippi, Ohio and Texas, and permanent pipeline connections through interconnects with various interstate and intrastate pipeline companies through CEIP. The company was founded in 1866 and is headquartered in Houston, TX. (Source: FactSet).

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SAVE THE DATE

2023 AGA Financial Forum

Dates

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Location

ort Lauderdale Marriott Harbor Beach Resort
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ort Lauderdale, lorida

Guggenheim Hosted Dinner

e ill be hosting a dinner ith Shar Pourre a and team to ic o the con erence on Saturda Ma at : PM T.

Company Meetings

**Additional meetings may be added*

Sunday, May 21st	
Time	*Co.*
12:00PM	NI
12:50PM	NWN
1:40PM	CMS
2:30PM	NJR
3:20PM	AVA
4:10PM	SR

Monday, May 22nd	
Time	*Co.*
7:40AM	SO
8:30AM	WEC
9:30AM	DUK
10:20AM	SRE
11:10AM	ED
12:00PM	NWE
1:00PM	CPK
1:00PM	BKH
1:50PM	PEG
2:40PM	DTE
3:30PM	OGS
4:20PM	D

Tuesday, May 23rd	
Time	*Co.*
8:30AM	CNP
10:10 AM	AEE
11:00 AM	MDU

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Entergy Corporation (ETR)

Drew Marsh, *Chairman & Chief Executive Officer*
Kimberly Fontan, *Chief Financial Officer*
Bill Abler, *VP, Investor Relations*

Dates & Location

June 1 – 2, 2023
West Coast

Meeting Format

NDR - 1:1 Meetings

Company Information

Market Cap: $22.64bn

Entergy Corp. (ETR) is a holding company that engages in electric power generation and distribution. It operates through the following segments: Utility and Entergy Wholesale Commodities. The Utility segment includes the generation, transmission, distribution, and sale of electric power and the operations of a natural gas distribution business. The Entergy Wholesale Commodities segment owns, operates, and decommissions nuclear power plants and sells electric power. The company was founded by Harvey Couch on November 13, 1913, and is headquartered in New Orleans, LA. (Source: FactSet)

See pages 25 - 26 for analyst certification and important disclosures.

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Pinnacle West Capital Corporation (PNW)

Andrew Cooper, *Chief Financial Officer*

Date & Location
Monday, June 5, 2023
New York

Meeting Format
NDR - 1:1 Meetings & Group Meeting

Company Information
Market Cap: $9.05bn
Pinnacle West Capital Corp. (PNW) is a holding company, which engages in providing energy and energy-related products. It offers regulated retail and wholesale electricity businesses and related activities, such as electricity generation, transmission and distribution through its subsidiary, Arizona Public Service Co. The company was founded on February 20, 1985, and is headquartered in Phoenix, AZ.
(Source: FactSet)

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DTE Energy Company (DTE)

Jerry Norcia, *Chairman, President & Chief Executive Officer*
Barbara Tuckfield, *Director Investor Relations*

Dates & Location
June 7 & 8, 2023
New York

Meeting Format
NDR - 1:1 Meetings, Group Meeting & Small Group Dinner

Company Information
Market Cap: $22.4bn
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 includes 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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PG&E Corporation (PCG)

Patti Poppe, *Chief Executive Officer (Tentative)*
Carolyn Burke, *Incoming Chief Financial Officer*
Tom Webb, *Senior Advisor to Chief Executive Officer*
Jonathan Arnold, *Vice President, Investor Relations*

Date & Location

Monday, June 12, 2023
New York

Meeting Format

NDR - 1:1 Meetings, Group Meeting

Company Information

Market Cap: $39.6bn

PG&E Corp. (PCG) is a holding company that engages in generation, transmission, and distribution of electricity and natural gas to customers. It specializes in energy, utility, power, gas, electricity, solar and sustainability. The company was founded in 1995 and is headquartered in Oakland, CA. (Source: FactSet)

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Eversource Energy (ES)

Joseph Nolan, *Chairman, President & Chief Executive Officer*
John Moreira, *Chief Financial Officer*
Jeffrey Kotkin, *Vice President, Investor Relations*
Bob Becker, *Director, Investor Relations*

Date & Location
Thursday, June 22, 2023
New York

Meeting Format
NDR - 1:1 Meetings & Group Meeting

Company Information
Market Cap: $28.02bn
Eversource Energy (ES) engages in the generation, transmission, and distribution of natural gas and electricity. It operates through the following segments: Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution. The Electric Distribution segment distributes electricity to retail customers. The Electric Transmission segment owns and maintains transmission facilities through CL&P, NSTAR Electric, PSNH, and WMECO. The Natural Gas Distribution segment transmits and distributes natural gas to retail customers. The Water Distribution segment operates three separate regulated water utilities in Connecticut, Massachusetts, and New Hampshire. The company was founded on July 1, 1966, and is headquartered in Springfield, MA. (Source: FactSet)

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NuScale Power Corporation (SMR)

Chris Colbert, *Chief Financial Officer*

Scott Kozak, *Director, Investor Relations*

Date & Location

Tuesday, June 27, 2023
New York

Meeting Format

NDR - 1:1 Meetings & Group Meeting

Company Information

Market Cap: $1.9bn

NuScale Power Corp. (SMR) engages in the commercialization of a modular, scalable 77 megawatt electric Light Water Reactor nuclear power plant using rights to a nuclear power plant design. Its products include VOYGR SMR Plants and Energy Exploration (E2) Centers. The company was founded by José N. Reyes in 2007 and is headquartered in Portland, OR. (Source: FactSet)

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SAVE THE DATE
2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO)/Georgia Power C-Suites, Porsche Racing & GA Commissioner Meetings

What does Southern Company & Georgia Power C-Suite meetings, Georgia Commissioner meetings and racing Porsches on race tracks have in common? Almost nothing! But we are combining all of them for an action-packed 2 days in GA. Please join the Guggenheim Utilities Research Team in Atlanta, GA on July 11 and 12.

Dates and Location

July 11 & 12, 2023 — Atlanta, Georgia

Schedule

Tuesday, July 11th

We advise flying in the morning of Tuesday, July 11. Recommended flights to follow.

~1:00 PM | Georgia PSC Meetings
Tricia Pridemore, PSC Chair, *Commissioner*
Tim Echols, Vice-Chairman, *Commissioner*
Fitz Johnson, *Commissioner*
Lauren "Bubba" McDonald, *Commissioner*
Jason Shaw, *Commissioner*

~6:00 PM | Client Dinner with Southern Company (SO) C-Suite
Chris Womack, *President & Chief Executive Officer (Incoming)*
Dan Tucker, *Chief Financial Officer*
Scott Gammill, *VP of Investor Relations & Treasurer*
Among others

Wednesday, July 12th

8:30 AM | Porsche Racing Experience
Experience the thrill of the drive at the Porsche Experience Center. Attendees will drive vehicles from the full Porsche model range with driving coaches by their side in a race-controlled atmosphere. See: https://www.porschedriving.com/atlanta

1:00 PM | Lunch with Southern Company (SO) and Georgia Power C-Suite
Kim Greene, *Chair, President & Chief Executive Officer (Georgia Power)*
Dan Tucker, *Chief Financial Officer (SO)*
Aaron Abramovitz, *Chief Financial Officer (Georgia Power)*
Among others

Company Information

Market Cap: $73.3bn

Southern Co (SO) is a holding company, which engages in the generation and sale of electricity. It operates through the following segments: Traditional Electric Operating Companies, Southern Power and Southern Company Gas. The Traditional Electric Operating Companies segment refers to vertically integrated utilities that own generation, transmission and distribution facilities, and supplies electric services in the states of Alabama, Georgia, and Mississippi. The Southern Power segment constructs, acquires, owns, and manages generation assets such as renewable energy projects and sells electricity in the wholesale market. The Southern Company Gas segment distributes natural gas through natural gas distribution facilities in the states of Illinois, Georgia, Virginia, and Tennessee. The company was founded on November 9, 1945, and is headquartered in Atlanta, GA. (Source: FactSet)

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Guggenheim 2023 Client and Corporate Access Utility Events

Ticker	Dates	Regions
EIX	*1/10 & 1/11*	Boston & New York
Commissioner Roundtable Event	*1/20*	In Person at Guggenheim
2023 Utilities Conference Call	*1/23*	Dial-In
Virginia Policy Call	*2/7*	Dial-In
Wisconsin Regulatory Call (Chair Valcq)	*2/9*	Virtual
WEC	*2/14–2/16*	West Coast
Wisconsin Regulatory Call (Commissioner Huebner)	*2/17*	Virtual
Arizona Regulatory Call (Commissioners Myers and Thompson)	*2/27*	Virtual
DUK	*3/7-3/8*	NYC
NEE	*3/14-3/16*	West Coast
AEE	*3/22*	Virtual
ERCOT Policy Call	*3/31*	Virtual
PPL	*4/3–4/4*	Boston
EXC	5/15–5/16	NYC
CNP C-Suite Dinner	5/22	Fort Lauderdale, FL
AGA Conference Meetings	5/20–5/23	Fort Lauderdale, FL
ETR	6/1–6/2	West Coast
PNW	6/5	NYC
DTE	6/7–6/8	NYC
PCG	6/12	NYC
ES	6/22	NYC
SMR	6/27	NYC
SO Meeting, Porsche racing, & Georgia PSC	7/11–7/12	Atlanta
LNT	7/17–7/18	NYC
AWK	8/9–8/10	West Coast
CMS	8/30–8/31	NYC
SO	9/13–9/15	West Coast
POR	9/18–9/19	NYC

MORE TO BE ADDED…

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Guggenheim Comp Sheet

4/7/2023		Market	Guggenheim EPS Ests					Consensus					Δ vs Consensus (>$0.02)					Implied P/E Multiple					Prem/(Disc) vs Mid/Lg Cap Utes					'22–'27	NTM	Payout	Guggenheim		NTM Total	Consensus		NTM Total
	Price	Cap ($m)	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	EPS	Yield	Ratio	Rating	Target	Return	Rating	Target	Return
Small Cap Electric																																			
ALE	$64.69	3,708	3.70	4.17	4.56	4.87	5.07	3.70	4.08	4.34	4.83	5.05	–	0.09	0.22	0.04	–	17.5x	15.9x	14.9x	13.4x	12.8x	-6%	-8%	-8%	-8%	-17%	8.4%	4.3%	72%	Sell	$54	-12%	Buy	$66	7%
AVA	$43.62	3,284	2.28	2.49	2.61	2.67	2.73	2.34	2.47	2.61	2.67	2.80	(0.06)	–	–	–	(0.07)	18.6x	17.7x	16.7x	16.3x	15.6x	0%	2%	3%	3%	1%	7.6%	4.3%	78%	Sell	$35	-15%	Sell	$39	-7%
NWE	$59.99	3,586	3.42	3.55	3.75	3.91	4.08	3.45	3.58	3.73	3.88	4.05	(0.03)	–	–	0.03	–	17.4x	16.8x	16.1x	15.5x	14.8x	-6%	-3%	-1%	-1%	-5%	5.1%	4.3%	74%	Sell	$46	-19%	Buy	$59	2%
POR	$49.78	4,452	2.68	3.00	3.15	3.31	3.50	2.66	3.03	3.19	3.35	3.53	–	–	(0.04)	(0.04)	–	18.7x	16.5x	15.6x	14.9x	14.1x	1%	-5%	-4%	-4%	-8%	5.0%	3.8%	69%	Buy	$54	12%	Buy	$53	10%
		15,029																**18.1x**	**16.7x**	**15.8x**	**15.0x**	**14.3x**	**-3%**	**-4%**	**-2%**	**-2%**	**-7%**	**6.6%**	**4.2%**	**73%**						
Mid/Large Cap Electric																																			
AEE	$89.27	23,431	4.35	4.67	5.05	5.40	5.68	4.36	4.68	5.02	5.36	5.69	–	–	–	0.04	–	20.5x	19.1x	17.8x	16.6x	15.7x	10%	10%	10%	10%	3%	6.5%	2.9%	58%	Neutral	$89	3%	Buy	$92	6%
AEP	$94.54	48,632	5.30	5.64	6.00	6.39	6.81	5.28	5.63	5.97	6.35	6.78	–	–	–	0.04	–	17.9x	16.8x	15.8x	14.9x	13.9x	-4%	-3%	-2%	-2%	-8%	6.0%	3.6%	63%	Buy	$105	15%	Buy	$101	10%
CMS	$62.12	18,093	3.12	3.41	3.65	3.91	4.26	3.10	3.35	3.63	3.89	4.17	–	0.06	–	–	0.09	20.0x	18.5x	17.1x	16.0x	14.9x	8%	7%	6%	6%	-1%	8.1%	3.2%	63%	Neutral	$68	13%	Buy	$68	13%
CNP	$30.39	19,128	1.51	1.62	1.74	1.89	2.05	1.49	1.62	1.73	1.85	2.00	–	–	–	0.04	0.05	20.4x	18.8x	17.6x	16.4x	15.2x	10%	9%	8%	8%	1%	8.2%	2.5%	50%	Neutral	$32	8%	Buy	$32	8%
D	$57.41	47,952	4.15	3.75	3.97	4.24	4.50	3.91	3.78	3.97	4.51	4.70	0.24	(0.03)	–	(0.27)	(0.20)	14.7x	15.2x	14.5x	12.7x	12.2x	-21%	-12%	-11%	-11%	-22%	1.8%	4.7%	69%	Buy	$63	14%	Neutral	$61	12%
DTE	$112.13	23,111	6.26	6.73	7.19	7.75	8.30	6.23	6.69	7.17	7.73	8.22	–	0.04	–	–	0.08	18.0x	16.8x	15.6x	14.5x	13.6x	-3%	-3%	-4%	-4%	-11%	6.4%	3.5%	61%	Buy	$131	20%	Buy	$128	18%
DUK	$98.84	76,171	5.65	6.05	6.35	6.75	7.15	5.63	5.98	6.33	6.71	7.14	–	0.07	–	0.04	–	17.5x	16.5x	15.6x	14.7x	13.8x	-6%	-5%	-4%	-4%	-9%	6.3%	4.2%	72%	Buy	$114	20%	Buy	$107	13%
ED	$98.51	34,128	4.82	5.18	5.40	5.71	5.97	4.85	5.20	5.48	5.81	6.09	–	–	(0.08)	(0.10)	(0.12)	20.3x	19.0x	18.0x	17.0x	16.2x	9%	10%	11%	11%	5%	5.5%	3.3%	66%	Neutral	$86	-9%	Sell	$89	-6%
EIX	$72.26	27,649	4.70	4.94	5.36	5.70	6.10	4.74	5.12	5.55	5.78	5.96	(0.04)	(0.18)	(0.19)	(0.08)	0.14	15.2x	14.1x	13.0x	12.5x	12.1x	-18%	-18%	-20%	-20%	-23%	5.7%	4.1%	62%	Buy	$75	8%	Buy	$72	3%
ES	$80.52	28,075	4.34	4.75	5.04	5.37	5.70	4.36	4.67	5.00	5.33	5.71	–	0.08	0.04	0.04	–	18.5x	17.2x	16.1x	15.1x	14.1x	-1%	-0%	-1%	-1%	-7%	6.9%	3.4%	62%	Buy	$91	16%	Buy	$87	12%
ETR	$110.57	23,451	6.71	7.16	7.76	8.31	8.97	6.72	7.21	7.76	8.32	–	–	(0.04)	–	–	8.97	16.5x	15.3x	14.3x	13.3x	n/a	-11%	-11%	-12%	-12%	-18%	6.9%	4.0%	64%	Buy	$128	20%	Buy	$120	13%
EVRG	$63.15	14,498	3.65	3.97	4.24	4.47	4.75	3.64	3.96	4.22	4.46	3.08	–	–	–	–	1.67	17.4x	16.0x	15.0x	14.1x	20.5x	-7%	-8%	-8%	-8%	-13%	5.1%	4.0%	68%	Buy	$72	18%	Neutral	$64	5%
EXC	$42.93	42,685	2.36	2.50	2.74	2.93	3.10	2.36	2.51	2.73	2.93	3.12	–	–	–	–	–	18.2x	17.1x	15.7x	14.7x	13.8x	-2%	-1%	-3%	-3%	-10%	6.4%	3.4%	61%	Neutral	$45	8%	Buy	$46	10%
FE	$41.61	23,811	2.54	2.69	2.89	3.07	3.27	2.52	2.67	2.83	2.96	3.26	–	–	0.06	0.11	–	16.5x	15.6x	14.7x	14.1x	12.8x	-11%	-10%	-9%	-9%	-13%	6.3%	3.8%	62%	Buy	$46	14%	Buy	$43	8%
LNT	$54.82	13,767	2.90	3.08	3.27	3.50	3.67	2.90	3.15	3.28	3.47	3.66	–	(0.07)	–	–	–	18.9x	17.4x	16.7x	15.8x	15.0x	2%	0%	3%	3%	-3%	5.6%	3.4%	62%	Neutral	$52	-2%	Neutral	$57	7%
OGE	$38.96	7,803	2.02	2.16	2.25	2.37	2.48	2.01	2.13	2.30	2.39	2.48	–	0.03	(0.05)	–	–	19.4x	18.3x	16.9x	16.3x	15.7x	4%	6%	4%	4%	1%	2.6%	4.3%	82%	Neutral	$38	2%	Neutral	$39	4%
POG	$16.50	32,930	1.22	1.37	1.47	1.61	1.75	1.21	1.34	1.47	1.59	1.77	–	–	–	–	–	13.6x	12.3x	11.2x	10.4x	9.3x	-27%	-29%	-31%	-31%	-36%	9.7%	0.7%	10%	Buy	$22	34%	Buy	$18	12%
PEG	$63.17	31,507	3.45	3.67	4.10	4.29	4.59	3.44	3.69	4.03	4.29	4.44	–	–	0.07	–	0.15	18.4x	17.1x	15.7x	14.7x	14.2x	-1%	-1%	-3%	-3%	-9%	5.8%	3.7%	66%	Buy	$68	11%	Buy	$66	8%
PNW	$80.63	9,131	4.05	4.60	4.80	5.05	5.35	4.10	4.76	4.92	5.17	5.42	(0.05)	(0.16)	(0.12)	(0.12)	(0.07)	19.7x	16.9x	16.4x	15.6x	14.9x	6%	-2%	1%	1%	-4%	4.7%	4.4%	82%	Neutral	$77	-0%	Neutral	$76	-2%
PPL	$28.38	20,918	1.58	1.71	1.82	1.96	2.08	1.59	1.70	1.83	1.95	2.08	–	–	–	–	–	17.8x	16.7x	15.6x	14.6x	13.6x	-4%	-4%	-4%	-4%	-10%	8.1%	3.5%	60%	Buy	$34	23%	Buy	$31	13%
SO	$71.50	78,043	3.60	4.05	4.30	4.55	4.80	3.61	4.02	4.29	4.52	4.79	–	0.03	–	–	–	19.8x	17.8x	16.7x	15.8x	14.9x	7%	3%	3%	3%	-3%	5.9%	3.9%	75%	Buy	$73	6%	Neutral	$71	3%
WEC	$98.34	31,020	4.60	4.91	5.24	5.61	5.97	4.60	4.90	5.26	5.62	5.98	–	–	–	–	–	21.4x	20.1x	18.7x	17.5x	16.4x	15%	16%	15%	15%	8%	6.1%	3.2%	67%	Neutral	$99	4%	Buy	$102	7%
Mid/Lg Cap (excl. EIX, PCG)																		**18.6x**	**17.3x**	**16.2x**	**16.2x**	**16.2x**						**6.0%**	**3.6%**	**66%**						
SMID + Lg Cap		**690,965**																**18.5x**	**17.2x**	**16.2x**	**15.2x**	**14.7x**						**6.1%**	**3.7%**	**67%**						

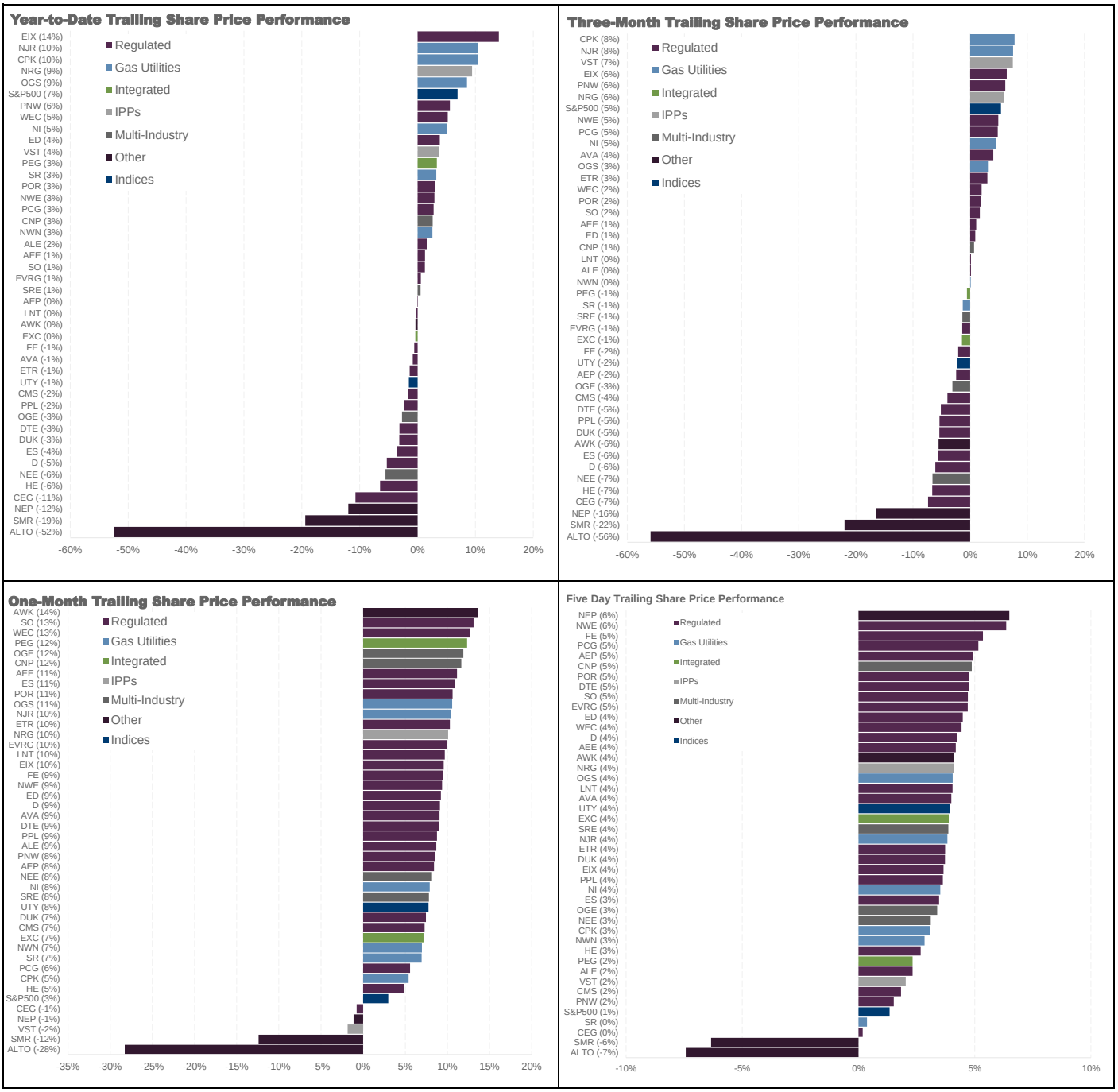
Diversified	Price	Market Cap ($m)	Guggenheim EPS Ests 2023E	2024E	2025E	2026E	2027E	Consensus 2023E	2024E	2025E	2026E	2027E	Δ vs Consensus (>$0.02) 2023E	2024E	2025E	2026E	2027E	Implied P/E Multiple 2023E	2024E	2025E	2026E	2027E	Prem/(Disc) vs Mid/Lg Cap Utes 2023E	2024E	2025E	2026E	2027E	'22–'27 EPS	NTM Yield	Payout Ratio	Guggenheim Rating	Target	NTM Total Return	Consensus Rating	Target	NTM Total Return
HE	$38.82	4,254	2.32	2.50	2.63	2.76	2.89	2.28	2.44	2.59	2.75	2.88	0.04	0.06	0.04	–	–	17.0x	15.9x	15.0x	14.1x	13.5x	-8%	-8%	-8%	-8%	-13%	6%	3.7%	62%	Neutral	$42	12%	Sell	$38	3%
NEE	$78.33	158,492	3.13	3.43	3.69	3.99	4.27	3.11	3.39	3.67	4.02	4.43	–	0.04	–	(0.03)	(0.16)	25.2x	23.1x	21.3x	19.5x	17.7x	35%	33%	31%	31%	20%	8%	2.5%	60%	Buy	$96	25%	Buy	$93	22%
SRE	$153.14	48,186	9.00	9.50	10.13	10.80	11.71	8.97	9.57	10.16	10.92	11.64	0.03	(0.07)	–	(0.12)	0.07	17.1x	16.0x	15.1x	14.0x	13.2x	-8%	-8%	-7%	-7%	-14%	5%	3.2%	54%	Buy	$174	17%	Buy	$168	13%
		210,931																**19.8x**	**18.3x**	**17.1x**	**15.9x**	**14.8x**	**6%**	**6%**	**6%**	**6%**	**-2%**	**6.2%**	**3.1%**	**59%**						
Gas LDCs																																				
NI	$28.69	11,835	1.57	1.68	1.82	1.95	2.07	1.56	1.67	1.79	1.95	2.07	–	–	–	–	–	18.4x	17.2x	16.0x	14.7x	13.8x	-1%	-0%	-1%	-1%	-3%	7%	3.6%	64%	Buy	$31	12%	Buy	$31	12%
CPK	$130.34	2,317	5.42	5.84	6.23	6.59	6.94	5.41	5.82	6.24	6.59	6.95	–	–	–	–	–	24.1x	22.4x	20.9x	19.8x	18.8x	30%	30%	29%	29%	30%	7%	1.8%	42%	Neutral	$116	-9%	Buy	$135	6%
NJR	$54.72	5,302	2.67	2.65	2.85	3.05	3.30	2.70	2.75	2.93	3.15	3.40	(0.03)	(0.10)	(0.08)	(0.10)	(0.10)	20.3x	19.9x	18.7x	17.4x	16.1x	10%	16%	16%	16%	14%	6%	3.0%	59%	Neutral	$46	-13%	Neutral	$51	-3%
NWN	$48.30	1,695	2.65	2.83	2.98	3.09	3.21	2.66	2.79	2.99	3.05	3.22	–	0.04	–	0.04	–	18.2x	17.3x	16.1x	15.9x	15.0x	-2%	1%	-0%	-0%	4%	5%	4.0%	72%	Neutral	$45	-3%	Buy	$54	16%
OGS	$81.53	4,516	4.14	4.24	4.53	4.98	5.31	4.14	4.31	4.59	4.99	5.35	–	(0.07)	(0.06)	–	(0.04)	19.7x	18.9x	17.8x	16.3x	15.2x	7%	10%	10%	10%	8%	5%	3.2%	63%	Neutral	$77	-2%	Neutral	$79	0%
SR	$71.52	3,758	4.25	4.31	4.57	4.73	4.99	4.26	4.32	4.59	4.81	5.07	–	–	–	(0.08)	(0.08)	16.8x	16.6x	15.6x	14.9x	14.1x	-9%	-4%	-4%	-4%	-2%	5%	4.1%	69%	Neutral	$69	1%	Neutral	$71	4%
		29,423																**19.6x**	**18.7x**	**17.5x**	**16.5x**	**15.5x**	**6%**	**9%**	**8%**	**8%**	**9%**	**5.8%**	**3.3%**	**62%**						
Regulated Water																																				
AWK	$150.21	29,237	4.76	5.14	5.59	5.98	6.45	4.78	5.14	5.59	6.04	6.45	–	–	–	(0.05)	–	31.5x	29.2x	26.9x	24.9x	23.3x	69%	69%	66%	66%	53%	7%	1.9%	60%	Neutral	$152	3%	Neutral	$160	9%

IPPs	Price	Market Cap ($m)	Guggenheim EBITDA Ests 2023E	2024E	2025E	2026E	2027E	Consensus 2023E	2024E	2025E	2026E	2027E	Δ vs Consensus (>$20m) 2023E	2024E	2025E	2026E	2027E	Implied EV/EBITDA Multiple 2023E	2024E	2025E	2026E	2027E	Enterprise Value 2023E	2024E	2025E	2026E	2027E	'22–'25 Growth	NTM Yield	Payout Ratio	Guggenheim Rating	Target	NTM Total Return	Consensus Rating	Target	NTM Total Return
CEG	$76.50	24,990	3,100	3,254	3,333	3,455	4,315	3,054	3,469	3,588	3,362	3,590	46	(215)	(255)	93	725	9.3x	7.8x	7.1x	–	0.0x	28,404	26,974	25,517	24,009	21,901	7.7%	1.6%	28%	Buy	$110	45%	Buy	$98	30%
NRG	$34.41	7,992	3,084	3,136	3,140	n/a	n/a	2,777	2,873	2,870	2,820	3,085	307	263	270	–	–	6.3x	5.7x	5.1x	–	0.0x	17,556	16,288	14,764	–	–	21.4%	4.5%	28%	Neutral	$34	3%	Neutral	$38	15%
VST	$23.92	9,124	3,725	3,784	3,716	3,465	n/a	3,601	3,879	3,850	3,865	4,073	124	(95)	(134)	(399)	–	5.9x	5.4x	5.2x	–	0.0x	21,391	20,865	20,004	19,336	–	6.1%	3.5%	28%	Buy	$31	33%	Buy	$32	36%
Other																																				
ALTO	$1.42	107	24	40	46	42	43	29	50	N/A N/A	N/A N/A	N/A N/A	–	–	–	–	–											54.8%	–	–	Buy	$9	534%	Buy	$7	393%
NEP	$61.83	5,353	1,837	1,977	2,143	2,325	2,471	1,902	2,072	2,134	2,390	2,054	(65)	(95)	–	(65)	417											9.1%	5.9%	–	Buy	$81	37%	Buy	$85	44%
SMR	$8.49	593	(100)	(57)	8	96	n/a	(130)	(85)	(31)	55	220	30	28	39	41	–												–	–	Buy	$18	112%	Buy	$14	59%

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.

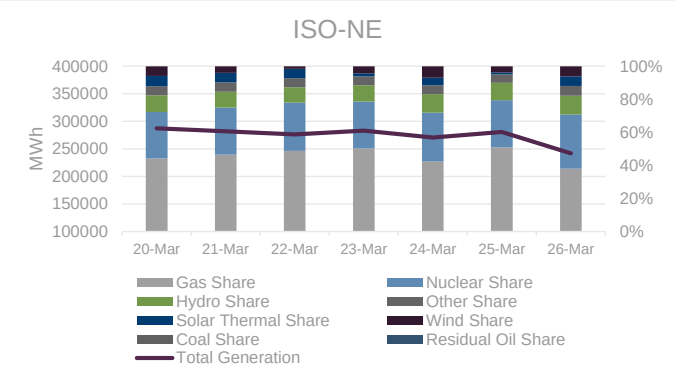
(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

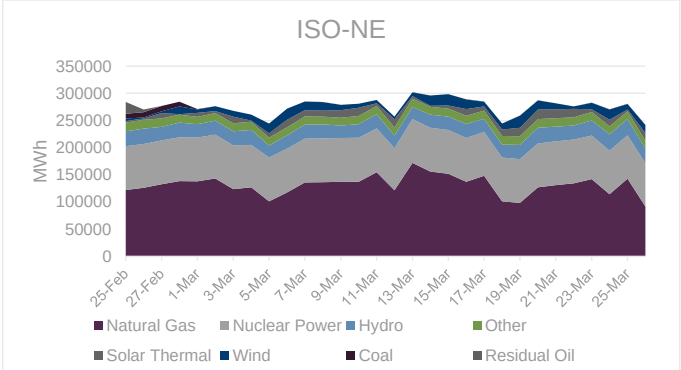
Source: Bloomberg, Guggenheim Securities, LLC estimates.

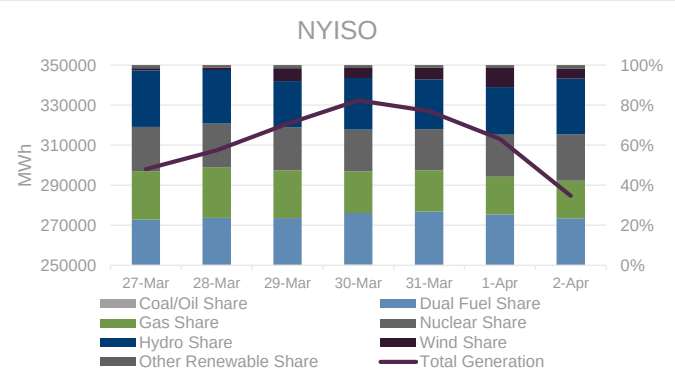
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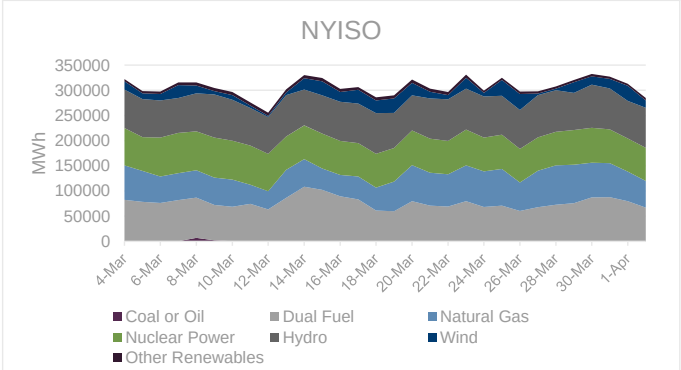
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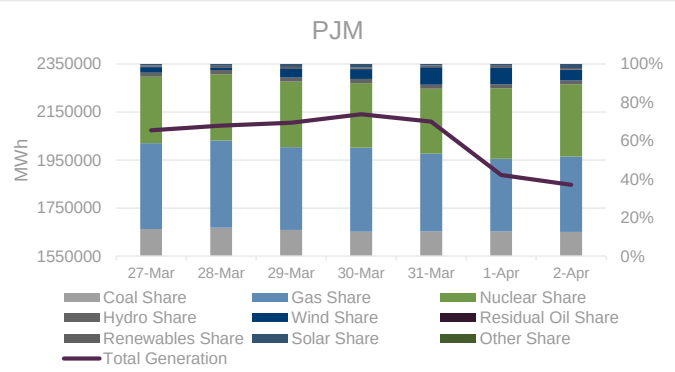
Generation and Mix

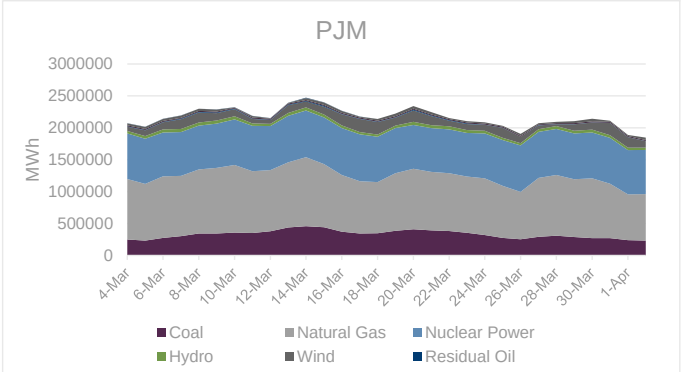


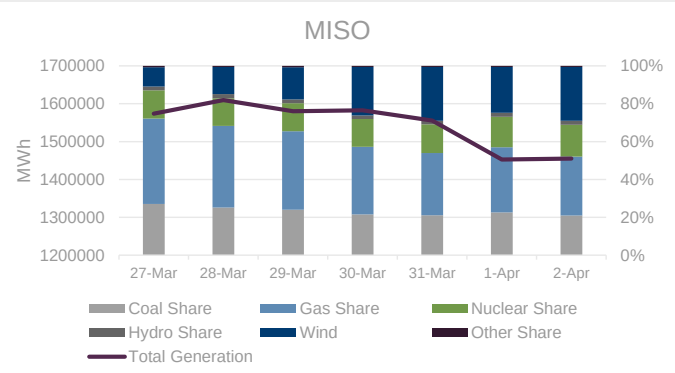


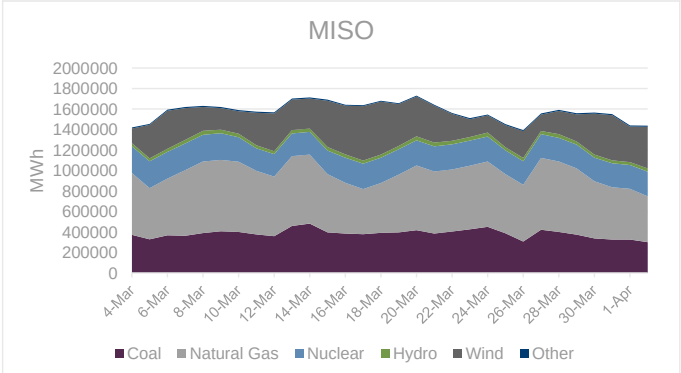








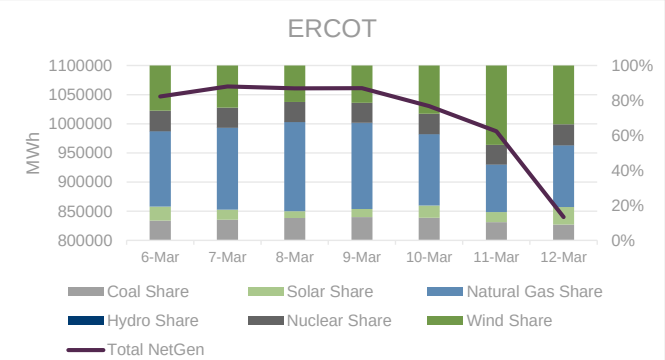


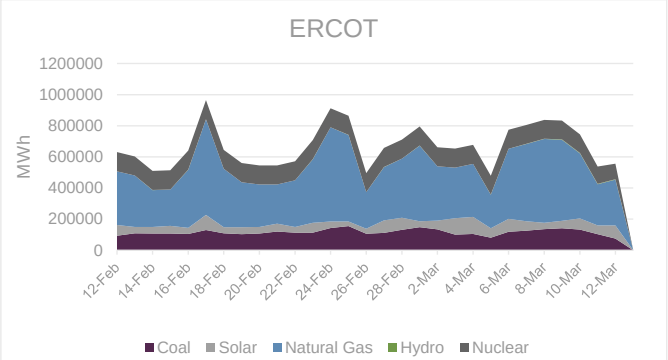


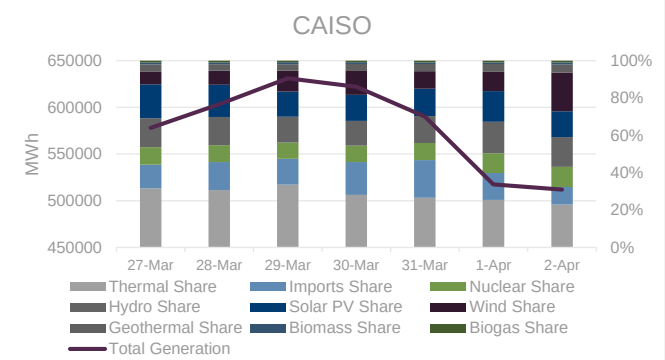
Source: S&P Global Platts, Guggenheim Securities, LLC.

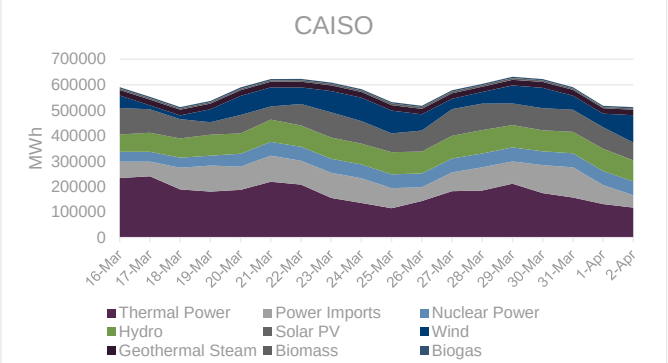
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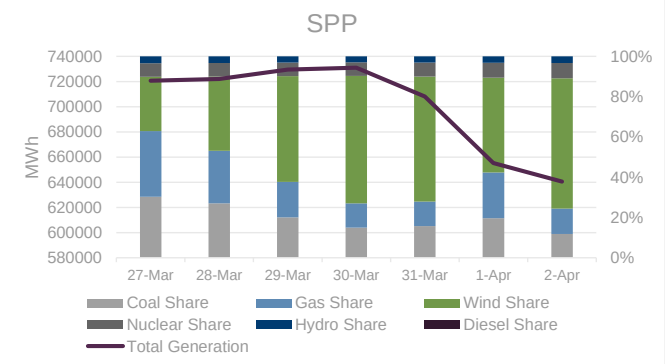
Generation and Mix (continued)

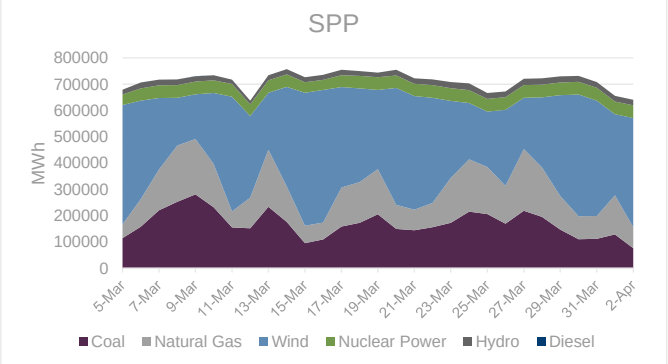








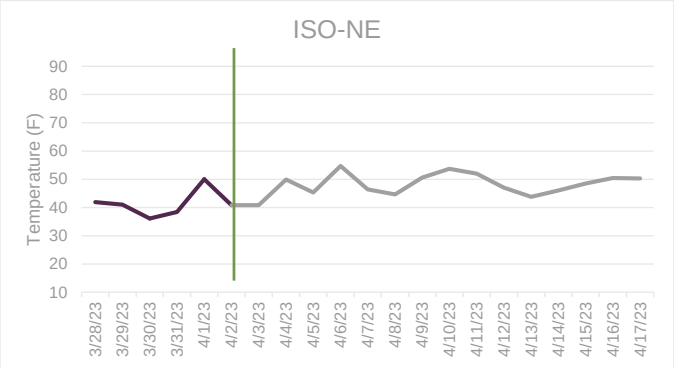


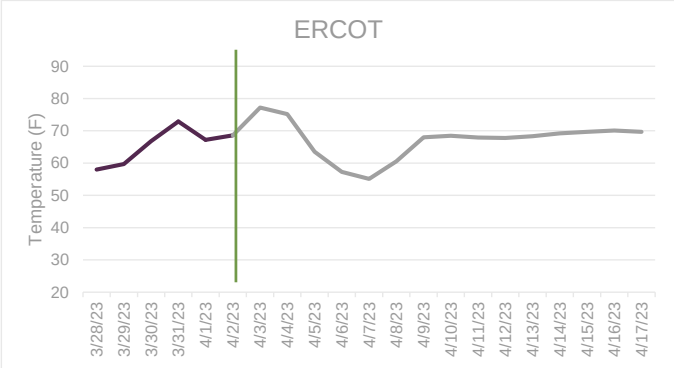


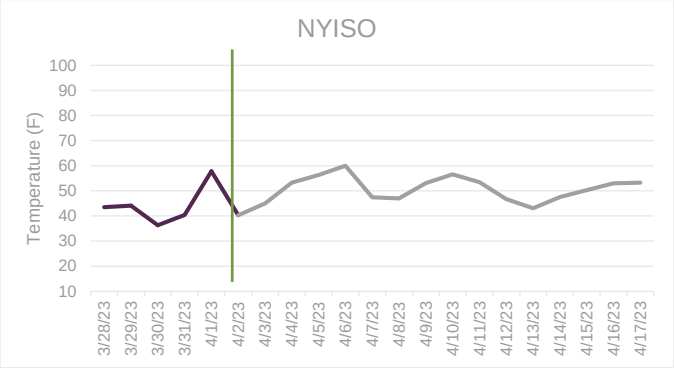
Source: S&P Global Platts, Guggenheim Securities, LLC.

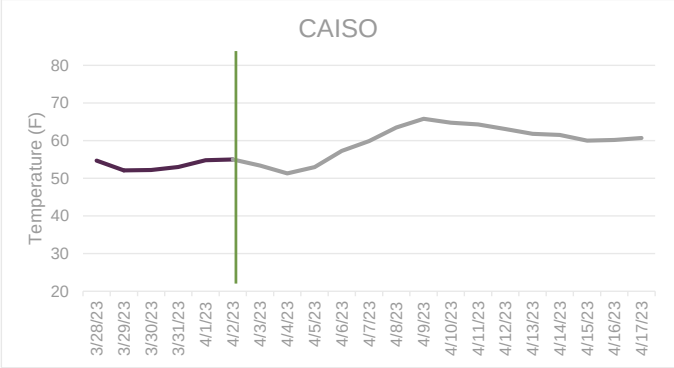
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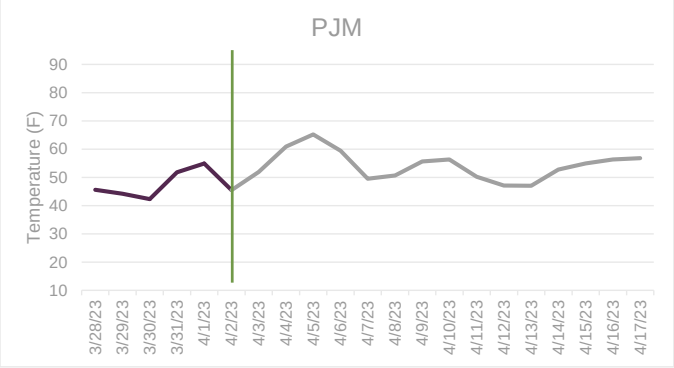
Weather

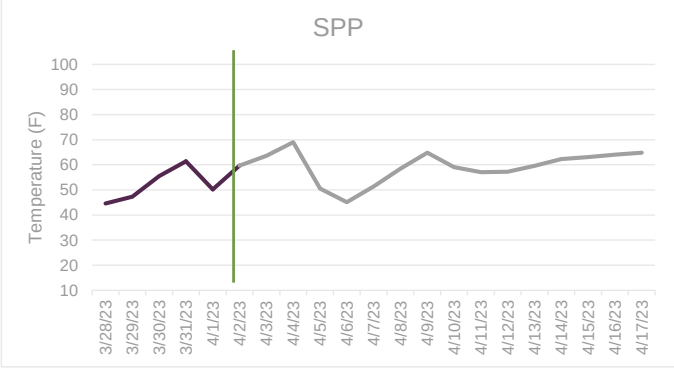


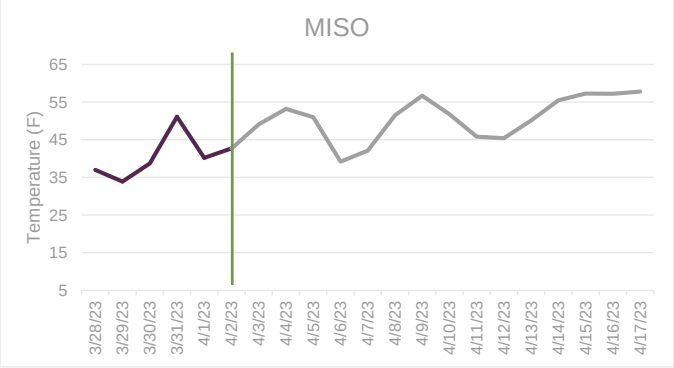








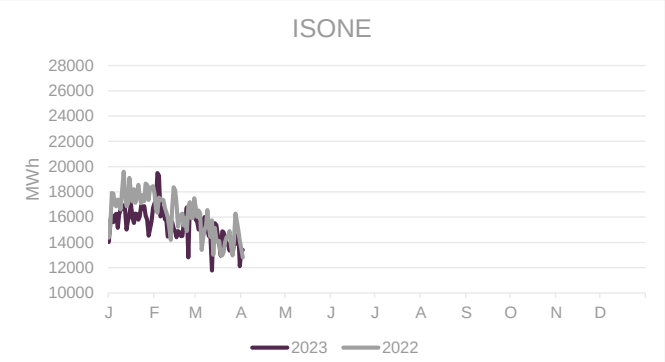


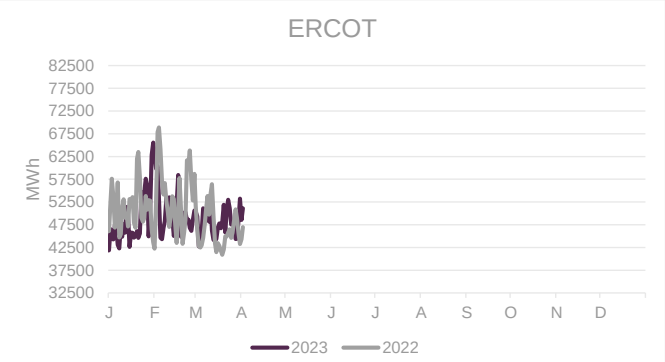


Source: S&P Global Platts, Guggenheim Securities, LLC.

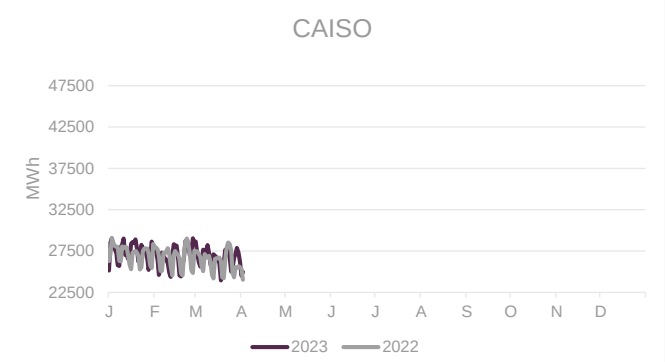
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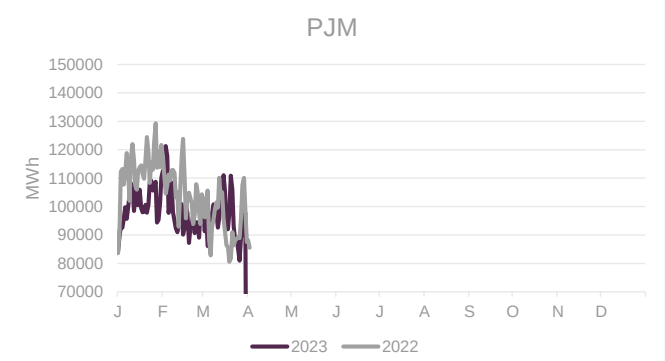
YTD Peak Load

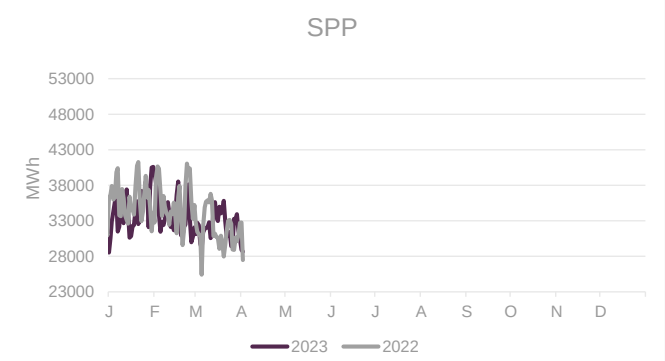


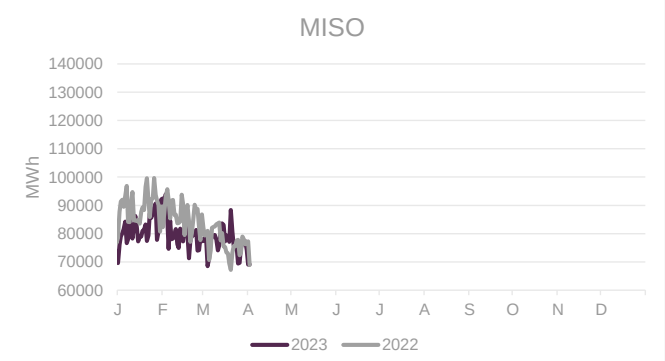












Average Deviation in Peak Load vs Prior Year

RTO/ISO	1Q22	2Q22	3Q22	4Q22	1Q23
ISONE	1.5%	-1.2%	5.1%	-0.9%	-4.5%
NYISO	2.1%	-0.1%	3.5%	-0.7%	-4.5%
PJM	3.9%	3.8%	0.2%	2.1%	-5.3%
MISO	4.0%	5.0%	0.1%	0.7%	-4.9%
CAISO	1.6%	1.2%	4.0%	0.3%	1.0%
ERCOT	13.7%	19.1%	7.9%	7.4%	-1.5%
SPP	5.9%	9.7%	5.0%	7.1%	-1.6%

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

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Regulatory Calendar

Power and Utilities: Coverage Calendar (3/31/2023-6/30/2023)

Date	State	Ticker	Utility/Event	Docket	Description
3/1/2023-3/31/2023	TX	ETR	Entergy Texas Inc.	D-53719	ALJ recommended decision may be issued in rate case — suspended due to settlement talks
3/15/2023-4/15/2023	VA	NI	Columbia Gas of Virginia Inc	C-PUR-2022-00036	Decision may be issued in rate case
3/29/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Intervening parties to file testimony in Rider DSM case
3/31/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (EL)	Company to submit annual information filing
3/31/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (GAS)	Company to submit annual information filing
3/31/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Intervening parties to file testimony in Rider OSW update proceeding
3/31/2023-4/15/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00120 (Rider US3)	Decision may be issued in Rider US 3 proceeding
3/31/2023-4/15/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00121 (Rider US4)	Decision expected in Rider US 4 proceeding
3/31/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00124 (Rider CE)	Decision expected in Rider CE update proceeding
4/1/2023-6/30/2023	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Elec)	ALJ proposed decision expected
4/1/2023-6/30/2023	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Gas)	ALJ proposed decision expected
4/1/2023-6/30/2023	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Track 2)	ALJ proposed decision expected
4/1/2023-4/30/2023	KS	EVRG	Evergy Kansas Central Inc.		Rate case filing expected
4/1/2023-4/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00140 (Rider GT)	Hearing examiner's report may be issued in Rider GT update proceeding
4/1/2023-4/30/2023	WI	LNT	Wisconsin Power and Light Co		Rate case expected to be filed early Q2'23
4/3/2023	MO	AEE	Union Electric Co.	C-ER-2022-0337	Hearing to begin in rate proceeding
4/3/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (elec)	Final day for stipulations, settlement agreements
4/3/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (gas)	Final day for stipulations, settlement agreements
4/4/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Rebuttal testimony due in rate proceeding
4/4/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00070*(RiderRGGI)	Staff to file testimony in Rider RGGI reinstatement proceeding
4/4/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00162 (Rider SNA)	Rebuttal testimony due in Rider SNA adjustment proceeding
4/7/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Staff to file testimony in G-RAC proceeding
4/11/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (elec)	Hearing commences
4/11/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (gas)	Hearing commences
4/12/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Staff to filed testimony in Rider OSW update proceeding
4/14/2023	KY	DUK	Duke Energy Kentucky Inc.	C-2022-00372	Company rebuttal testimony due in rate proceeding
4/14/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (EL)	Supplemental direct testimony due
4/14/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (GAS)	Supplemental direct testimony due
4/14/2023	NC	DUK	Duke Energy Progress LLC	D-E-2 Sub 1300	Company rebuttal testimony due by
4/17/2023	MI	CMS	Consumers Energy Co.	C-U-21308	Staff, intervenor testimony due
4/18/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Settlement conference to be held in rate proceeding
4/19/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Staff to file testimony in Rider DSM proceeding
4/21/2023	OR	POR	Portland General Electric Co.	D-UE-416	General rate revision settlement conference
4/21/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Rebuttal testimony due in G-RAC proceeding
4/26/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Rebuttal testimony due in Rider OSW update proceeding
4/28/2023	VA	SO	Virginia Natural Gas Inc.	C-PUR-2022-00052	Staff testimony due in rate case
5/1/2023-5/31/2023	CA	EIX	Southern California Edison Co.		General rate case to be filed
5/1/2023-5/31/2023	MO	SR	Spire Missouri Inc.	C-GO-2023-0203 (ISRS)	Decision possible in ISRS proceeding
5/1/2023-5/4/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00070*(RiderRGGI)	Hearings scheduled in Rider RGGI reinstatement proceeding
5/2/2023	IL	SO	Northern Illinois Gas Co.	D-23-0066	Staff and intervenor testimony due in rate proceeding
5/2/2023-5/3/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Hearings scheduled in G-RAC proceeding
5/5/2023	IL	AEE	Ameren Illinois	D-23-0067	Staff and intervenor testimony due in rate proceeding
5/8/2023	MI	CMS	Consumers Energy Co.	C-U-21308	Rebuttal testimony due
5/9/2023	IL	SO	North Shore Gas Co.	D-23-0068	Staff and intervenor testimony due in rate proceeding
5/9/2023	KY	DUK	Duke Energy Kentucky Inc.	C-2022-00372	Hearing to begin in rate proceeding
5/9/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Hearing to begin in rate proceeding
5/9/2023-5/10/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Hearings scheduled in Rider OSW update proceeding
5/11/2023	IL	AEE	Ameren Illinois	D-23-0082	Staff and intervenor testimony due in rate proceeding
5/16/2023-5/17/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Hearings scheduled in Rider DSM proceeding
5/18/2023	IL	EXC	Commonwealth Edison Co.	D-23-0055	Staff and intervenor testimony due in rate proceeding
5/21/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Decision possible in rate proceeding
5/22/2023-6/16/2023	CA	SRE	San Diego Gas & Electric Co.	A-22-05-016 (Elec)	Hearings scheduled in rate case
5/22/2023-6/16/2023	CA	SRE	San Diego Gas & Electric Co.	A-22-05-016 (Gas)	Hearings scheduled in rate case
5/23/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2023-00005 (Rider E)	Intervening parties to file testimony in Rider E update proceeding
5/24/2023	OR	POR	Portland General Electric Co.	D-UE-416	Staff, intervenor testimony on power cost update due
5/25/2023	TX	ETR	Entergy Texas Inc.	D-53719	End of agreed upon suspension period — decision may be issued in rate case
5/31/2023	NY	ED	Orange & Rockland Utlts Inc.		Long-term gas system plan to be filed
5/31/2023	IL	SO	Northern Illinois Gas Co.	D-23-0066	Company rebuttal testimony due in rate proceeding
5/31/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00140 (Rider GT)	Decision expected in Rider GT proceeding
6/1/2023-6/30/2023	MO	AEE	Union Electric Co.	C-ER-2022-0337	Decision possible in rate proceeding
6/1/2023-6/30/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Hearing Examiner report may be issued in G-RAC proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Hearing Examiners report may bee issued in Rider OSW update proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00070*(RiderRGGI)	Hearing examiners report may be issued in Rider RGGI reinstatement proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00162 (Rider SNA)	Hearing examiner report may be issued in Rider SNA adjustment proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00164 (Rder US-2)	Decision likely in Rider US-2 proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Hearing examiner's report may be issued in Rider DSM proceeding
6/2/2023	IL	AEE	Ameren Illinois	D-23-0067	Company rebuttal testimony due in rate proceeding
6/6/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2023-00005 (Rider E)	Staff to file testimony in Rider E update proceeding
6/12/2023	IL	SO	North Shore Gas Co.	D-23-0068	Company rebuttal testimony due in rate proceeding
6/12/2023-6/13/2023	VA	SO	Virginia Natural Gas Inc.	C-PUR-2022-00052	Hearings scheduled in rate case
6/13/2023	MI	DTE	DTE Electric Co.	C-U-21297	Staff and intervenor testimony due
6/13/2023	OR	POR	Portland General Electric Co.	D-UE-416	Staff, intervenor testimony on rates due
6/14/2023	IL	AEE	Ameren Illinois	D-23-0082	Company rebuttal testimony due in rate proceeding
6/14/2023	OR	POR	Portland General Electric Co.	D-UE-416	Power cost update settlement conference
6/19/2023-6/26/2023	NC	DUK	Duke Energy Carolinas LLC	D-E-7 Sub 1276	Hearings scheduled in rate case
6/20/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (EL)	Parties to file testimony in rate case
6/20/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (GAS)	Parties to file testimony in rate case
6/21/2023	OR	POR	Portland General Electric Co.	D-UE-416	PGE testimony on power cost update due
6/26/2023	MI	CMS	Consumers Energy Co.	C-U-21308	Briefs due in rate case
6/27/2023	IL	EXC	Commonwealth Edison Co.	D-23-0055	Company rebuttal testimony due in rate proceeding
6/28/2023	OR	POR	Portland General Electric Co.	D-UE-416	General rate revision settlement conference
6/28/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2023-00022 (Rider CCR)	Intervening parties to file testimony in Rider CCR update

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

- Guggenheim Nuclear Conference Wrap: If You Build It, They Will Come?
- NEP: CEPF and Near-Term Financing Drilldown – Headwinds? Yes. Distribution Reset? Unlikely. Share Weakness Unwarranted; Bear Calls Flawed
- ERCOT: Policy Call Reinforces Uphill View on Repricing as TX Legislature Mulls Resource Adequacy Tweaks
- AEE NDR: Bread and Butter Utility Update Underscores Ameren's Premium Attributes
- NEE NDR: Management Continues to Chop Through IRA Upside Opportunities but Baseline Remains Conservative; Headline Hurdles Require Time
- ES: What Are the Bears Playing for Now? The Dislocation to Group Getting Out of Hand
- SRE: Port Arthur Reaches FID, Few Holdovers with Project Equity, but Economics Are Broadly Accretive
- SMR: 2023 to See Slightly Heightened Cash Usage as Focus Remains on Execution
- HE – Making Sense of Banking Turbulence; HE's ASB Remains Well Insulated From Isolated Liquidity Issues
- DUK: CEO NDR – How to Strengthen the Balance Sheet Without a "Rip-the-Band-Aid-Off" Equity Scenario? Patience.
- PEG Analyst Day – Straight Talking with PEG; Mgmt. Backs Up Sustainable 5-7% EPS Growth with Room to Exceed
- SRE: PUCT Modifies Oncor PFD, Approves Oncor Rate Case; 9.7% ROE and 42.5% Equity Ratio – Above Our Expectation
- Arizona Regulation: Taking a Deep Dive in the Desert — New Commissioners Bring a Wealth of Experience, Insights, and Planned Improvements to the ACC
- PNW: APS Wins Appeal of 2019 Rate Case's Penalty ROE and SCR Disallowance — Arizona Supreme Court May Be Next
- VST: Sensible Transaction and Organizational Realignment Look to Freeze the Melting Ice Cube Argument
- Deal or No Deal? Taking the Pulse of Fuel Deferrals Across Our Coverage Universe
- PJM: How Low Can You Go? Residualization of the BRA Marches On…
- D: Legislative Breakthrough Yields a Deal; Focus Turns to Credit Repair
- AEP: Contracted Renewables Sale Above Our Expectations
- LNT: Cleanup in Aisle 4? PSCW's Damage Control Proves Effective: Upgrading to NEUTRAL
- PSCW: Conversation with Chair Valcq Strikes a Balanced Tone
- D: Halftime in Richmond as Multiple Bills Advance
- D: SB1265 Amended Ahead of Crossover Deadline Tomorrow
- FE – The Same Board Who Set The Current Strategic Plan Is Also Picking The CEO… Follow-Up Thoughts Post Our Mgmt. Call
- FE – Rebase Coming? No. Asset Sale Delay? No. New CEO Strategy Shift? No. Balance Sheet Concerns? No. More Growth Opps? Yes. FE Remains '23 Best Idea
- D: General Assembly Sausage-Making Enters Full Swing as Lawmakers Continue to Cement the Bid-Ask
- D: Key Bills Pass Out of Senate Committee
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D: New Legislation Proposes Novel Option for OSW Stake Sale – Mosaic Pieces Continue to Form a Clearer Picture
- ETR – LPSC Votes on Modified Settlement Proposal with Customer Benefits, but Recognition of Hurricane Cost Prudency
- D: Opening Move in Richmond: Evolutionary Legislation Lays Path Forward

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			IB Serv./ Past 12Mos.	
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NEUTRAL	112	30.94%	10	8.93%
SELL	9	2.49%	0	0.00%

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GUGGENHEIM

Power & Utilities

April 13, 2023

The Guggenheim Daily Transmission: NEE/ED, D/VA, FE, ERCOT, TX, SRE, Policy, PJM/NJ, IL/Wind, D, AEE, NI

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Ticker	Price	Rating
AEE	89.97	Neutral
D	57.89	Buy
ED	98.69	Neutral
FE	41.46	Buy
NEE	78.59	Buy
NI	28.66	Buy
SRE	153.95	Buy

SAVE THE DATE: We are hosting a dinner with CNP's COO, new CFO, and others on May 22nd...

For our AGA conference (May 20-23) meeting schedule, please scroll down...

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our EXC NDR, ETR NDR, PNW NDR, DTE NDR, PCG NDR, ES NDR, SMR NDR, LNT NDR, AWK NDR, CMS NDR, SO NDR, POR NDR, and other events, scroll down...

NEE/ED – USFWS posts letter on endangered species consultation with FERC, Sierra Club notes 4th circuit court appeal of new biological opinion

D/VA – General Assembly passes utility reform legislation, discards Governor's amendments to wind bill

FE – West Virginia's Gov. Justice continues to be hopeful regarding future for Pleasants Power Plant

ERCOT – Calpine announces plans for two 425MW gas plants, credits PCM

TX – Texas utility bills progress through committee review

SRE – Cameron Pipeline issues force majeure notice; minor compression reduction

Policy – WOTUS rule enjoined in another 24 states

PJM/NJ – BPU Staff publish progress report on resource adequacy work

IL/Wind – Chicago lawmakers continue to advocate for offshore wind on Lake Michigan

D – Chief nuclear officer to retire; replacement named

AEE – MO PSC grants CCN for 150MW Boomtown solar facility

NI – As expected, NiSource issues its 2022 Integrated Annual Report

NEE/ED – USFWS posts letter on endangered species consultation with FERC, Sierra Club notes 4th circuit court appeal of new biological opinion

- The US fish and Wildlife Service continued correspondence with FERC on endangered species, while Sierra Club noted a 4th circuit court appeal of the February 2023 Biological Opinion.
- The appeal requests a court review of the new USFWS BO.
- MVP is still pending several administrative and judicial outcomes including: fourth circuit appeals court review of WV agency permits, Army Corps of engineers needs VA/WV permits for its water discharge permit approval and FERC has to reissue a Biological Opinion (US Fish and Wildlife previously filed the new biological opinion on MVP with FERC, pending approval).
- FERC staff and the US Wildlife Service have previously reviewed the Updated SBA and requested clarification on endangered species impacts and protective actions.

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- Mountain Valley Pipeline also submitted an Implementation Plan for the Amendment Project for Mountain Valley Pipeline Project.
- The plan supports the amended application including changing the crossing method for 183 waterbodies and wetlands at 120 locations from open cut to trenchless.
- Media overview on recent actions here.
- FERC Docket: CP16-10. / CP21-57

Guggenheim takeaway: *The appeal of the new biological opinion is not a surprise as opposition groups have been active in challenging every aspect of reissued permitting from FERC and administrative agencies. As the docket filings indicate, there continue to be opposition and challenges to MVP construction. The MVP project was largely built (~90+ % by prior developer estimates) but the fourth circuit rejection of water permits puts any potential progress on hold. The tug of war continues on MVP legal challenges. The final authorizations to resume construction are still outstanding and FERC commissioners have previously dissented on "continuation of work" approvals. Both ED and NEE have taken major write downs on the MVP project (i.e., not in financial guidance).*

D/VA — General Assembly passes utility reform legislation, discards Governor's amendments to wind bill

- The General Assembly has passed SB1265 following the Governor's amendments, which were largely technical/grammatical - HERE
- The Senate passed by the Governor's amendments to HB2444, which would have set a competitive process for any phase 2 offshore wind procurement.

Guggenheim takeaway: *Little surprise on both counts, with both chambers rejecting the surprise amendments from the Governor's office to the wind bill. As we noted previously, the Governor's amendment had specifically focused on procurement's after CVOW and would not have impacted the current ongoing credit repair process/strategic review, nor the associated optionality around a passive stake sale in CVOW (the current project). The move sets up a return of the original unmodified language (without amendments) to the governor's office, which he can still sign. The legislative finality come as the company previously committed to a business review update in 2Q.*

FE — West Virginia's Gov. Justice continues to be hopeful regarding future for Pleasants Power Plant

- During his weekly virtual briefing from the Capitol, Gov. Justice said he "*was pleased that FirstEnergy Corp. subsidiaries Monongahela Power Co. and Potomac Edison Co. submitted a plan to the PSC at the end of March to operate the plant for a 12-month period while it considers a more permanent proposal.*"
- Recall that Pleasants Power is slated for closure on May 31.
- In order to provide time for the companies, interested parties, regulatory bodies, and others to further review a possible acquisition of Pleasants, the companies proposed an interim solution to preserve Pleasants' operations in 2023 while the companies complete their analysis. The interim solution proposal includes a temporary surcharge of $3 million per month.
- Docket 22-0793-E-ENEC

Guggenheim takeaway: *Recall that the WV PSC has scheduled an April 23, 2023, evidentiary hearing on the request made by Monongahela Power and Potomac Edison. The 1,300 MW Pleasants plant was last owned by Energy Harbor, who acquired it as part of the FirstEnergy Solutions bankruptcy proceedings. Various parties in WV support FE acquiring the plant, potentially as a replacement for Ft. Martin Power Station, which lacks selective catalytic reduction (SCR) technology. During the 2023 WV legislative session, both WV's Senate and House passed resolutions which encouraged Mon Power to buy Pleasants (i.e., HR12 and SB29, respectively). The legislature also passed HB 3308, allowing securitization of the undepreciated book value of retired coal plants. The timeline for a decision to be made has been accelerated due to falling market prices causing Energy Harbor to move up the plant's planned retirement date from 4Q23 to May 31, 2023. We continue to monitor.*

ERCOT — Calpine announces plans for two 425MW gas plants, credits PCM

- "Calpine [PRIVATE] has announced it is relaunching its Texas power plant development program following a move by state regulators to embrace market-based incentives for reliable power. Calpine's plan includes multiple projects in various stages of development

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and squarely supports goals outlined by the Public Utility Commission (PUC)… The initial project is a new 425 MW gas-fired power plant adjacent to the existing Freestone Energy Center in Freestone County. Efforts underway include engineering and site planning, grid interconnection requests, and environmental permitting. Critical components including gas turbines and generators have been procured and are ready for deployment. The new facility will be operational before the summer of 2026." - release

- More HERE

Guggenheim takeaway: *Interesting timing from Calpine as the House now grapples with the Senate-passed pieces of energy legislation (SB6/7), and the PUCT examines a formal reliability standard to underpin the PCM. The company specifically elevated the PCM as a root cause of improved investment signals in its release, although we note that the mechanism has not found particular favor in the legislature or with the Lt. Governor. For both Senate bills, we have heard firsthand and in media that they could have chilling effects on new investment –* ***most recently with our expert conversation last week (note HERE****). We continue to monitor closely for indications on the Governor's willingness to potentially move away from the PCM and towards more state-supported expenditures.*

TX – Texas utility bills progress through committee review

- TX Senate bill SB 1015 related to bi-annual DCRF review at the PUCT moves to House state affairs committee.
- The committee report is supportive of aligning the DCRF and TCOS frameworks and does not see any change in authority resulting from the bill.
- The bill aligns DCRF reviews to twice in one year, similar to the TCOS process already in place.
- TX SB 1076 was received at the house.
- The bill addresses timelines for CPCN approvals on transmission projects.

Guggenheim takeaway:*FYI. SB1015 seems to be one of the less contested bills in front of the TX legislature as it does not change any agency authorities or introduce any new concepts in ratemaking. The DCRF cadence could help offset some of the regulatory lag for TX utilities (CNP, SRE, ETR, AEP). Texas legislative session starting to pick up as we are watching multiple utility related bills including on the electric side where there is a capital structure bill proposed (HB 3042).*

SRE – Cameron Pipeline issues force majeure notice; minor compression reduction

- SRE's Cameron pipeline, serving Cameron LNG posted a notice of force majeure capacity reduction due to compressor issues.
- The issues only impact a small fraction of available capacity and could be restored within days.

Guggenheim takeaway:*FYI. No major impacts for Cameron LNG, despite the headline.*

Policy ─ WOTUS rule enjoined in another 24 states

- The ruling by a federal judge in ND adds to the two prior states (TX and ID) in which the rules were previously blocked.
- More HERE.
- EPA HERE.

Guggenheim takeaway: *Very minor FYI as the battle over groundwater jurisdiction and definitions continues to ricochet between the executive branch and Congress. As a reminder, this has been a back-and-forth issue for almost a decade at this point following attempted revisions in 2015, with groundwater considerations touching many points in the energy complex (e.g., coal ash). We expect this to remain a litigious issue.*

PJM/NJ ─ BPU Staff publish progress report on resource adequacy work

- BPU Staff have docketed a progress report building on their 20212 efforts to analyze future pathways for the state and PJM.
- "In response to the Board's directive to provide a progress report and make additional recommendations, Staff has prepared this 2022 Progress Report on New Jersey's Resource Adequacy Alternatives ("Progress Report" or "2022 Report"). After two years of intensive investigation and consultation with our fellow PJM states, market design

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experts, and stakeholders, this Progress Report largely echoes the conclusions of the initial Resource Adequacy Report" - report
- More HERE.

Guggenheim takeaway: *Interesting resource adequacy data points for your awareness as NJ continues to proactively manage its options for ongoing decarbonization.*

IL/Wind – Chicago lawmakers continue to advocate for offshore wind on Lake Michigan

- HB2132 seeks to create a program that would enable the construction of a ~$700m wind farm.
- "Amends the Illinois Power Agency Act. In provisions concerning the procurement of renewable energy credits, provides that in addition to the amount of renewable energy credits to be procured from wind projects, the Illinois Power Agency shall procure at least 700,000 renewable energy credits, delivered annually for at least 20 years, from one new utility-scale offshore wind project." – text
- Bill HERE.
- More HERE.

Guggenheim takeaway: *Interesting FYI as lawmakers appear to be seeking support for a single discrete project with economic development benefits for the city.*

D – Chief nuclear officer to retire; replacement named

- Dominion "today announced that Daniel G. Stoddard, senior vice president & chief nuclear officer and president-Contracted Assets, will retire, effective Aug. 1, 2023. The company also announced that it has hired Eric S. Carr, president and chief nuclear officer of PSEG Nuclear. Carr will begin his tenure at Dominion Energy on June 5, 2023, as president-Nuclear Operations and will add the chief nuclear officer title on July 1, 2023."
- More HERE.

Guggenheim takeaway: *Minor FYI.*

AEE – MO PSC grants CCN for 150MW Boomtown solar facility

- AEE MO "received approval from the Missouri Public Service Commission (MoPSC) to acquire, upon completion, a 150-megawatt (MW) solar facility in White County, Illinois. The solar facility is part of Ameren Missouri's plan to ensure that it can supply its customers with clean and affordable energy. The acquisition is subject to customary closing conditions and is anticipated to begin generating clean energy late next year."
- More HERE.

Guggenheim takeaway: *Minor FYI and part of the plan following the earlier approval of the Huck Finn CCN.*

NI – As expected, NiSource issues its 2022 Integrated Annual Report

- The document incorporates its 10-K as well.
- Link HERE

Guggenheim takeaway: *Minor FYI.*

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Equity Research | Corporate Access

Exelon Corporation (EXC)

Calvin Butler, *President & Chief Executive Officer*
Jeanne Jones, *Chief Financial Officer*
Andrew Plenge, *VP, Investor Relations*

Dates & Location

May 15 – 16, 2023
New York

Meeting Format

NDR - 1:1 Meetings, Group Meeting & Small Group Dinner

Company Information

Market Cap: $42.4bn

Exelon Corporation (EXC) operates as a utility services holding company, which engages in the energy generation, power marketing, and energy delivery business. It operates through the following segments: Mid Atlantic, Midwest, New York, Electric Reliability Council of Texas (ERCOT) and other Power Regions. The Mid-Atlantic segment represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina. The Midwest segment operates in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky. The New York (NY) segment provides operations within ISO–NY, which covers the state of New York in its entirety. The ERCOT segment includes operations within the Electric Reliability Council of Texas, covering most of the state of Texas. The Other Power Regions consist of the operations in New England, South, West, and Canada. The company was founded in February 1999 and is headquartered in Chicago, IL. (Source: FactSet)

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CenterPoint Energy, Inc. (CNP)

Jason Wells, *Chief Operating Officer*
Chris Foster, *Chief Financial Officer*
Jackie Richert, *VP Investor Relations & Treasurer*
Ben Vallejo, *Director Investor Relations*

Dates

Monday, May 22, 2023
6:00 PM

Location

Restaurant TBD
Fort Lauderdale, Florida

Company Information

Market Cap: $18.6bn

CenterPoint Energy, Inc. (CNP) is a holding company that engages in the business of power generation and distribution. It operates through the following segments: CenterPoint Energy, Houston Electric, and CERC. The CenterPoint Energy segment consists of electric transmission and distribution services in the Texas gulf coast area in the ERCOT region and electric transmission and distribution services primarily to southwestern Indiana and includes power generation and wholesale power operations in the MISO region. The Houston Electric segment consists of electric transmission services to transmission services customers in the ERCOT region and distribution services to REPs serving the Texas gulf coast area. The CERC segment covers the Restructuring consisting of intrastate natural gas sales to, and natural gas transportation and distribution for residential, commercial, industrial and institutional customers in Indiana, Louisiana, Minnesota, Mississippi, Ohio and Texas, and permanent pipeline connections through interconnects with various interstate and intrastate pipeline companies through CEIP. The company was founded in 1866 and is headquartered in Houston, TX. (Source: FactSet).

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SAVE THE DATE

2023 AGA Financial Forum

Dates

May 20 – 23, 2023

Location

Fort Lauderdale Marriott Harbor Beach Resort
3030 Holiday Drive
Fort Lauderdale, Florida

Guggenheim Hosted Dinner

We will be hosting a dinner with Shar Pourreza and team to kick off the conference on Saturday May 20 at 6:30PM ET.

Company Meetings

**Additional meetings may be added*

Sunday, May 21st	
Time	*Co.*
11:10AM	LNT
12:00PM	NI
12:50PM	NWN
1:40PM	CMS
2:30PM	NJR
3:20PM	AVA
4:10PM	SR

Monday, May 22nd	
Time	*Co.*
7:40AM	SO
8:30AM	WEC
9:30AM	DUK
10:20AM	SRE
11:10AM	ED
12:00PM	NWE
1:00PM	CPK
1:00PM	BKH
1:50PM	PEG
2:40PM	DTE
3:30PM	OGS
4:20PM	D

Tuesday, May 23rd	
Time	*Co.*
8:30AM	CNP
10:10 AM	AEE
11:00 AM	MDU

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Entergy Corporation (ETR)

Drew Marsh, *Chairman & Chief Executive Officer*
Kimberly Fontan, *Chief Financial Officer*
Bill Abler, *VP, Investor Relations*

Dates & Location

June 1 – 2, 2023
West Coast

Meeting Format

NDR - 1:1 Meetings

Company Information

Market Cap: $22.64bn

Entergy Corp. (ETR) is a holding company that engages in electric power generation and distribution. It operates through the following segments: Utility and Entergy Wholesale Commodities. The Utility segment includes the generation, transmission, distribution, and sale of electric power and the operations of a natural gas distribution business. The Entergy Wholesale Commodities segment owns, operates, and decommissions nuclear power plants and sells electric power. The company was founded by Harvey Couch on November 13, 1913, and is headquartered in New Orleans, LA. (Source: FactSet)

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Equity Research | Corporate Access

Pinnacle West Capital Corporation (PNW)

Andrew Cooper, *Chief Financial Officer*

Date & Location
Monday, June 5, 2023
New York

Meeting Format
NDR - 1:1 Meetings & Group Meeting

Company Information
Market Cap: $9.05bn
Pinnacle West Capital Corp. (PNW) is a holding company, which engages in providing energy and energy-related products. It offers regulated retail and wholesale electricity businesses and related activities, such as electricity generation, transmission and distribution through its subsidiary, Arizona Public Service Co. The company was founded on February 20, 1985, and is headquartered in Phoenix, AZ.
(Source: FactSet)

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DTE Energy Company (DTE)

Jerry Norcia, *Chairman, President & Chief Executive Officer*
Barbara Tuckfield, *Director Investor Relations*

Dates & Location
June 7 & 8, 2023
New York

Meeting Format
NDR - 1:1 Meetings, Group Meeting & Small Group Dinner

Company Information
Market Cap: $22.4bn
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 includes 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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PG&E Corporation (PCG)

Patti Poppe, *Chief Executive Officer (Tentative)*
Carolyn Burke, *Incoming Chief Financial Officer*
Tom Webb, *Senior Advisor to Chief Executive Officer*
Jonathan Arnold, *Vice President, Investor Relations*

Date & Location

Monday, June 12, 2023
New York

Meeting Format

NDR - 1:1 Meetings, Group Meeting

Company Information

Market Cap: $39.6bn

PG&E Corp. (PCG) is a holding company that engages in generation, transmission, and distribution of electricity and natural gas to customers. It specializes in energy, utility, power, gas, electricity, solar and sustainability. The company was founded in 1995 and is headquartered in Oakland, CA. (Source: FactSet)

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Equity Research | Corporate Access

Eversource Energy (ES)

Joseph Nolan, *Chairman, President & Chief Executive Officer*
John Moreira, *Chief Financial Officer*
Jeffrey Kotkin, *Vice President, Investor Relations*
Bob Becker, *Director, Investor Relations*

Date & Location
Thursday, June 22, 2023
New York

Meeting Format
NDR - 1:1 Meetings & Group Meeting

Company Information
Market Cap: $28.02bn
Eversource Energy (ES) engages in the generation, transmission, and distribution of natural gas and electricity. It operates through the following segments: Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution. The Electric Distribution segment distributes electricity to retail customers. The Electric Transmission segment owns and maintains transmission facilities through CL&P, NSTAR Electric, PSNH, and WMECO. The Natural Gas Distribution segment transmits and distributes natural gas to retail customers. The Water Distribution segment operates three separate regulated water utilities in Connecticut, Massachusetts, and New Hampshire. The company was founded on July 1, 1966, and is headquartered in Springfield, MA. (Source: FactSet)

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Equity Research | Corporate Access

NuScale Power Corporation (SMR)

Chris Colbert, *Chief Financial Officer*

Scott Kozak, *Director, Investor Relations*

Date & Location

Tuesday, June 27, 2023
New York

Meeting Format

NDR - 1:1 Meetings & Group Meeting

Company Information

Market Cap: $1.9bn

NuScale Power Corp. (SMR) engages in the commercialization of a modular, scalable 77 megawatt electric Light Water Reactor nuclear power plant using rights to a nuclear power plant design. Its products include VOYGR SMR Plants and Energy Exploration (E2) Centers. The company was founded by José N. Reyes in 2007 and is headquartered in Portland, OR. (Source: FactSet)

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Equity Research | Corporate Access

SAVE THE DATE
2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO)/Georgia Power C-Suites, Porsche Racing & GA Commissioner Meetings

What does Southern Company & Georgia Power C-Suite meetings, Georgia Commissioner meetings and racing Porsches on race tracks have in common? Almost nothing! But we are combining all of them for an action-packed 2 days in GA. Please join the Guggenheim Utilities Research Team in Atlanta, GA on July 11 and 12.

Dates and Location

July 11 & 12, 2023 — Atlanta, Georgia

Schedule

Tuesday, July 11th

We advise flying in the morning of Tuesday, July 11. Recommended flights to follow.

~1:00 PM | Georgia PSC Meetings
Tricia Pridemore, PSC Chair, *Commissioner*
Tim Echols, Vice-Chairman, *Commissioner*
Fitz Johnson, *Commissioner*
Lauren "Bubba" McDonald, *Commissioner*
Jason Shaw, *Commissioner*

~6:00 PM | Client Dinner with Southern Company (SO) C-Suite
Chris Womack, *President & Chief Executive Officer (Incoming)*
Dan Tucker, *Chief Financial Officer*
Scott Gammill, *VP of Investor Relations & Treasurer*
Among others

Wednesday, July 12th

8:30 AM | Porsche Racing Experience
Experience the thrill of the drive at the Porsche Experience Center. Attendees will drive vehicles from the full Porsche model range with driving coaches by their side in a race-controlled atmosphere. See: https://www.porschedriving.com/atlanta

1:00 PM | Lunch with Southern Company (SO) and Georgia Power C-Suite
Kim Greene, *Chair, President & Chief Executive Officer (Georgia Power)*
Dan Tucker, *Chief Financial Officer (SO)*
Aaron Abramovitz, *Chief Financial Officer (Georgia Power)*
Among others

Company Information

Market Cap: $73.3bn

Southern Co (SO) is a holding company, which engages in the generation and sale of electricity. It operates through the following segments: Traditional Electric Operating Companies, Southern Power and Southern Company Gas. The Traditional Electric Operating Companies segment refers to vertically integrated utilities that own generation, transmission and distribution facilities, and supplies electric services in the states of Alabama, Georgia, and Mississippi. The Southern Power segment constructs, acquires, owns, and manages generation assets such as renewable energy projects and sells electricity in the wholesale market. The Southern Company Gas segment distributes natural gas through natural gas distribution facilities in the states of Illinois, Georgia, Virginia, and Tennessee. The company was founded on November 9, 1945, and is headquartered in Atlanta, GA. (Source: FactSet)

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Guggenheim 2023 Client and Corporate Access Utility Events

Ticker	Dates	Regions
EIX	*1/10 & 1/11*	Boston & New York
Commissioner Roundtable Event	*1/20*	In Person at Guggenheim
2023 Utilities Conference Call	*1/23*	Dial-In
Virginia Policy Call	*2/7*	Dial-In
Wisconsin Regulatory Call (Chair Valcq)	*2/9*	Virtual
WEC	*2/14–2/16*	West Coast
Wisconsin Regulatory Call (Commissioner Huebner)	*2/17*	Virtual
Arizona Regulatory Call (Commissioners Myers and Thompson)	*2/27*	Virtual
DUK	*3/7-3/8*	NYC
NEE	*3/14-3/16*	West Coast
AEE	*3/22*	Virtual
ERCOT Policy Call	*3/31*	Virtual
PPL	*4/3–4/4*	Boston
EXC	5/15–5/16	NYC
CNP C-Suite Dinner	5/22	Fort Lauderdale, FL
AGA Conference Meetings	5/20–5/23	Fort Lauderdale, FL
ETR	6/1–6/2	West Coast
PNW	6/5	NYC
DTE	6/7–6/8	NYC
PCG	6/12	NYC
ES	6/22	NYC
SMR	6/27	NYC
SO Meeting, Porsche racing, & Georgia PSC	7/11–7/12	Atlanta
LNT	7/17–7/18	NYC
AWK	8/9–8/10	West Coast
CMS	8/30–8/31	NYC
SO	9/13–9/15	West Coast
POR	9/18–9/19	NYC

MORE TO BE ADDED…

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Guggenheim Comp Sheet

4/12/2023		Market	Guggenheim EPS Ests					Consensus					Δ vs Consensus (>$0.02)					Implied P/E Multiple					Prem/(Disc) vs Mid/Lg Cap Utes					'22–'27	NTM	Payout	Guggenheim		NTM Total	Consensus		NTM Total
	Price	Cap ($m)	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	EPS	Yield	Ratio	Rating	Target	Return	Rating	Target	Return
Small Cap Electric																																			
ALE	$64.73	3,710	3.70	4.17	4.56	4.87	5.07	3.70	4.08	4.34	4.83	5.05	–	0.09	0.22	0.04	–	17.5x	15.9x	14.9x	13.4x	12.8x	-6%	-8%	-8%	-8%	-17%	8.4%	4.2%	72%	Sell	$54	-12%	Buy	$66	7%
AVA	$44.54	3,353	2.28	2.49	2.61	2.67	2.73	2.34	2.47	2.61	2.67	2.80	(0.06)	–	–	–	(0.07)	19.0x	18.1x	17.1x	16.7x	15.9x	2%	4%	5%	5%	3%	7.6%	4.2%	78%	Sell	$35	-17%	Sell	$39	-9%
NWE	$60.16	3,596	3.42	3.55	3.75	3.91	4.08	3.47	3.59	3.73	3.88	4.05	(0.05)	(0.04)	–	0.03	–	17.3x	16.8x	16.1x	15.5x	14.8x	-7%	-3%	-1%	-1%	-4%	5.1%	4.3%	73%	Sell	$46	-19%	Buy	$59	3%
POR	$50.72	4,536	2.68	3.00	3.15	3.31	3.50	2.66	3.03	3.19	3.35	3.53	–	–	(0.04)	(0.04)	–	19.1x	16.8x	15.9x	15.1x	14.4x	3%	-3%	-2%	-2%	-7%	5.0%	3.8%	69%	Buy	$54	10%	Buy	$53	8%
		15,195																**18.2x**	**16.9x**	**16.0x**	**15.2x**	**14.5x**	**-2%**	**-3%**	**-1%**	**-1%**	**-6%**	**6.6%**	**4.1%**	**73%**						
Mid/Large Cap Electric																																			
AEE	$89.97	23,615	4.35	4.67	5.05	5.40	5.68	4.36	4.68	5.02	5.36	5.69	–	–	–	0.04	–	20.6x	19.2x	17.9x	16.8x	15.8x	11%	11%	10%	10%	3%	6.5%	2.9%	58%	Neutral	$89	2%	Buy	$93	6%
AEP	$94.26	48,488	5.30	5.64	6.00	6.39	6.81	5.28	5.62	5.96	6.32	6.78	–	–	0.04	0.07	–	17.8x	16.8x	15.8x	14.9x	13.9x	-4%	-3%	-3%	-3%	-8%	6.0%	3.6%	63%	Buy	$105	15%	Buy	$102	11%
CMS	$61.44	17,895	3.12	3.41	3.65	3.91	4.26	3.10	3.35	3.63	3.89	4.17	–	0.06	–	–	0.09	19.8x	18.4x	16.9x	15.8x	14.8x	7%	6%	4%	4%	-3%	8.1%	3.3%	63%	Neutral	$68	14%	Buy	$68	14%
CNP	$30.67	19,305	1.51	1.62	1.74	1.89	2.05	1.49	1.62	1.73	1.85	2.00	–	–	–	0.04	0.05	20.6x	19.0x	17.7x	16.6x	15.4x	11%	10%	9%	9%	2%	8.2%	2.5%	50%	Neutral	$32	7%	Buy	$32	7%
D	$57.89	48,353	4.15	3.75	3.97	4.24	4.50	3.91	3.78	3.97	4.51	4.70	0.24	(0.03)	–	(0.27)	(0.20)	14.8x	15.3x	14.6x	12.8x	12.3x	-20%	-12%	-10%	-10%	-21%	1.8%	4.6%	69%	Buy	$63	13%	Neutral	$61	11%
DTE	$113.72	23,439	6.26	6.73	7.19	7.75	8.30	6.23	6.69	7.17	7.73	8.22	0.03	0.04	–	–	0.08	18.3x	17.0x	15.9x	14.7x	13.8x	-2%	-2%	-2%	-2%	-9%	6.4%	3.4%	61%	Buy	$131	19%	Buy	$129	16%
DUK	$99.41	76,610	5.65	6.05	6.35	6.75	7.15	5.63	5.98	6.33	6.71	7.14	–	0.07	–	0.04	–	17.6x	16.6x	15.7x	14.8x	13.9x	-5%	-4%	-3%	-3%	-9%	6.3%	4.2%	72%	Buy	$114	19%	Buy	$107	12%
ED	$98.69	34,190	4.82	5.18	5.40	5.71	5.97	4.85	5.20	5.48	5.81	6.09	–	–	(0.08)	(0.10)	(0.12)	20.4x	19.0x	18.0x	17.0x	16.2x	10%	10%	11%	11%	5%	5.5%	3.3%	66%	Neutral	$86	-10%	Sell	$89	-6%
EIX	$73.07	27,959	4.70	4.94	5.36	5.70	6.10	4.74	5.12	5.55	5.78	5.96	(0.04)	(0.18)	(0.19)	(0.08)	0.14	15.4x	14.3x	13.2x	12.6x	12.3x	-17%	-18%	-19%	-19%	-22%	5.7%	4.1%	62%	Buy	$75	7%	Buy	$72	3%
ES	$79.77	27,814	4.34	4.75	5.04	5.37	5.70	4.36	4.67	5.00	5.33	5.71	–	0.08	0.04	0.04	–	18.3x	17.1x	16.0x	15.0x	14.0x	-2%	-1%	-2%	-2%	-8%	6.9%	3.4%	62%	Buy	$91	18%	Buy	$87	13%
ETR	$110.08	23,347	6.71	7.16	7.76	8.31	8.97	6.72	7.21	7.74	8.31	–	–	(0.05)	–	–	8.97	16.4x	15.3x	14.2x	13.2x	n/a	-12%	-12%	-12%	-12%	-18%	6.9%	4.0%	64%	Buy	$128	20%	Buy	$120	13%
EVRG	$62.10	14,257	3.65	3.97	4.24	4.47	4.75	3.63	3.96	4.22	4.46	3.08	–	–	–	–	1.67	17.1x	15.7x	14.7x	13.9x	20.2x	-8%	-9%	-9%	-9%	-14%	5.1%	4.1%	68%	Buy	$72	20%	Neutral	$65	8%
EXC	$43.08	42,834	2.36	2.50	2.74	2.93	3.10	2.36	2.51	2.73	2.93	3.12	–	–	–	–	–	18.2x	17.2x	15.8x	14.7x	13.8x	-2%	-1%	-3%	-3%	-9%	6.4%	3.4%	61%	Neutral	$45	8%	Buy	$46	9%
FE	$41.46	23,725	2.54	2.69	2.89	3.07	3.27	2.52	2.67	2.83	2.96	3.26	–	–	0.06	0.11	–	16.4x	15.6x	14.6x	14.0x	12.7x	-12%	-10%	-10%	-10%	-14%	6.3%	3.8%	62%	Buy	$46	15%	Buy	$44	9%
LNT	$54.74	13,747	2.90	3.08	3.27	3.50	3.67	2.90	3.15	3.28	3.48	3.67	–	(0.07)	–	–	–	18.9x	17.4x	16.7x	15.7x	14.9x	2%	0%	3%	3%	-3%	5.6%	3.4%	62%	Neutral	$52	-2%	Neutral	$57	7%
OGE	$38.60	7,731	2.02	2.16	2.25	2.37	2.48	2.01	2.13	2.30	2.39	2.48	–	0.03	(0.05)	–	–	19.2x	18.2x	16.8x	16.2x	15.5x	3%	5%	3%	3%	-0%	2.8%	4.4%	82%	Neutral	$38	3%	Neutral	$39	5%
PCG	$16.96	33,848	1.22	1.37	1.47	1.61	1.75	1.21	1.34	1.47	1.59	1.77	–	–	–	–	–	14.0x	12.6x	11.6x	10.7x	9.6x	-25%	-27%	-29%	-29%	-34%	9.7%	0.7%	10%	Buy	$22	30%	Buy	$18	9%
PEG	$63.59	31,717	3.45	3.67	4.10	4.29	4.59	3.44	3.69	4.04	4.30	4.46	–	–	0.06	–	0.13	18.5x	17.2x	15.8x	14.8x	14.3x	-0%	-1%	-3%	-3%	-9%	5.8%	3.6%	66%	Buy	$68	11%	Buy	$66	7%
PNW	$79.83	9,041	4.05	4.60	4.80	5.05	5.35	4.10	4.76	4.92	5.17	5.42	(0.05)	(0.16)	(0.12)	(0.12)	(0.07)	19.5x	16.8x	16.2x	15.4x	14.7x	5%	-3%	0%	0%	-5%	4.7%	4.4%	82%	Neutral	$77	1%	Neutral	$76	-1%
PPL	$28.66	21,124	1.58	1.71	1.82	1.96	2.08	1.59	1.70	1.83	1.95	2.08	–	–	–	–	–	18.0x	16.8x	15.7x	14.7x	13.8x	-3%	-3%	-3%	-3%	-9%	8.1%	3.4%	60%	Buy	$34	22%	Buy	$31	12%
SO	$72.12	78,720	3.60	4.05	4.30	4.55	4.80	3.61	4.02	4.29	4.52	4.79	–	0.03	–	–	–	20.0x	17.9x	16.8x	15.9x	15.1x	7%	4%	4%	4%	-2%	5.9%	3.9%	75%	Buy	$73	5%	Neutral	$71	2%
WEC	$98.15	30,960	4.60	4.91	5.24	5.61	5.97	4.60	4.90	5.26	5.62	5.98	–	–	–	–	–	21.3x	20.0x	18.7x	17.5x	16.4x	15%	16%	15%	15%	8%	6.1%	3.2%	67%	Neutral	$99	4%	Buy	$102	7%
Mid/Lg Cap (excl. EIX, PCG)																		**18.6x**	**17.3x**	**16.2x**	**16.2x**	**16.2x**						**6.0%**	**3.6%**	**66%**						
SMID + Lg Cap		**693,914**																**18.5x**	**17.2x**	**16.2x**	**15.2x**	**14.8x**						**6.1%**	**3.7%**	**67%**						

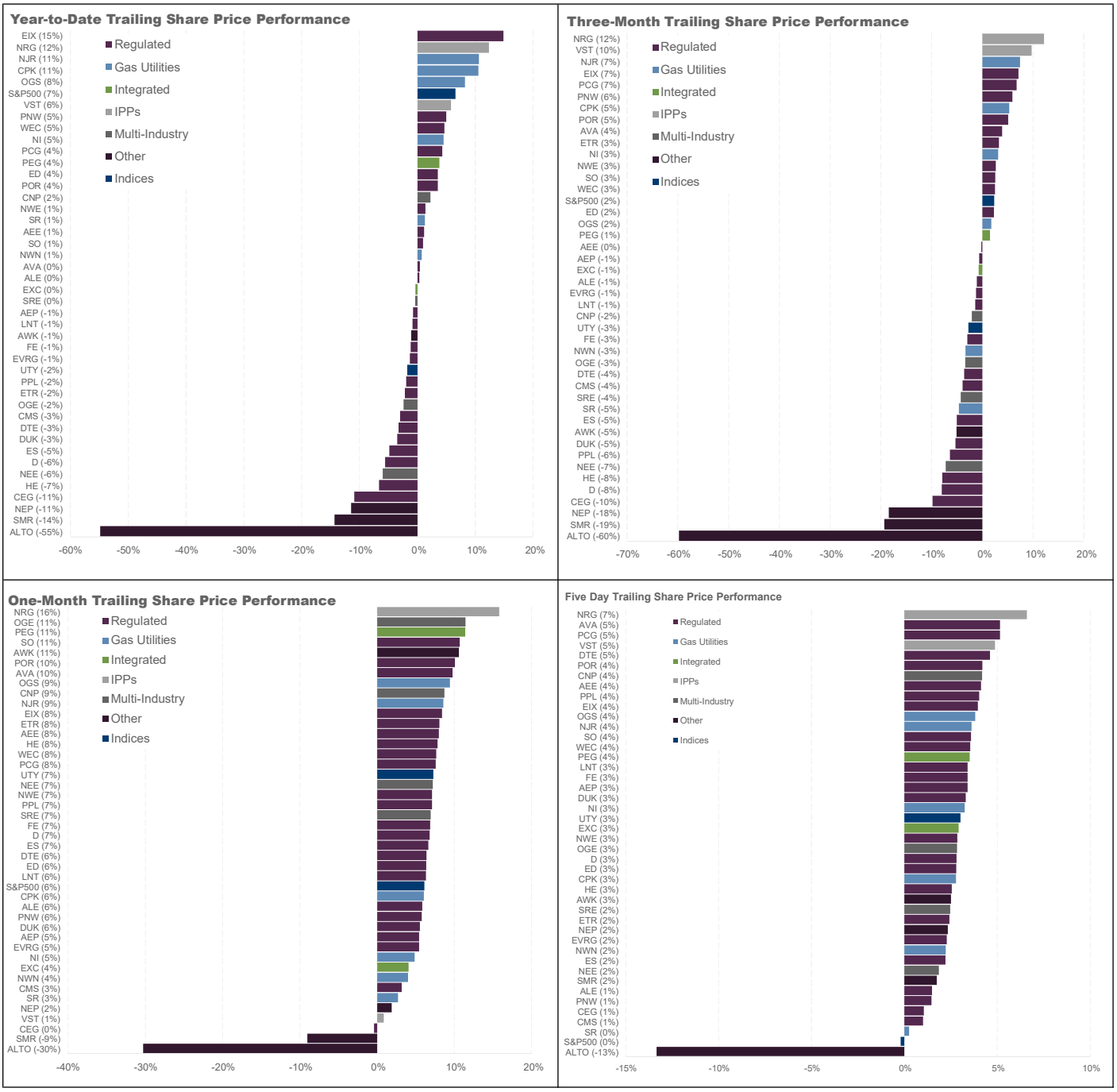
Diversified	Price	Market Cap ($m)	Guggenheim EPS Ests 2023E	2024E	2025E	2026E	2027E	Consensus 2023E	2024E	2025E	2026E	2027E	Δ vs Consensus (>$0.02) 2023E	2024E	2025E	2026E	2027E	Implied P/E Multiple 2023E	2024E	2025E	2026E	2027E	Prem/(Disc) vs Mid/Lg Cap Utes 2023E	2024E	2025E	2026E	2027E	'22–'27 EPS	NTM Yield	Payout Ratio	Guggenheim Rating	Target	NTM Total Return	Consensus Rating	Target	NTM Total Return
HE	$39.08	4,282	2.32	2.50	2.63	2.76	2.89	2.28	2.44	2.59	2.75	2.88	0.04	0.06	0.04	–	–	17.1x	16.0x	15.1x	14.2x	13.6x	-8%	-8%	-7%	-7%	-12%	6%	3.7%	62%	Neutral	$42	11%	Sell	$38	2%
NEE	$78.59	159,018	3.13	3.43	3.69	3.99	4.27	3.11	3.39	3.67	4.02	4.43	–	0.04	–	(0.03)	(0.16)	25.3x	23.2x	21.4x	19.5x	17.7x	36%	34%	32%	32%	20%	8%	2.5%	60%	Buy	$96	25%	Buy	$93	21%
SRE	$153.95	48,440	9.00	9.50	10.13	10.80	11.71	8.97	9.57	10.16	10.92	11.64	0.03	(0.07)	–	(0.12)	0.07	17.2x	16.1x	15.2x	14.1x	13.2x	-8%	-7%	-7%	-7%	-13%	5%	3.2%	54%	Buy	$174	16%	Buy	$168	12%
		211,740																**19.8x**	**18.4x**	**17.2x**	**16.0x**	**14.8x**	**7%**	**6%**	**6%**	**6%**	**-2%**	**6.2%**	**3.1%**	**59%**						
Gas LDCs																																				
NI	$28.66	11,822	1.57	1.68	1.82	1.95	2.07	1.56	1.67	1.79	1.95	2.07	–	–	–	–	–	18.4x	17.2x	16.0x	14.7x	13.8x	-1%	-0%	-1%	-1%	-4%	7%	3.6%	64%	Buy	$31	12%	Buy	$31	12%
CPK	$130.66	2,323	5.42	5.84	6.23	6.59	6.94	5.41	5.82	6.24	6.59	6.95	–	–	–	–	–	24.1x	22.5x	20.9x	19.8x	18.8x	30%	30%	29%	29%	30%	7%	1.8%	42%	Neutral	$116	-9%	Buy	$135	5%
NJR	$54.90	5,319	2.67	2.65	2.85	3.05	3.30	2.70	2.75	2.93	3.15	3.40	(0.03)	(0.10)	(0.08)	(0.10)	(0.10)	20.3x	20.0x	18.7x	17.4x	16.1x	10%	16%	16%	16%	15%	6%	3.0%	59%	Neutral	$46	-13%	Neutral	$51	-4%
NWN	$47.95	1,683	2.65	2.83	2.98	3.09	3.21	2.66	2.79	2.99	3.05	3.22	–	0.04	–	0.04	–	18.0x	17.2x	16.0x	15.7x	14.9x	-3%	-0%	-1%	-1%	3%	5%	4.1%	72%	Neutral	$45	-2%	Buy	$54	16%
OGS	$81.95	4,539	4.14	4.24	4.53	4.98	5.31	4.14	4.31	4.59	4.99	5.35	–	(0.07)	(0.06)	–	(0.04)	19.8x	19.0x	17.9x	16.4x	15.3x	7%	10%	10%	10%	8%	5%	3.2%	63%	Neutral	$77	-3%	Neutral	$79	-0%
SR	$69.74	3,665	4.25	4.31	4.57	4.73	4.99	4.26	4.32	4.59	4.81	5.07	–	–	–	(0.08)	(0.08)	16.4x	16.1x	15.2x	14.5x	13.7x	-12%	-6%	-6%	-6%	-5%	5%	4.2%	69%	Neutral	$69	3%	Neutral	$71	7%
		29,351																**19.5x**	**18.7x**	**17.5x**	**16.4x**	**15.5x**	**5%**	**8%**	**8%**	**8%**	**8%**	**5.8%**	**3.3%**	**62%**						
Regulated Water																																				
AWK	$150.82	29,356	4.76	5.14	5.59	5.98	6.45	4.78	5.14	5.59	6.04	6.45	–	–	–	(0.05)	–	31.6x	29.3x	27.0x	25.0x	23.4x	70%	69%	66%	66%	54%	7%	1.9%	60%	Neutral	$152	3%	Neutral	$160	8%

IPPs	Price	Market Cap ($m)	Guggenheim EBITDA Ests 2023E	2024E	2025E	2026E	2027E	Consensus 2023E	2024E	2025E	2026E	2027E	Δ vs Consensus (>$20m) 2023E	2024E	2025E	2026E	2027E	Implied EV/EBITDA Multiple 2023E	2024E	2025E	2026E	2027E	Enterprise Value 2023E	2024E	2025E	2026E	2027E	'22–'25 Growth	NTM Yield	Payout Ratio	Guggenheim Rating	Target	NTM Total Return	Consensus Rating	Target	NTM Total Return
CEG	$76.81	25,091	3,100	3,254	3,333	3,455	4,315	3,054	3,469	3,588	3,362	3,590	46	(215)	(255)	93	725	9.3x	7.8x	7.1x	–	0.0x	28,505	27,075	25,618	24,111	22,002	7.7%	1.5%	28%	Buy	$110	45%	Buy	$98	30%
NRG	$35.76	8,306	3,084	3,136	3,140	n/a	n/a	2,777	2,873	2,870	2,820	3,085	307	263	270	–	–	6.4x	5.8x	5.3x	–	0.0x	17,869	16,601	15,077	–	–	21.4%	4.3%	28%	Neutral	$34	-1%	Neutral	$38	11%
VST	$24.55	9,365	3,725	3,784	3,716	3,465	n/a	3,601	3,879	3,850	3,865	4,073	124	(95)	(134)	(399)	–	6.0x	5.4x	5.3x	–	0.0x	21,631	21,106	20,244	19,576	–	6.1%	3.4%	28%	Buy	$31	30%	Buy	$32	32%
Other																																				
ALTO	$1.30	98	24	40	46	42	43	29	50	N/A N/A	N/A N/A	N/A N/A	–	–	–	–	–											54.8%	–	–	Buy	$9	592%	Buy	$7	438%
NEP	$62.04	5,371	1,837	1,977	2,143	2,325	2,471	1,918	2,087	2,147	2,389	2,228	(81)	(110)	–	(64)	243											9.1%	5.8%	–	Buy	$81	36%	Buy	$83	39%
SMR	$8.79	616	(100)	(57)	8	96	n/a	(130)	(85)	(31)	55	220	30	28	39	41	–												–	–	Buy	$18	105%	Buy	$14	54%

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) Re ulated utilte del er ert end-u e u t er a re ulated tran n d tr ut n (T D) n ra tru ture ert ally nte rated utilte t re ulated r tly ntra ted enerat n are al n luded.

(2) L al Ga D tr ut n C ane (LDC), a ella d er ed utilte t a u ne xlar ely r ed a n ra tru ture and related a t te (.e., LDC ran e, nter tate elne, and/ r t er a d trea a t te).

(3) Inte rated utilte n and erate re ulated T D ran e, a ella un-re ulated er enerat n t dty ex ure.

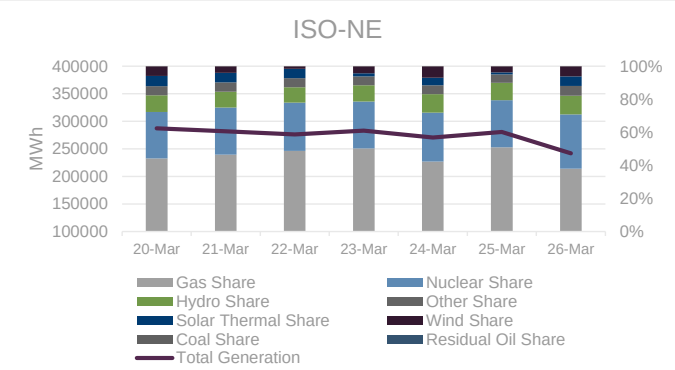
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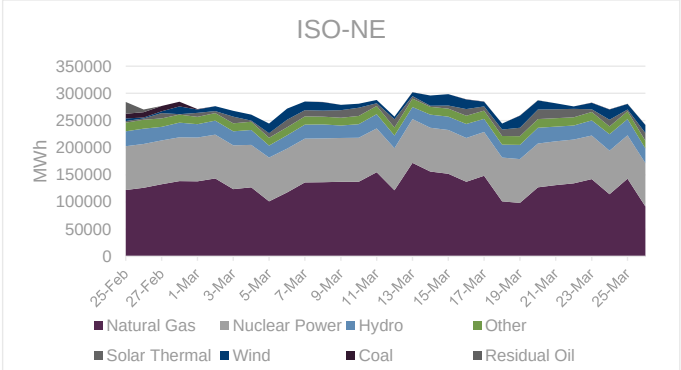
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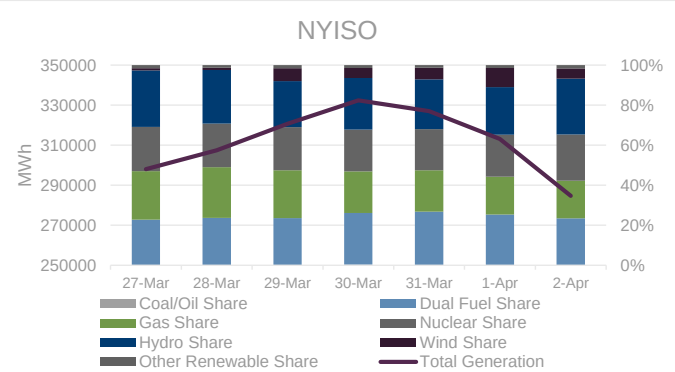
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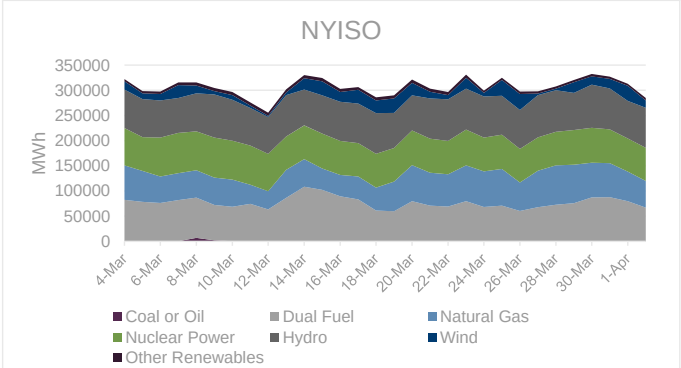
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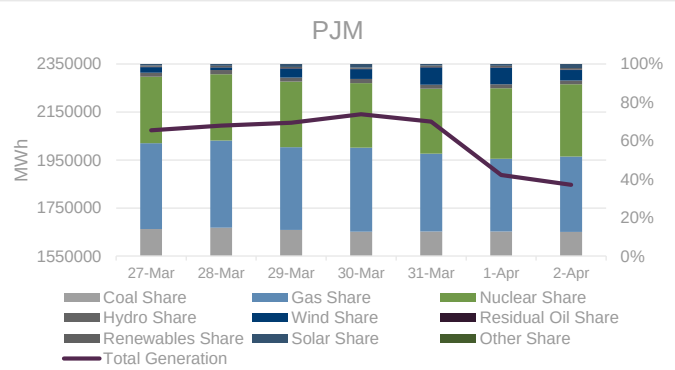
Generation and Mix

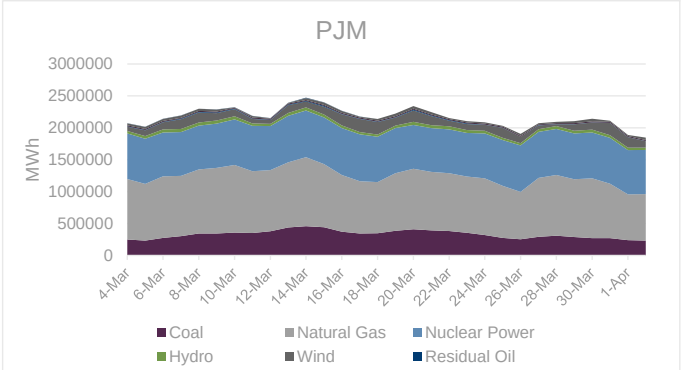


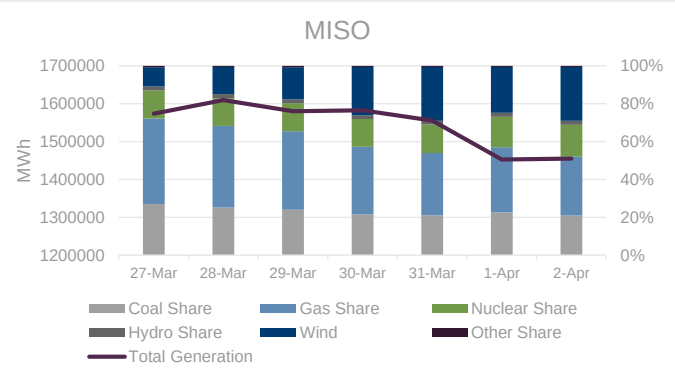


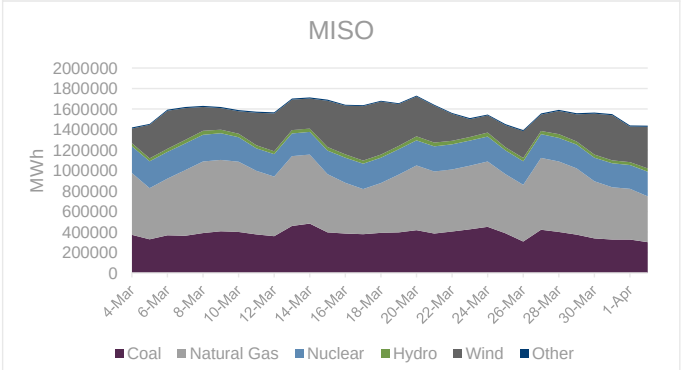








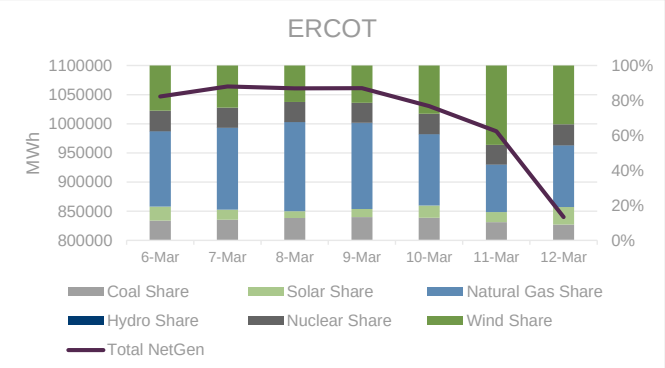


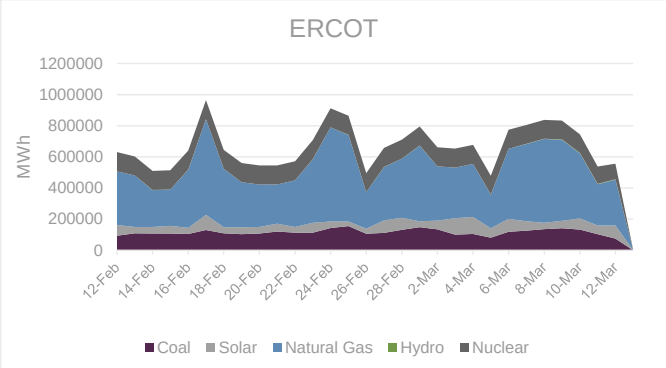


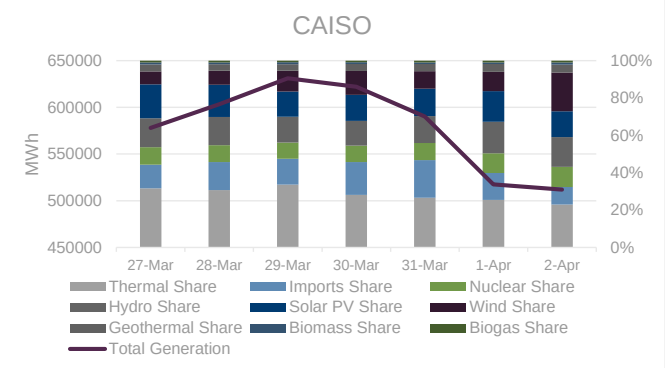
Source: S&P Global Platts, Guggenheim Securities, LLC.

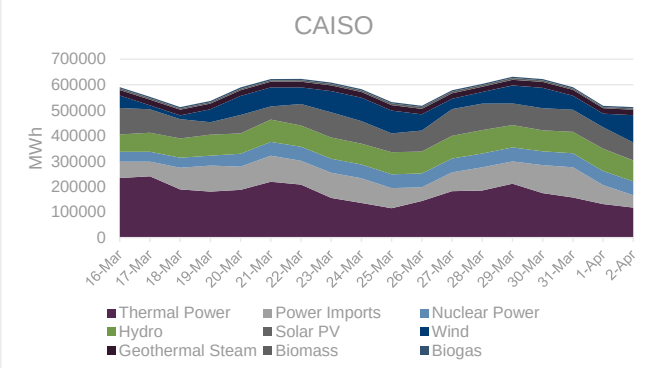
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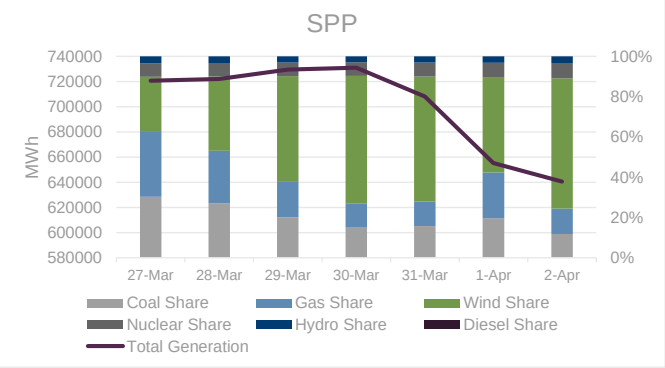
Generation and Mix (continued)

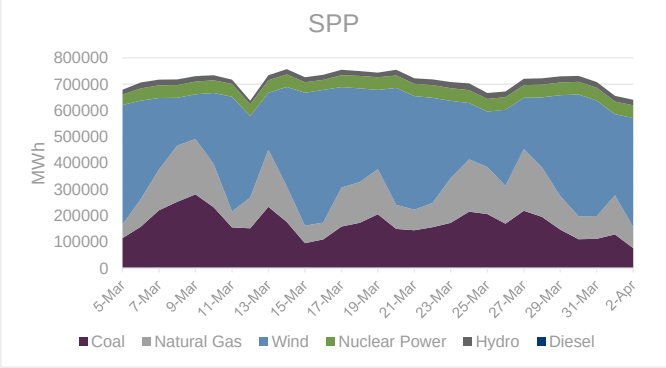








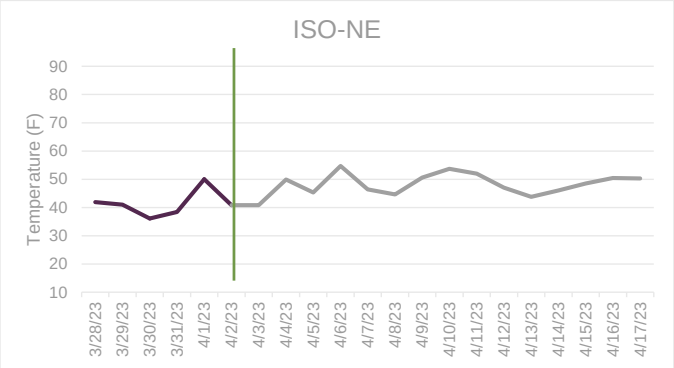


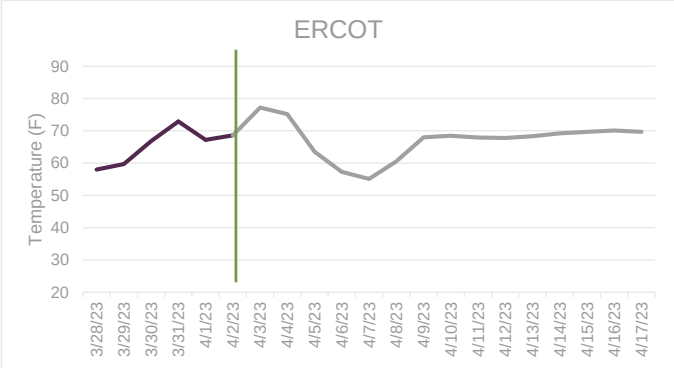


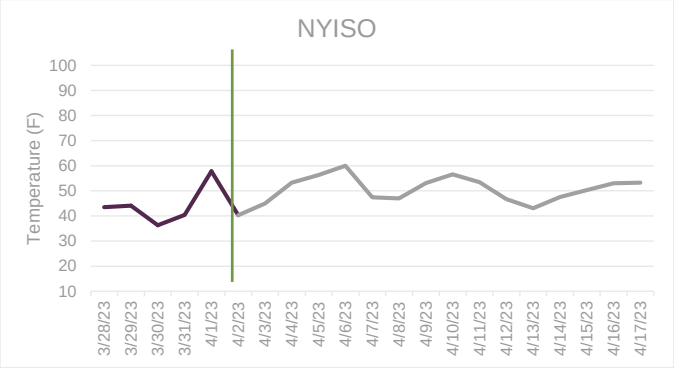
Source: S&P Global Platts, Guggenheim Securities, LLC.

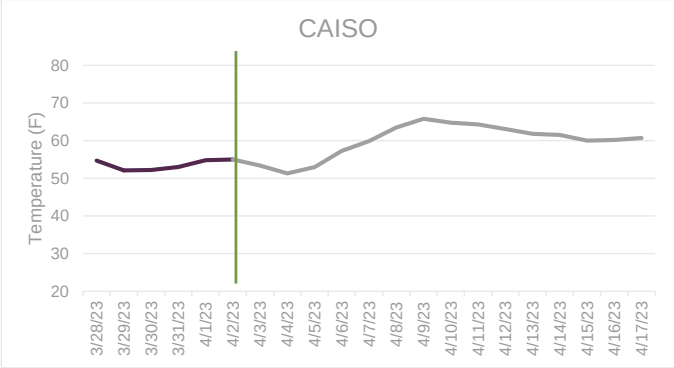
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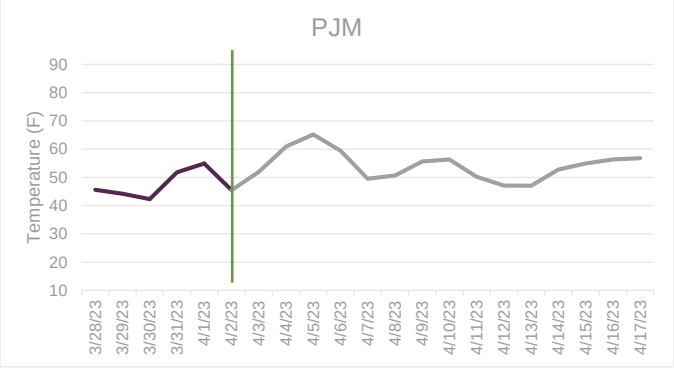
Weather

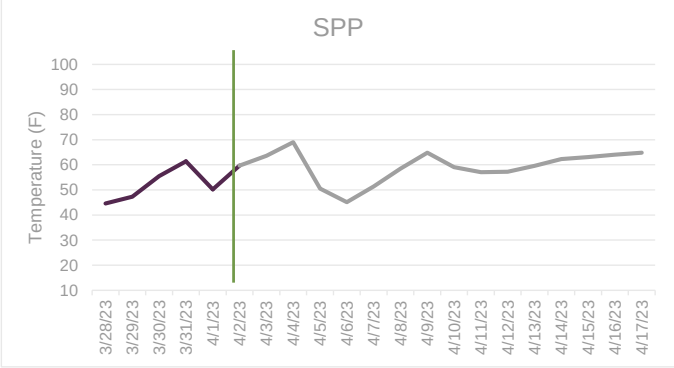


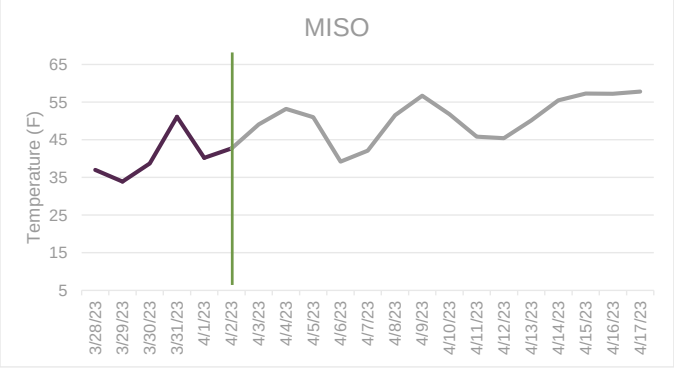








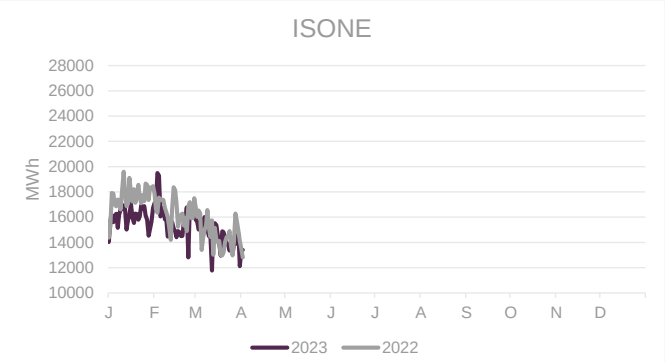


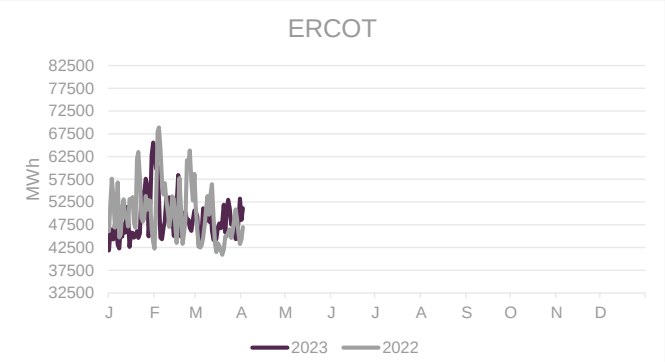


Source: S&P Global Platts, Guggenheim Securities, LLC.

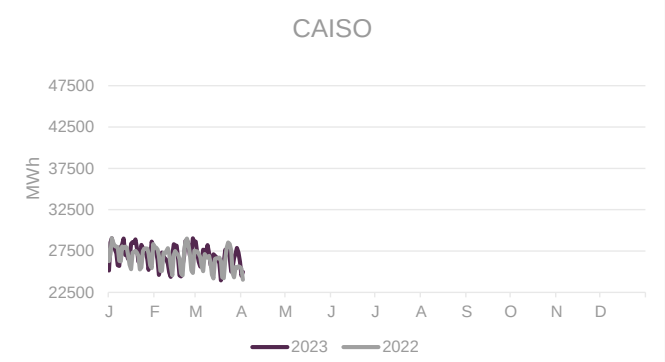
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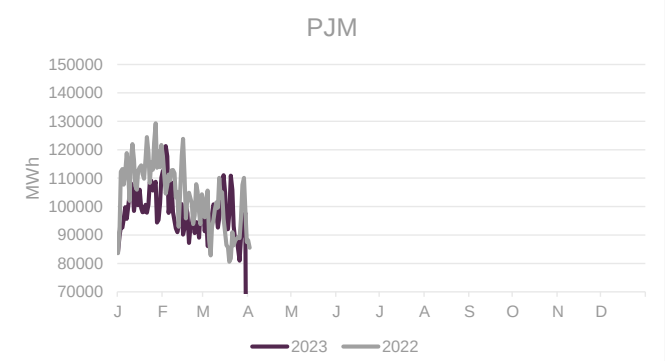
YTD Peak Load

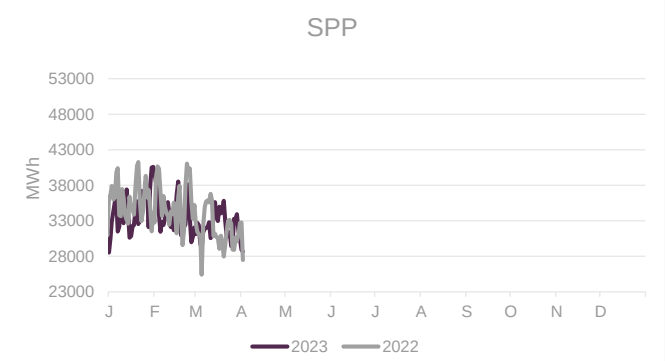


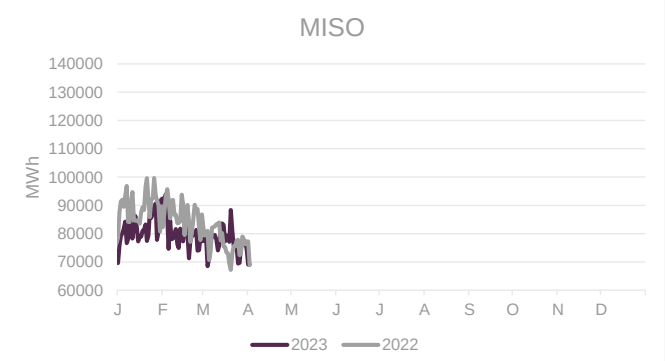












Average Deviation in Peak Load vs Prior Year

RTO/ISO	1Q22	2Q22	3Q22	4Q22	1Q23
ISONE	1.5%	-1.2%	5.1%	-0.9%	-4.5%
NYISO	2.1%	-0.1%	3.5%	-0.7%	-4.5%
PJM	3.9%	3.8%	0.2%	2.1%	-5.3%
MISO	4.0%	5.0%	0.1%	0.7%	-4.9%
CAISO	1.6%	1.2%	4.0%	0.3%	1.0%
ERCOT	13.7%	19.1%	7.9%	7.4%	-1.5%
SPP	5.9%	9.7%	5.0%	7.1%	-1.6%

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

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Regulatory Calendar

Power and Utilities: Coverage Calendar (3/31/2023-6/30/2023)

Date	State	Ticker	Utility/Event	Docket	Description
3/1/2023-3/31/2023	TX	ETR	Entergy Texas Inc.	D-53719	ALJ recommended decision may be issued in rate case — suspended due to settlement talks
3/15/2023-4/15/2023	VA	NI	Columbia Gas of Virginia Inc	C-PUR-2022-00036	Decision may be issued in rate case
3/29/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Intervening parties to file testimony in Rider DSM case
3/31/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (EL)	Company to submit annual information filing
3/31/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (GAS)	Company to submit annual information filing
3/31/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Intervening parties to file testimony in Rider OSW update proceeding
3/31/2023-4/15/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00120 (Rider US3)	Decision may be issued in Rider US 3 proceeding
3/31/2023-4/15/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00121 (Rider US4)	Decision expected in Rider US 4 proceeding
3/31/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00124 (Rider CE)	Decision expected in Rider CE update proceeding
4/1/2023-6/30/2023	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Elec)	ALJ proposed decision expected
4/1/2023-6/30/2023	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Gas)	ALJ proposed decision expected
4/1/2023-6/30/2023	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Track 2)	ALJ proposed decision expected
4/1/2023-4/30/2023	KS	EVRG	Evergy Kansas Central Inc.		Rate case filing expected
4/1/2023-4/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00140 (Rider GT)	Hearing examiner's report may be issued in Rider GT update proceeding
4/1/2023-4/30/2023	WI	LNT	Wisconsin Power and Light Co		Rate case expected to be filed early Q2'23
4/3/2023	MO	AEE	Union Electric Co.	C-ER-2022-0337	Hearing to begin in rate proceeding
4/3/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (elec)	Final day for stipulations, settlement agreements
4/3/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (gas)	Final day for stipulations, settlement agreements
4/4/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Rebuttal testimony due in rate proceeding
4/4/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00070*(RiderRGGI)	Staff to file testimony in Rider RGGI reinstatement proceeding
4/4/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00162 (Rider SNA)	Rebuttal testimony due in Rider SNA adjustment proceeding
4/7/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Staff to file testimony in G-RAC proceeding
4/11/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (elec)	Hearing commences
4/11/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (gas)	Hearing commences
4/12/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Staff to filed testimony in Rider OSW update proceeding
4/14/2023	KY	DUK	Duke Energy Kentucky Inc.	C-2022-00372	Company rebuttal testimony due in rate proceeding
4/14/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (EL)	Supplemental direct testimony due
4/14/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (GAS)	Supplemental direct testimony due
4/14/2023	NC	DUK	Duke Energy Progress LLC	D-E-2 Sub 1300	Company rebuttal testimony due by
4/17/2023	MI	CMS	Consumers Energy Co.	C-U-21308	Staff, intervenor testimony due
4/18/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Settlement conference to be held in rate proceeding
4/19/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Staff to file testimony in Rider DSM proceeding
4/21/2023	OR	POR	Portland General Electric Co.	D-UE-416	General rate revision settlement conference
4/21/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Rebuttal testimony due in G-RAC proceeding
4/26/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Rebuttal testimony due in Rider OSW update proceeding
4/28/2023	VA	SO	Virginia Natural Gas Inc.	C-PUR-2022-00052	Staff testimony due in rate case
5/1/2023-5/31/2023	CA	EIX	Southern California Edison Co.		General rate case to be filed
5/1/2023-5/31/2023	MO	SR	Spire Missouri Inc.	C-GO-2023-0203 (ISRS)	Decision possible in ISRS proceeding
5/1/2023-5/4/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00070*(RiderRGGI)	Hearings scheduled in Rider RGGI reinstatement proceeding
5/2/2023	IL	SO	Northern Illinois Gas Co.	D-23-0066	Staff and intervenor testimony due in rate proceeding
5/2/2023-5/3/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Hearings scheduled in G-RAC proceeding
5/5/2023	IL	AEE	Ameren Illinois	D-23-0067	Staff and intervenor testimony due in rate proceeding
5/8/2023	MI	CMS	Consumers Energy Co.	C-U-21308	Rebuttal testimony due
5/9/2023	IL	SO	North Shore Gas Co.	D-23-0068	Staff and intervenor testimony due in rate proceeding
5/9/2023	KY	DUK	Duke Energy Kentucky Inc.	C-2022-00372	Hearing to begin in rate proceeding
5/9/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Hearing to begin in rate proceeding
5/9/2023-5/10/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Hearings scheduled in Rider OSW update proceeding
5/11/2023	IL	AEE	Ameren Illinois	D-23-0082	Staff and intervenor testimony due in rate proceeding
5/16/2023-5/17/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Hearings scheduled in Rider DSM proceeding
5/18/2023	IL	EXC	Commonwealth Edison Co.	D-23-0055	Staff and intervenor testimony due in rate proceeding
5/21/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Decision possible in rate proceeding
5/22/2023-6/16/2023	CA	SRE	San Diego Gas & Electric Co.	A-22-05-016 (Elec)	Hearings scheduled in rate case
5/22/2023-6/16/2023	CA	SRE	San Diego Gas & Electric Co.	A-22-05-016 (Gas)	Hearings scheduled in rate case
5/23/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2023-00005 (Rider E)	Intervening parties to file testimony in Rider E update proceeding
5/24/2023	OR	POR	Portland General Electric Co.	D-UE-416	Staff, intervenor testimony on power cost update due
5/25/2023	TX	ETR	Entergy Texas Inc.	D-53719	End of agreed upon suspension period — decision may be issued in rate case
5/31/2023	NY	ED	Orange & Rockland Utlts Inc.		Long-term gas system plan to be filed
5/31/2023	IL	SO	Northern Illinois Gas Co.	D-23-0066	Company rebuttal testimony due in rate proceeding
5/31/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00140 (Rider GT)	Decision expected in Rider GT proceeding
6/1/2023-6/30/2023	MO	AEE	Union Electric Co.	C-ER-2022-0337	Decision possible in rate proceeding
6/1/2023-6/30/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Hearing Examiner report may be issued in G-RAC proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Hearing Examiners report may bee issued in Rider OSW update proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00070*(RiderRGGI)	Hearing examiners report may be issued in Rider RGGI reinstatement proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00162 (Rider SNA)	Hearing examiner report may be issued in Rider SNA adjustment proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00164 (Rder US-2)	Decision likely in Rider US-2 proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Hearing examiner's report may be issued in Rider DSM proceeding
6/2/2023	IL	AEE	Ameren Illinois	D-23-0067	Company rebuttal testimony due in rate proceeding
6/6/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2023-00005 (Rider E)	Staff to file testimony in Rider E update proceeding
6/12/2023	IL	SO	North Shore Gas Co.	D-23-0068	Company rebuttal testimony due in rate proceeding
6/12/2023-6/13/2023	VA	SO	Virginia Natural Gas Inc.	C-PUR-2022-00052	Hearings scheduled in rate case
6/13/2023	MI	DTE	DTE Electric Co.	C-U-21297	Staff and intervenor testimony due
6/13/2023	OR	POR	Portland General Electric Co.	D-UE-416	Staff, intervenor testimony on rates due
6/14/2023	IL	AEE	Ameren Illinois	D-23-0082	Company rebuttal testimony due in rate proceeding
6/14/2023	OR	POR	Portland General Electric Co.	D-UE-416	Power cost update settlement conference
6/19/2023-6/26/2023	NC	DUK	Duke Energy Carolinas LLC	D-E-7 Sub 1276	Hearings scheduled in rate case
6/20/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (EL)	Parties to file testimony in rate case
6/20/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (GAS)	Parties to file testimony in rate case
6/21/2023	OR	POR	Portland General Electric Co.	D-UE-416	PGE testimony on power cost update due
6/26/2023	MI	CMS	Consumers Energy Co.	C-U-21308	Briefs due in rate case
6/27/2023	IL	EXC	Commonwealth Edison Co.	D-23-0055	Company rebuttal testimony due in rate proceeding
6/28/2023	OR	POR	Portland General Electric Co.	D-UE-416	General rate revision settlement conference
6/28/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2023-00022 (Rider CCR)	Intervening parties to file testimony in Rider CCR update

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

- Guggenheim Nuclear Conference Wrap: If You Build It, They Will Come?
- NEP: CEPF and Near-Term Financing Drilldown – Headwinds? Yes. Distribution Reset? Unlikely. Share Weakness Unwarranted; Bear Calls Flawed
- ERCOT: Policy Call Reinforces Uphill View on Repricing as TX Legislature Mulls Resource Adequacy Tweaks
- AEE NDR: Bread and Butter Utility Update Underscores Ameren's Premium Attributes
- NEE NDR: Management Continues to Chop Through IRA Upside Opportunities but Baseline Remains Conservative; Headline Hurdles Require Time
- ES: What Are the Bears Playing for Now? The Dislocation to Group Getting Out of Hand
- SRE: Port Arthur Reaches FID, Few Holdovers with Project Equity, but Economics Are Broadly Accretive
- SMR: 2023 to See Slightly Heightened Cash Usage as Focus Remains on Execution
- HE – Making Sense of Banking Turbulence; HE's ASB Remains Well Insulated From Isolated Liquidity Issues
- DUK: CEO NDR – How to Strengthen the Balance Sheet Without a "Rip-the-Band-Aid-Off" Equity Scenario? Patience.
- PEG Analyst Day – Straight Talking with PEG; Mgmt. Backs Up Sustainable 5-7% EPS Growth with Room to Exceed
- SRE: PUCT Modifies Oncor PFD, Approves Oncor Rate Case; 9.7% ROE and 42.5% Equity Ratio – Above Our Expectation
- Arizona Regulation: Taking a Deep Dive in the Desert — New Commissioners Bring a Wealth of Experience, Insights, and Planned Improvements to the ACC
- PNW: APS Wins Appeal of 2019 Rate Case's Penalty ROE and SCR Disallowance — Arizona Supreme Court May Be Next
- VST: Sensible Transaction and Organizational Realignment Look to Freeze the Melting Ice Cube Argument
- Deal or No Deal? Taking the Pulse of Fuel Deferrals Across Our Coverage Universe
- PJM: How Low Can You Go? Residualization of the BRA Marches On…
- D: Legislative Breakthrough Yields a Deal; Focus Turns to Credit Repair
- AEP: Contracted Renewables Sale Above Our Expectations
- LNT: Cleanup in Aisle 4? PSCW's Damage Control Proves Effective: Upgrading to NEUTRAL
- PSCW: Conversation with Chair Valcq Strikes a Balanced Tone
- D: Halftime in Richmond as Multiple Bills Advance
- D: SB1265 Amended Ahead of Crossover Deadline Tomorrow
- FE – The Same Board Who Set The Current Strategic Plan Is Also Picking The CEO… Follow-Up Thoughts Post Our Mgmt. Call
- FE – Rebase Coming? No. Asset Sale Delay? No. New CEO Strategy Shift? No. Balance Sheet Concerns? No. More Growth Opps? Yes. FE Remains '23 Best Idea
- D: General Assembly Sausage-Making Enters Full Swing as Lawmakers Continue to Cement the Bid-Ask
- D: Key Bills Pass Out of Senate Committee
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D: New Legislation Proposes Novel Option for OSW Stake Sale – Mosaic Pieces Continue to Form a Clearer Picture
- ETR – LPSC Votes on Modified Settlement Proposal with Customer Benefits, but Recognition of Hurricane Cost Prudency
- D: Opening Move in Richmond: Evolutionary Legislation Lays Path Forward

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From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: ALTO, IL, EIX, TX, AEP, PCG, ERCOT, PJM, DUK, NI - Guggenheim Securities, LLC
Date: Monday, May 15, 2023 9:22:15 AM

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The Guggenheim Daily Transmission: ALTO, IL, EIX, TX, AEP, PCG, ERCOT, PJM, DUK, NI

Power & Utilities May 15, 2023

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Access This Report

SAVE THE DATE: We are hosting a dinner with CNP's COO, new CFO, and others on May 22nd...

For our AGA conference (May 20-23) meeting schedule, please scroll down...

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our EXC NDR TODAY, AEP NDR, ETR NDR, DTE NDR, PCG NDR, ES NDR, SMR NDR, SRE NDR, LNT NDR, PNW NDR, AWK NDR, CMS NDR, SO NDR, POR NDR, CEG NDR, PEG NDR, and other events, scroll down...

Forward Power Curves, Genco MtM, and Weekly Commentary (see note HERE)

ALTO: Normalizing Crush Spreads Set Path to Business Transformation; Not Out of The Woods Yet (see our note HERE)

IL: Staff Direct Testimony Sets Disappointing Floor in MYP Bid-Ask vs. Investor Expectations (see our note HERE)

EIX – SCE filed 2025 GRC; 8% Rate Base CAGR 2023-2028 at requested levels

TX – Texas utility bills progress through legislature

AEP – AEP hires advisor for retail energy sale

PCG – New spent fuel storage methods implemented at Diablo Canyon

PCG – Plaintiffs ask for judge not to drop manslaughter charges against PG&E in the Zogg fire court proceeding

ERCOT – New whitepaper points to significant EE/DR optionality in ERCOT

PJM – RTO points to sufficient summer resources, with tail risk on extreme scenarios

DUK – Ohio Consumers' Counsel objects to Duke Energy Ohio settlement

NI – Intervenor exceptions filed regarding NIPSCO settlement

DUK – Staff file mechanism review letter

AEP – Walmart files as an intervenor in ApCo triennial rate review

EIX – SCE filed 2025 GRC; 8% Rate Base CAGR 2023-2028 at requested levels

- SCE filed a General Rate Case application (A2305010) for revenue increases in support of O&M and capex in 2025-2028.
- The test year increase is $1.9B or 23% over the currently pending 2024 GRC Track 4 request; the application also seeks proposed increases of $600M, $700M and $700M in 2026, 2027 and 2028, respectively.
- The resulting rate base is $55.2B for the range case and $60.9B at the fully requested level in 2028 representing a 6-8% rate base CAGR from 2023 to 2028.
- The majority of the request supports capex in base infrastructure replacement and wildfire mitigation but also embeds an inflection point for load growth with %14% of capex allocated to growth and new service.
- EIX Summary here.
- Docket: A2305010

Guggenheim takeaway: *2025 GRC now has an initial filing, with complete testimony to be filed on May 15, 2023. The request is in line with prior growth trajectory for SCE and encompasses many of mgmt.'s recent comments on infrastructure needs and load growth. Filing not a surprise especially post our visit for their prior small event they hosted at the headquarters for investors.*

TX – Texas utility bills progress through legislature

- TX HB 2555 was reported favorably as substituted at the Senate.
- The bill focuses on transmission and distribution resiliency plans for utilities
- TX Senate bill SB 1015 related to bi-annual DCRF review at the PUCT considered in formal meeting on May 12, 2023.

- The committee report is supportive of aligning the DCRF and TCOS frameworks and does not see any change in authority resulting from the bill.
- The bill aligns DCRF reviews to twice in one year, similar to the TCOS process already in place.
- TX SB 1076 was placed on general calendar at the house.
- The bill addresses timelines for CPCN approvals on transmission projects.

Guggenheim takeaway: *FYI. SB1015 seems to be one of the less contested bills in front of the TX legislature as it does not change any agency authorities or introduce any new concepts in ratemaking. The DCRF cadence could help offset some of the regulatory lag for TX utilities (CNP, SRE, ETR, AEP). Texas legislative session starting to pick up as we are watching multiple utility related bills including on the electric side where there is a capital structure bill proposed (HB 3042).*

AEP ─ AEP hires advisor for retail energy sale

- RBC Capital Markets will be advising AEP on the sale of its Retail business, according to PeakLoad.
- The sale process will also include AEP OnSite Partners.
- Article HERE

Guggenheim takeaway: *The retail business contributes ~$0.04 to AEP's 2023 EPS, and the distributed resources business contributes ~$0.02, as we have previously written about HERE.* ***We have entire C-suite in NY for NDR this Wednesday.***

PCG – New spent fuel storage methods implemented at Diablo Canyon

- PG&E Diablo Canyon is utilizing a new horizontal spent fuel storage (vs. vertical).
- PG&E will store new spent fuel in the horizontal system after it is installed between June 2025 and March 2026.
- PG&E sees the new system being more efficient with need for storage pool use for spent fuel.
- More in media here.

Guggenheim takeaway: *FYI.*

PCG – Plaintiffs ask for judge not to drop manslaughter charges against PG&E in the Zogg fire court proceeding

- Zogg wildfire victims requested the judge overseeing the Zogg fire lawsuit does not drop the manslaughter charges against PG&E.
- More in media here.

Guggenheim takeaway: *FYI. PG&E committed to defending its employees against criminal charges.*

ERCOT ─ New whitepaper points to significant EE/DR optionality in ERCOT

- Nonprofit ACEEE has released a follow on to its 2021 study detailing potential savings from energy efficiency and demand response measures, as compared to the Senate's backstop proposal.
- "The study finds that implementing these programs from 2024 through 2030 could reduce summer peak loads statewide by about 14,800 MW and reduce winter peak loads by about 23,500 MW (far more than the 10,000 MW in increased supply from the proposed power plants)." - release

- More HERE

Guggenheim takeaway: *Price responsive demand remains the holy grail of electricity market design, and while it is not yet a reality we note that ERCOT continues to feature a significant amount of DR on the bulk system.*

PJM – RTO points to sufficient summer resources, with tail risk on extreme scenarios

- "PJM projects a non-diversified peak demand for electricity this summer at approximately 156,000 MW and has performed reliability studies at loads nearing 163,000 MW. PJM has more than 186,000 MW of installed generating capacity" - release
- "While its assessment shows that PJM is prepared to maintain reliability this summer, modeling of extreme scenarios indicates tightening reserve margins and the potential need to reduce load by deploying demand response in certain conditions. PJM can deploy demand response by instructing customers who have agreed in advance to be temporarily interrupted in exchange for a capacity payment to reduce their load. This scenario could occur in the event of extraordinary electricity demand and high generator outages – an unlikely but possible set of circumstances." - release
- More HERE

Guggenheim takeaway: *Flagged for your awareness. On paper PJM's reserve margins remain excessive, however as the December event shows, resource availability can quickly tighten reserves.*

DUK – Ohio Consumers' Counsel objects to Duke Energy Ohio settlement

- Recommends a 9.52% ROE vs 9.60% in settlement.
- Recommends a 47.61% equity layer vs 52.32% in settlement.
- Docket 22-0507-GA-AIR

Guggenheim takeaway: *This is not a surprise given the party. Consumers' Counsel files oppositional comments to low-income weather normalization, treatment of depreciation, capital structure, and ROE, among other items.*

NI – Intervenor exceptions filed regarding NIPSCO settlement

- Michigan City, Indiana filed objections and proposed changes to the NIPSCO settlement.
- Topics included ROE as well as issues such as rates related to low-income housing programs.
- Docket 45772

Guggenheim takeaway: *Most notable was the 9.2% proposed ROE, vs 9.8% in the stipulation agreement. More noise.*

DUK – Staff file mechanism review letter

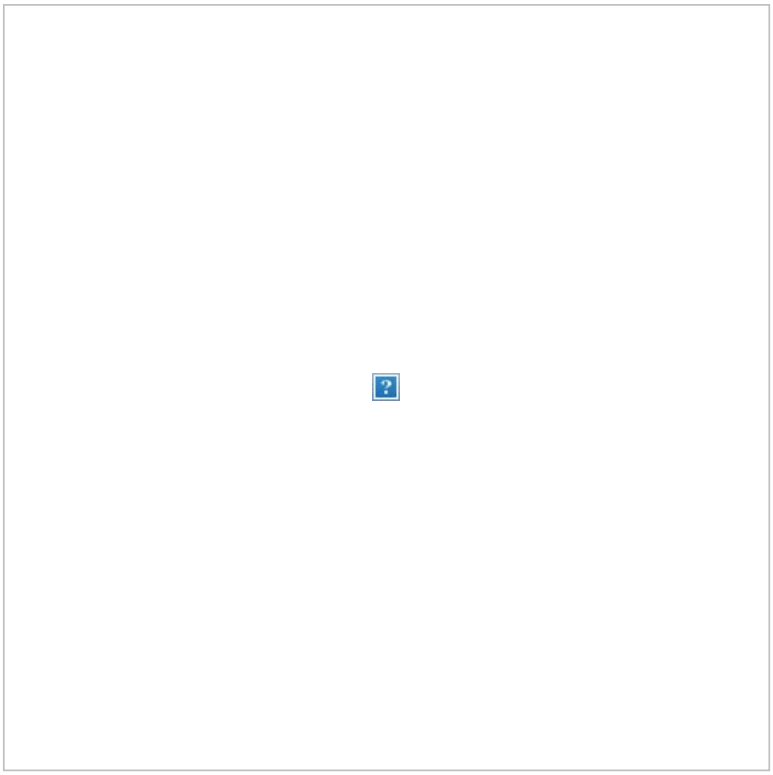
- Public Staff filed a review of the DSM/EE mechanism proposed in the Carbon Plan.
- Staff takes the position that certain language in the Carbon Plan Order only required consideration of proposed enablers (regarding broadening the definition of low-income customers, for example), rather than adoption into the mechanism.
- Docket E-100 Sub 179

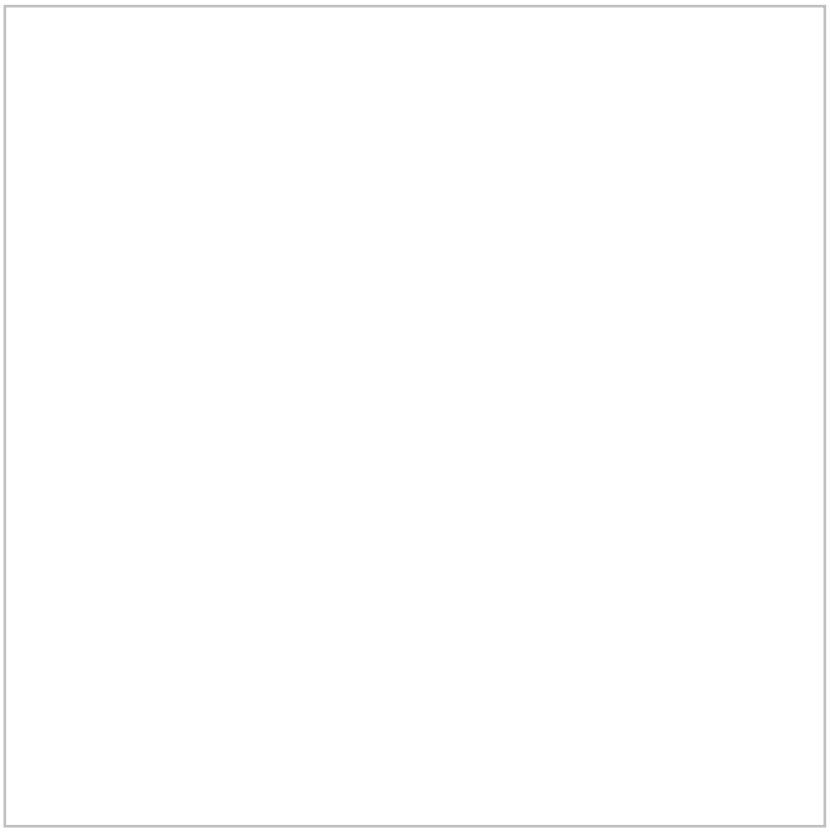
Guggenheim takeaway: *Minor FYI.*

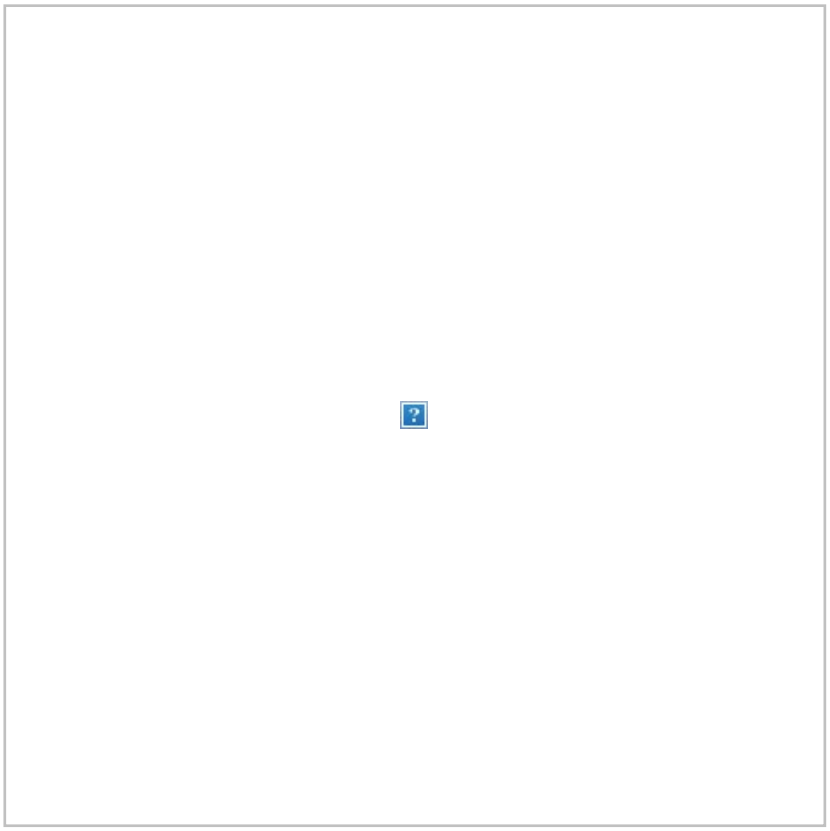
AEP – Walmart files as an intervenor in ApCo triennial rate review

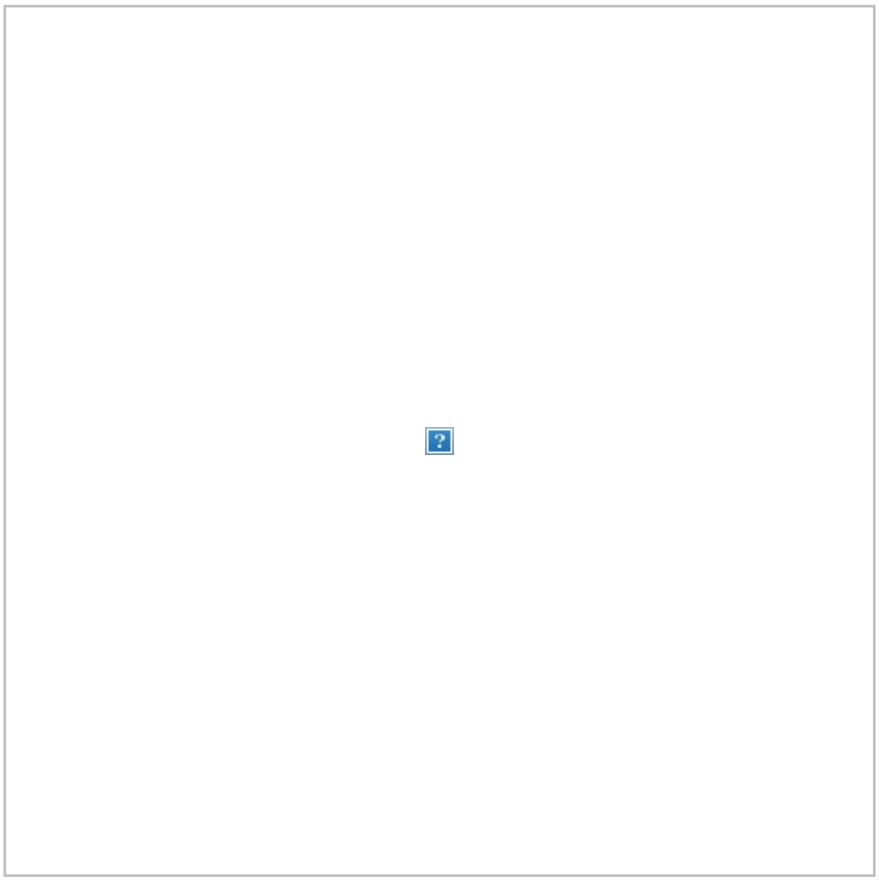
- Walmart (WMT) has filed a notice of participation.
- Docket PUR-2023-00002

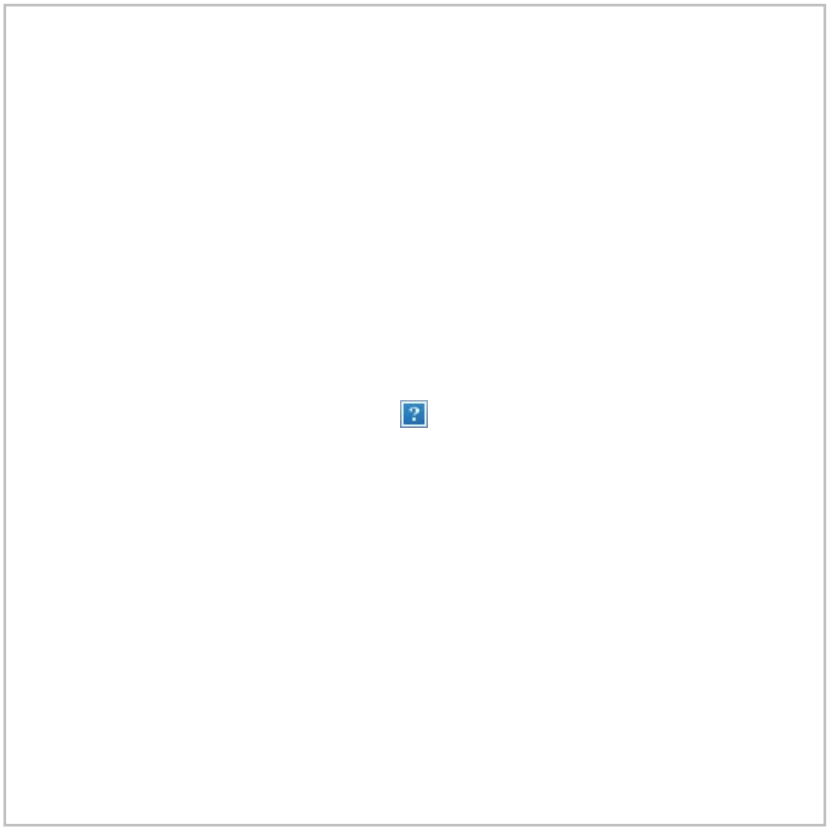
Guggenheim takeaway: *Minor FYI.*

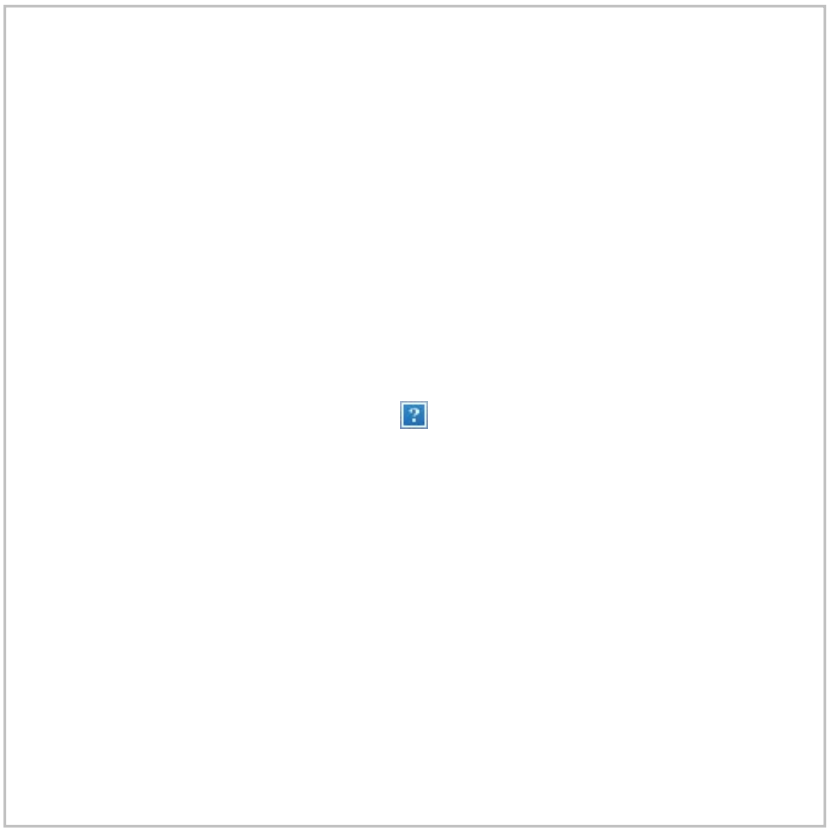


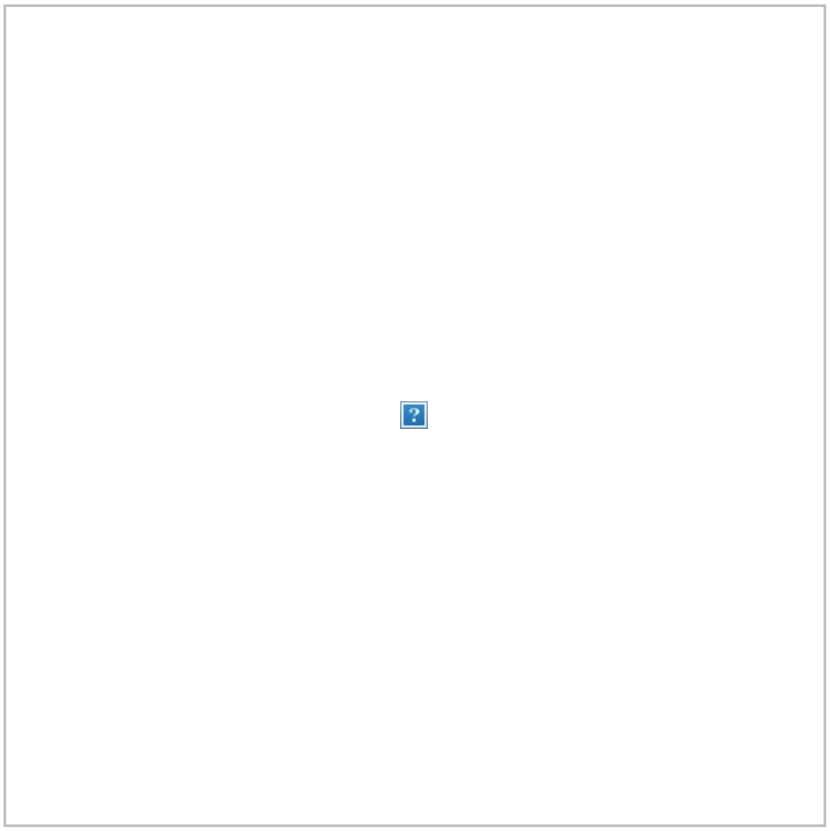


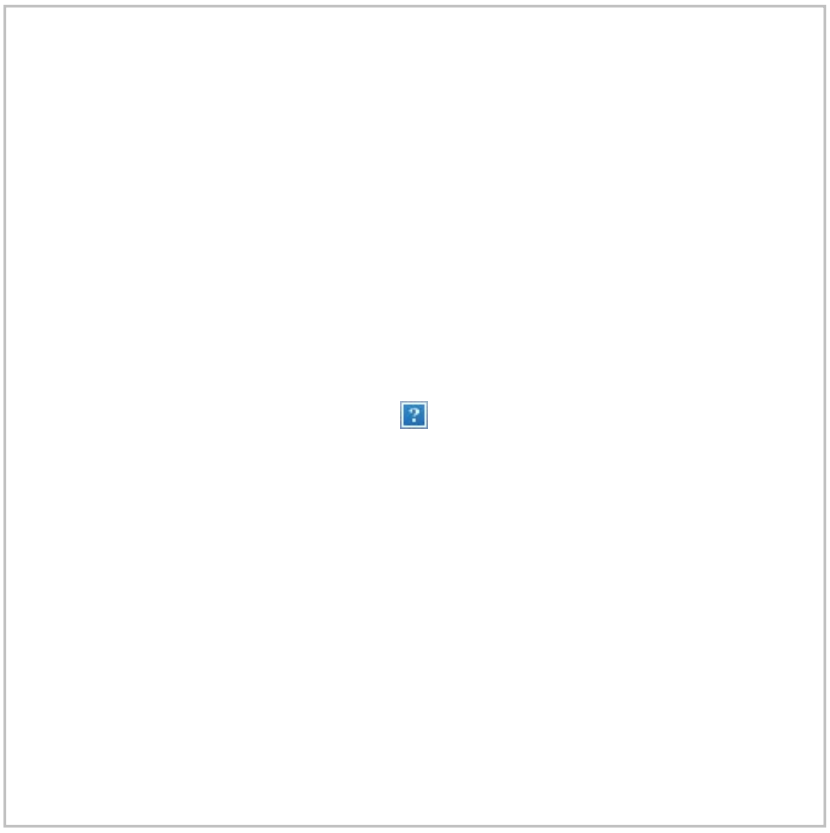


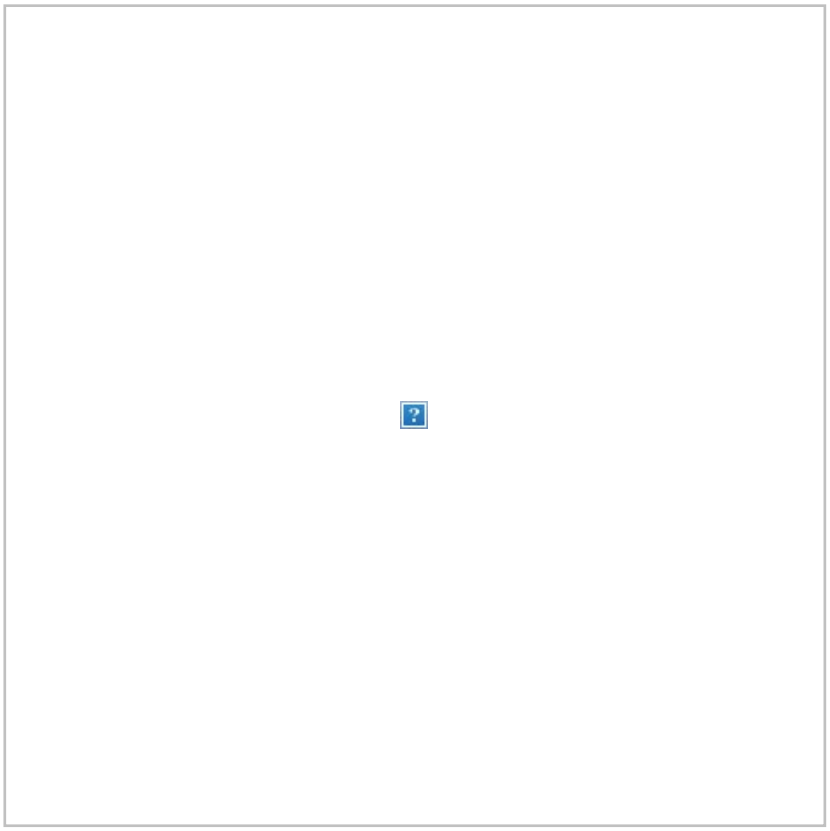


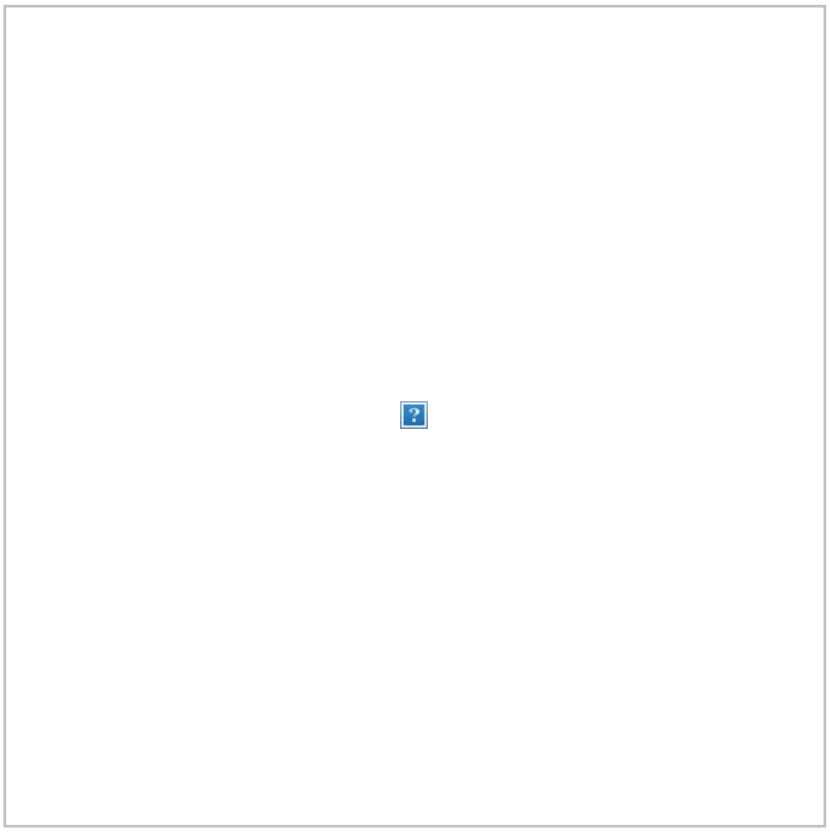


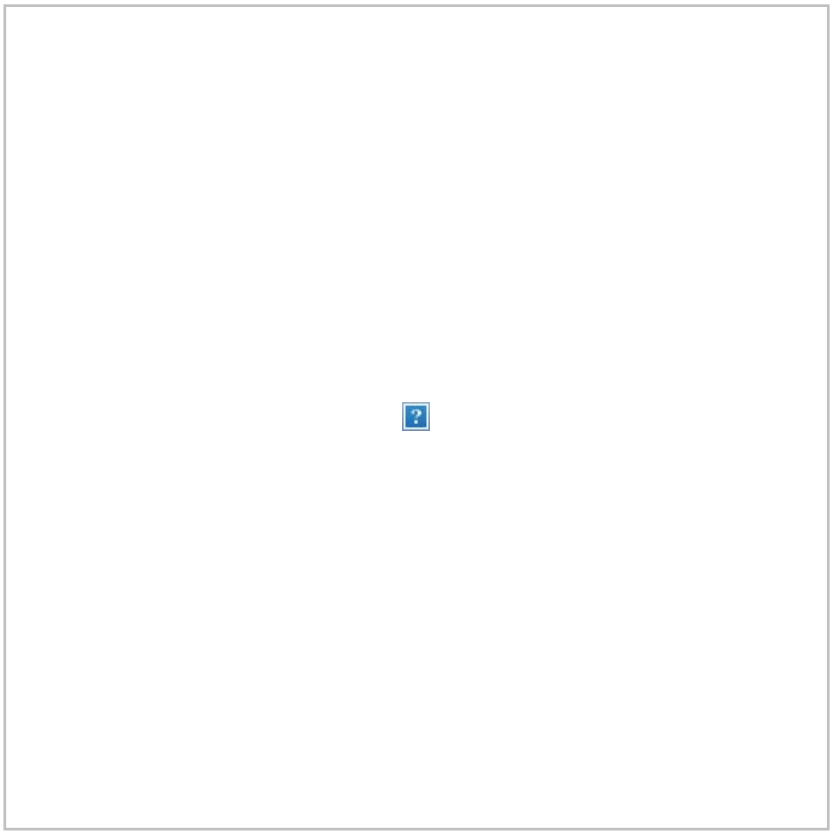




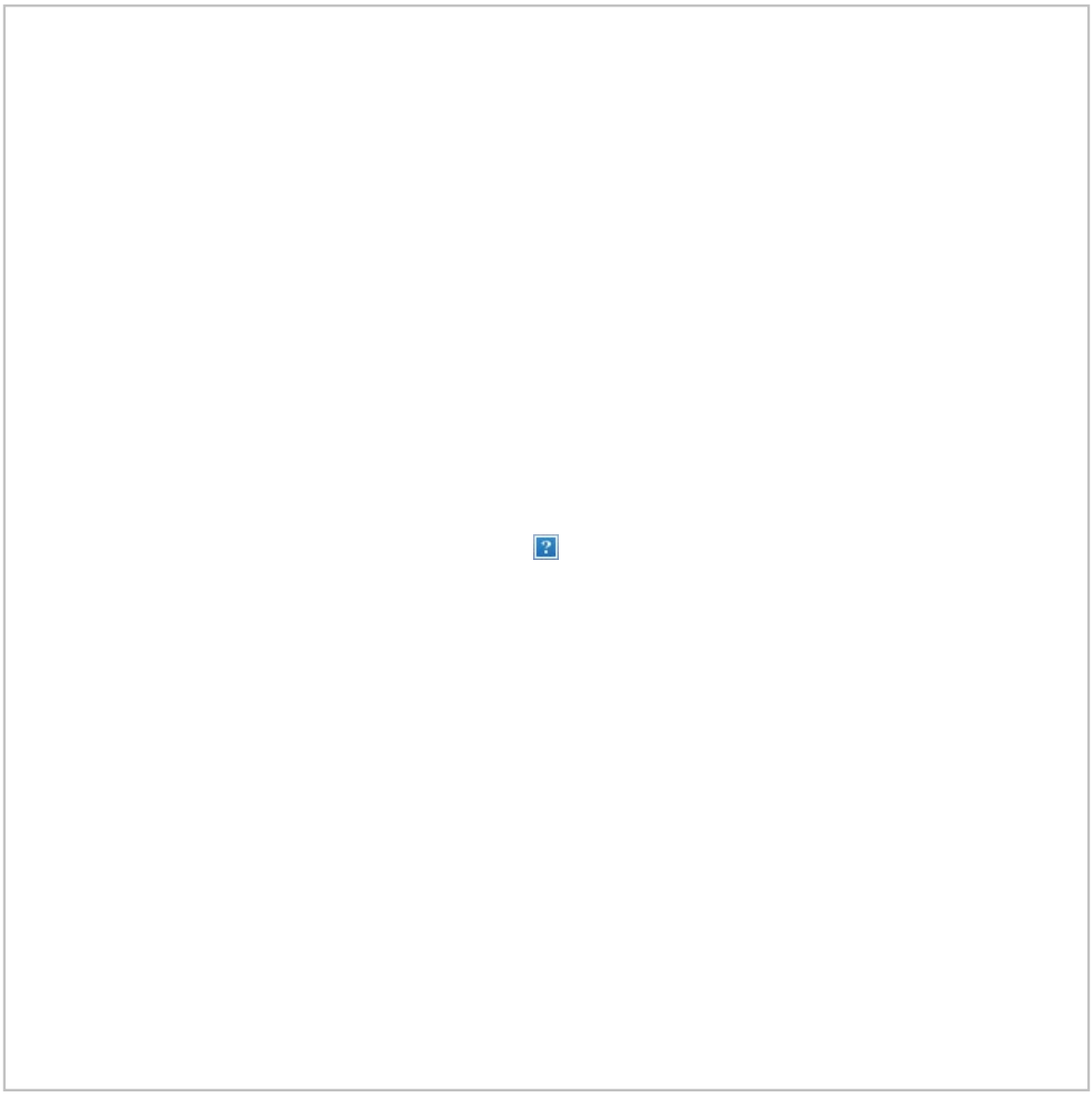




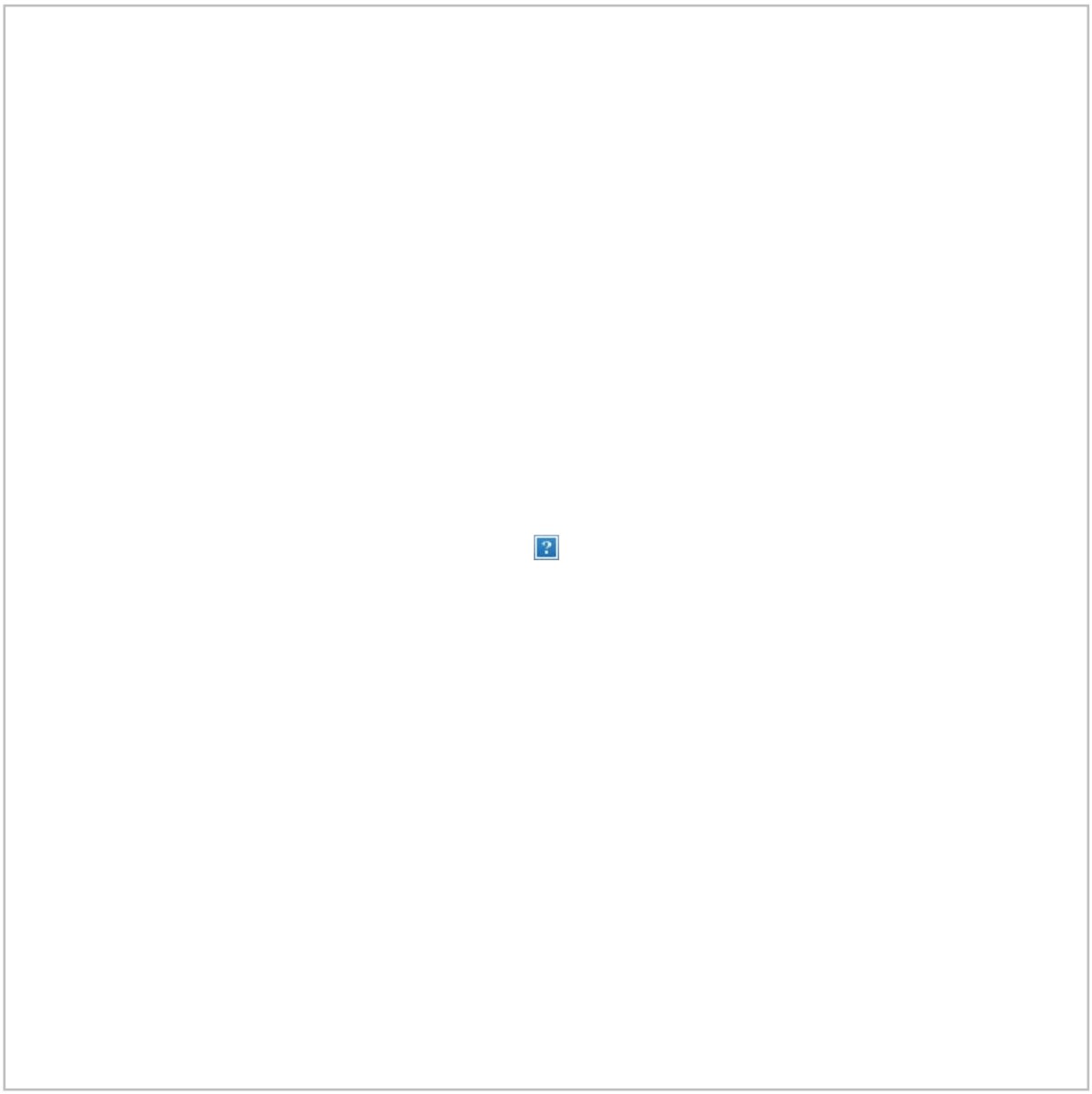




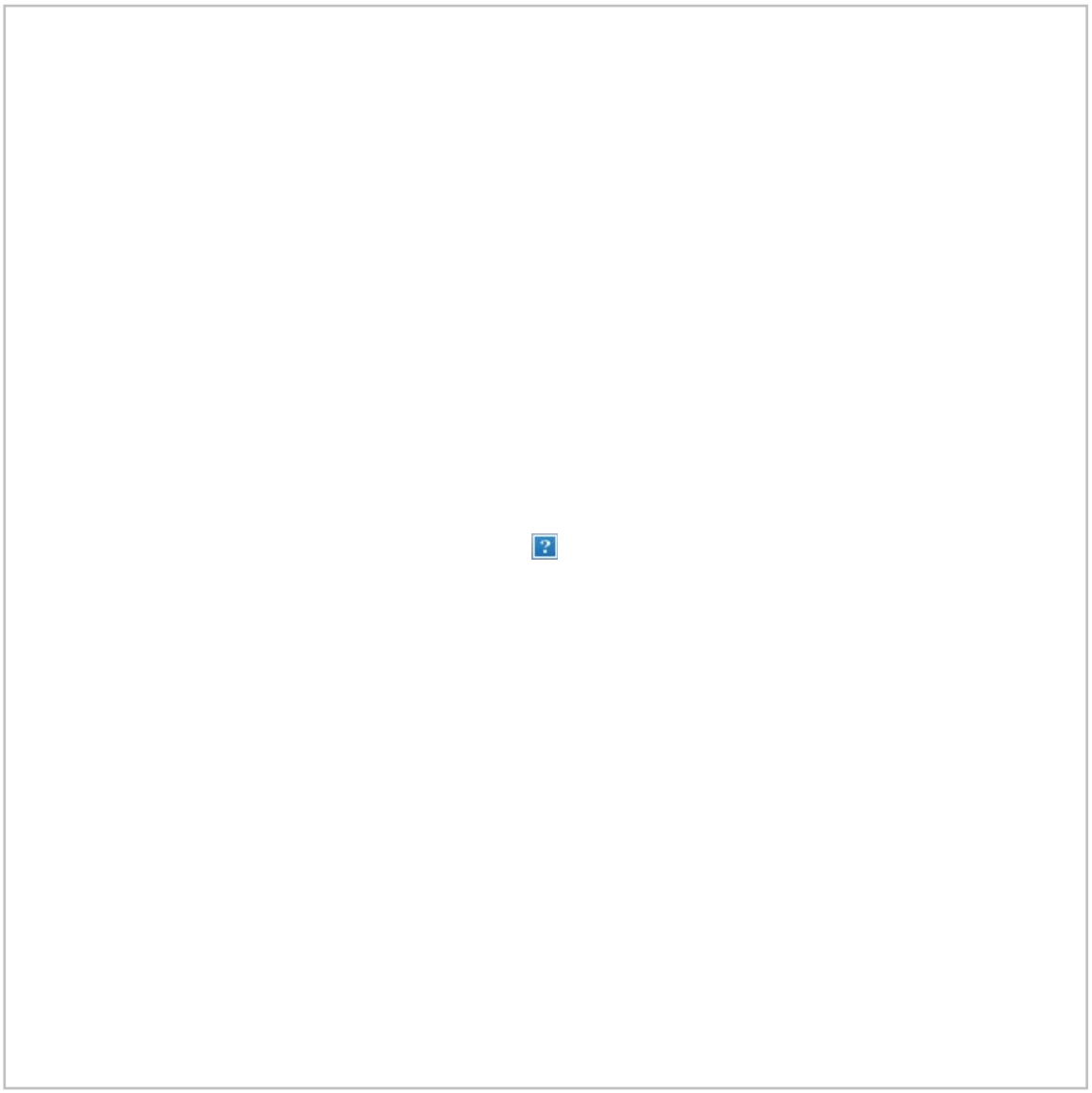
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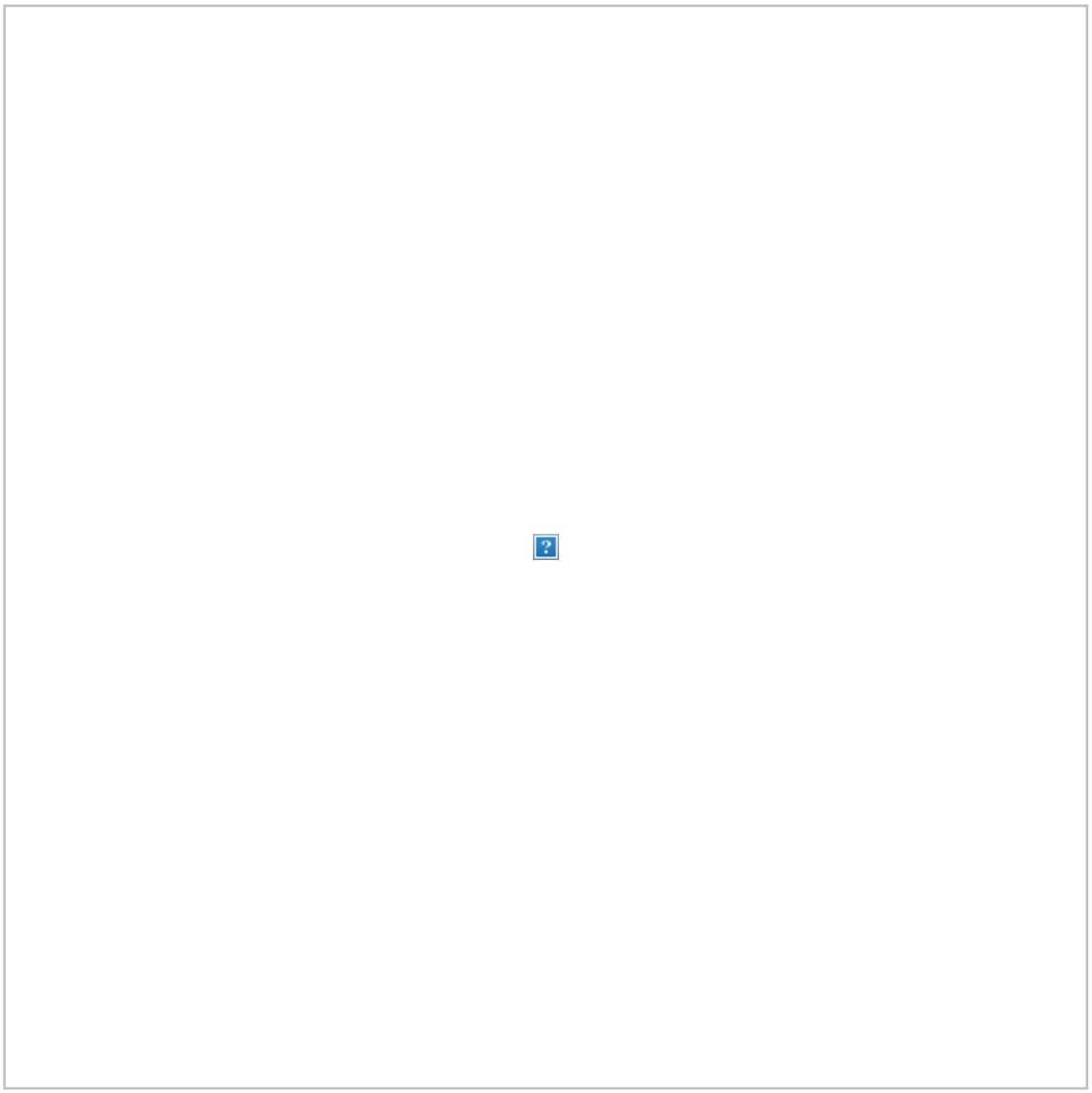
Guggenheim Comp Sheet



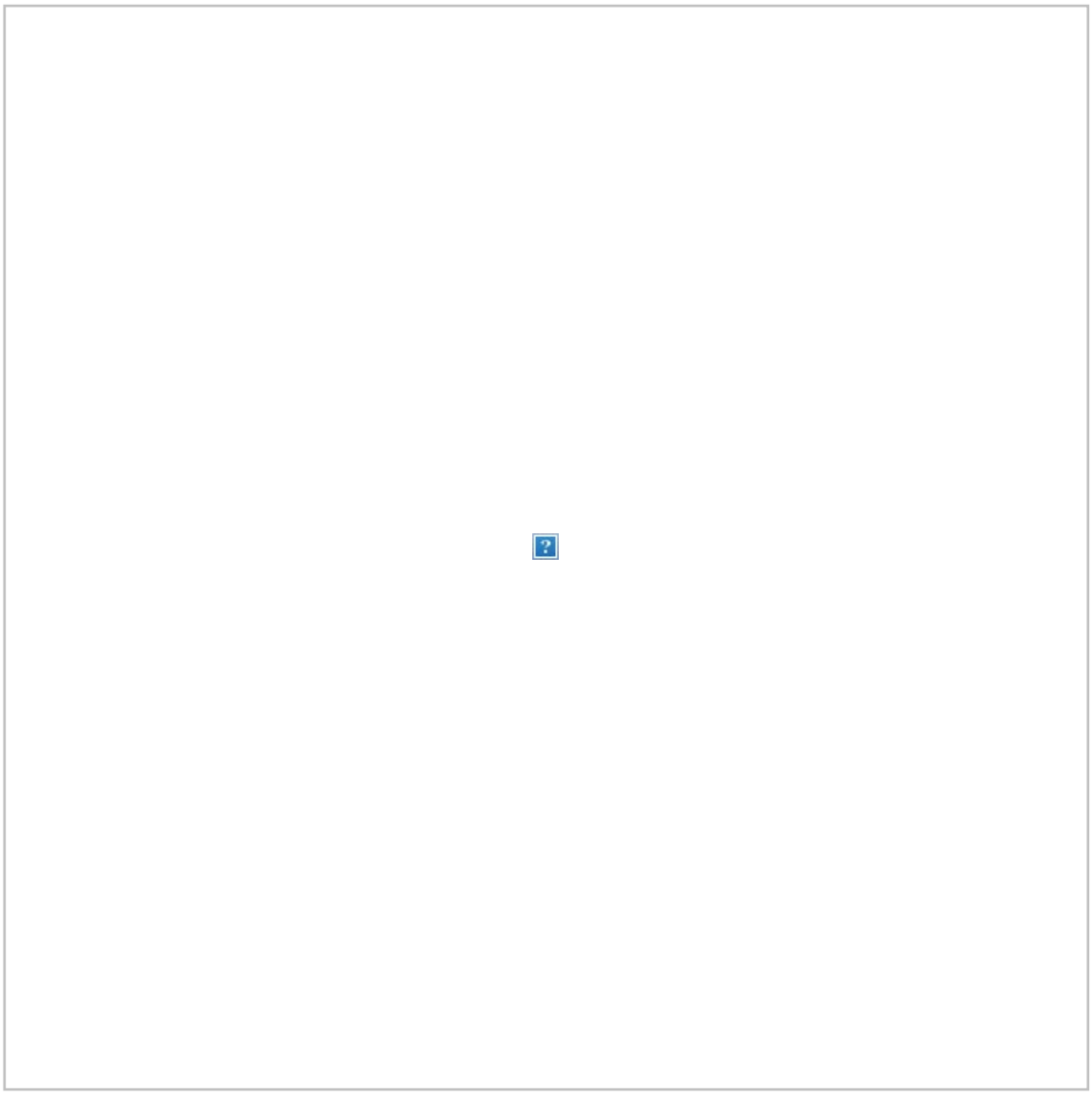
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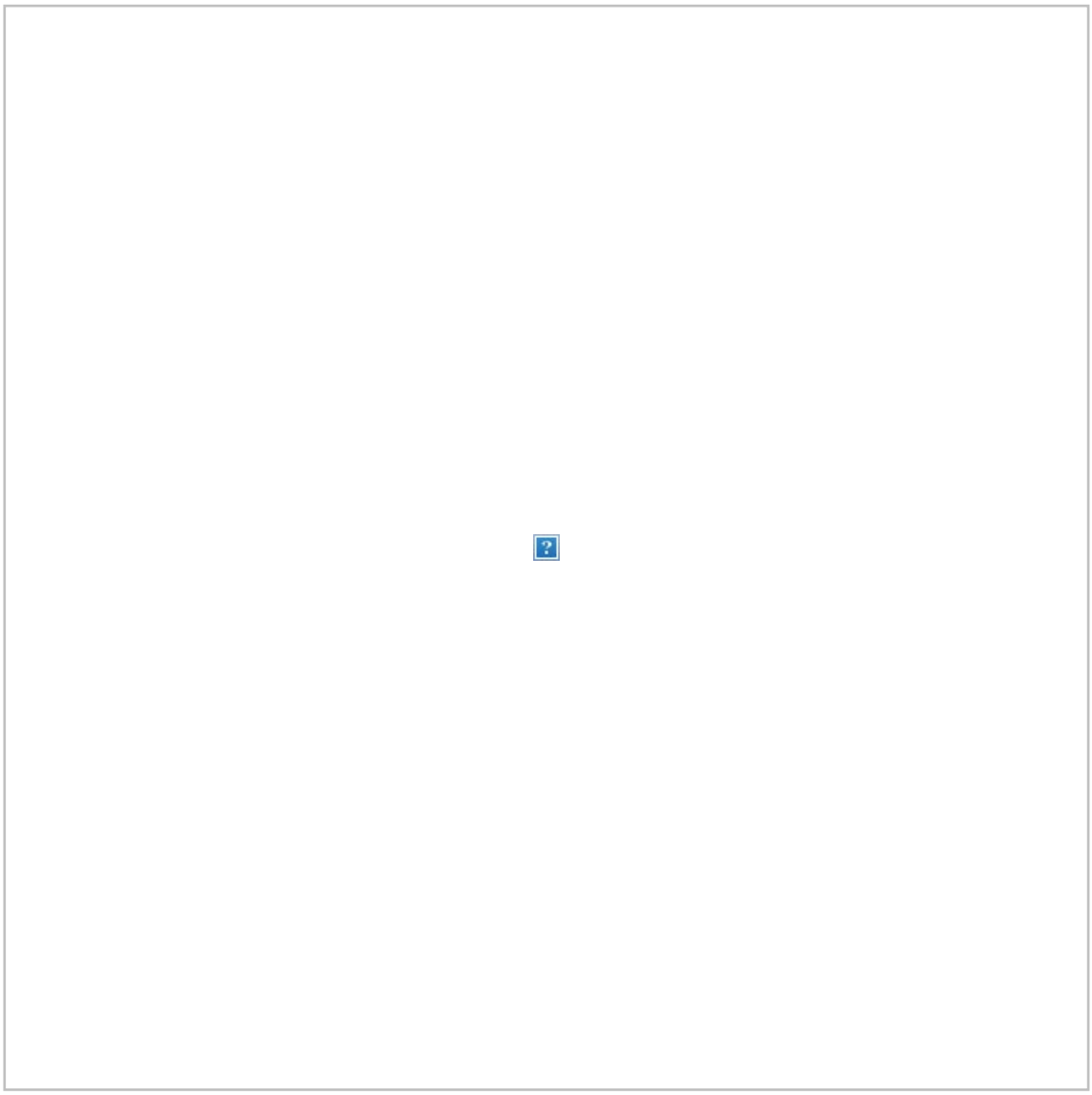
Generation and Mix



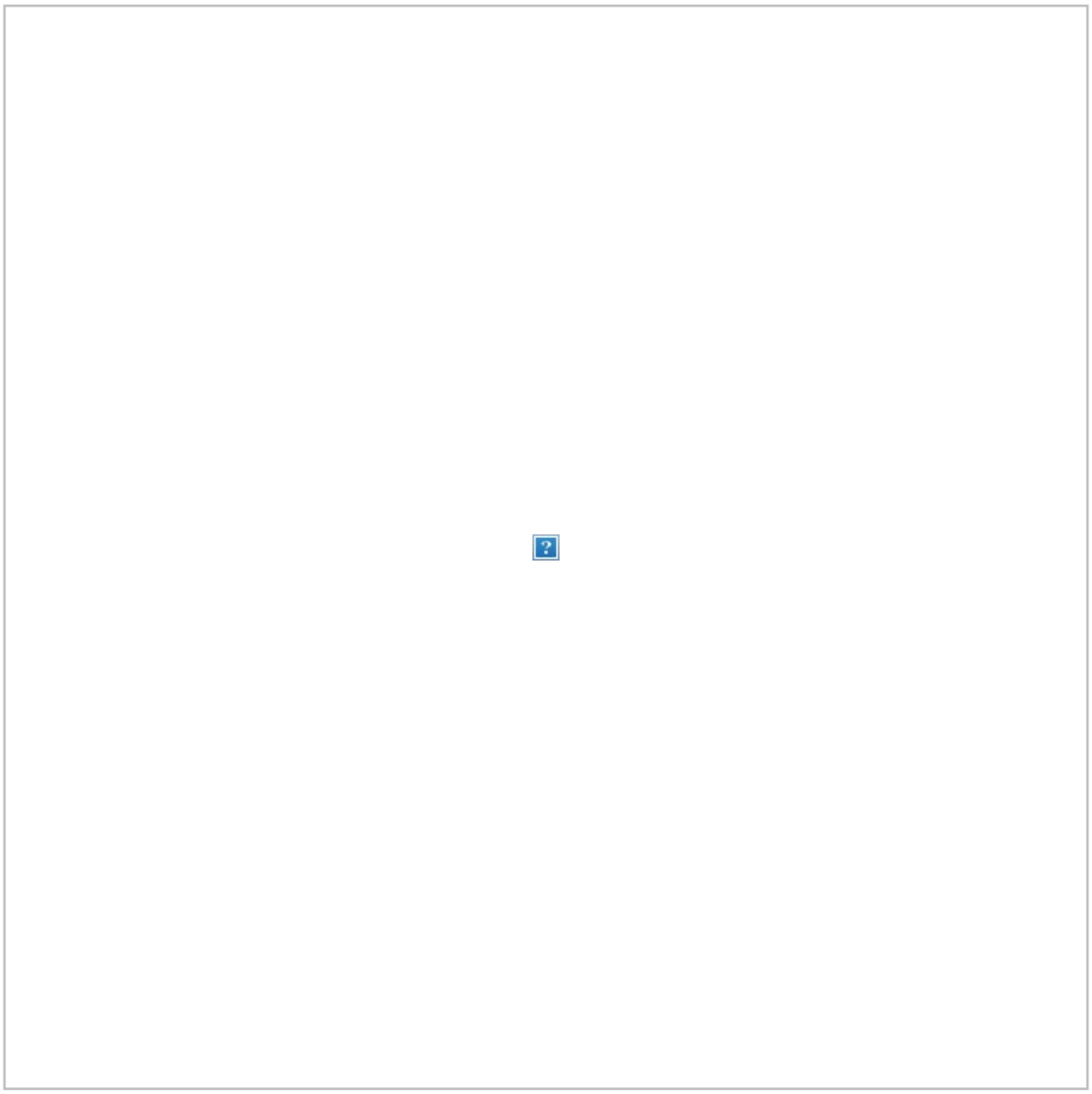
Generation and Mix (continued)



Weather



YTD Peak Load



Regulatory Calendar

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Weakness Unwarranted; Bear Calls Flawed

- ERCOT: Policy Call Reinforces Uphill View on Repricing as TX Legislature Mulls Resource Adequacy Tweaks
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- PEG Analyst Day – Straight Talking with PEG; Mgmt. Backs Up Sustainable 5-7% EPS Growth with Room to Exceed
- SRE: PUCT Modifies Oncor PFD, Approves Oncor Rate Case; 9.7% ROE and 42.5% Equity Ratio – Above Our Expectation
- Arizona Regulation: Taking a Deep Dive in the Desert — New Commissioners Bring a Wealth of Experience, Insights, and Planned Improvements to the ACC
- PNW: APS Wins Appeal of 2019 Rate Case's Penalty ROE and SCR Disallowance — Arizona Supreme Court May Be Next
- VST: Sensible Transaction and Organizational Realignment Look to Freeze the Melting Ice Cube Argument
- Deal or No Deal? Taking the Pulse of Fuel Deferrals Across Our Coverage Universe
- PJM: How Low Can You Go? Residualization of the BRA Marches On…
- D: Legislative Breakthrough Yields a Deal; Focus Turns to Credit Repair
- AEP: Contracted Renewables Sale Above Our Expectations
- LNT: Cleanup in Aisle 4? PSCW's Damage Control Proves Effective: Upgrading to NEUTRAL
- PSCW: Conversation with Chair Valcq Strikes a Balanced Tone
- D: Halftime in Richmond as Multiple Bills Advance
- D: SB1265 Amended Ahead of Crossover Deadline Tomorrow
- FE – The Same Board Who Set The Current Strategic Plan Is Also Picking The CEO… Follow-Up Thoughts Post Our Mgmt. Call
- FE – Rebase Coming? No. Asset Sale Delay? No. New CEO Strategy Shift? No. Balance Sheet Concerns? No. More Growth Opps? Yes. FE Remains '23 Best Idea
- D: General Assembly Sausage-Making Enters Full Swing as Lawmakers Continue to Cement the Bid-Ask
- D: Key Bills Pass Out of Senate Committee
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D: New Legislation Proposes Novel Option for OSW Stake Sale – Mosaic Pieces Continue to Form a Clearer Picture

- ETR – LPSC Votes on Modified Settlement Proposal with Customer Benefits, but Recognition of Hurricane Cost Prudency
- D: Opening Move in Richmond: Evolutionary Legislation Lays Path Forward

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Weisenburger \ Michael \ V

From: Shahriar Pourreza, CFA <shahriar.pourreza@guggenheimpartners.com>
Sent: Tuesday, June 20, 2023 8:50 AM
To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: POR, NI, ERCOT/VST, SO, D/VA, PJM/FERC, Policy, DTE, SR, Wildfire, CA/Wildfire, ETR, AEP, DUK - Guggenheim Securities, LLC

Categories: SellSide Notes

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The Guggenheim Daily Transmission: POR, NI, ERCOT/VST, SO, D/VA, PJM/FERC, Policy, DTE, SR, Wildfire, CA/Wildfire, ETR, AEP, DUK

Power & Utilities June 20, 2023

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Guggenheim Utilities Research Team

Access This Report

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our ES NDR, SMR NDR, SRE NDR, LNT NDR, PNW NDR, AWK NDR, ED NDR, CMS NDR, SO NDR, POR NDR, CEG NDR, PEG NDR, and other events, scroll down...

POR: Stepping to the Sidelines as 1H23 Momentum Closes Valuation Gap, NT Catalyst Pathway Quiets, Downgrading to Neutral (see our note HERE)

Forward Power Curves, Genco MtM, and Weekly Commentary (see our note HERE)

NI – NIPSCO 19.9% minority interest sale announced

ERCOT/VST – Comanche Peak experiences partial outage

SO – Vogtle Unit start-up delayed by one month, into July

D/VA – Media continues to draw attention to political donations ahead of primaries

PJM/FERC – Commission meeting on PJM BRA yields little clarity on pathways forward

D – 1GW peaking plant proposed at Chesterfield site draws media coverage

Policy – President Biden announces grid-related grants and climate funding

DTE – Intervenors filed reply briefs in the DTE IRP proceeding; positions reiterated and administrative issues highlighted

SR – Surrebuttal testimony filed in PGA/ACA docket

Wildfire – Media highlights systemic climate change impacts on wildfire risk for utilities

CA/Wildfire – Wildfires reported in northern CA, starting wildfire season

ETR – ETR MS storm recovery continues, MPSC voices concerns

AEP – SWEPCO tax normalization ALJ ruling

DUK – Interim true-up adjustment letters filed in storm securitization dockets

NI – NIPSCO 19.9% minority interest sale announced

- Blackstone (NYSE:BX) agreed to acquire 19.9% non-controlling equity interest in NIPSCO for $2.15bn, with an additional equity commitment of $250m to fund ongoing capital requirements.
- Company 8-K HERE
- Company press release HERE

Guggenheim takeaway: *We caught up with the company this morning and will be publishing our thoughts on the transaction shortly.*

ERCOT/VST – Comanche Peak experiences partial outage

- The dual unit plant experienced a ~1.235GW derating on Friday after a feed water pump issue on the non-nuclear side of the plant.
- More HERE.

Guggenheim takeaway: *VST typically operates with sufficient open length to account for issues at Comanche, however, we continue to dig into the potential ramifications of any prolonged outage – the media reports indicate that the unit in question appears to already be returning to operations. As a reminder, the NRC notifications were not published yesterday on account of the holiday.*

SO – Vogtle Unit start-up delayed by one month, into July

- Georgia Power announced on Friday after the close that it will delay the startup of Vogtle Unit 3 by a month (into July) due to remediating a damaged hydrogen seal.
- More HERE.

Guggenheim takeaway: *Vogtle Unit 3 will now enter base rates in August 2023, with a resulting one-time EPS impact in 2023 of roughly half a penny. As a reminder (and also ahead of the Vogtle prudency review), please join us for our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, which will take place July 11 & 12 in Atlanta.* ***For more on our recent meeting with SO at AGA, see HERE.***

D/VA – Media continues to draw attention to political donations ahead of primaries

- The coverage comes ahead of primaries next week, with several candidates in focus having received donations from Dominion.
- More HERE.

Guggenheim takeaway: *This is nothing more than media noise in our view, however, we are flagging for your awareness, as we have been for several months now. As a reminder, D publicly reports all of its donations/activities.*

PJM/FERC – Commission meeting on PJM BRA yields little clarity on pathways forward

- Parties, including load and generation representatives, remain far apart on how the RTO should overhaul the BRA, per the Commission's meeting last week.
- State representatives remain in favor of the 3-year forward procurement, while others have pushed for more prompt designs (e.g., NYISO).
- More HERE.

Guggenheim takeaway: *Flagged for your awareness as the reform process begins to kick into a higher gear. As a reminder, FERC recently greenlit a yearlong delay to the auction cycle. The importance of the BRA to our IPP coverage universe continues to shrink as eastern generation is retired or augmented with PTC-insulated nuclear.*

D ─ 1GW peaking plant proposed at Chesterfield site draws media coverage

- Multiple media sources have flagged Dominion's ongoing evaluation of a potential 1GW peaking plant alongside the existing Chesterfield site, consisting of 4 CTs to be placed into service by 2027.
- More HERE.

Guggenheim takeaway: *Minor FYI as Dominion's latest IRP and resource plans continue to draw stakeholder attention – the proposal for gas here is similar to many other recent NT IRP needs we have seen across the space, however, certain groups remain extremely vocal on any and all newbuild.*

Policy ─ President Biden announces grid-related grants and climate funding

- The President announced $575M in funding for the NOAA Climate Resilience Regional Challenge, alongside power grid funds and planned meetings.
- More HERE.

Guggenheim takeaway: *Minor FYI.*

DTE – Intervenors filed reply briefs in the DTE IRP proceeding; positions reiterated and administrative issues highlighted

- Intervenors in DTE's integrated resource plan, including MPSC staff, AG office and DTE, filed reply briefs on a variety of issues.
- In reply briefs, intervenors highlight agreement/dissent from prior testimony including both accounting treatment, modeling parameters and administrative issues of record.
- Key aspects being debated remains the same from the initial briefs including renewable procurement, FCM and reg asset treatment for coal retirements; Staff broadly supportive of methodology used to develop the plan, but argues certain financial and accounting requests.

- Intervenors propose a 50/50 ownership requirement for new renewables, but DTE argues for an uncapped competitive RFP process to align with the intent of the current law.
- Intervenors oppose the structure of the FCM for PPAs including WACC recovery, DTE argues for FCM including WACC, which is consistent with the commission's prior decision and process.
- Intervenors debate regulatory asset treatment for retiring coal assets and the appropriate returns; DTE argues for needed certainty on treatment and returns (i.e., consistent with prior commission precedent).
- More thoughts on the IRP in our note here.
- Docket: U-21193

Guggenheim takeaway: *The responses are generally in line with the debated topics in the IRP proceeding. Staff and AG recommendations are somewhat contradictory to prior commission precedent and certain aspects of MI law, which leads us to believe those are largely focused on creating a bid-ask, not necessarily something the commission would adopt. The FCM recommendations depart from precedent, which we do not believe will be utilized in the final outcome. The regulatory asset treatment and rate of return was widely debated, but in our view, the CMS IRP precedent sets a reasonable final outcome (i.e., slight discount vs. WACC). Overall, we find DTE's arguments in support of the proposal more compelling than the intervenors' but acknowledge there is room to negotiate for DTE. DTE previously noted that conversations with stakeholders are robust and there is a pathway to settlement (having Initial Briefs filed is an important step in that process, in our view).*

SR – Surrebuttal testimony filed in PGA/ACA docket

- The company, Staff, and Intervenors filed surrebuttal testimony in SR's Purchased Gas Adjustment docket on Friday.
- Docket GR-2021-0127

Guggenheim takeaway: *Flagging for your calendars, evidentiary hearings are scheduled to begin on July 25th. Recall that an order was issued back in January, approving a partial stipulation in this docket (see HERE).*

Wildfire – Media highlights systemic climate change impacts on wildfire risk for utilities

- Media coverage picked up earlier verdicts on PacifiCorp (NYSE: BRK.A) wildfire claims and efforts by PCG to reduce wildfire risk.
- The media coverage recognizes systemic issues beyond the utilities' control as a major contributing factor to rising liabilities.

- More here.

Guggenheim takeaway: *FYI. Demonstrates broad stakeholder recognition of factors beyond operator control as a contributor to increasing wildfire risks. That said, PG&E has taken the most proactive role in wildfire mitigation, including 10,000 mi of undergrounding.*

CA/Wildfire – Wildfires reported in northern CA, starting wildfire season

- Media coverage picked up small pockets of wildfires in CA.
- The fires were reported in San Jose, Napa and Sonoma regions, but were limited to brush fires and geographically limited.
- No structure damage reported and firefighters controlled the fires immediately.
- More here.

Guggenheim takeaway: *FYI. While the fires were very small, the fires starting highlight a start to another active season. Our recent NDR highlighted that mgmt. is cognizant of the risks, but has layers of protection in place to limit the ignition and spread of wildfire this summer season.* ***See more thoughts on PCG wildfire mitigation here.***

ETR – ETR MS storm recovery continues, MPSC voices concerns

- ETR MS continues storm recovery from about 138,000 outages at the peak.
- The restoration efforts have caused some concern from MPSC regulators as customers have voiced their complaints in restoration delays.
- MPSC commissioner Brent Bailey voiced his concern and disappointment with ETR MS response in media; see here.

Guggenheim takeaway: *FYI. Customer complaints are expected for a storm restoration process and we believe ETR has generally been timely and prudent in restoration. MPSC voicing concerns is a datapoint on public feedback for ETR, but also supports the need for resiliency, which ETR has pushed up in the capex stack.*

AEP – SWEPCO tax normalization ALJ ruling

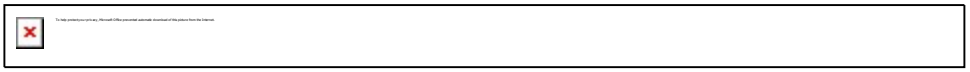
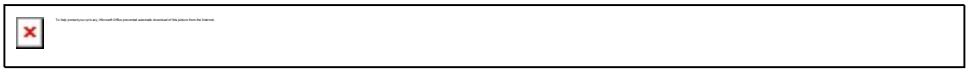
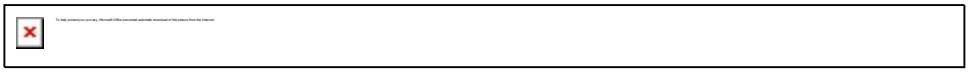
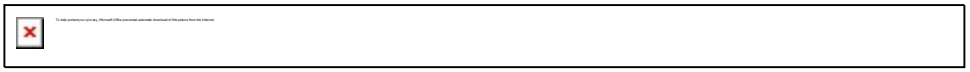
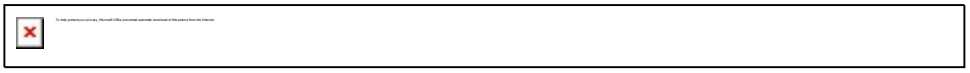
- Regarding the determination of a tax normalization violation, the ALJ ruled that once a private letter ruling is received from the IRS, SWEPCO should be authorized to book a regulatory asset/(liability). At such time as a determination is made by the IRS, SWEPCO would then be eligible to seek recovery.
- Docket U-35441

Guggenheim takeaway: *FYI.*

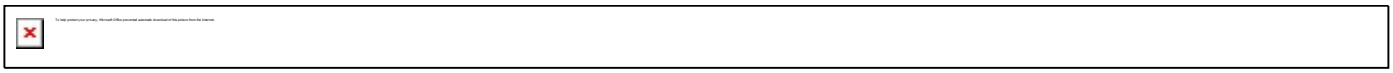
DUK – Interim true-up adjustment letters filed in storm securitization dockets

- DUK's utilities DEP and DEC filed interim true-up adjustment letters in North Carolina relating to storm securitization costs.
- Docket E-7, Sub 1243
- Docket E-2, Sub 1262

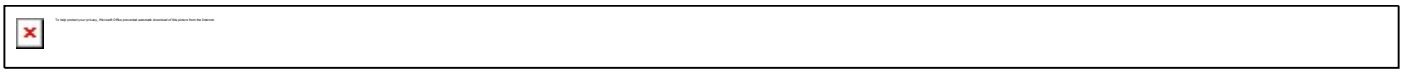
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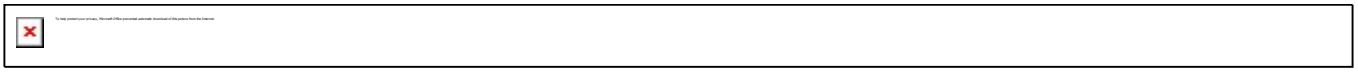

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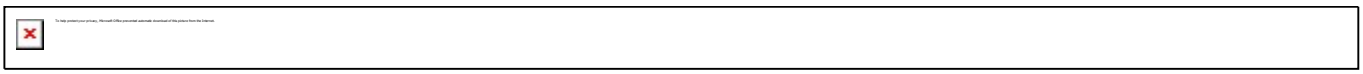
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- PNW – Staff Files Constructive Testimony, Just Like Last Rate Case; All Eyes on Aug/Sept ACC Hearings While We Remain More Constructive on AZ Overall
- FE – Meeting with FE's New CEO Reinforces Our Confidence in the Existing Plan, No Rebasing Ahead – Bear Calls Won't Likely Work, Remains Our Best Idea
- CEG/NRG: STP Transaction Embodies the Tectonic Rift in IPP Strategies – Deal Supports Our BUY Stance on CEG; Neutral Stance on NRG
- PCG Analyst Day: Digging for Gold in All the Right Places; Investor Day Highlights Tangible Risk Reduction and Stakeholder Buy-In
- ES: Gets Offshore Sale Process in Motion

- AGA 2023 Recap: Acquisitions, Guidance and Growth Dominate Discussion
- AEP – Now TX?? Yes, EPS Trajectory Intact but These Misses Are Becoming Hard to Digest for Anyone – Questions Surround Regulatory Affairs Naiveté
- AEP NDR: Death By 1,000 Cuts? No. Despite Some Stumbles Out of the Gate, CEO Very Honed In; Focus on Execution and B/S Dominates Conversations
- EXC NDR: Post-AEE Selloff Gets Interesting as the Pathway to a Boring Story Runs Through Illinois
- NRG: Hotel NRG - You Can Check Out Anytime You Like but You Can Never Leave… Activist Points Make Sense to Us but Pathways Forward Unclear
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- HE – Making Sense of Banking Turbulence; HE's ASB Remains Well Insulated From Isolated Liquidity Issues
- DUK: CEO NDR – How to Strengthen the Balance Sheet Without a "Rip-the-Band-Aid-Off" Equity Scenario? Patience.
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- AEP: Contracted Renewables Sale Above Our Expectations
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- D: SB1265 Amended Ahead of Crossover Deadline Tomorrow
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- FE – Rebase Coming? No. Asset Sale Delay? No. New CEO Strategy Shift? No. Balance Sheet Concerns? No. More Growth Opps? Yes. FE Remains '23 Best Idea
- D: General Assembly Sausage-Making Enters Full Swing as Lawmakers Continue to Cement the Bid-Ask
- D: Key Bills Pass Out of Senate Committee
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D: New Legislation Proposes Novel Option for OSW Stake Sale – Mosaic Pieces Continue to Form a Clearer Picture
- ETR – LPSC Votes on Modified Settlement Proposal with Customer Benefits, but Recognition of Hurricane Cost Prudency
- D: Opening Move in Richmond: Evolutionary Legislation Lays Path Forward

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GUGGENHEIM

May 3, 2023

NI: Straight Down the Fairway; 1Q23 in Line; 2023 Guidance Reiterated; NIPSCO Sale Still Expected to Close by YE23

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NI BUY

NiSource Inc.
Sector: Power & Utilities

Earnings Release

Share Price	$28.12
Price Target	$31.00

EPS ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2023	0.77	0.13E	0.13E	0.54E	1.57E
Prior	*0.76*	—	—	*0.55E*	—
P/E					17.9x
2024	0.86E	0.15E	0.11E	0.56E	1.68E
P/E					16.7x
2025	0.93E	0.18E	0.13E	0.58E	1.82E
P/E					15.5x

Market Data

52-Week Range	$23.78 - $32.08
Dividend	$1.02
Dividend Yield	3.6%
Market Cap (M)	$11,615
Enterprise Value (M)	$21,092
Shares Out (M)	413.1
ADV (3 mo; 000)	3,731

Key Message: Solid results; "annual" guidance maintained – NIPSCO sale on track; mgmt. not interested in organic LDC acquisitions. Reiterate BUY on value, strong growth, and NT catalysts.

Overall thoughts - NI's 1%+ outperformance vs. peers (+0.75% on the day vs. -0.38% for UTY) was driven less, in our view, by EPS results or guidance and more by the clear and unwavering reiteration that a NIPSCO minority stake sale transaction will close by YE23. On the quarter, NI delivered a penny beat vs. Gugg/consensus expectations and maintained its current FY23 guidance after previously raising full-year 2023 EPS guidance (by +$0.035/sh at the midpoint) in order to fully put to rest any remaining confusion some investors had about NI's 6-8% annual EPS growth rate. The highly anticipated but still unannounced NIPSCO minority stake sale transaction remains a key catalyst, if not the primary focus for investors right now, in our view. Because of this, we highlight mgmt.'s clarity and lack of caveats when reiterating both its confidence in a sale process occurring as well as that it will close by the end of 2023. Finally, we still believe NI is well equipped and has the right plan to meaningfully offset much of the O&M-related inflationary pressures it faces, even as these factors seem to weigh on all small cap utilities and many larger ones as well. For more on our expectations of which utilities are most and least likely to be impacted, please click HERE to visit our January 2033 Annual Outlook piece. We see NI as somewhere between the larger cap utilities it is beginning to more closely resemble and the LDCs "peers" that it is most commonly still grouped with despite its market cap of ~$11.5bn (vs. many LDCs at ~$3bn-$5bn). **We remain confident that a combination of capex and O&M levers will allow NI to mitigate near-term macroeconomic headwinds in 2023 and 2024** and also model a successful YE23 NIPSCO transaction, which we also see as supporting NI achieving its targeted FFO/debt of range of 14-16%. Overall, NI continues to build confidence in its clear LT EPS growth trajectory, has provided examples of potential incremental capex vs. the current plan (see pg. 2 of our note HERE), and, in our view, continues to demonstrate both regulatory (e.g., recent NIPSCO settlement) and strategic execution (e.g., the reiterated minority stake sale closing date). **We reiterate BUY and our $31 PT.**

Please see our 1Q23 earnings preview note HERE, quarterly weather note HERE, and sector debt note HERE.

NI reported 1Q23 net operating EPS of $0.77, a slight beat vs. Gugg/consensus each at $0.76/$0.76, and maintained its 2023 EPS guidance of $1.54-$1.60 ($1.57 midpoint) vs. Gugg/consensus both at $1.57/$1.57. Investors will recall that NI previously raised its 2023 guidance from its original level of $1.50-$1.57 ($1.54 midpoint) in order to remove any concerns some investors had surrounding what the company intended to imply about its EPS growth trajectory. Along with LT EPS growth, NI reiterated its **8-10% annual rate base growth rate** and **9-11% total shareholder return target**. Mgmt. also reaffirmed the existing financing plan (unchanged since the investor day), including striking a NIPSCO minority interest deal in the near term and closing it in 2023, which would support the balance sheet without the need for block or ATM equity in 2023/2024. In 2025 and beyond, mgmt. expects to use NI's ATM to support the company's current investment grade credit ratings and may also use it to redeem outstanding preferred stock of $900m. Mgmt. also maintained the company's existing 14-16% FFO/debt target.

Mgmt. once again confirmed that the NIPSCO minority stake sale process had kicked off in 1Q23 as planned but still had few details to share at this point regarding buyer interest. However, and most important, in our view, there seemed to be no debate around whether the targeted YE23 closing date could potentially shift. We believe investors should recall that this sale is unique in that: **1)** it does not require any regulatory approvals, **2)** management has expressed an expectation of having minimal tax leakage at

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the 19.9% stake level, and **3)** it has a successful recent precedent for the company to point to in the form of **DUK**'s transaction, where it sold a similar 19.9% stake of its Duke Energy Indiana (DEI) utility subsidiary to Singapore-based GIC. We await further updates from the company on how the transaction is progressing.

We have rebalanced our quarterly estimates to reflect the company's reported Q1 actual results and have maintained our 2023–2027 EPS estimates. We reiterate BUY and our $31 PT.

NI EPS: Guggenheim and consensus forecasts

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2023E	0.77A	0.13E	0.13E	0.54E	**1.57E**	*1.57E*
Prior	*0.76E*	*0.13E*	*0.13E*	*0.55E*	*1.57E*	
2024E					**1.68E**	*1.67E*
Prior					*1.68E*	
2025E					**1.82E**	*1.79E*
Prior					*1.82E*	
2026E					**1.95E**	*1.95E*
Prior					*1.95E*	
2027E					**2.07E**	*2.08E*
Prior					*2.07E*	

Source: Company reports, Bloomberg, and Guggenheim Securities, LLC estimates.

Valuation

We value NI as a regulated utility, arriving at our $31 price target using our regulated group multiple of 17x, with a premium applied to the electric business to reflect top-quartile rate base growth through the forecast period as well as incremental growth opportunities and strategic initiatives that aren't currently being captured in our estimates, and applying those multiples to 2025 fundamentals. We value the company via SOTP and (1) attribute a 2.0x premium on NIPSCO Electric, reflecting strong renewable-driven rate base growth, and (2) do not apply a discount to the gas business due to NI's guidance of zero O&M increases from 2022-2027 despite ongoing inflation. Applied together to our 2025 $1.82 EPS estimate and discounted back by 1 year, we arrive at our 12-month $31 PT.

Risks

Primary risks to our thesis include an underwhelming valuation for NIPSCO's minority stake sale or no sale at all as well as traditional risk factors inherent with all regulated utilities, including: (1) rate case risk, (2) potential for a lower capex outlook, and (3) interest rate changes above/below what we account for in our regression model.

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Power & Utilities June 8, 2023

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Access This Report

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our DTE NDR, PCG NDR, ES NDR, SMR NDR, SRE NDR, LNT NDR, PNW NDR, AWK NDR, ED NDR, CMS NDR, SO NDR, POR NDR, CEG NDR, PEG NDR, and other events, scroll down...

ES: Potential Gillett Renomination Another Piece in a Deteriorating CT Regulatory Mosaic (see our note HERE)

NI – NIPSCO minority stake sale apparently approaching final innings

AEP – Kentucky PSC continues to ramp up for Kentucky Power rate case

AEP – Final PUCT order denying Texas' participation in proposed 999 MW renewables project issued; all eyes turn to AR/LA

ETR – LPSC votes to advance proposal for review of ratepayer funded political spending

SRE – Port Arthur files comments regarding the supplemental environmental assessment for Port Arthur Phase II Expansion at FERC

FE – Maryland Office of People's Counsel files for rehearing in HB6-related docket

VA/RGGI – VA Air Pollution Control Board votes to repeal RGGI

NI – NIPSCO minority stake sale apparently approaching final innings

- According to four sources cited by Inframation, the minority stake sale process for NI's Indiana utility NIPSCO is in advanced stages.
- Interested parties are purported to include: The Blackstone Group [NYSE:BX], Abu Dhabi Investment Authority sovereign wealth fund [PRIVATE], and KKR & Co. [NYSE:KKR].
- Recall that on its 1Q23 earnings call in early May, NI affirmed 2023 guidance and LT growth commitments, while also reaffirming that the NIPSCO minority interest sale was still expected to occur in 2023.
- More HERE

Guggenheim takeaway: *As we wrote in our recent AGA write-up following a meeting with NI's full senior mgmt. team (see HERE for more), we continue to believe that the NIPSCO sale remains on track for 2023, and also note that mgmt. suggests that NI's post-sale FFO-to-debt is likely to be towards the higher end of the targeted 14%-16% range initially, before of course beginning to migrate down from there.*

AEP – Kentucky PSC continues to ramp up for Kentucky Power rate case

- The Kentucky Public Service Commission issued a standard procedural order authorizing the Office of Rate Intervention (Attorney General) to intervene as a party in the rate case.
- "The Attorney General is entitled to the full rights of a party and shall be served with the Commission's Orders and with filed testimony, exhibits, pleadings, correspondence, and all other documents submitted by parties after the date of this Order." – PSC Order (link HERE)
- Docket 2023-00159

Guggenheim takeaway: *Minor procedural FYI as the docket gets underway. See our NDR note HERE. We will closely monitor this case despite its smaller sized utility vs. the total enterprise, as a proxy for rate case execution in a relatively challenged state from a bill headroom perspective.*

AEP – Final PUCT order denying Texas' participation in proposed 999 MW renewables project issued; all eyes turn to AR/LA

- As we previously published (see our note HERE) following the PUCT's vote, the commission rejected the proposal for decision (PFD), denied the requested CCN amendment, and found that acquiring the selected facilities is not in the public interest.
- Docket 53625

Guggenheim takeaway: *Given Texas' decision not to proceed, the fate of the project falls to Arkansas and Louisiana. Recall last week's approval in Arkansas of their originally allocated 20% portion of the total proposed 999 MW project, as well as a flex-up pending Louisiana's decision. Assuming that Louisiana ultimately approves their portion of the project, we see two potential paths from here: (1) if Louisiana approves the project with a flex-up, Arkansas will not flex-up and the full 999 MW project is approved; (2) however, if Louisiana approves the project without a flex-up, Arkansas would then flex-up and between the two states (AR/LA), 600 MWs of the*

initially proposed 999 MWs would be approved. Again, similar to a rate case in KY, this will be a closely followed process as investors are trying to assess regulatory risk and execution.

ETR – LPSC votes to advance proposal for review of ratepayer funded political spending

- The LPSC voted to advance the proposal for reviews of ratepayer funding for political spending among investor-owned utilities, namely Entergy.
- While the commissioners made an argument that adequate mechanisms already exist to review such spending within customer rates, a 3-2 majority approved the measure to increase transparency.
- The LPSC secretary noted that there is no specific audit rule nor a policy on disallowance of such spending, but ETR noted that any spending for advocacy has been typically removed from ratepayer funds (i.e. not funded from customer bills).

Guggenheim takeaway: *FYI. While mechanically there may not be any direct ratepayer funding for advocacy, ETR did note that the company advocates for issues including customer savings. The proposal does demonstrate an increasing level of tension at the LPSC feeling inadequate levels of oversight on specific issues, which follows a series of debates around the commission actions on generation approval and securitization. For ETR there are few tangible datapoints on adverse outcomes, but we acknowledge the risk of an adversarial commission.*

SRE – Port Arthur files comments regarding the supplemental environmental assessment for Port Arthur Phase II Expansion at FERC

- Port Arthur filed comments addressing a wide selection of stakeholder concerns on the supplemental environmental assessment for Port Arthur Phase II expansion.
- Intervenors previously filed comments questioning various aspects of the project design and administrative process (Intervenors ranged from individuals to local agencies and the EPA).
- The Port Arthur responses are 160+ pages long.
- EPA in particular disagreed with or questioned certain practices used in the EA, including recommending an upstream/downstream GHG impacts analysis as part of FERC's obligations for the EA.
- FERC has been working on supplemental environmental assessments for PA phase 2.
- FERC Docket: CP20-55

Guggenheim takeaway: *FYI. Update on FERC process as SRE pursues further LNG expansions. There is strong local pushback on environmental impacts, but SRE has been focused on lowering environmental impacts through electrification and CCS opportunities (relative to other LNG developers). While the plans for FID on PA development are largely completed, the expansion project is still in the earlier stage of development. The co-location for the expansion project could provide an opportunity to accelerate development timelines.*

FE – Maryland Office of People's Counsel files for rehearing in HB6-related docket

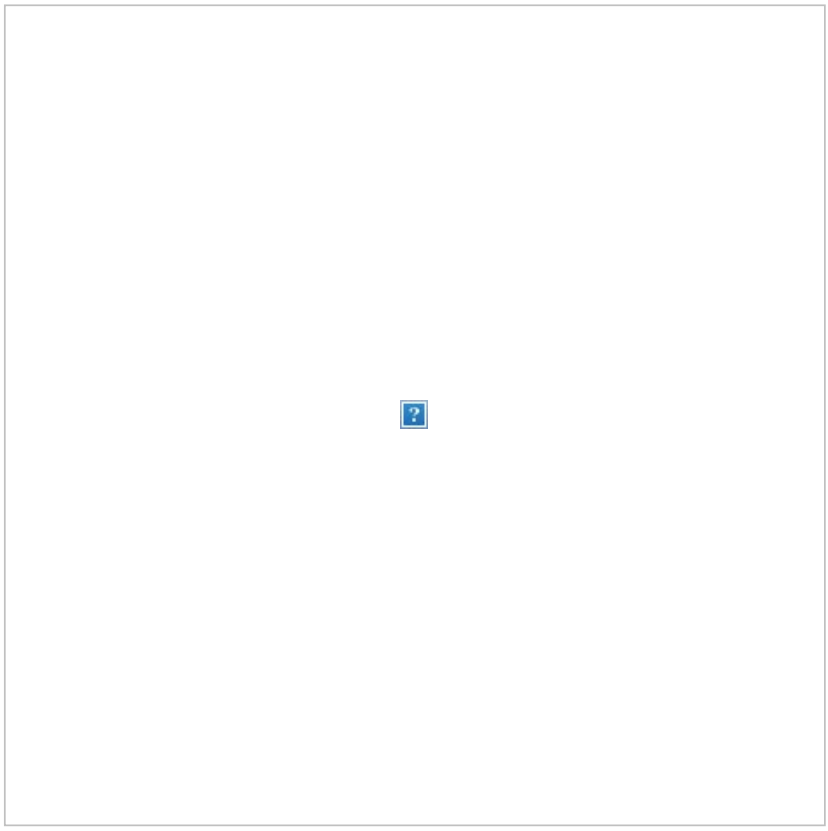
- The MD OPC has requested a rehearing following the PSC's May 5, 2023 final order, which had otherwise closed the proceeding.
- As per the OPC: "*The Office of People's Counsel requests that the Commission grant rehearing of Order No. 90615, in which the Commission terminated its investigation into the impacts of FirstEnergy's "HB6 scandal" on Potomac Edison and its ratepayers.*"
- Case No. 9667

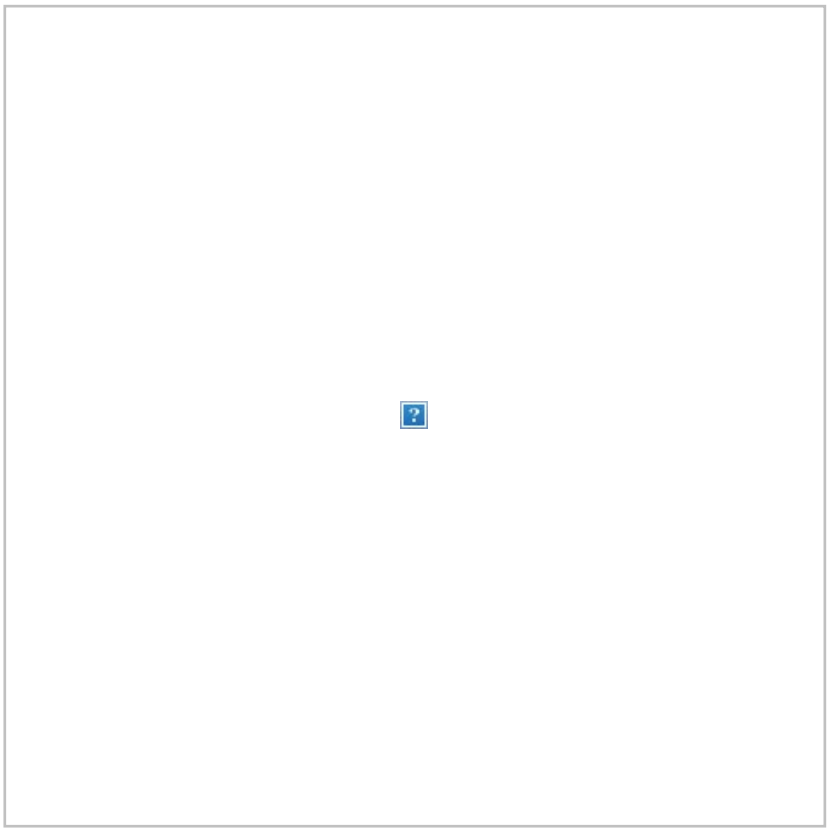
Guggenheim takeaway: *Flagging for your awareness as we await the PSC's decision to either entertain or deny the request. Recall that in its May 5th order, the PSC had concluded that insufficient evidence existed to justify the basis to proceed with a further investigation.*

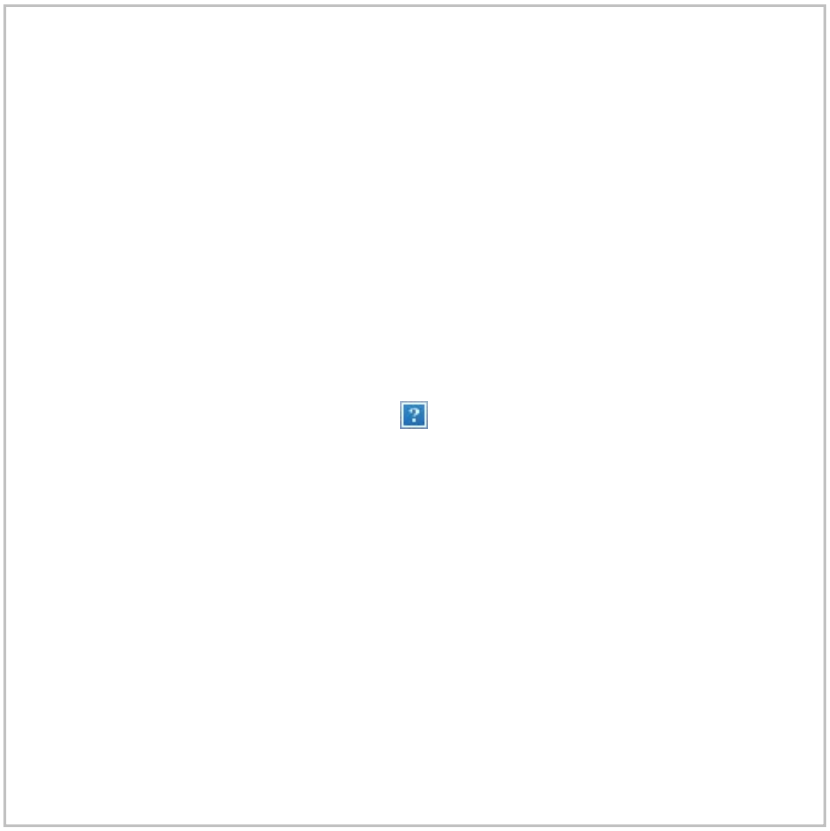
VA/RGGI – VA Air Pollution Control Board votes to repeal RGGI

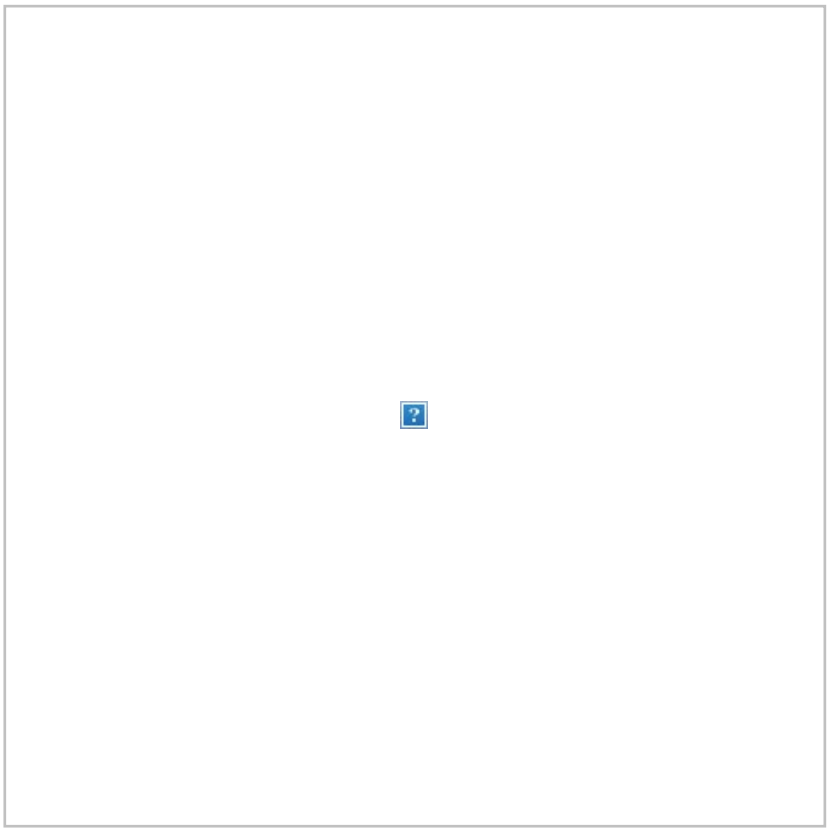
- The State Air Pollution Control Board voted 4-3 to repeal/exit RGGI, according to reports
- Youngkin statement HERE
- More HERE

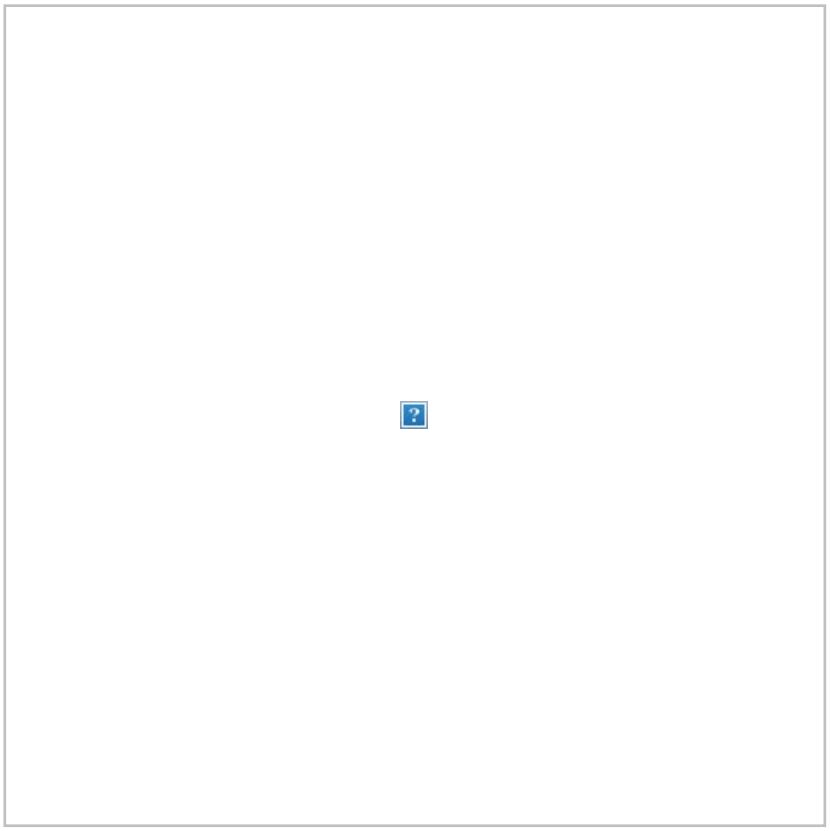
Guggenheim takeaway: *Flagged for your awareness. As media has repeatedly indicated, opponents of the move have made substantial noise over the legality of the Board's actions – setting up a potentially lengthy court process.*

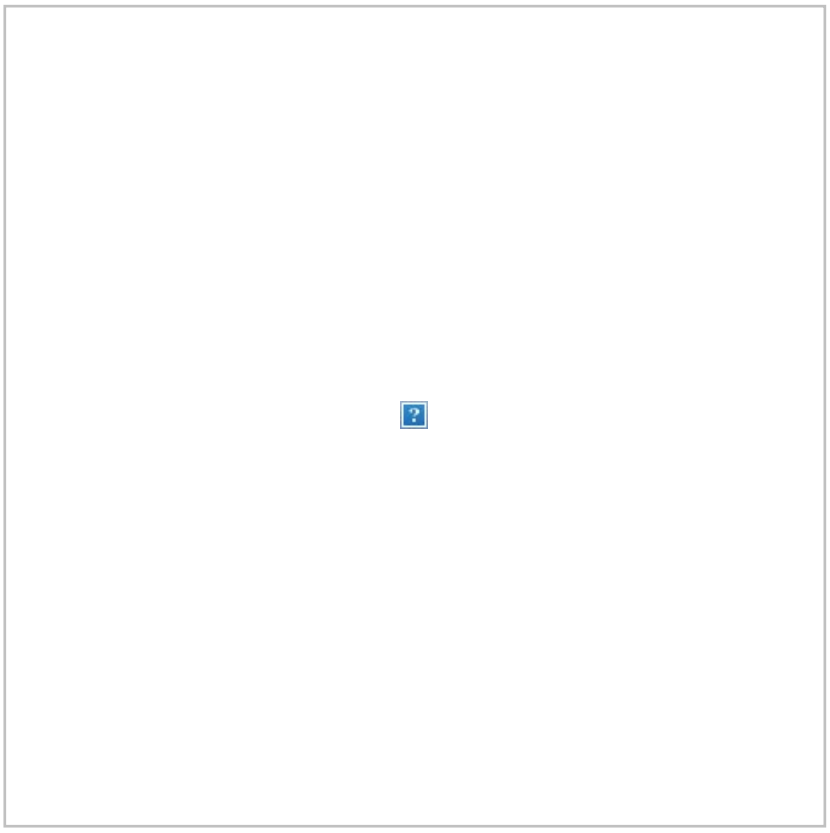


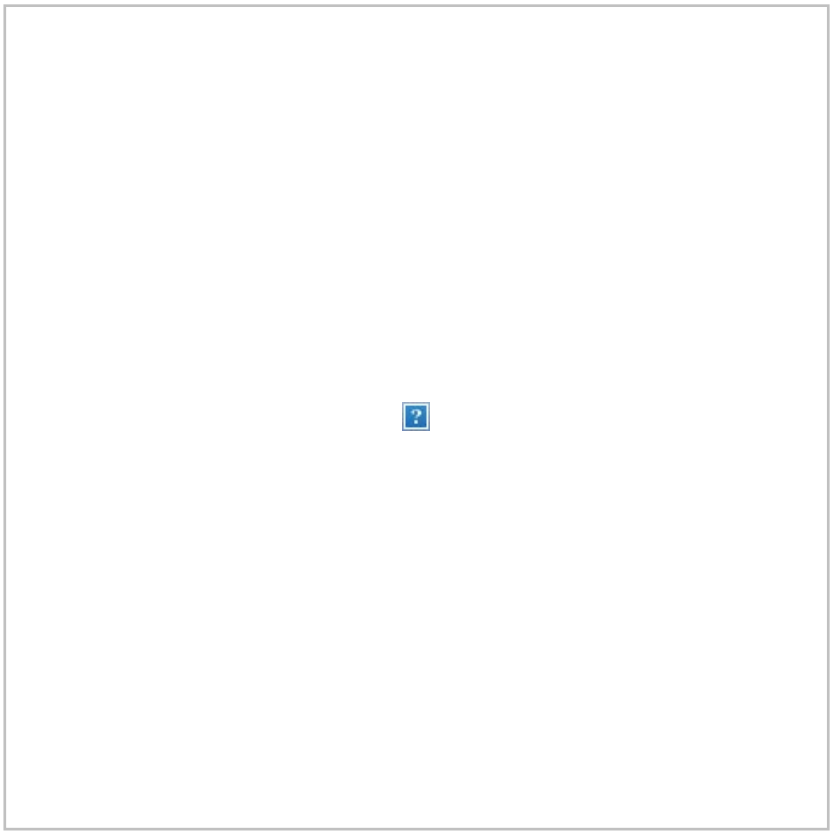




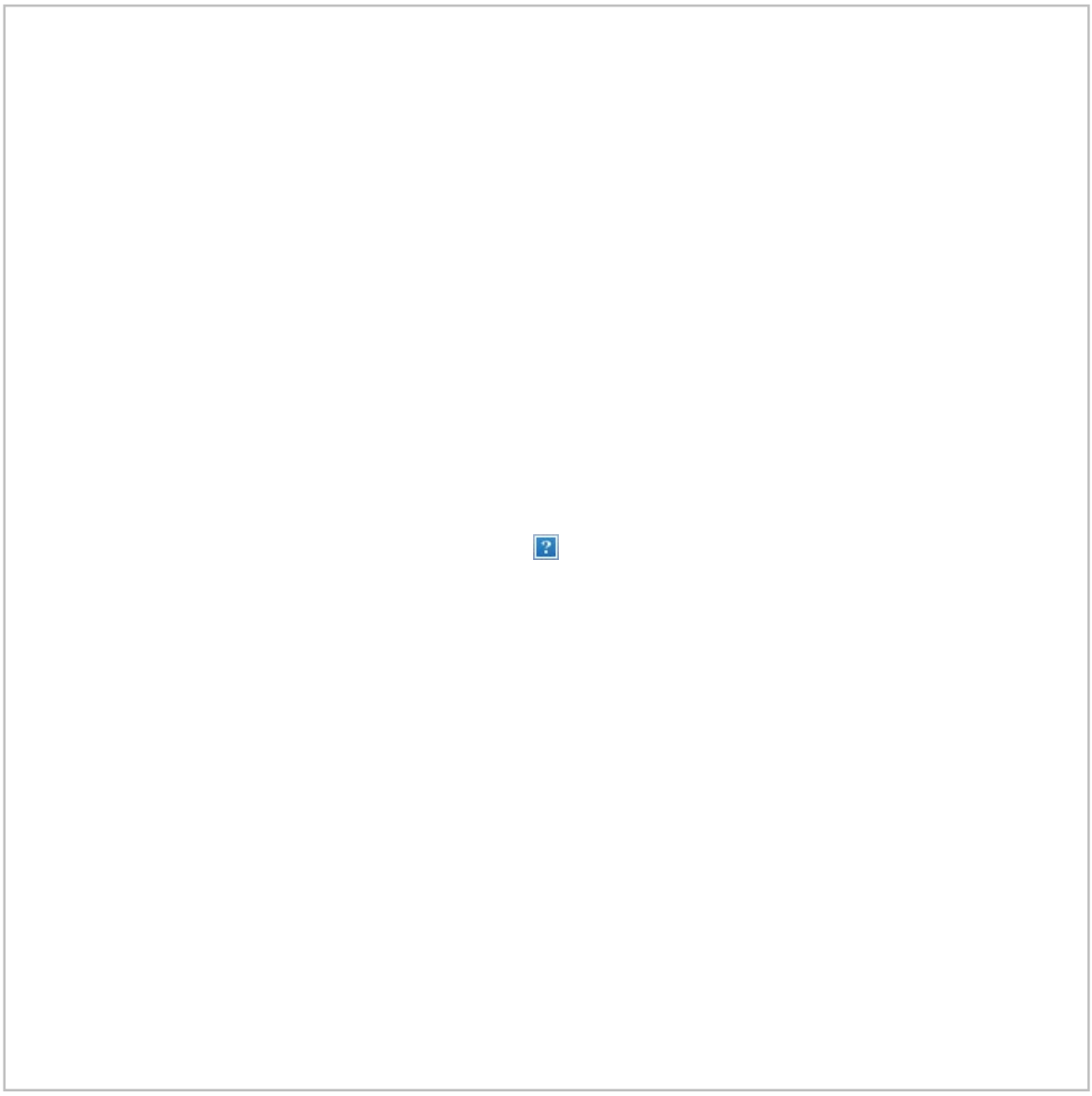




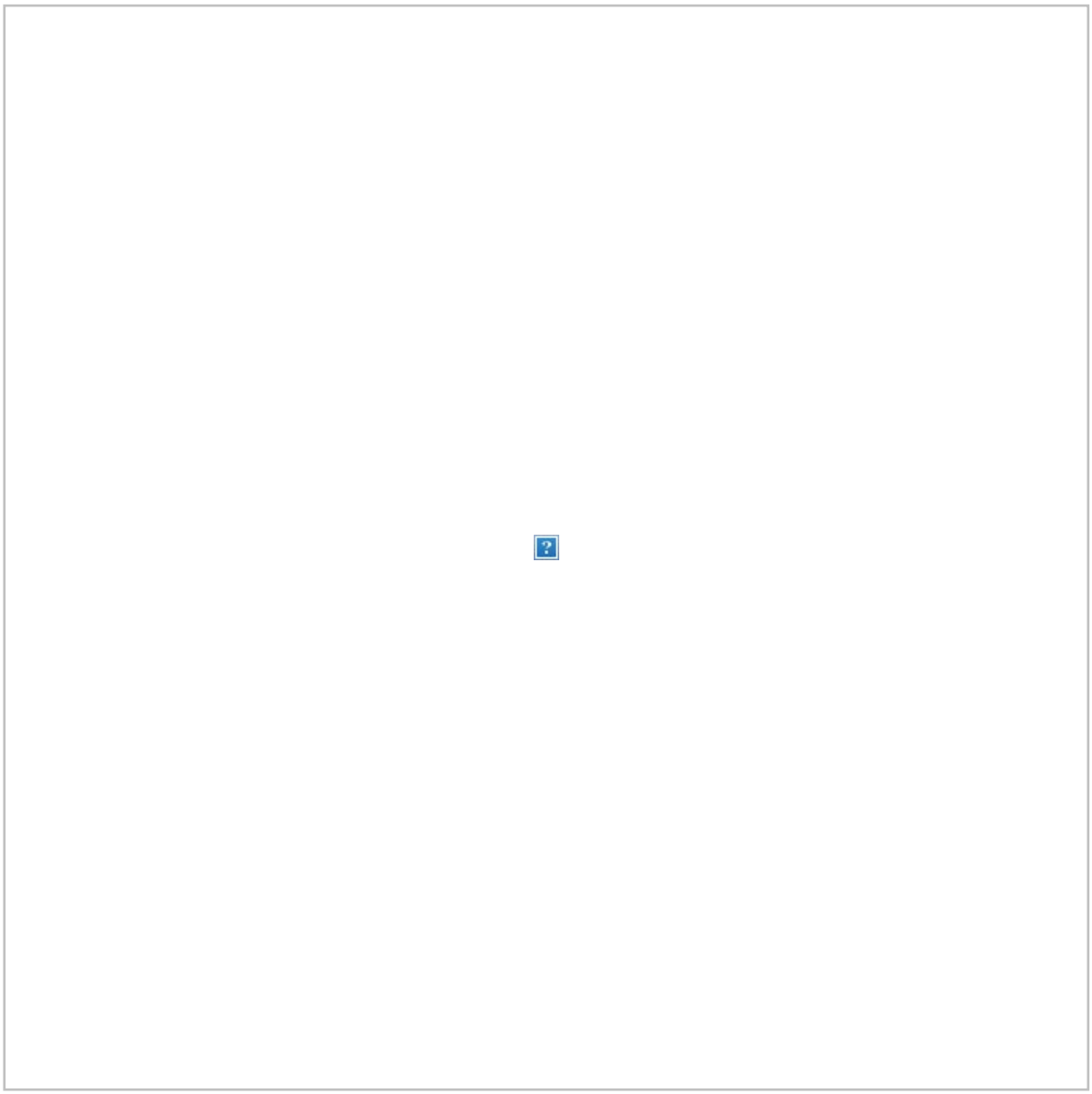




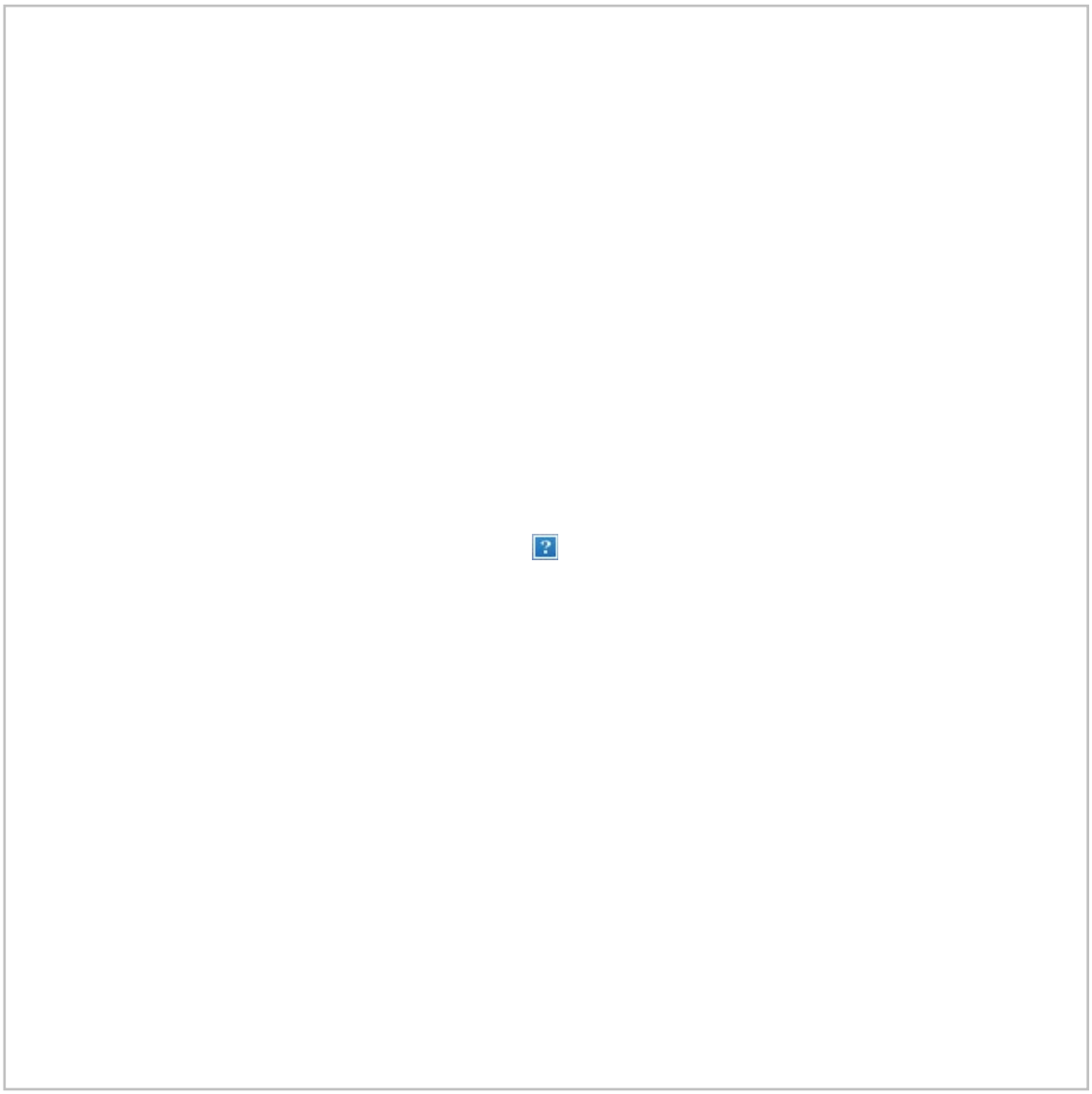
Guggenheim 2023 Client and Corporate Access Utility Events



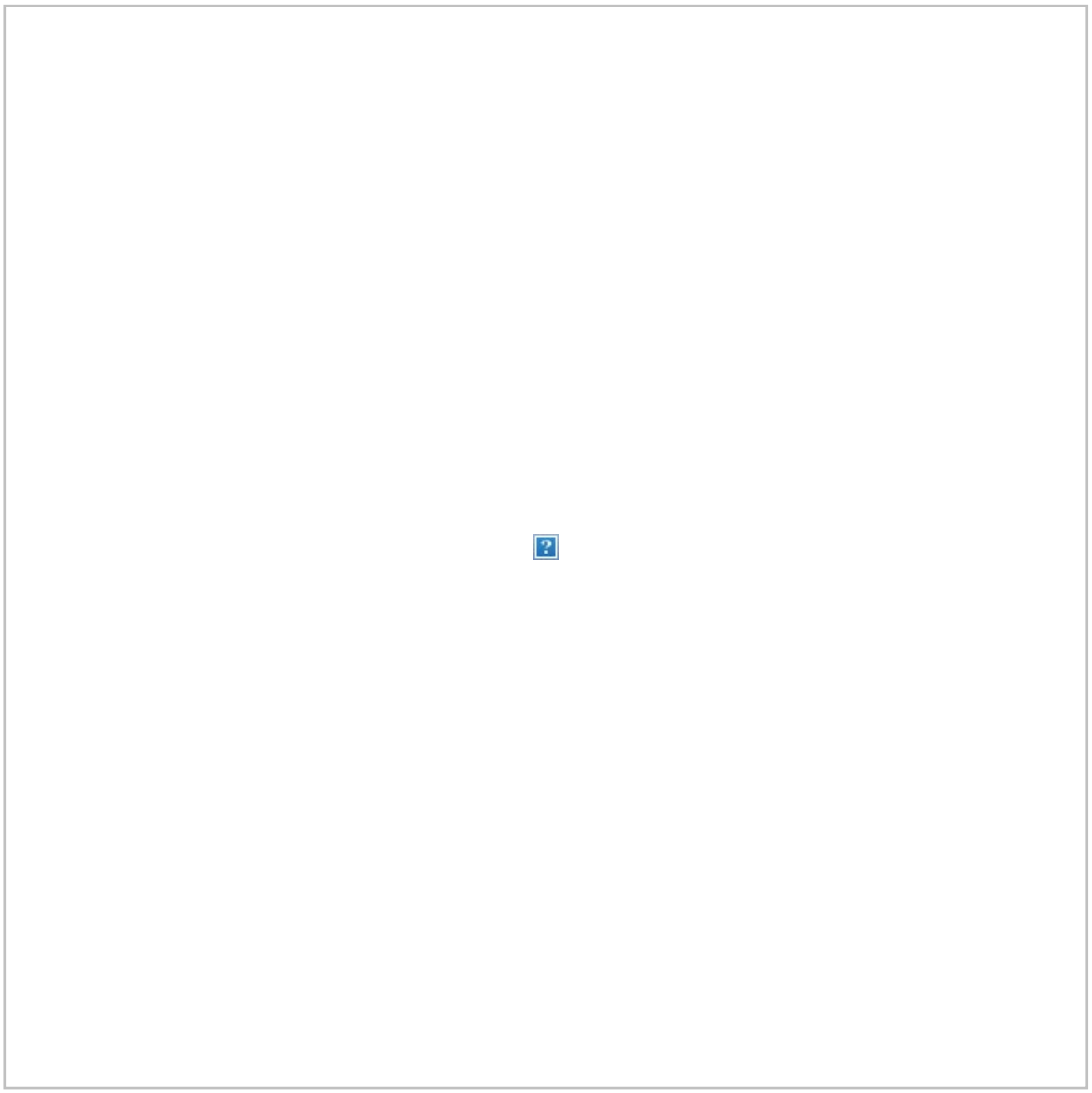
Guggenheim Comp Sheet



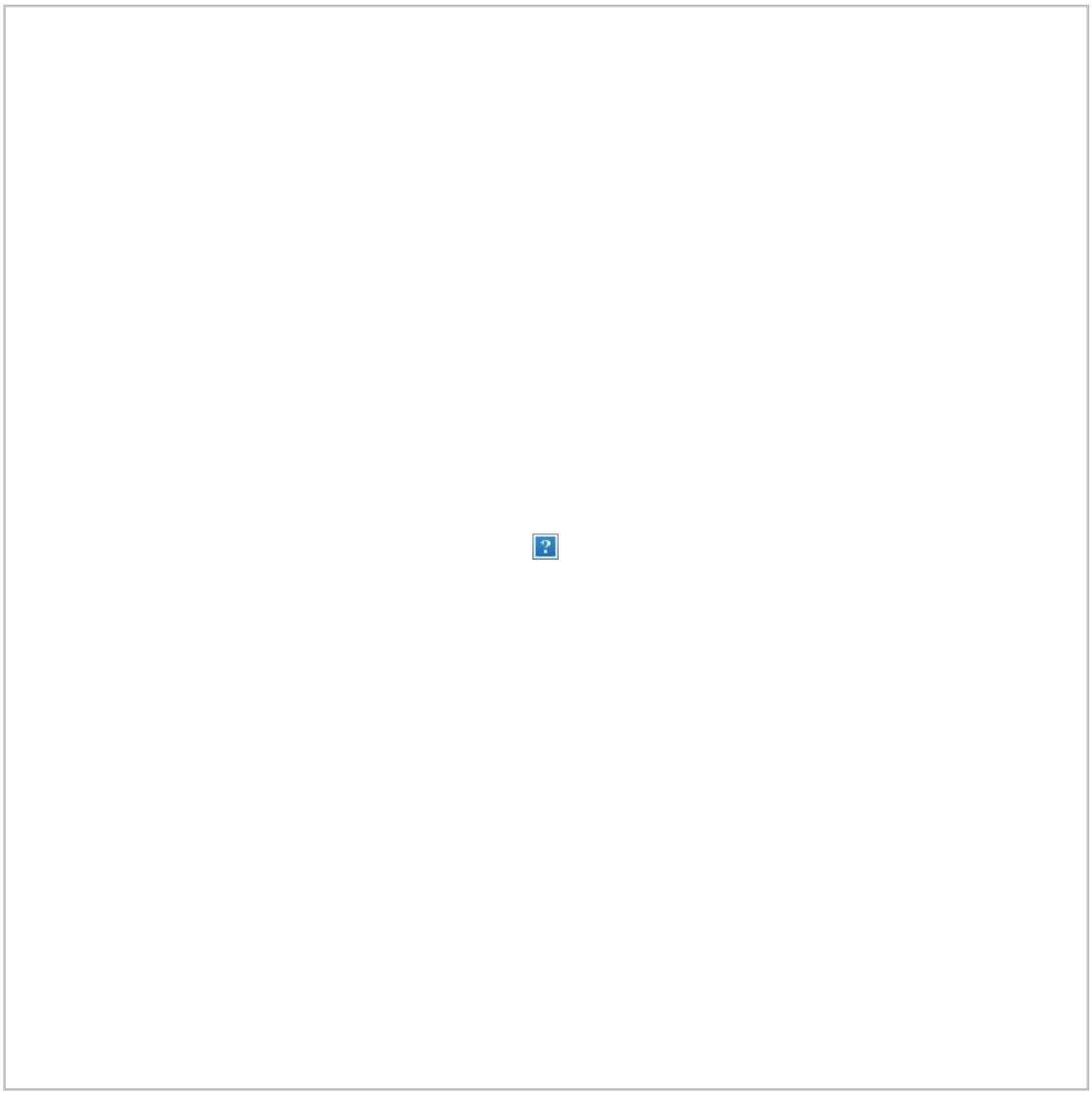
Share Price Performance (Year-to-Date, Three-Month, One-Month, & Five-Day Trailing)



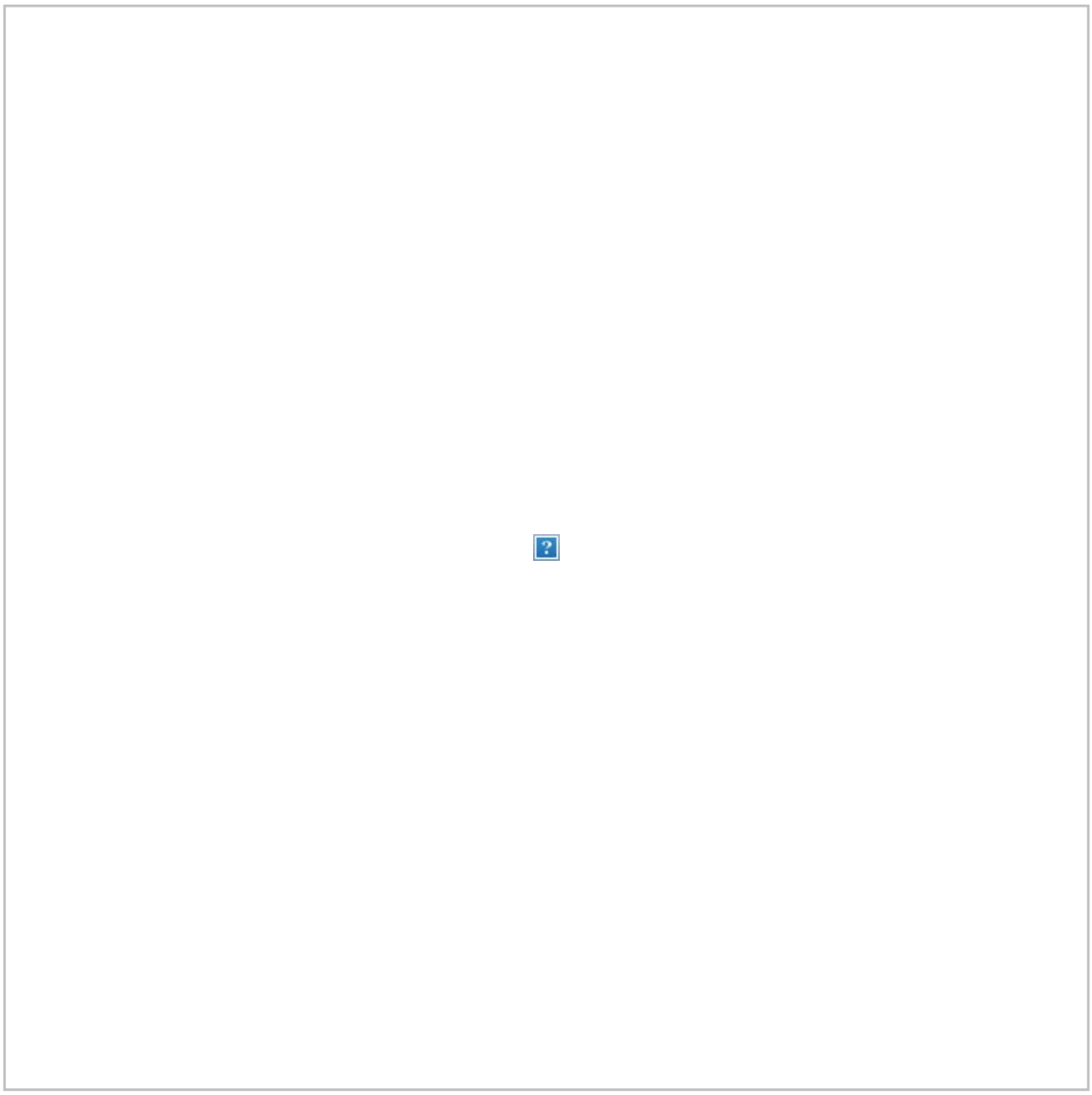
Generation and Mix



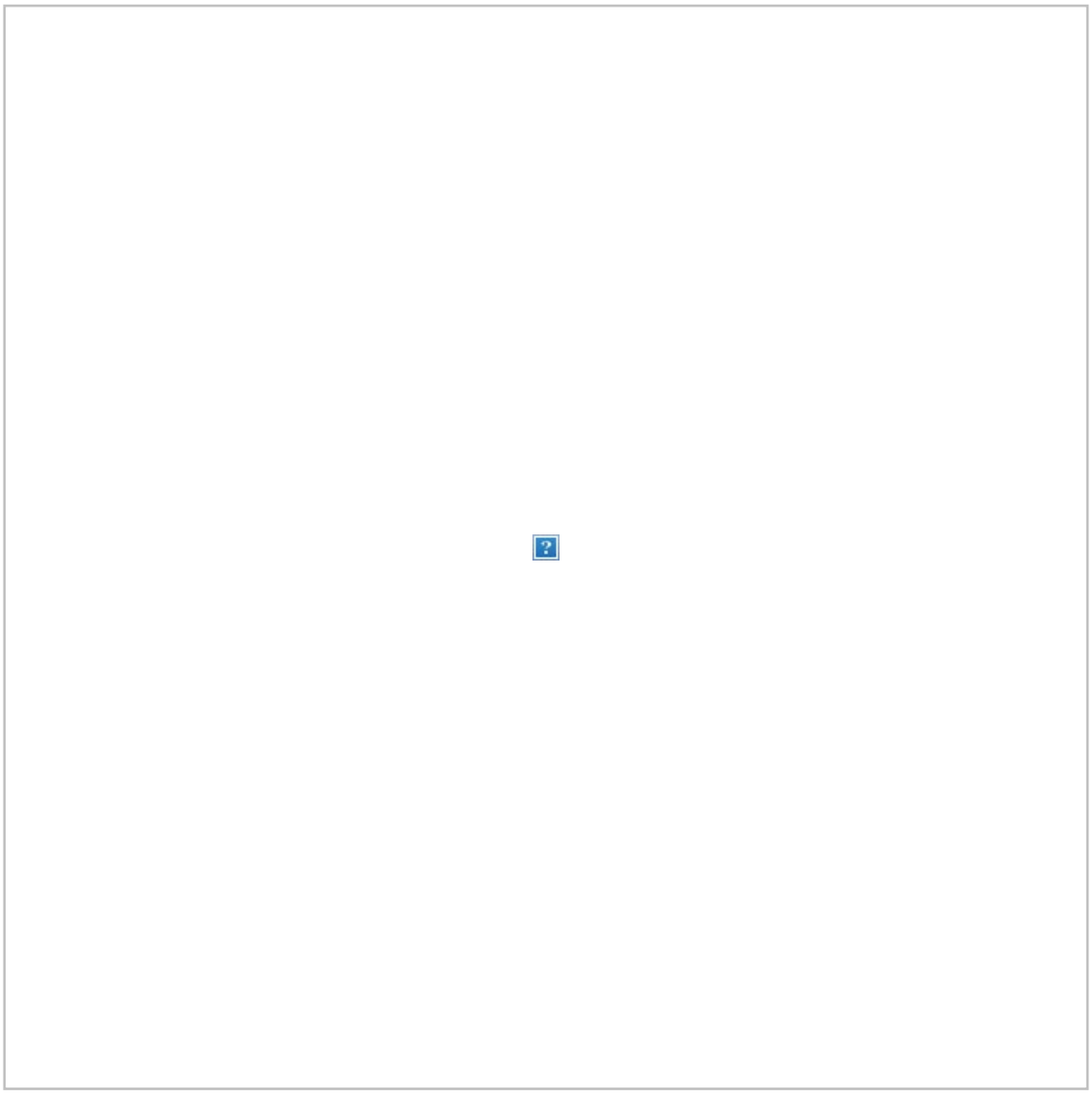
Generation and Mix (continued)



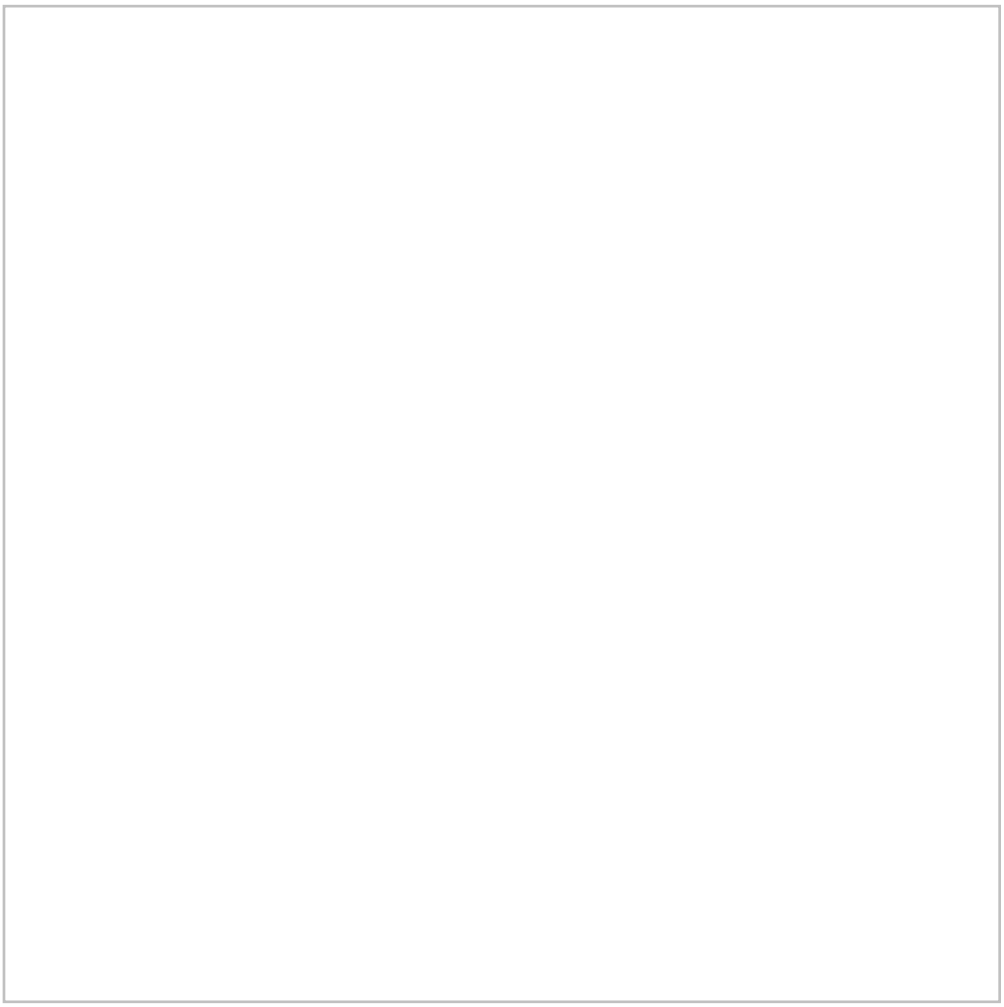
Weather



YTD Peak Load



Regulatory Calendar



Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- PNW – Staff Files Constructive Testimony, Just Like Last Rate Case; All Eyes on Aug/Sept ACC Hearings While We Remain More Constructive on AZ Overall
- FE – Meeting with FE's New CEO Reinforces Our Confidence in the Existing Plan, No Rebasing Ahead – Bear Calls Won't Likely Work, Remains Our Best Idea
- CEG/NRG: STP Transaction Embodies the Tectonic Rift in IPP Strategies – Deal Supports Our BUY Stance on CEG; Neutral Stance on NRG
- PCG Analyst Day: Digging for Gold in All the Right Places; Investor Day Highlights Tangible Risk Reduction and Stakeholder Buy-In
- ES: Gets Offshore Sale Process in Motion
- AGA 2023 Recap: Acquisitions, Guidance and Growth Dominate Discussion
- AEP – Now TX?? Yes, EPS Trajectory Intact but These Misses Are Becoming Hard to Digest for Anyone –

Questions Surround Regulatory Affairs Naiveté

- AEP NDR: Death By 1,000 Cuts? No. Despite Some Stumbles Out of the Gate, CEO Very Honed In; Focus on Execution and B/S Dominates Conversations
- EXC NDR: Post-AEE Selloff Gets Interesting as the Pathway to a Boring Story Runs Through Illinois
- NRG: Hotel NRG - You Can Check Out Anytime You Like but You Can Never Leave… Activist Points Make Sense to Us but Pathways Forward Unclear
- IL: Staff Direct Testimony Sets Disappointing Floor in MYP Bid-Ask vs. Investor Expectations
- ETR – ETR-TX Settlement Filed Resolving Most Issues; 9.57% ROE, 51.21% ER and Full Rate Base Approval
- NEP: NEP Announces Strategic Steps to Minimize Equity; LT Platform Positioning
- Quarterly Weather Review: Cloudy With a Chance of Lower EPS
- Rising Debt Costs a Problem? Nah, Fake It Till You Make It
- AEP: No Surprise, KY Deal Breaks – Clearing Event
- Guggenheim Nuclear Conference Wrap: If You Build It, They Will Come?
- NEP: CEPF and Near-Term Financing Drilldown – Headwinds? Yes. Distribution Reset? Unlikely. Share Weakness Unwarranted; Bear Calls Flawed
- ERCOT: Policy Call Reinforces Uphill View on Repricing as TX Legislature Mulls Resource Adequacy Tweaks
- AEE NDR: Bread and Butter Utility Update Underscores Ameren's Premium Attributes
- NEE NDR: Management Continues to Chop Through IRA Upside Opportunities but Baseline Remains Conservative; Headline Hurdles Require Time
- ES: What Are the Bears Playing for Now? The Dislocation to Group Getting Out of Hand
- SRE: Port Arthur Reaches FID, Few Holdovers with Project Equity, but Economics Are Broadly Accretive
- SMR: 2023 to See Slightly Heightened Cash Usage as Focus Remains on Execution
- HE – Making Sense of Banking Turbulence; HE's ASB Remains Well Insulated From Isolated Liquidity Issues
- DUK: CEO NDR – How to Strengthen the Balance Sheet Without a "Rip-the-Band-Aid-Off" Equity Scenario? Patience.
- PEG Analyst Day – Straight Talking with PEG; Mgmt. Backs Up Sustainable 5-7% EPS Growth with Room to Exceed
- SRE: PUCT Modifies Oncor PFD, Approves Oncor Rate Case; 9.7% ROE and 42.5% Equity Ratio – Above Our Expectation
- Arizona Regulation: Taking a Deep Dive in the Desert — New Commissioners Bring a Wealth of Experience, Insights, and Planned Improvements to the ACC
- PNW: APS Wins Appeal of 2019 Rate Case's Penalty ROE and SCR Disallowance — Arizona Supreme Court May Be Next
- VST: Sensible Transaction and Organizational Realignment Look to Freeze the Melting Ice Cube Argument
- Deal or No Deal? Taking the Pulse of Fuel Deferrals Across Our Coverage Universe
- PJM: How Low Can You Go? Residualization of the BRA Marches On…
- D: Legislative Breakthrough Yields a Deal; Focus Turns to Credit Repair
- AEP: Contracted Renewables Sale Above Our Expectations

- LNT: Cleanup in Aisle 4? PSCW's Damage Control Proves Effective: Upgrading to NEUTRAL
- PSCW: Conversation with Chair Valcq Strikes a Balanced Tone
- D: Halftime in Richmond as Multiple Bills Advance
- D: SB1265 Amended Ahead of Crossover Deadline Tomorrow
- FE – The Same Board Who Set The Current Strategic Plan Is Also Picking The CEO… Follow-Up Thoughts Post Our Mgmt. Call
- FE – Rebase Coming? No. Asset Sale Delay? No. New CEO Strategy Shift? No. Balance Sheet Concerns? No. More Growth Opps? Yes. FE Remains '23 Best Idea
- D: General Assembly Sausage-Making Enters Full Swing as Lawmakers Continue to Cement the Bid-Ask
- D: Key Bills Pass Out of Senate Committee
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D: New Legislation Proposes Novel Option for OSW Stake Sale – Mosaic Pieces Continue to Form a Clearer Picture
- ETR – LPSC Votes on Modified Settlement Proposal with Customer Benefits, but Recognition of Hurricane Cost Prudency
- D: Opening Move in Richmond: Evolutionary Legislation Lays Path Forward

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From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: NI: Healthy Multiple for NIPSCO 19.9% Sale in Line with Consensus Expectations; Questions Remain Around Equity Needs & Blackstone Equity Contributions - Guggenheim Securities, LLC
Date: Tuesday, June 20, 2023 1:45:28 PM

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NI: Healthy Multiple for NIPSCO 19.9% Sale in Line with Consensus Expectations; Questions Remain Around Equity Needs & Blackstone Equity Contributions

Power & Utilities June 20, 2023

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Guggenheim Utilities Research Team

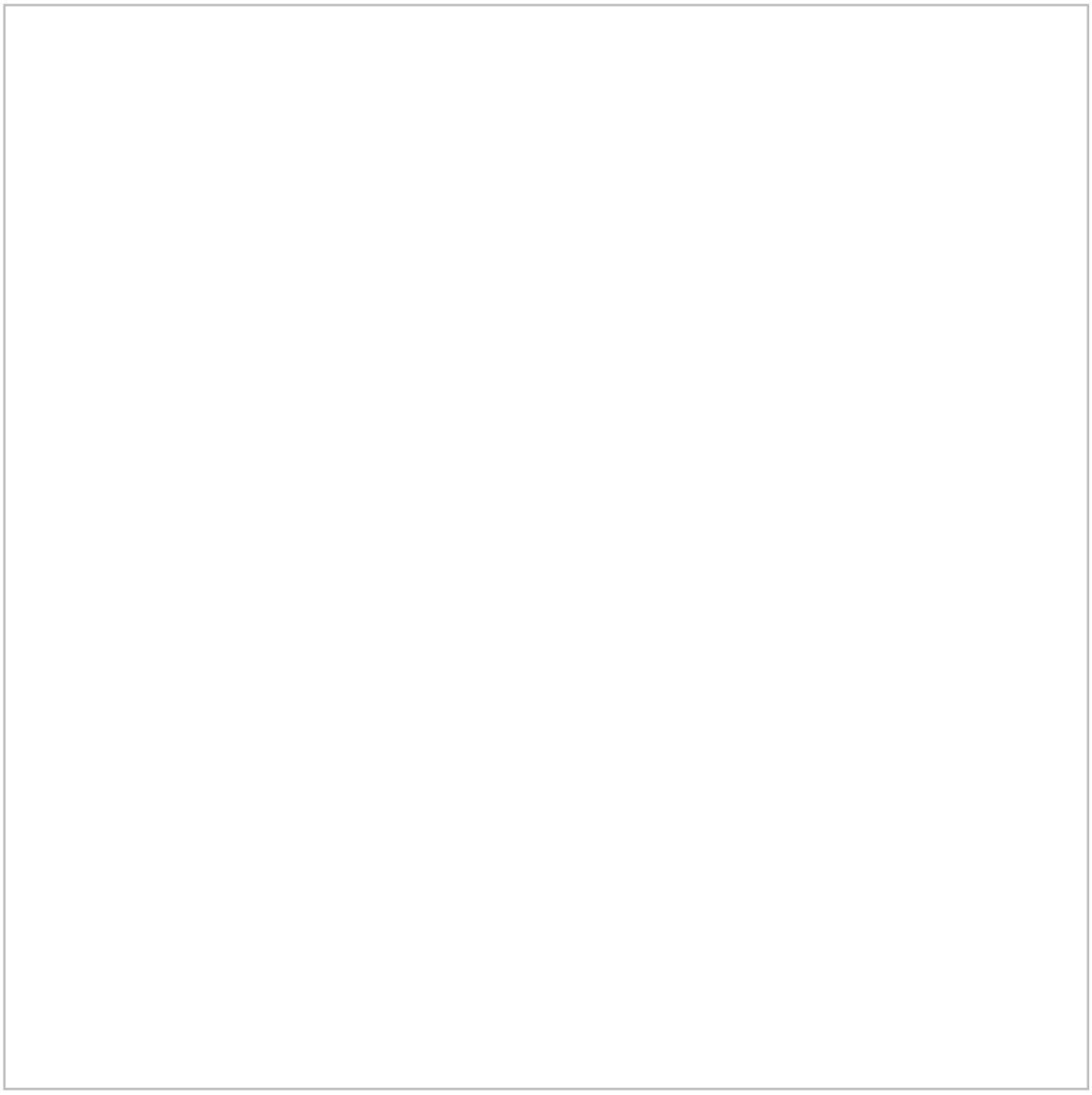
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Key Message: Today's transaction came in at an attractive valuation in our view, as well as that of consensus, at multiples of 32.5x LTM P/E (as of 1Q23) and 1.85x 2022A rate base. **In 2023 terms, we estimate that the transaction implies a ~26.5x 2023E P/E, and ~1.5x 2023E rate base.** Despite mgmt.'s comments clearly reaffirming zero equity needs until 2025, investors still had questions this morning around how to think about the $250m equity commitment letter from Blackstone – i.e., this lack of clarity persists beyond 2025, with investors asking how to model Blackstone's ongoing capex-driven equity infusions and what impact they have on NI's equity needs going forward and should it be accretive to the valuation metrics – i.e., if mgmt. would have previously mentioned a potential elimination of equity needs beyond '25, the incremental

value created from Blackstone's equity infusion would have been more clear and certainly accretive vs. our model. How does this compare vs DUK's DEI transaction in January 2021? Fairly favorable especially given the changes to capital market conditions.

What's implied for 2023?... Taking NIPSCO's $7.7bn YE 2022A rate base, the ~$2.1bn of capex guided to in today's slides, and incorporating incremental depreciation of just under $400m, **we see the potential for NIPSCO's 2023 rate base to come in at ~$9.4bn as of YE23**. Using the company's provided figure of ~$333m LTM Non-GAAP net income as of March 31, 2023, and the $10.8bn equity value implied by the deal ($14.3bn EV minus $3.5bn of debt) results in the 32.5x 2022A P/E and 1.85x 2022A rate base multiples presented in the company's slides. For comparison's sake, using **our $9.4bn 2023E YE rate base estimate** and maintaining the same implied ROE, **we estimate that the transaction implies a ~26.5x 2023E P/E, and ~1.5x 2023E rate base, *as below***.

NIPSCO 2022 Transaction Multiples & Guggenheim's 2023 estimates



Source: Company slides, Guggenheim Securities, LLC analysis.

How does this compare vs DUK's DEI transaction in January 2021? Fairly favorable especially given the changes to capital market conditions (i.e. higher rate environment vs. when DUK announced their deal)... We highlight that when DUK announced its minority interest stake sale to GIC in January 2021, it presented an implied valuation of **27.7x DEI P/E multiple (LTM P/E as of 9/30/2020)**. This transaction also valued DEI at a $10.3bn equity value and $14.5bn firm value on a 100% basis, with a DEI net debt balance of $4.2bn as of 9/30/2020 (source HERE).

What does this deal mean for equity needs?.. Investors continued to have questions regarding Blackstone's $250m equity commitment letter (which is intended to address NIPSCO's capex). Specifically, there appears to be a lack of clarity as to whether Blackstone's NIPSCO capex contributions should be treated effectively as equity-offsets which reduce NI's equity needs in

2025 and beyond. Meanwhile, NI spoke with the three ratings agencies yesterday and expects them to comment in the days and weeks ahead. **In our view, this transaction appears constructive from a financing and balance sheet perspective, as mgmt. was clear that it will push NI's FFO/debt to the top end of its 14%-16% FFO/debt range soon after closing.** As that credit metric begins to drift back down, mgmt. expects to start using ATM equity in 2025+ to maintain its 15% midpoint FFO/debt target and support its current investment grade credit ratings.

What happened?... This morning, NI announced that Blackstone (NYSE:BX) will invest $2.15bn of cash for a 19.9% stake in NIPSCO, with closing expected by year-end 2023 (pending FERC approval). NI intends to use the proceeds from the partial sale of its natural gas and electric company to pay down debt and fund capital needs related to its renewable generation transition. NI will continue to own an 80.1% stake in NIPSCO, and going forward, **Blackstone will maintain its 19.9% stake through funding its corresponding allocation of NIPSCO's capex spending.** To facilitate its ongoing capex contributions, Blackstone will issue a $250m equity commitment letter for its pro rata share of funding, including the next few years of renewable-driven capex at NIPSCO. **NI reaffirmed its adjusted NOEPS guidance** of $1.54-$1.60 ($1.57 midpoint) for 2023, as well as its 6%-8% annual NOEPS growth guidance through 2027. The company also **reiterated overall 8%-10% annual utility rate base growth guidance**, with NIPSCO clearly positioned as the main growth driver due to its significant planned renewable investments — **NIPSCO's $7.7bn 2022A year-end rate base is expected to ~$15bn+ by the end of 2027 (a ~13%-14% CAGR).**

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From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: EIX, PEG, OGS, EXC, NI, ALE, SR, AVA, SMR, MA/Wind, Policy, SPP, PCG, CAISO, WEC, AEP/DUK/NI - Guggenheim Securities, LLC
Date: Wednesday, May 3, 2023 10:14:50 AM

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Power & Utilities May 3, 2023

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James Kennedy 212 823 6741
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Guggenheim Utilities Research Team

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SAVE THE DATE: We are hosting a dinner with CNP's COO, new CFO, and others on May 22nd...

For our AGA conference (May 20-23) meeting schedule, please scroll down...

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our EXC NDR, AEP NDR, ETR NDR, DTE NDR, PCG NDR, ES NDR, SMR NDR, LNT NDR, PNW NDR, AWK NDR, CMS NDR, SO NDR, POR NDR, CEG NDR, PEG NDR, and other events, scroll down...

EIX: 1Q23 EPS Beat; All Quiet on the Western Front, Regulatory Activity Spikes Mid-May but More Tailwinds, in Our View (see our note HERE)

PEG – 1Q EPS Beat; Quiet Quarter Emblematic of Lower Risk Business Mix; Electrification for the Long-Haul Upside (see our note HERE)

OGS: Calm Despite Stormy Weather — 1Q23 In Line & 2023 Guidance Maintained (see our note HERE)

EXC reports 1Q23 earnings

NI 1Q23 in line; reiterates all guidance, including YE23 anticipated NIPSCO minority interest sale closing date

ALE reports 1Q23 earnings

SR reports fiscal Q2 2023 NEEPS beat; narrows guidance around unchanged midpoint

AVA reports large miss for 1Q23; maintains annual guidance

EXC/IL – ComEd trial results in 4 guilty verdicts

SMR – NuScale continues to pursue opportunities in SE Asia; news release correction clarifies SMR's role

MA/Wind – MA DOER and other agencies issue RFP for up to 3.6GWs of offshore wind

Policy – Senator Manchin advances efforts on permitting reform in Senate

SPP – Grain Belt developers update on phasing of HVDC work

PCG – PCG CEO makes constructive comments on company culture in media interview

CAISO – CA transmission RTO bill is referred to Appropriations committee

WEC – S&P Revises WEC Energy Group Outlook to Negative

AEP/DUK/NI – Indiana legislation signed into law this week protects utilities' control over building power lines

EXC reports 1Q23 earnings

- EXC reported $0.70 vs. Gugg/Cons of $0.67/0.66
- Reaffirmed 2023 EPS guidance of $2.30-2.42 vs. Gugg/Cons $2.36/2.37
- Results for the quarter featured ($0.04) of weather at PECO, ($0.01) at PHI
- Key long term outlook messages unchanged from 4Q22 update (EPS and DPS growth/payout ratio commentary)
- Key parameters of financing plan unchanged ($425m equity by '25), 80% of debt financing needs executed in 1Q
- Call at 10am – register HERE
- Slides HERE

NI reports 1Q23 in line net operating EPS of $0.77 vs Gugg/consensus at $0.76/$0.76; maintains 2023 guidance of $1.54-$1.60 ($1.57 midpoint) vs Gugg/consensus at $1.57/$1.56

- **Asset sale update:** NI reports being "on track" with regard to strengthening its balance sheet via a successful minority interest sale of its NIPSCO utility
    - Company still expects a **close in 2023**

- **Credit:** continuing to target 14%-16% FFO/debt post-sale of NIPSCO minority interest
- **EPS CAGR:** reiterates 6%-8% expected annual NOEPS growth through 2027 (illustrated clearly on slide 5)
- **Cost management:** reiterates guidance of flat O&M
- **Capex:** $15bn 2023–2027 capex plan reiterated, along with 2023 capital investment guidance
- **Rate Base:** reiterated 8%-10% expected annual rate base growth; recall that FY22 projected rate base was estimated at ~$16.6bn
- **Credit:** ~$11.6bn of total debt as of March 31, 2023; ~$10.3bn of LT debt; ~13yr weighted average maturity; 3.83% weighted average interest rate
    - Committed to maintaining current investment-grade credit ratings: S&P (BBB+), Moody's (Baa2), and Fitch (BBB)
- **Financing:** maintains 2023–2027 financing plan; equity plans (excluding the remarketed equity units of $863m) are to restart the company's ATM equity in 2025+, to support current investment grade credit ratings; may also be used to redeem o/s preferred stock ($900m)
- **TSR:** continuing to target 9%-11% total shareholder return
- **Dividend:** reiterated 60%–70% payout target.
- Call is at **11:00am at 1-888-330-2391... Passcode: 28323**

ALE reports 1Q23 earnings

- ALE reported $1.02 vs. Gugg/Cons of $1.22/1.18
- Reaffirmed 2023 EPS guidance of $3.55 to $3.85 vs. Gugg/Cons of $3.70/3.71
- Weather was ($0.10) impact on the quarter
- "Sales to residential, commercial and municipal customers decreased from 2022 primarily due to warmer weather in 2023 compared to 2022. Sales to municipal customers also decreased as a result of a new contract entered into with Hibbing Public Utilities in April 2022 with sales under the new contract classified under other power suppliers." - Q
- ACE 'below expectations' on lower wind and availability of assets
- ACE O&M up 25% (+$2.9m)
- Higher O&M also dragged on MN Power (+$10.4m vs. 1Q22)
- 1Q23 contribution of $4.5mm from New Energy
- Still planning next MN Power case in 4Q23
- Call at 10am – register HERE
- Slides to be posted HERE

SR reports 2FQ23 beat of $3.70 in NEEPS vs Gugg/consensus at $3.44/$3.50; narrows FY23 NEEPS guidance to $4.20–$4.30 (from $4.15–$4.35), maintaining $4.25 midpoint, vs Gugg/consensus at $4.25/$4.25

- Reiterates confidence in 5-7% long-term EPS growth off of a base of the midpoint of the company's original fiscal 2023 earnings guidance of $**4.15**

- Following fiscal Q2 2023 results, SR has updated its segment guidance as below:
    - **Gas Utility:** $210m–$220m, **down** from $225m–$235m, previously
    - **Gas Marketing:** $43m–$48m, **up** vs $25m–$30m, previously
    - **Midstream**: $10m–$12m **a minor tweak upwards** vs $9m–$11m, previously
    - **Corporate & Other:** $-25m–$-30m vs $-20m–$-25m, previously
    - *Notable offsets to the strength at Marketing and Midstream were the impacts of lower margins during the winter of the Gas Utilities, as well as high interest expenses (impactful at both Gas Utilities and Corporate costs).*

- **Capex:** targeted 10-year capital investment plan remains $7bn, and expected capex for fiscal 2023 remain $700m, including the company's Midstream expansion for Spire Storage, which it reports "remains on plan".
- **Rate Base growth:** Capex is anticipated to drive 7%–8% utility rate base growth
- *Presentation and accompanying details not yet released*
- Earnings call will be held today at 9**:00 AM ET**… Dial-in: **844-824-3832**…(**no access code**)

AVA reports large miss for 1Q23 of $0.73 vs Gugg/consensus at $1.23/$1.16 and 1Q22 EPS of $0.99; maintains 2023 annual guidance of $2.27–$2.47 ($2.37 midpoint) vs Gugg/consensus at $2.28/2.34

- $–0.11 of EPS decline was driven primarily by inflationary pressures resulting in increased labor and benefits costs, among other operating expenses.
- $–0.09 came from timing-driven changes to AVA's effective tax rate; EFT was –13.7% in 1Q23 vs –17.8% in 1Q22.
- $–0.08 was a direct result of higher interest rates.
- $–0.02 at "other businesses", due to net investment losses recognized in 2023 compared to net investment gains recognized in 2022.
- **Margins:** compared to 1Q22, electric utility margin was flat, while natural gas utility margin increased EPS by $0.06 in 1Q23
- **"***We expect lower net power supply costs for the remainder of the year, resulting in a benefit under the ERM***" —** Dennis Vermillion, President and CEO
    - AVA booked a $7.6m pre-tax expense under the Energy Recovery Mechanism (ERM) in Washington, compared to a $1.9m pre-tax benefit in 1Q22

- **Capex:** 2023 capex guidance at Avista Utilities was reiterated at $475m; AEL&P capex is expected to be $19m vs $15m previously.
- **Debt Financing:** AVA issued $250m of long-term debt in 1Q23 (vs prior guidance of $200m for 2023) and does not expect to issue further LT debt this year.
    - The company ***does however*** expect to increase the capacity of its $400m credit facility to $500m in 2Q23.

- **Equity Financing:** $30m of equity was issued in 1Q23, and common stock issuance guidance was maintained at $120m for 2023.

EXC/IL – ComEd trial results in 4 guilty verdicts

- Michael McClain, former ComEd CEO Anne Pramaggiore, ex-ComEd lobbyist John Hooker and former City Club President Jay Doherty were convicted on all counts following 27 hours of deliberation
- More HERE

Guggenheim takeaway: *The case has been a constant point of media noise in IL in recent weeks, so good to see resolution in our view ahead of the second phase (former speaker Madigan). As a reminder, this matter was the driver of the July 2020 deferred prosecution agreement between the utility and the US Attorney's Office for the Northern District of Illinois. More recently, the case had tangential readthrough to the ICC given certain linkages (see HERE).*

SMR – NuScale continues to pursue opportunities in SE Asia; news release correction clarifies SMR's role

- Alongside a state visit of the Philippine president to DC, the president's office initially indicated in a release that the company would invest ~$7bn in the country to build a 430MW plant
- The language around the meeting with NuScale executives was subsequently amended yesterday to clarify that the company is working on a study and potentially with a local developer
- More HERE

Guggenheim takeaway: *The headline of NuScale potentially investing several times its market cap in the country generated some noise yesterday, with the subsequent clarifications helping to underscore that this is a normal outreach process for the country – similar to what we have seen to date in eastern Europe. We continue to monitor for additional data points on leads like these.*

MA/Wind – MA DOER and other agencies issue RFP for up to 3.6GWs of offshore wind

- The blockbuster RFP will set in motion a ~8 month response period in which projects of varying sizes may be bid in
- "If approved, the draft RFP will invite submittals for offshore wind generation to procure up to 3,600 MW, which represents 25 percent of the state's annual electricity demand and a significant increase over the previous procurement, which sought approximately 1,600 MW of offshore wind." - release
- "The procurement team would have flexibility to evaluate bids ranging from 400 MW to 2,400 MW in size, and to select a project or projects that bring significant benefits to the Commonwealth." - release
- Bids are due 31 January 2024
- More HERE

Guggenheim takeaway: *Flagged for your awareness as MA joins NY in seeking additional procurements of wind. The latest request is the first to come after last summer's modifications to the process and is the first to be lead by the DOER. The solicitation includes a weighting towards economic development and other social considerations, which was a point of interest in the state during last year's session. While we would not be*

surprised to see ES' JV bid into this latest RFP, we continue to expect an exit in the coming quarters, with an announcement potentially by the 2Q call. The state is also grappling with the ongoing fallout around the technical default for the Commonwealth project.

Policy ─ Senator Manchin advances efforts on permitting reform in Senate

- The Senator's office has re-released his prior legislation on permitting reform to serve as a starting point in Senate and Congressional negotiations
- "Today, U.S. Senator Joe Manchin (D-WV), Chairman of the Senate Energy and Natural Resources Committee, introduced the *Building American Energy Security Act of 2023*, the text of the National Defense Authorization Act (NDAA) amendment that was supported by 47 Senators (40 Democrats and 7 Republicans) in a tied floor vote in December 2022. This legislation will serve as a starting point for upcoming conversations in the Senate around reforming energy permitting to ensure American energy security and independence." – Manchin's office
- More HERE

Guggenheim takeaway: *Heads up as the process begins to heat up on both sides of the Hill – the successful passage of a budget package (with permitting items) by Republicans sets up further conversations on this specific topic, and we continue to see the area as ripe for bipartisanship in the coming weeks.*

SPP ─ Grain Belt developers update on phasing of HVDC work

- The developers continue to analyze potential impacts of the line and its second phase into IL for impacts on energy and capacity pricing in MISO and potentially PJM
- "Preliminary design has begun. Detailed design is required to start Q4 2023, in order to meet 2028 COD. Results of SPP TWG studies are needed to start detailed design in Q4 2023." - presentation
- More HERE

Guggenheim takeaway: *We continue to monitor Grain Belt as a both a resource adequacy option for adjacent utilities, and for its potential impact on energy and capacity pricing in MISO Zone 4 and beyond.*

PCG – PCG CEO makes constructive comments on company culture in media interview

- PCG CEO Patti Poppe made comments in a Press Democrat interview on transformation progress.
- Commentary directly addressed the ongoing culture change and PG&E.
- More here.

Guggenheim takeaway: *FYI. Transparent and open commentary on PG&E legacy issues.*

CAISO – CA transmission RTO bill is referred to Appropriations committee

- CA Legislature re-referred the bill addressing CAISO expansion into a western RTO to the appropriations

committee.

- CA introduced an assembly bill (AB538) that would look for CAISO to become an expanded western RTO with increased governance and multistate jurisdiction.
- The CAISO would be able to submit a plan to the CEC for expanded governance and multistate inclusion of resources into the RTO structure.
- Lawmakers believe this would be a solution to the resource adequacy constraints that CAISO has felt in recent years and would open up more availability of clean energy resources aligned with CA policy goals.
- Bill text here: AB538.

Guggenheim takeaway: *FYI. Resource adequacy work continues in CA.*

WEC – S&P Revises WEC Energy Group Outlook to Negative

- S&P highlighted at the top of its report that WEC reaffirmed its expectation to fund its capital plan without any new equity issuance, a plan which incorporates $12.4bn of investments through 2025.
- S&P further states that WEC's negative operating cash flow has grown in recent years primarily from high capital spending and large nonutility acquisitions, and that S&P believes the company is disproportionately funding this cash deficit with incremental debt, weakening financial measures, in the rating agency's view.
- As a result, S&P believes its consolidated FFO- to-Debt could reside below S&P's downgrade threshold for the next three years.
- Bloomberg link to S&P release HERE

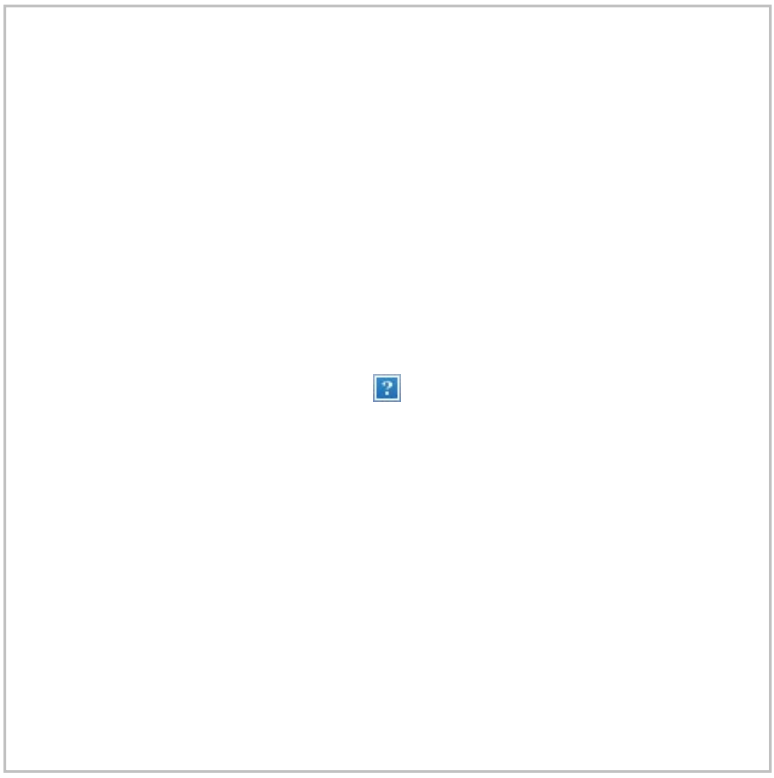
Guggenheim takeaway: *We caught up with the company following this release. WEC stated that from their perspective, S&P hasn't looked at the longer term, and highlighted that the outlook on WEC's utilities remains stable. The company does not expect this will materially impact its ability to access the capital markets, a view which we agree with, while also explicitly clarifying that WEC remains confident in its outlook.*

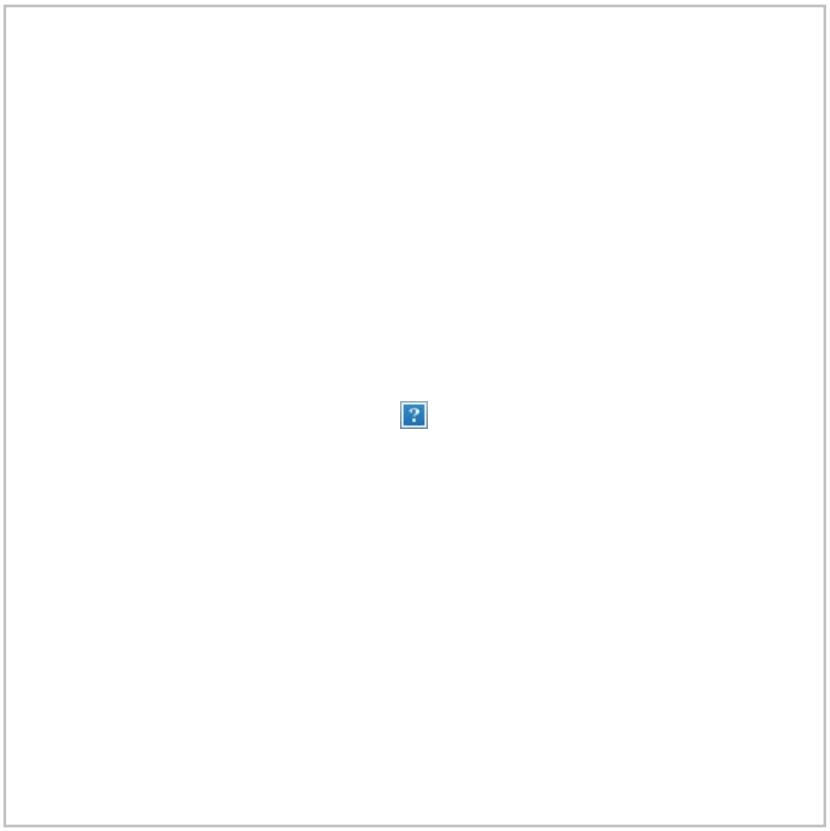
AEP/DUK/NI – Indiana legislation signed into law this week protects utilities' control over building power lines

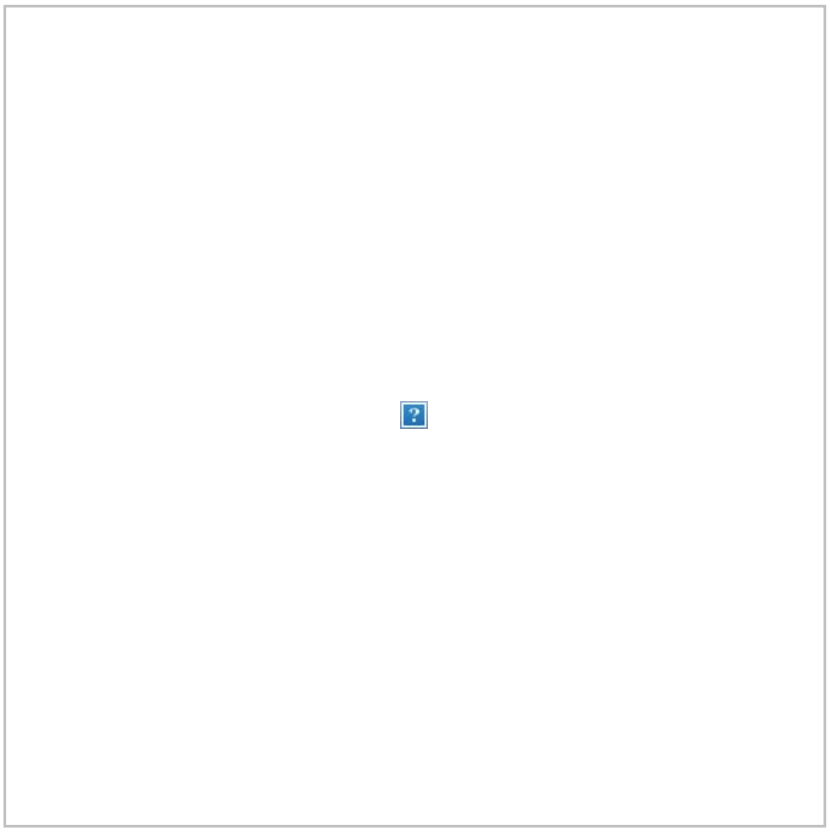
- Governor Eric Holcomb, a Republican, signed legislation Monday that will give utilities the right to build and operate transmission projects that connect to their existing systems. Utilities owned by NiSource Inc. and AES Corp. also stand to benefit.
- Indiana Energy Association President Danielle McGrath hailed the new law as "sound policy," in response to an email sent to Duke for comment. AEP, AES and NiSource also referred to McGrath for comments.
- We note that transmission costs have apparently increased by an average of ~63% in Indiana over the preceding five years, as per the Electricity Transmission Competition Coalition, an advocacy group representing manufacturers and others who opposed the bill.
- Utilities will have to competitively bid to build projects and have the advantage of having crews on hand to make timely repairs after storms, according to McGrath.
- More HERE

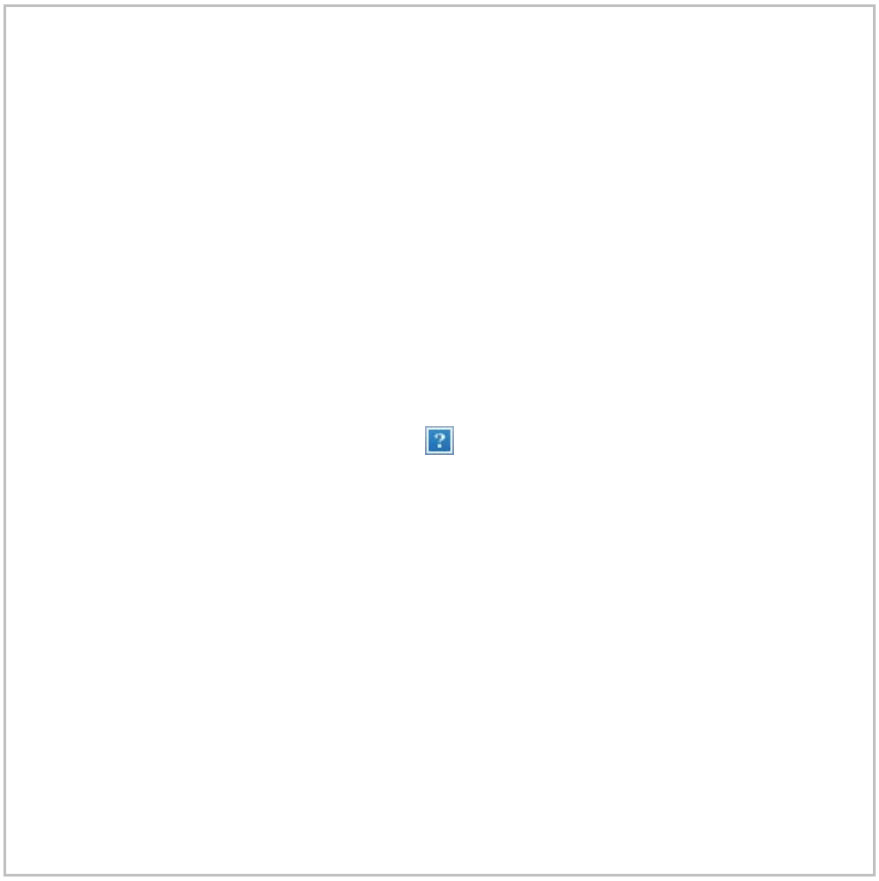
Guggenheim takeaway: *From our coverage universe, we see AEP, DUK, and NI, as best positioned to benefit*

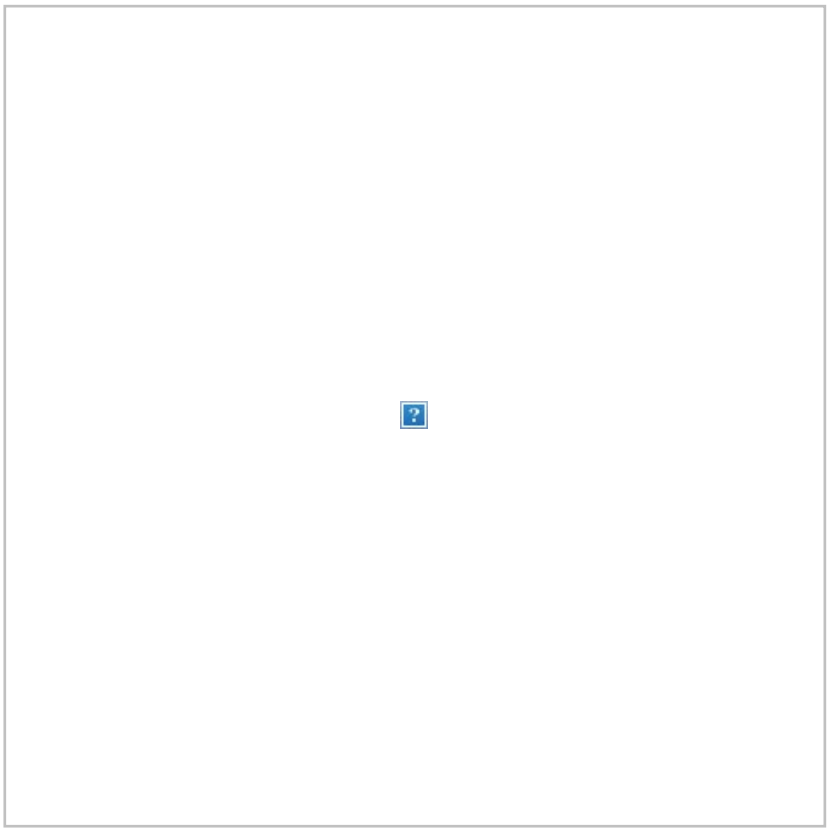
from this new law.

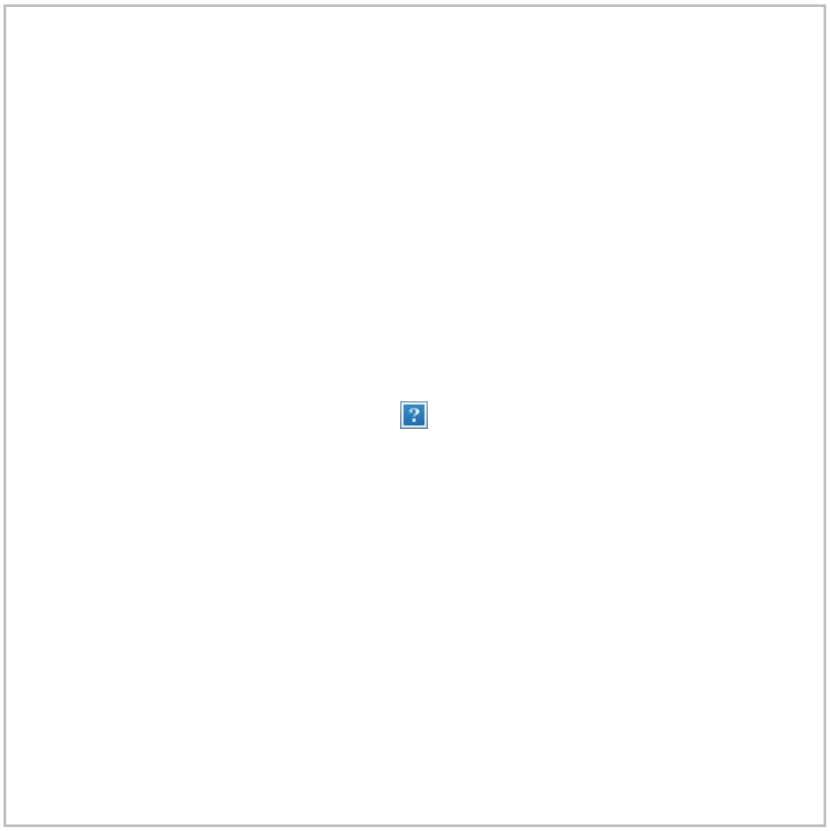


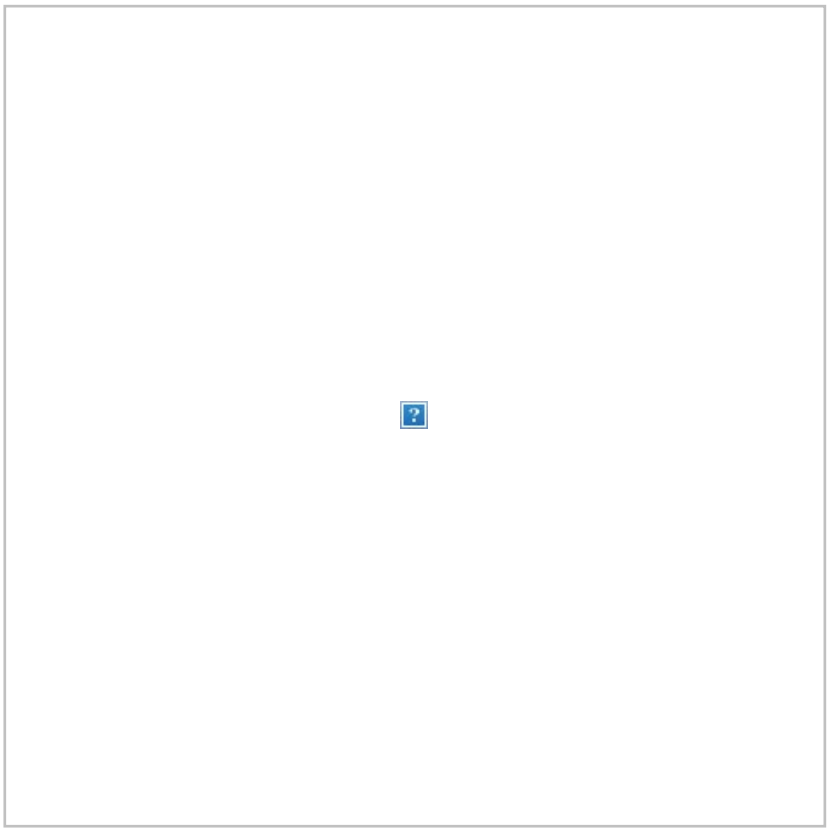


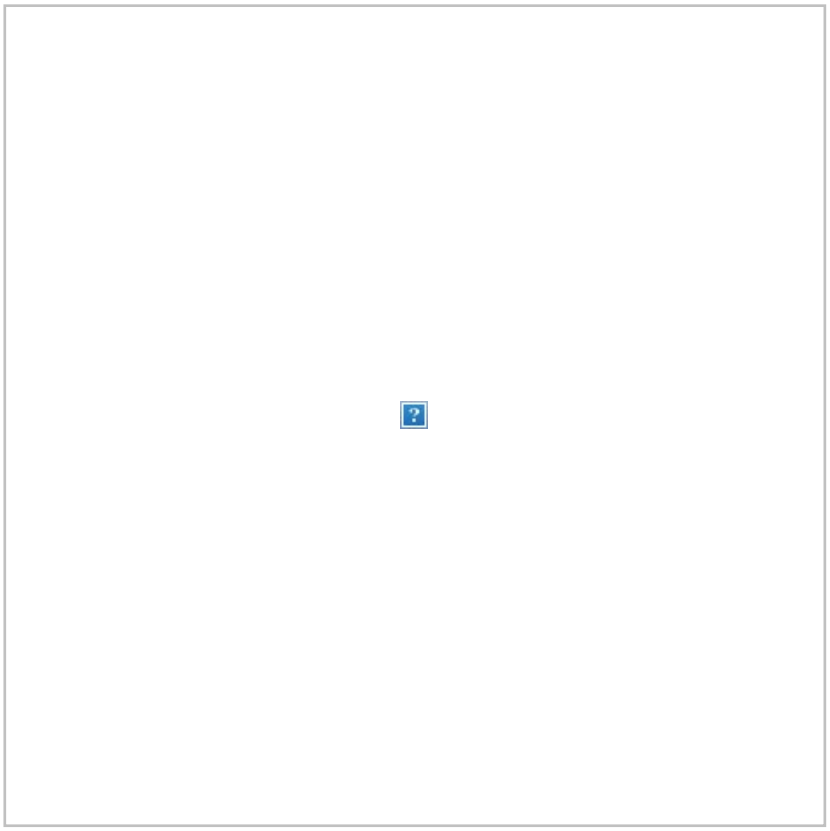


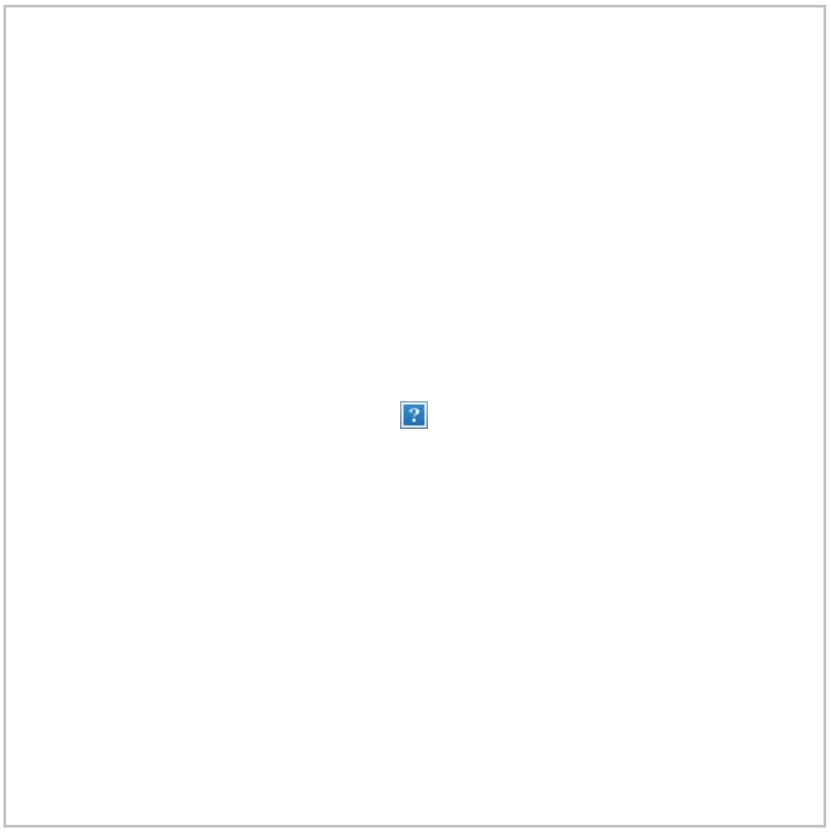


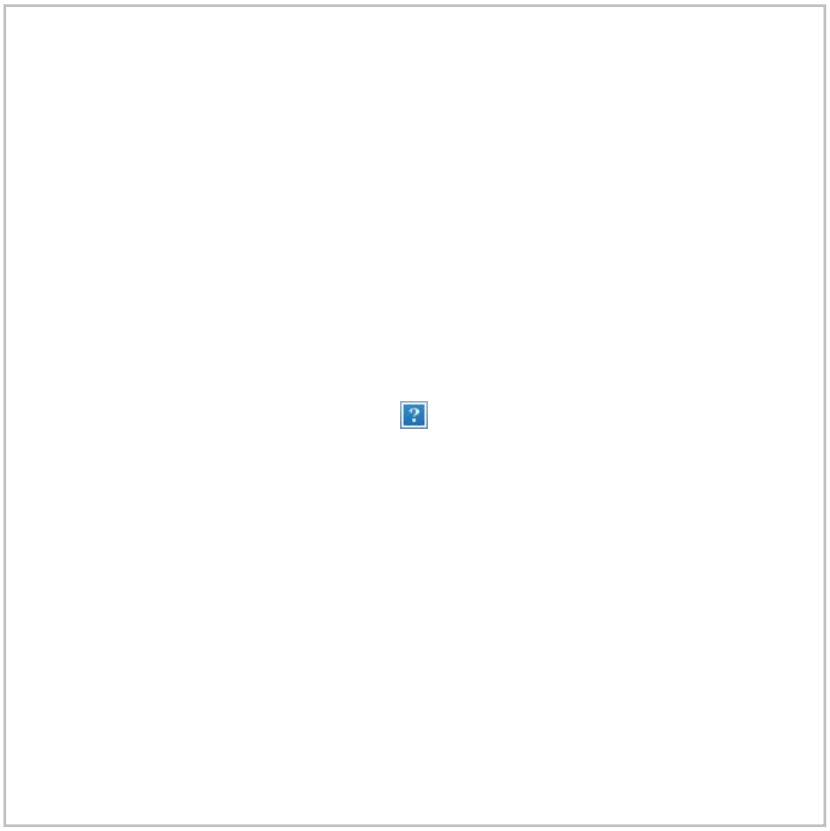


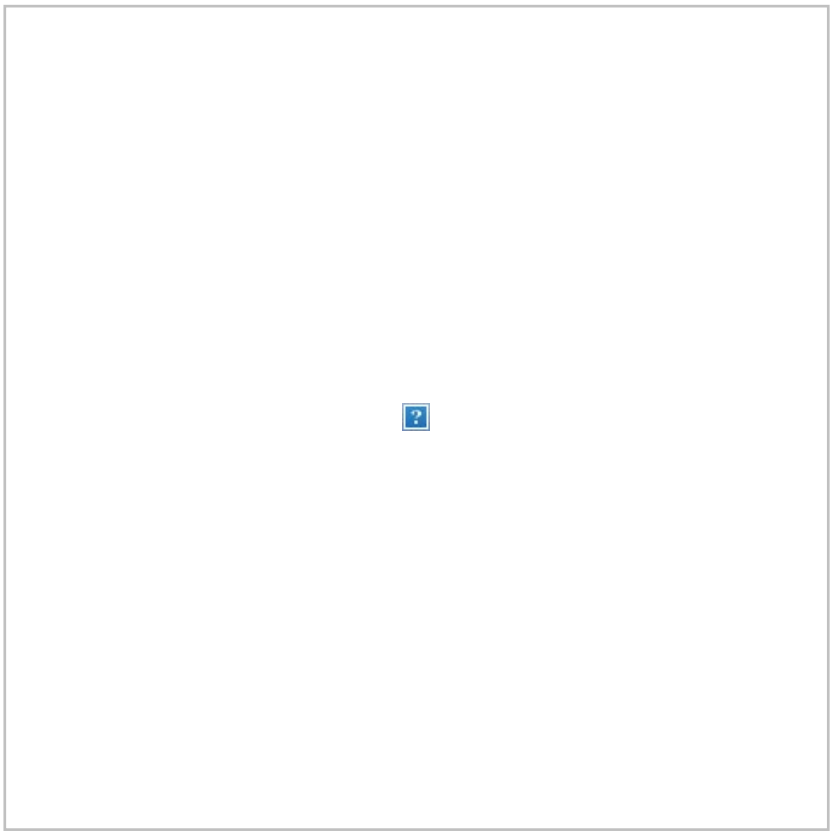




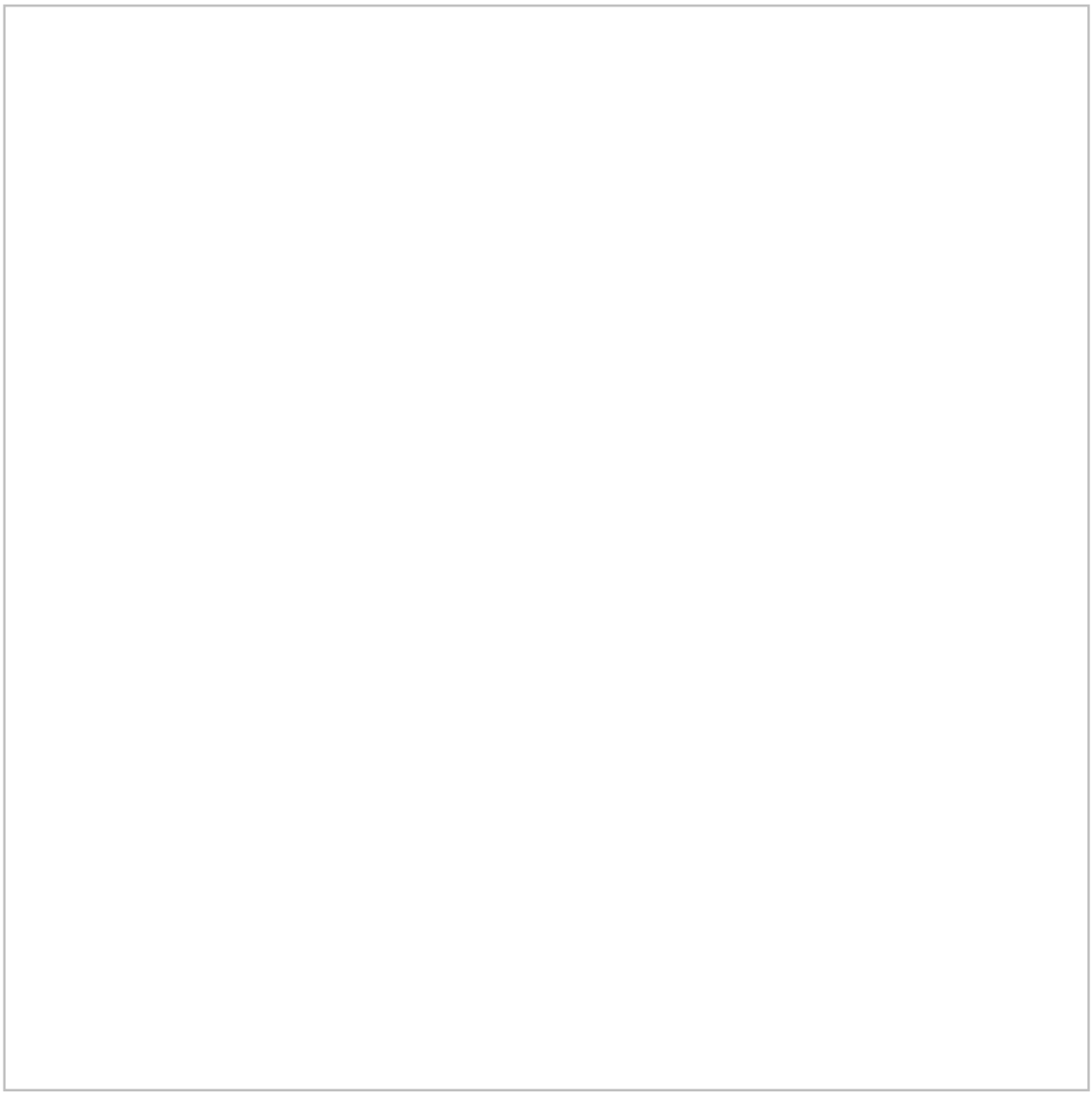




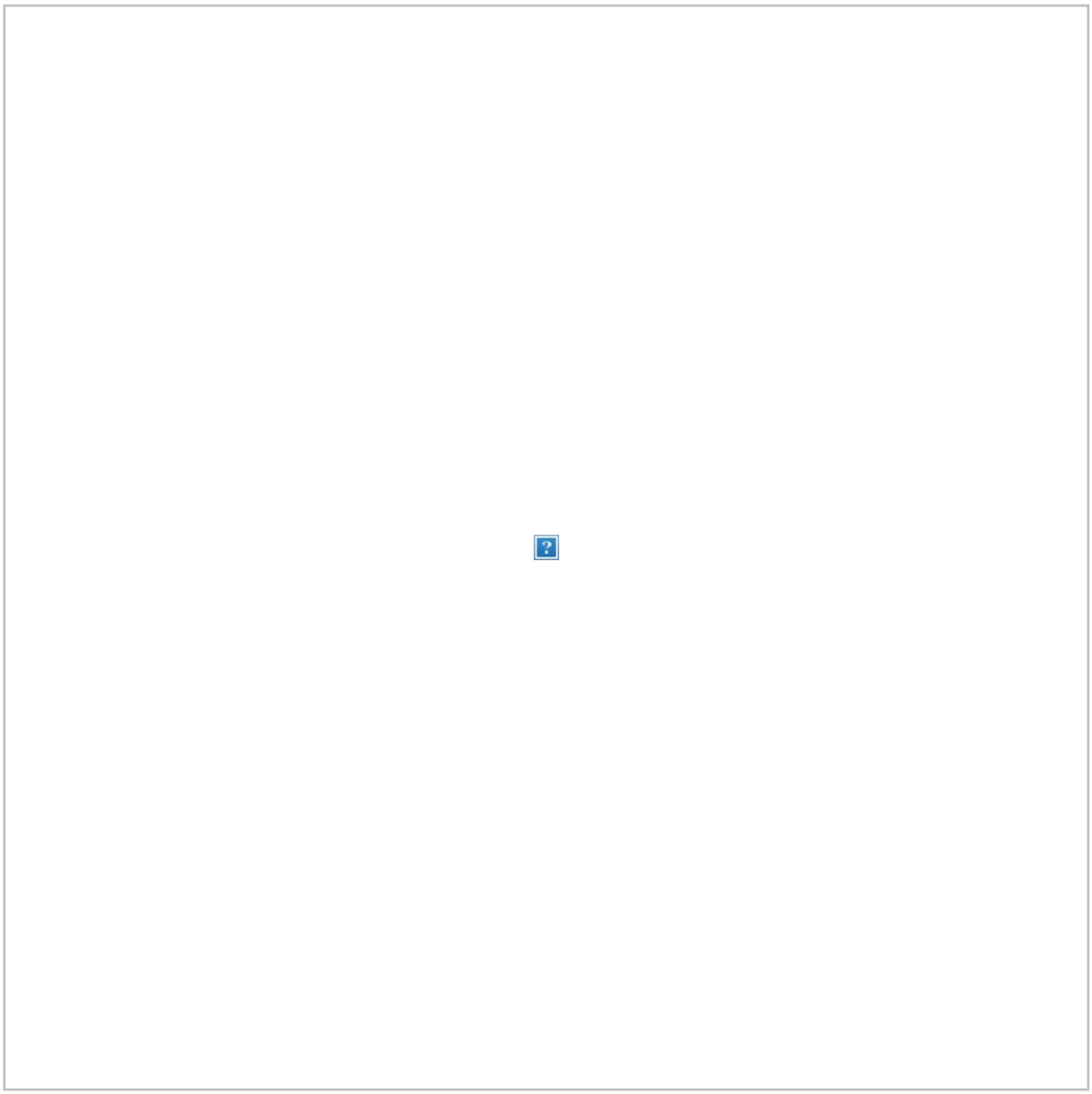




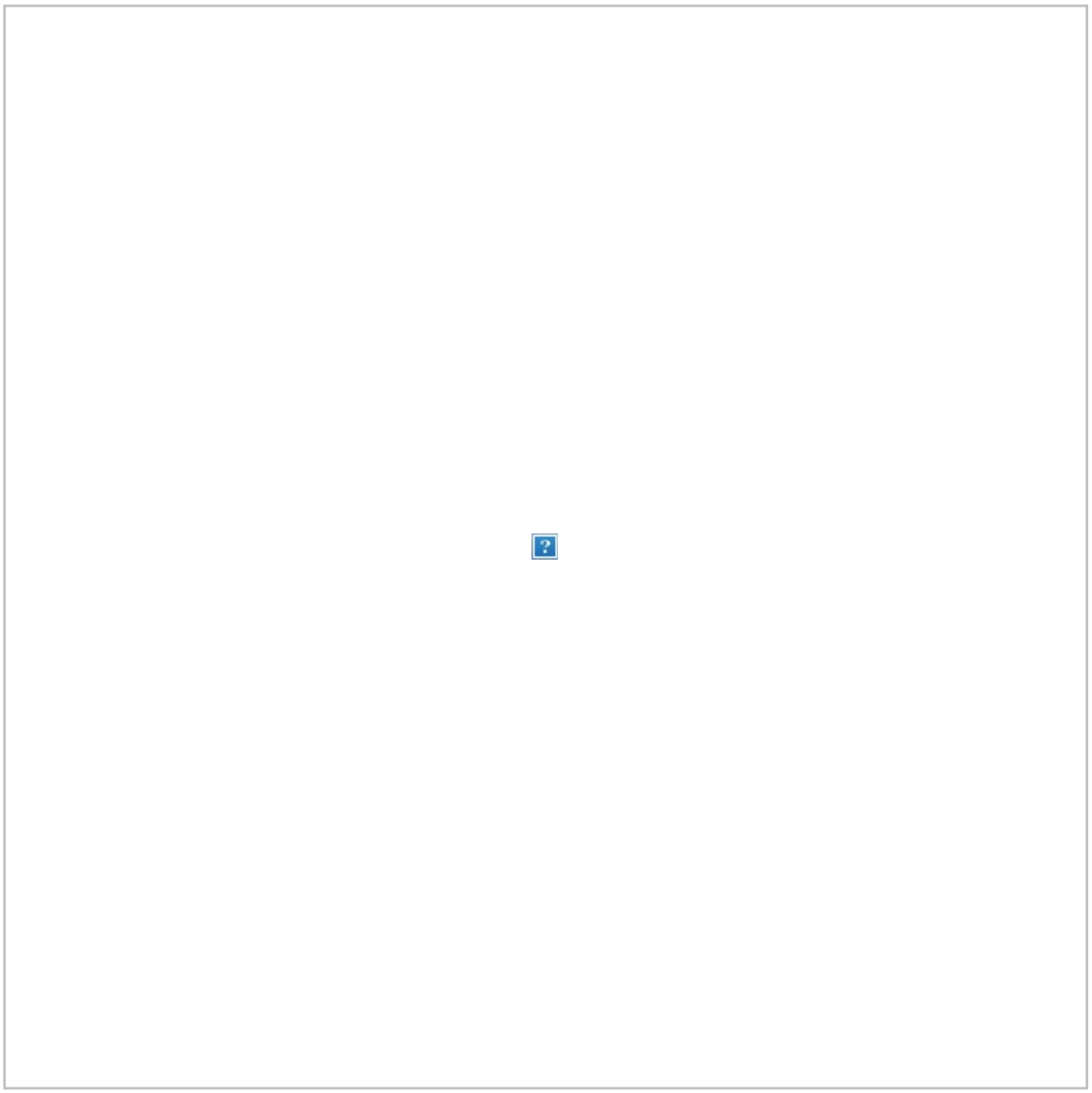
Guggenheim 2023 Client and Corporate Access Utility Events



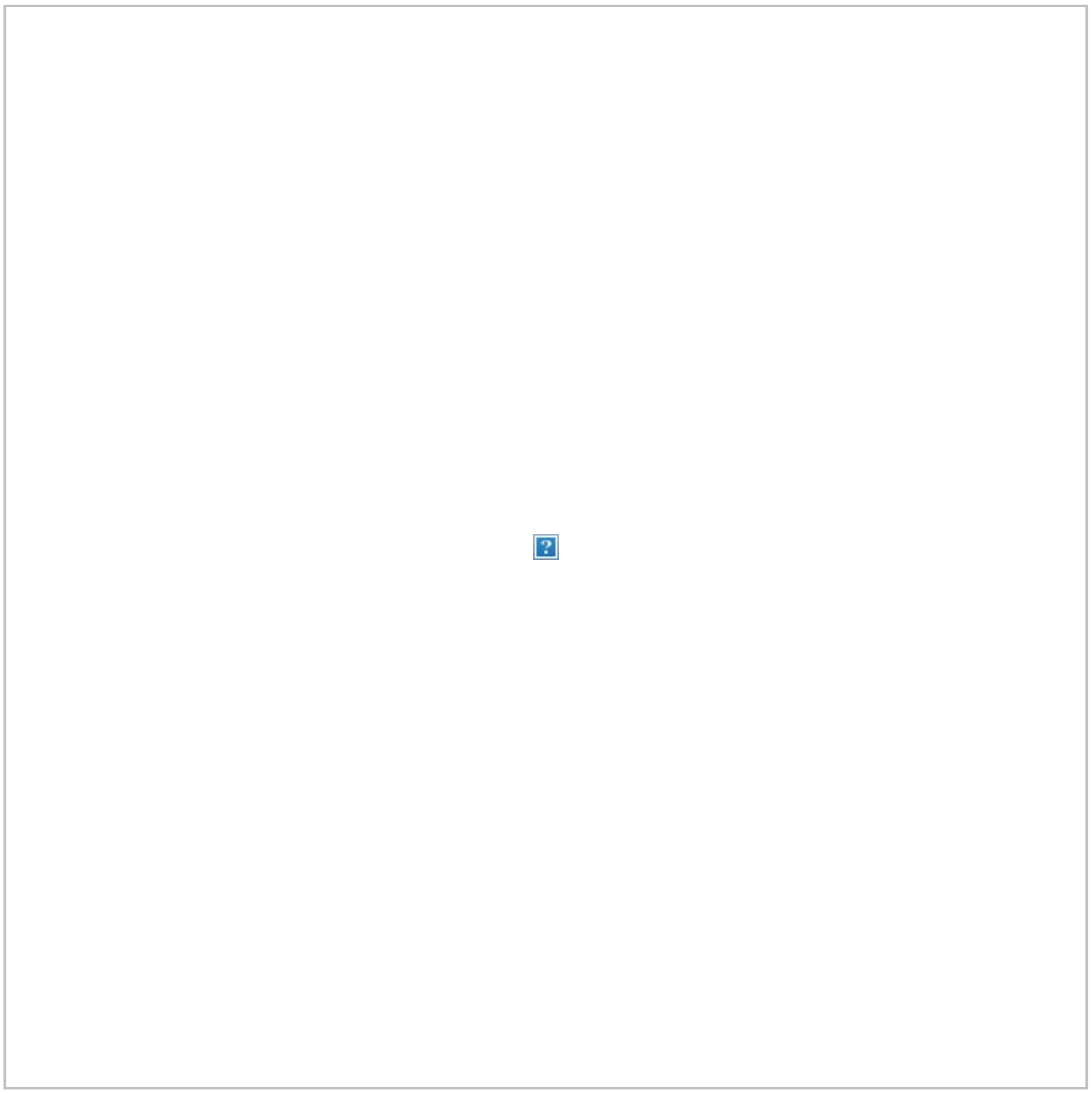
Guggenheim Comp Sheet



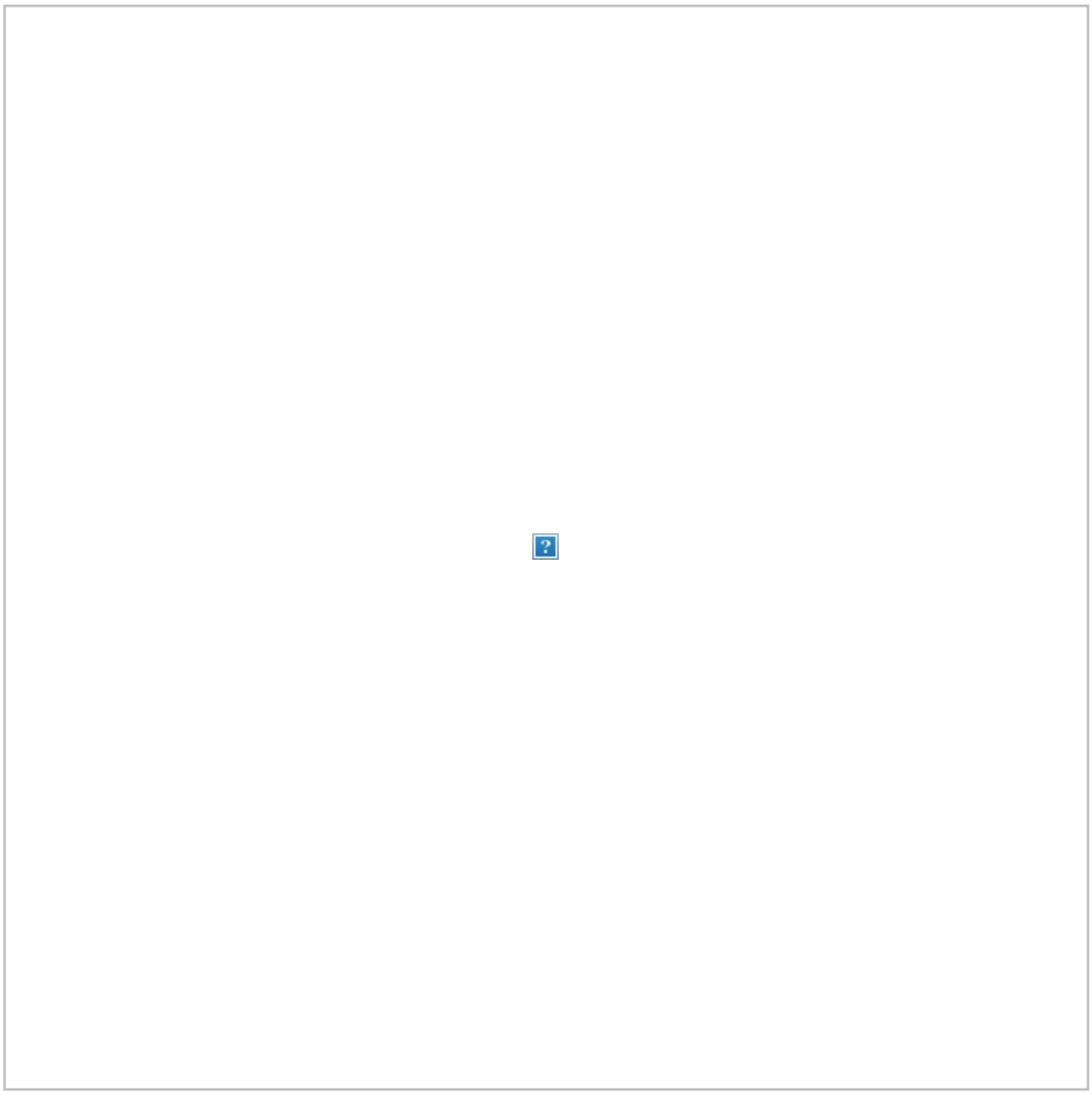
Share Price Performance (Year-to-Date, Three-Month, One-Month, & Five-Day Trailing)



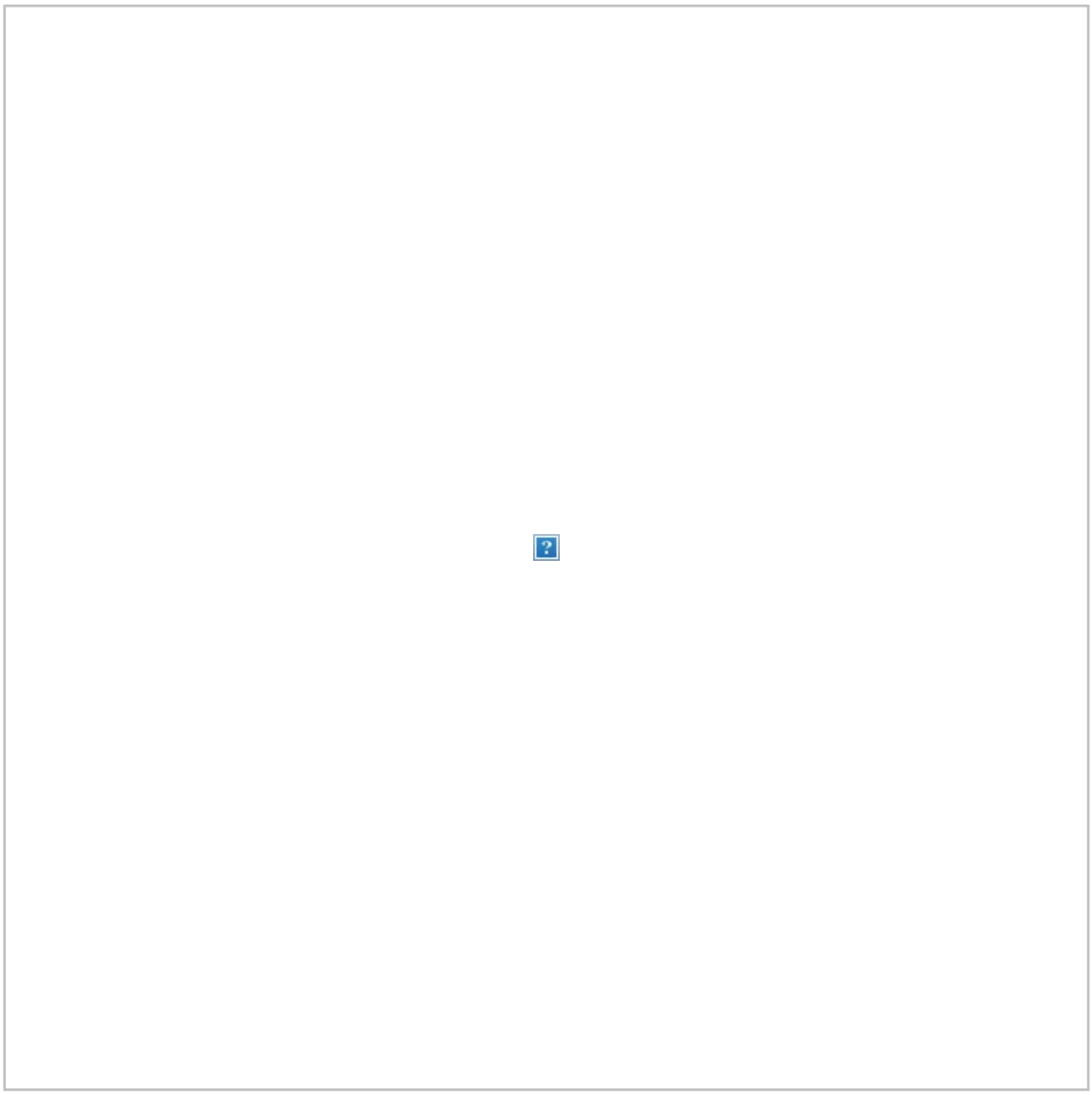
Generation and Mix



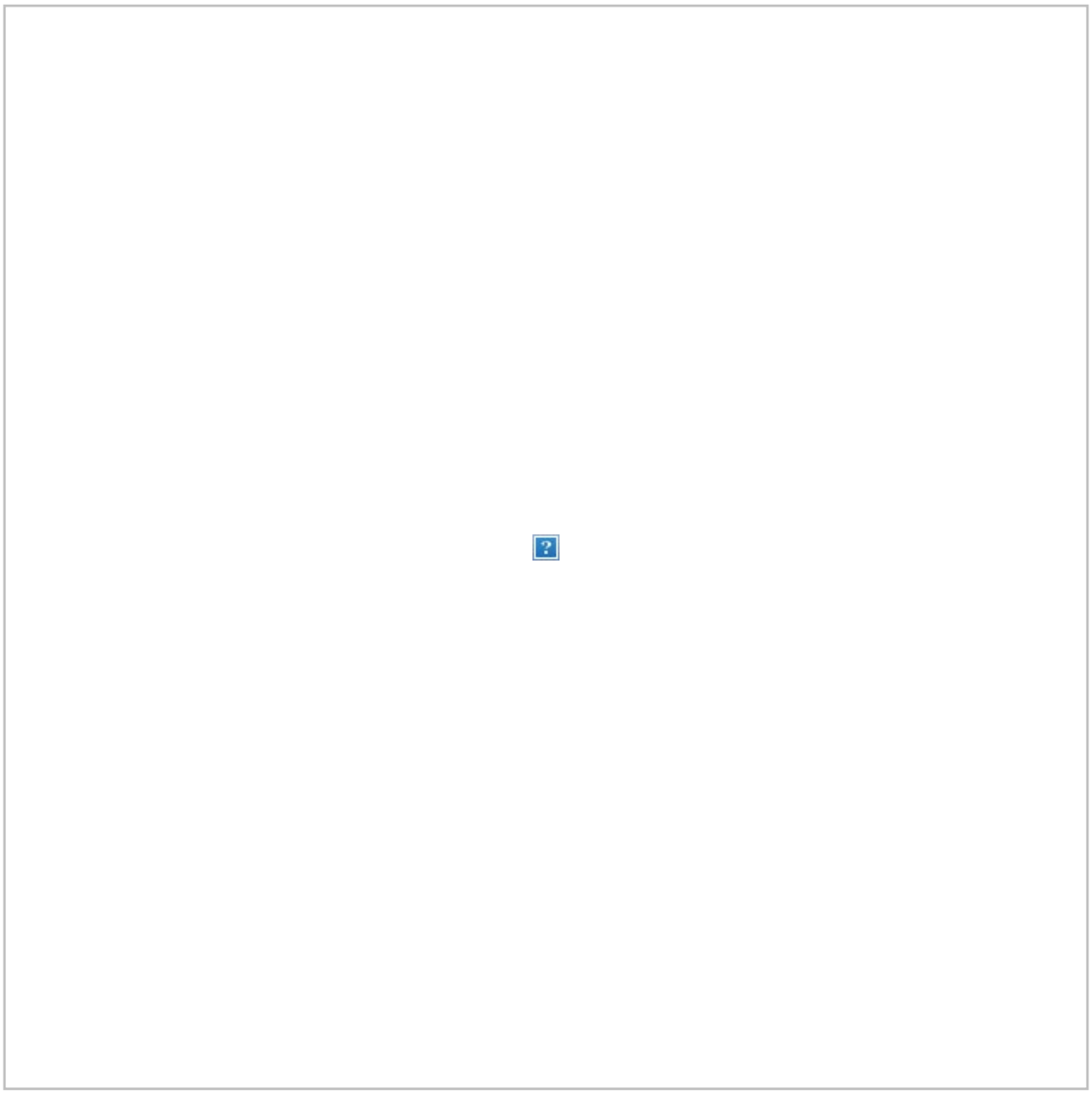
Generation and Mix (continued)



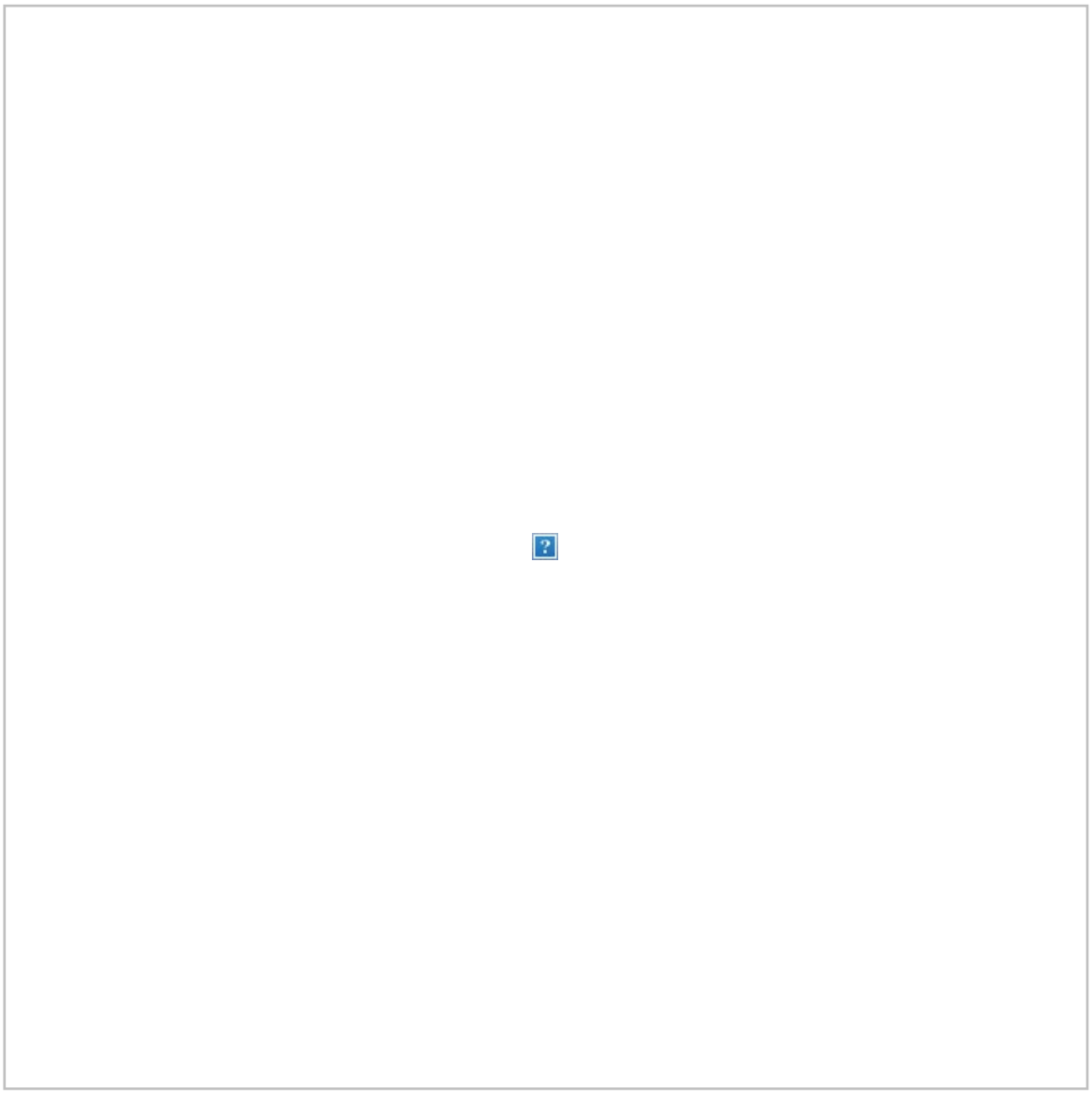
Weather



YTD Peak Load



Regulatory Calendar



Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- Utility and IPP 1Q23: Valuation and Estimate Adjustments
- Quarterly Weather Review: Cloudy With a Chance of Lower EPS
- Rising Debt Costs a Problem? Nah, Fake It Till You Make It
- AEP: No Surprise, KY Deal Breaks – Clearing Event
- Guggenheim Nuclear Conference Wrap: If You Build It, They Will Come?
- NEP: CEPF and Near-Term Financing Drilldown – Headwinds? Yes. Distribution Reset? Unlikely. Share Weakness Unwarranted; Bear Calls Flawed