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

Question No. GAS-ROR-010:

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

Response: Columbia Gas of Pennsylvania, Inc.

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

Response: NiSource Inc.

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

Year	Attachment	Folder Name	Documents Included
2023	A	1Q	Argus 1Q – 2023 BMO 1Q – 2023 Bank of America 1Q – 2023 Citi 1Q – 2023 Credit Suisse 1Q – 2023 Evercore 1Q – 2023 Guggenheim 1Q – 2023 JP Morgan Chase 1Q – 2023 Morningstar 1Q – 2023 Sellside Day 1&2 1Q – 2023 Wolfe 1Q – 2023 UBS 1Q – 2023
	B	2Q	Sellside Day 1 2Q – 2023 Argus 2Q – 2023 Barclays 2Q – 2023 BMO 2Q – 2023 Bank of America 2Q – 2023 Citi 2Q – 2023 Evercore 2Q – 2023 Gugennheim 2Q – 2023 JP Morgan Chase 2Q – 2023 Morningstar 2Q – 2023 NIPSCO Transaction Notes 2Q – 2023 UBS 2Q – 2023 Wells Fargo 2Q – 2023 Wolfe 2Q – 2023
	C	3Q	Sellside Day 1 & 2 3Q – 2023 Bank of America 3Q – 2023 Guggenheim 3Q – 2023

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

			JP Morgan 3Q – 2023 UBS 3Q – 2023 Wolfe 3Q – 2023
	D	4Q	BMO 4Q – 2023 Bank of America 4Q – 2023 Citi 4Q – 2023 Guggenheim 4Q – 2023 JP Morgan 4Q – 2023 Landenburg 4Q – 2023 Morningstar 4Q – 2023 UBS 4Q – 2023 Wells Fargo 4Q – 2023 Wolfe 4Q – 2023
2024	E	1Q	Sellside Day 1 1Q - 2024 BMO 1Q – 2024 Evercore 1Q - 2024 Fleishman 1Q - 2024 Guggenheim 1Q - 2024 Morningstar 1Q - 2024 UBS 1Q - 2024
	F	2Q	Sellside Day 1 2Q – 2024 BMO 2Q - 2024 Fleishman 2Q - 2024 Guggenheim 2Q - 2024 JP Morgan 2Q - 2024 Morningstar 2Q - 2024 UBS 2Q - 2024 Wells Fargo 2Q - 2024 Wolfe Note 2Q - 2024 Wolfe Note Post-call 2Q - 2024
	G	3Q	Citi 3Q – 2024 Evercore 3Q – 2024 Fleishmann 3Q – 2024 Guggenheim 3Q – 2024 Ladenburg 3Q – 2024 UBS 3Q - 2024
	H	4Q	Barclays 4Q – 2024 BMO 4Q – 2024 BofA 4Q -2024 Guggenheim 4Q – 2024 Jefferies 4Q – 2024 JP Morgan 4Q – 2024 Mizuho 4Q – 2024 Wolfe 4Q – 2024 Wolfe Note 4Q - 2024

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

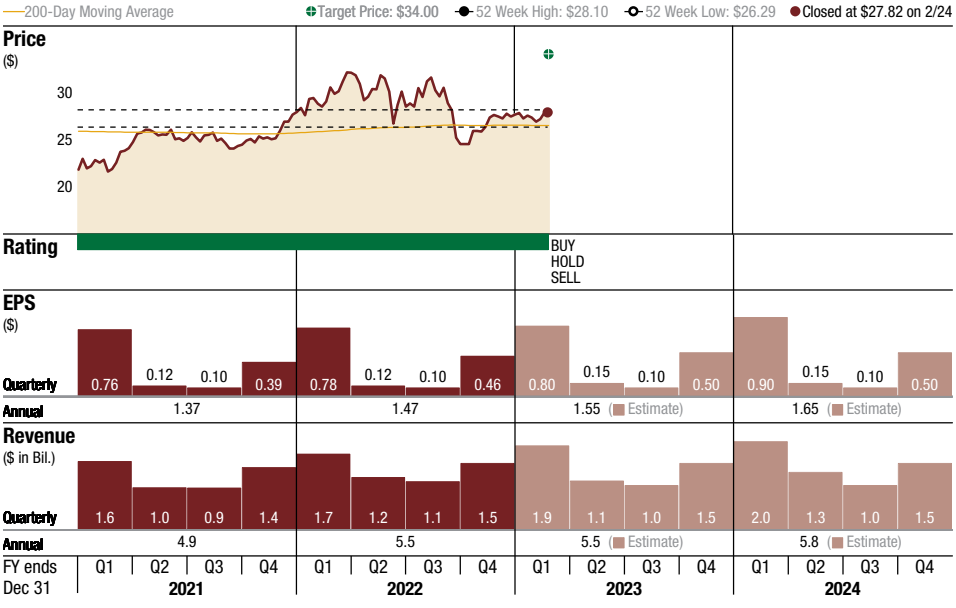
NI shares have outperformed over the past quarter, falling fractionally while the S&P 500 has fallen 2%. They have also outperformed the broad market over the past year but have underperformed over the past five years.

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

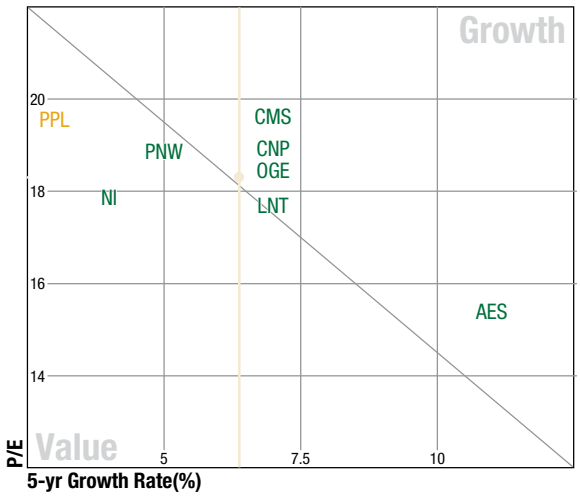
We think that NI shares are attractively valued at current prices near $27. On the fundamentals, the shares trade at 18-times our 2023 EPS estimate, above the average multiple of 16 for comparable electric and gas utilities. They are also trading at a price/book multiple of 1.9, slightly below the peer 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.

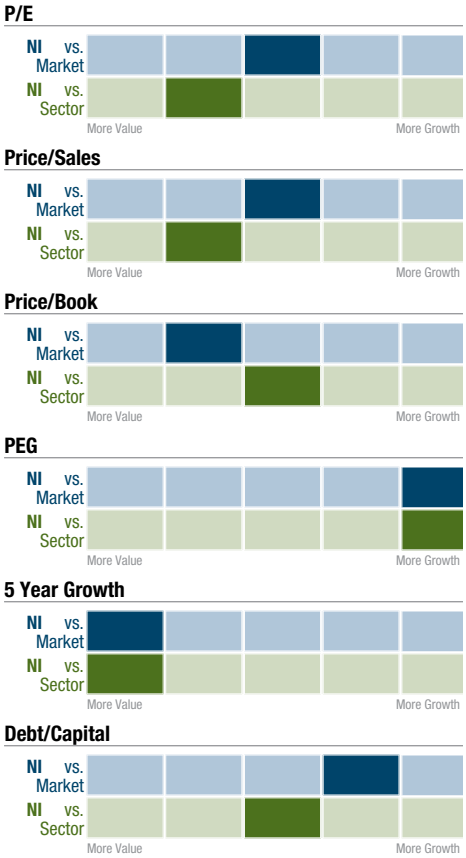
Peer & Industry Analysis

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**	



Please see important information about this report on page 4

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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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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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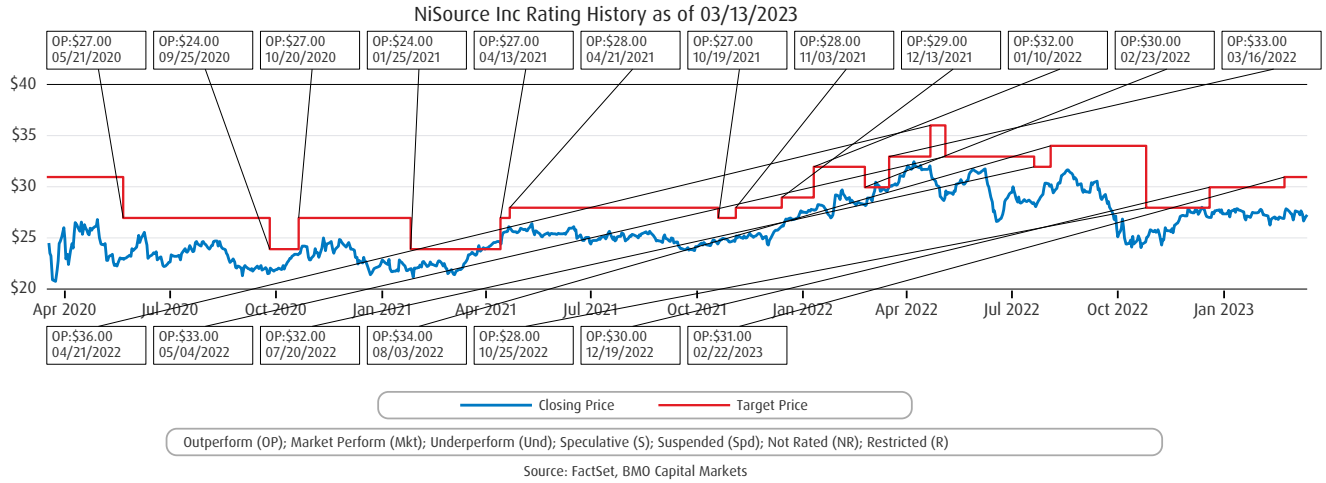
Legal Entity: BMO Capital Markets Corp.



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

IMPORTANT DISCLOSURES

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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The recommendation contained in this report was produced at March 14, 2023, 07:59 ET. and disseminated at March 14, 2023, 07:59 ET.

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Sent: Wednesday, February 1, 2023 12:12 PM
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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.

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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
Utilities & Clean Tech

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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.

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
	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

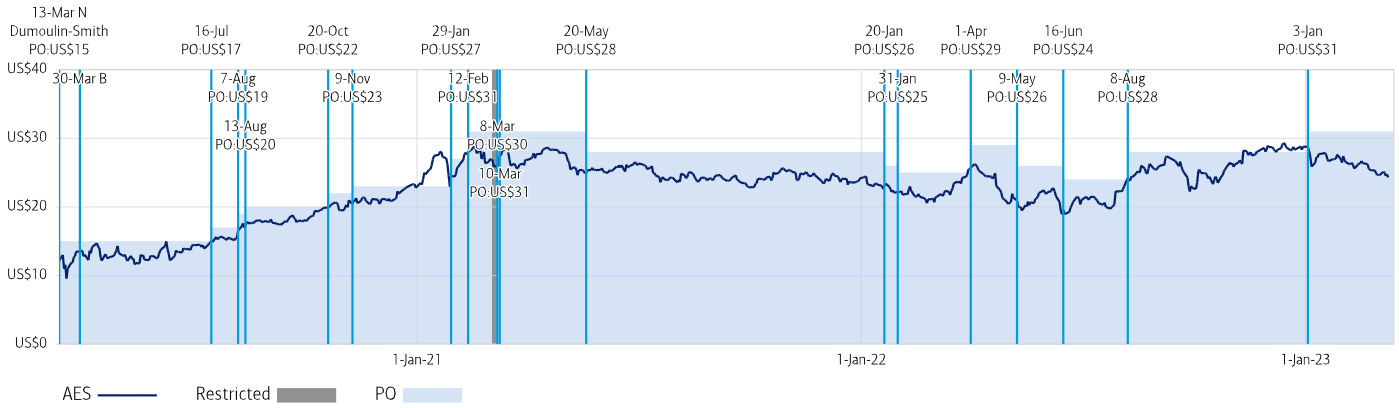
North America - Utilities and Alt Energy Coverage Cluster

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

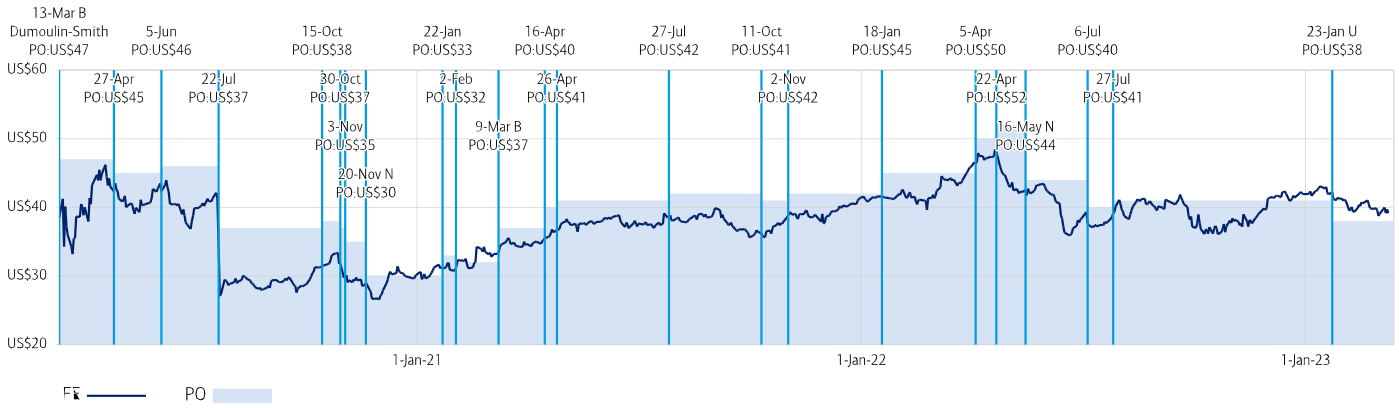
AES Corp (AES) Price Chart



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

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.

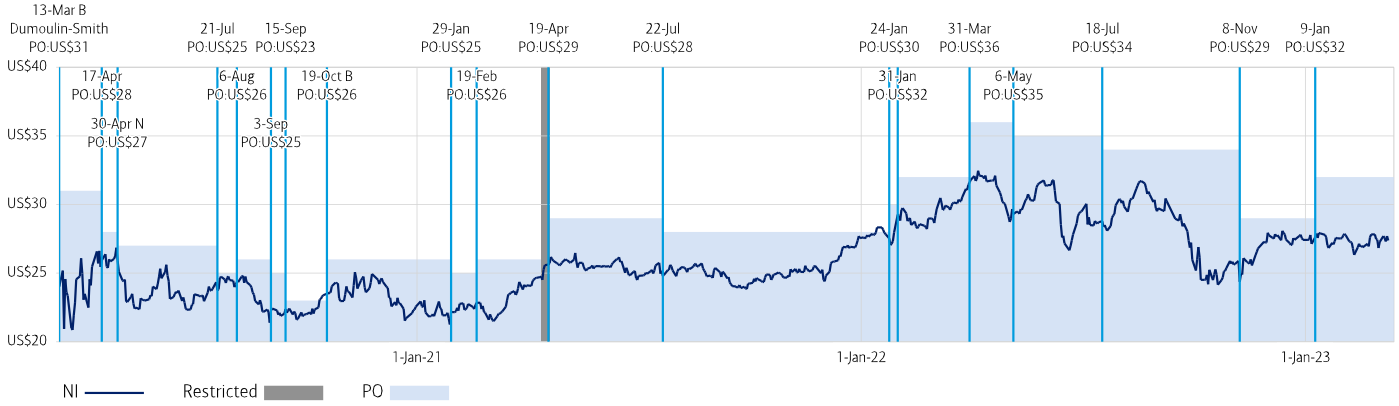
FirstEnergy (FE) Price Chart



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.

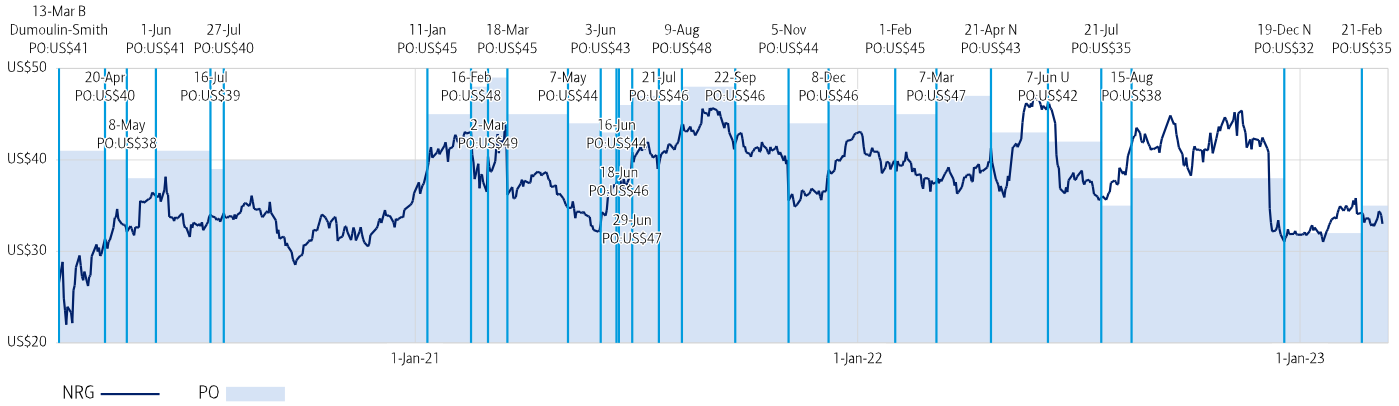
NiSource Inc (NI) Price Chart



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

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NRG Energy (NRG) 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]
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Underperform	N/A	≥ 20%

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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
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	Kayne Anderson Capital Advisors
	Van Eck Associates
	Lord, Abbett & Co.
	Mondrian Investment Partners
	First Trust Advisors

Source: BofA Global Research

BofA GLOBAL RESEARCH

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

BofA GLOBAL RESEARCH

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		
		'Long Only' 12/31/2022		
		Median-All	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

BofA GLOBAL RESEARCH

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

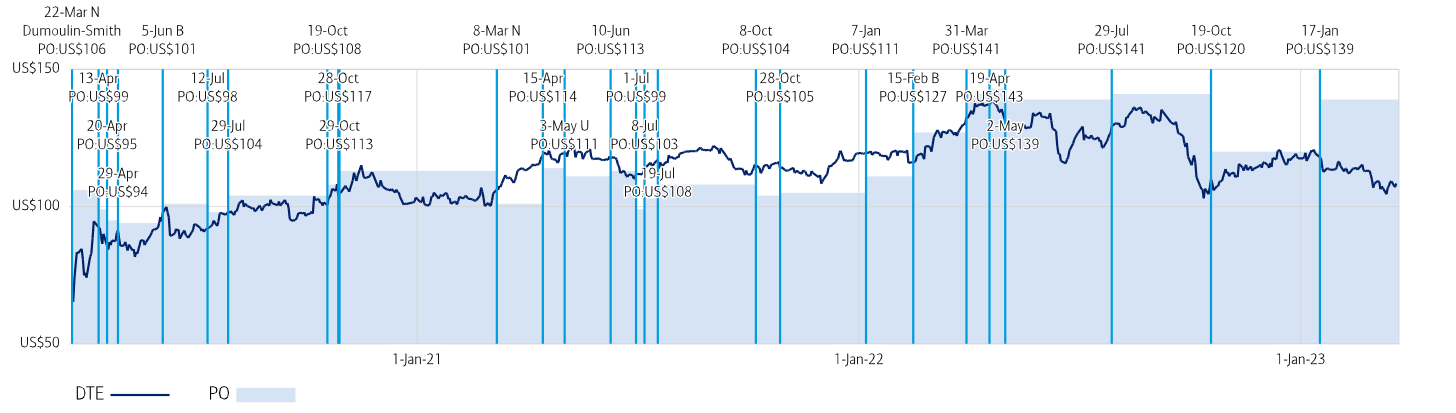
North America - Utilities and Alt Energy Coverage Cluster

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

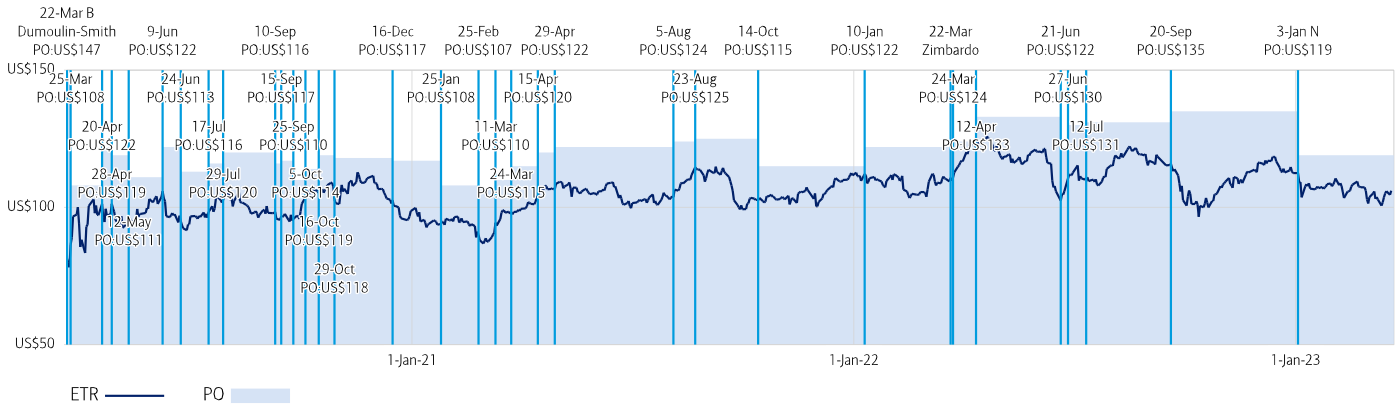
DTE Energy (DTE) Price Chart



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

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

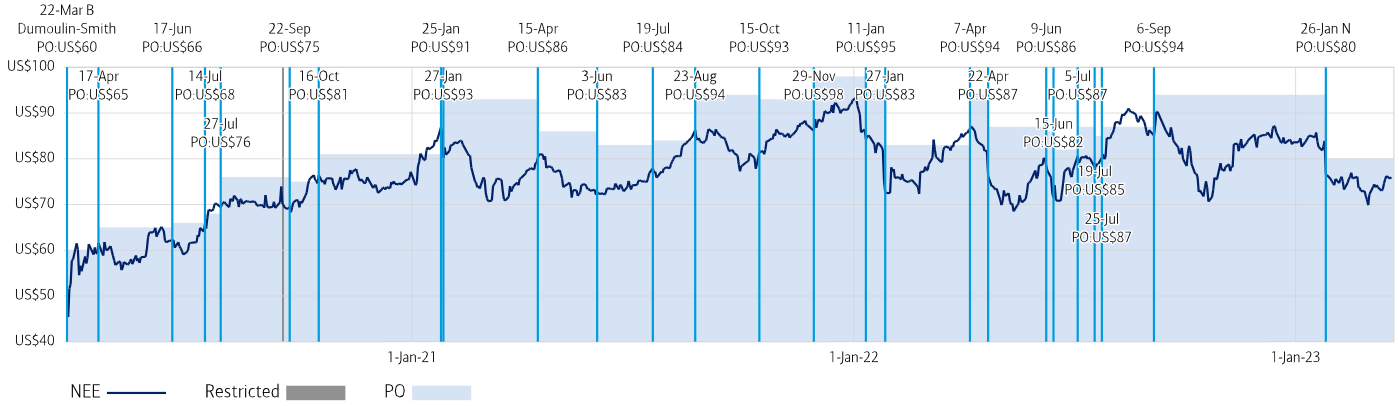
Entergy Corp. (ETR) Price Chart



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

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.

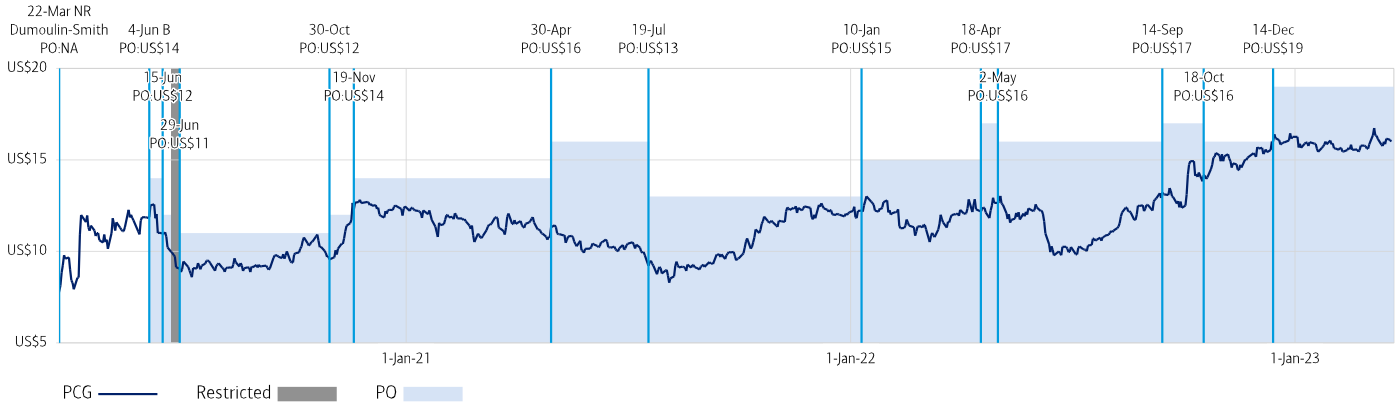
NextEra Energy (NEE) Price Chart



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.

PG&E Corp. (PCG) Price Chart



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

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

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]
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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

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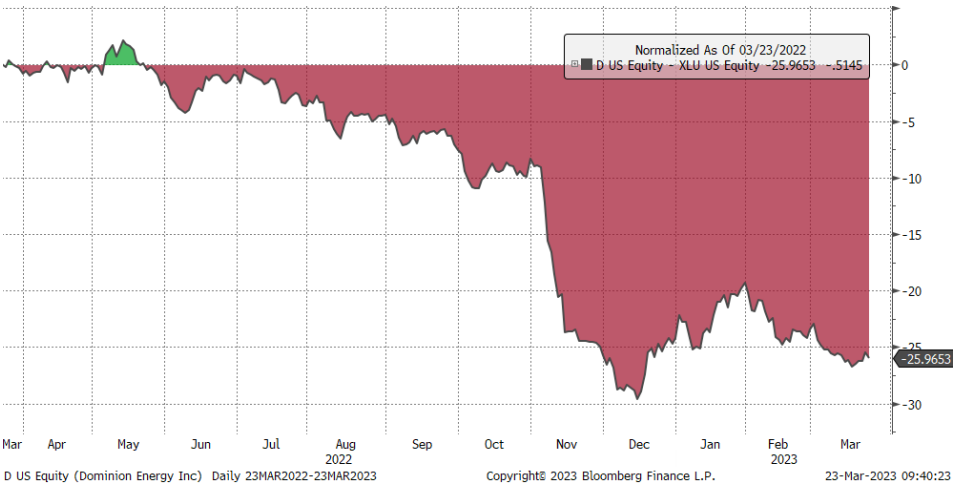
LDC: Local distribution company
RNG: Renewable natural gas
NRC: Nuclear Regulatory Commission
PBR: performance-based rates
FFO: Funds from operations
SB: Senate Bill | HB: House Bill

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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

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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
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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.

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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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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

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	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%

[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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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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*iQ*profile℠ 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

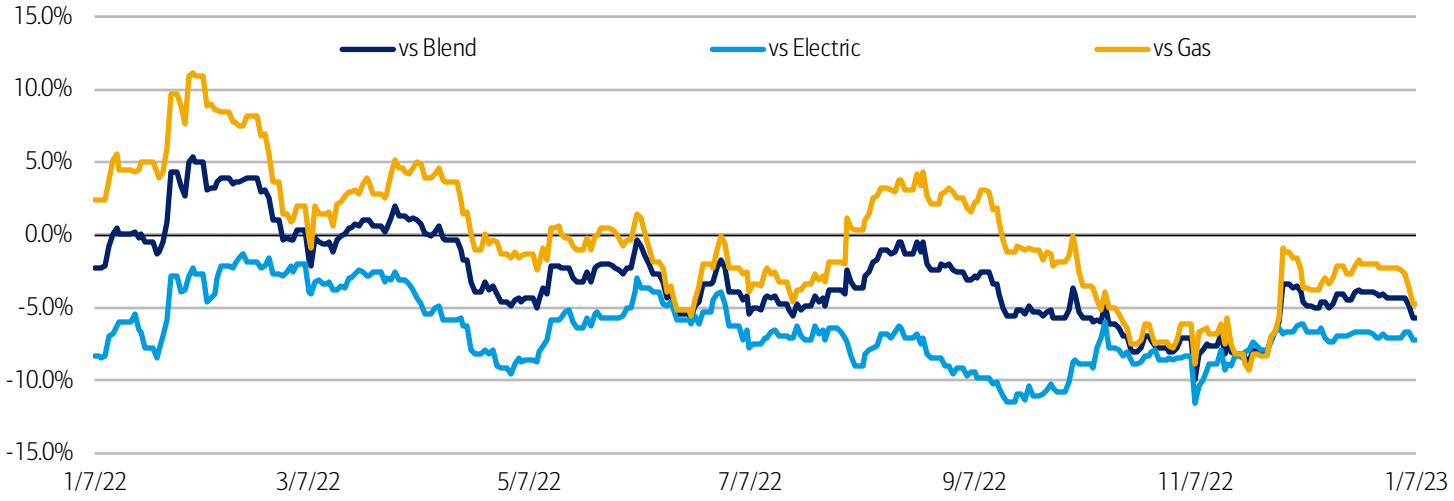
Quarterly Earnings Estimates

	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.

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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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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

*iQ*method℠ Measures Definitions

Business Performance	**Numerator**	**Denominator**
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A

Quality of Earnings	**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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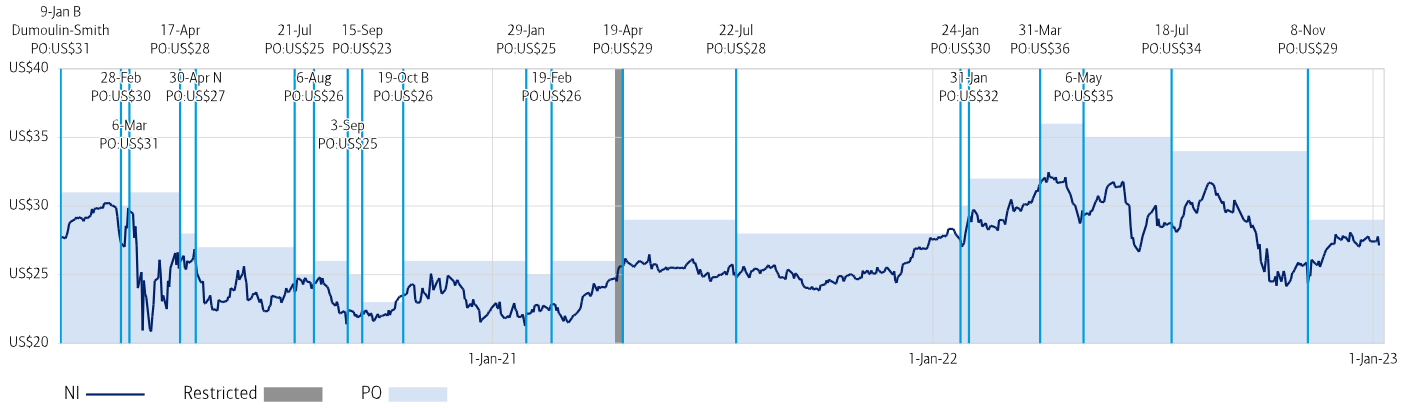
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NiSource Inc (NI) Price Chart



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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%

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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

Equity
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Utilities

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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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Contents

BofA Vs Consensus & Key Changes	3
Premium De-Rates & Gas Re-Rates	4
Ameren Corp. (AEE)	6
Alliant Energy (LNT)	10
Avangrid (AGR)	13
CMS Energy Corporation (CMS)	14
Dominion Energy (D)	18
DTE Energy Co. (DTE)	20
Edison International (EIX)	25
Entergy Corp (ETR)	29
Eversource Energy (ES)	30
FirstEnergy (FE)	32
NextEra Energy (NEE)	35
NiSource Inc. (NI)	40
PG&E Corporation (PCG)	42
PPL Corp (PPL)	46
Public Service Enterprise Group (PEG)	48
Southern Company (SO)	53
WEC Energy (WEC)	57
Xcel Energy Inc. (XEL)	60

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

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%

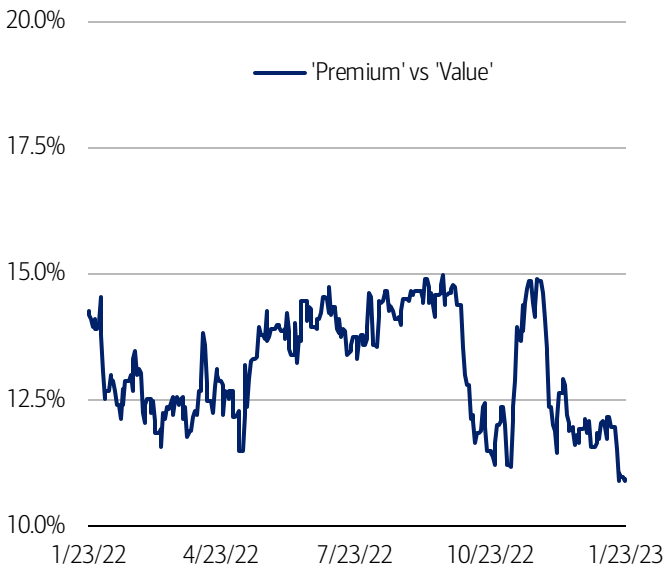
Source: Company Filings, Bloomberg, BofA Global Research

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.

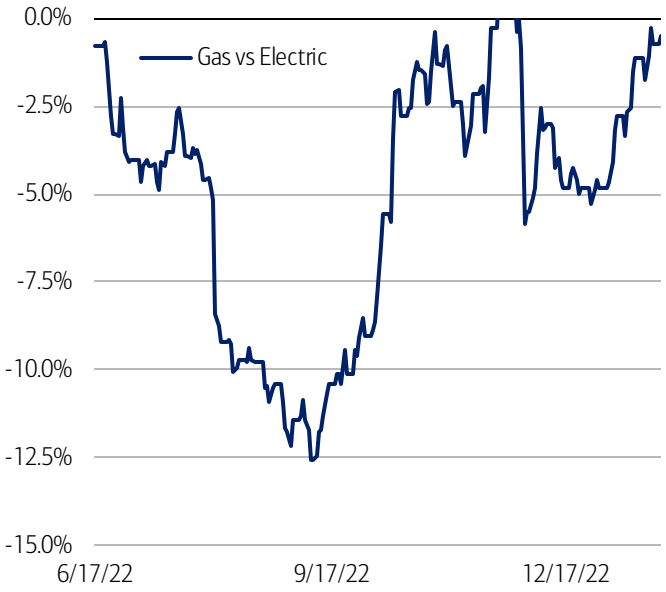
Exhibit 3: Premium vs Value Utility Relative Premium 2024E (%)
The positive valuation spread for high-P/E utilities has declined



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

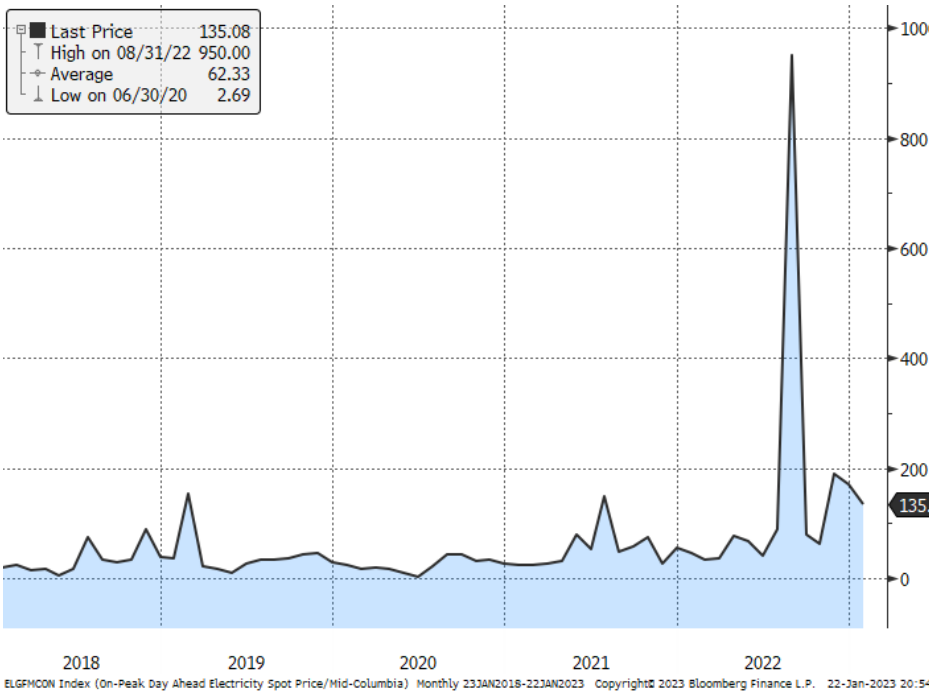
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Northwest SMID Lightning Round: Cautious updates ahead

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

BofA GLOBAL RESEARCH

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

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

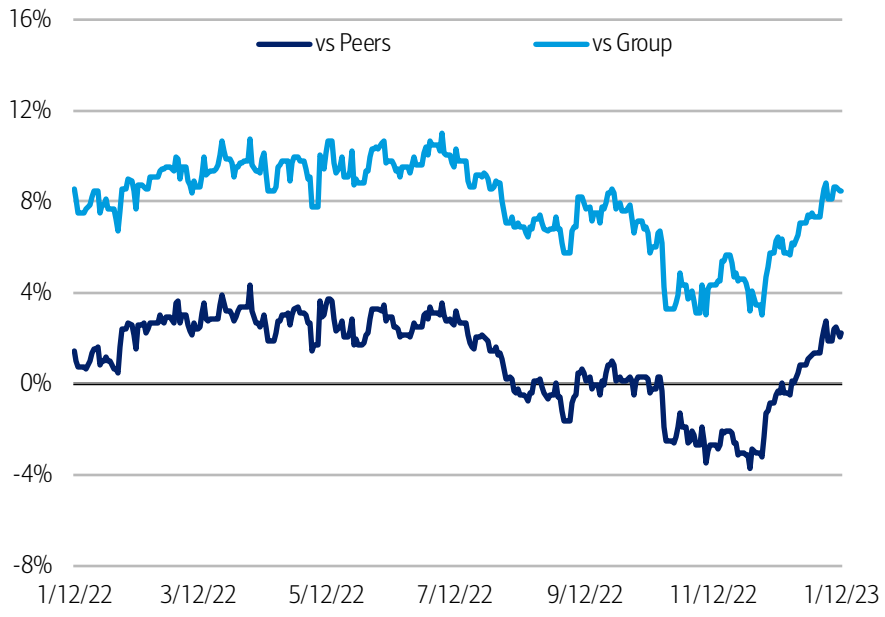
CMS Energy Corporation (CMS)

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

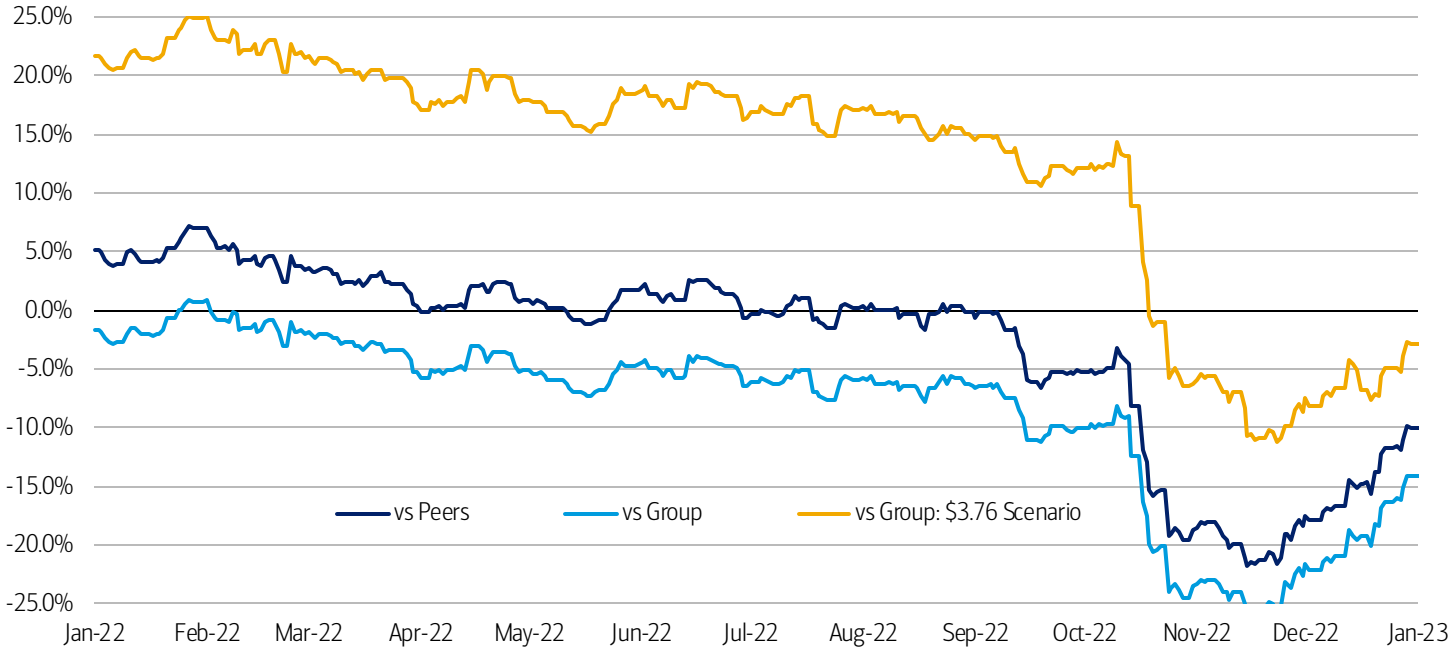
Dominion Energy (D)

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

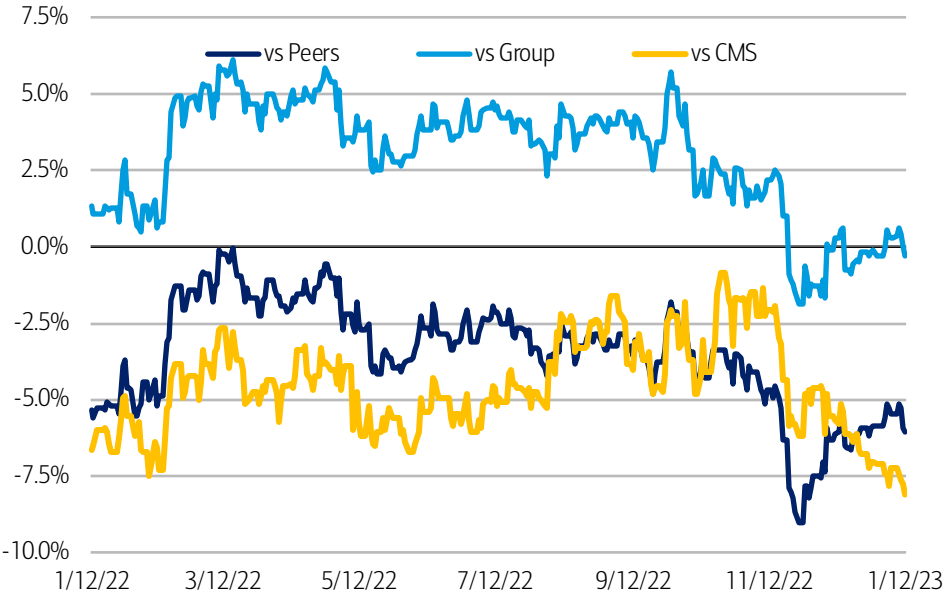
DTE Energy Co. (DTE)

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

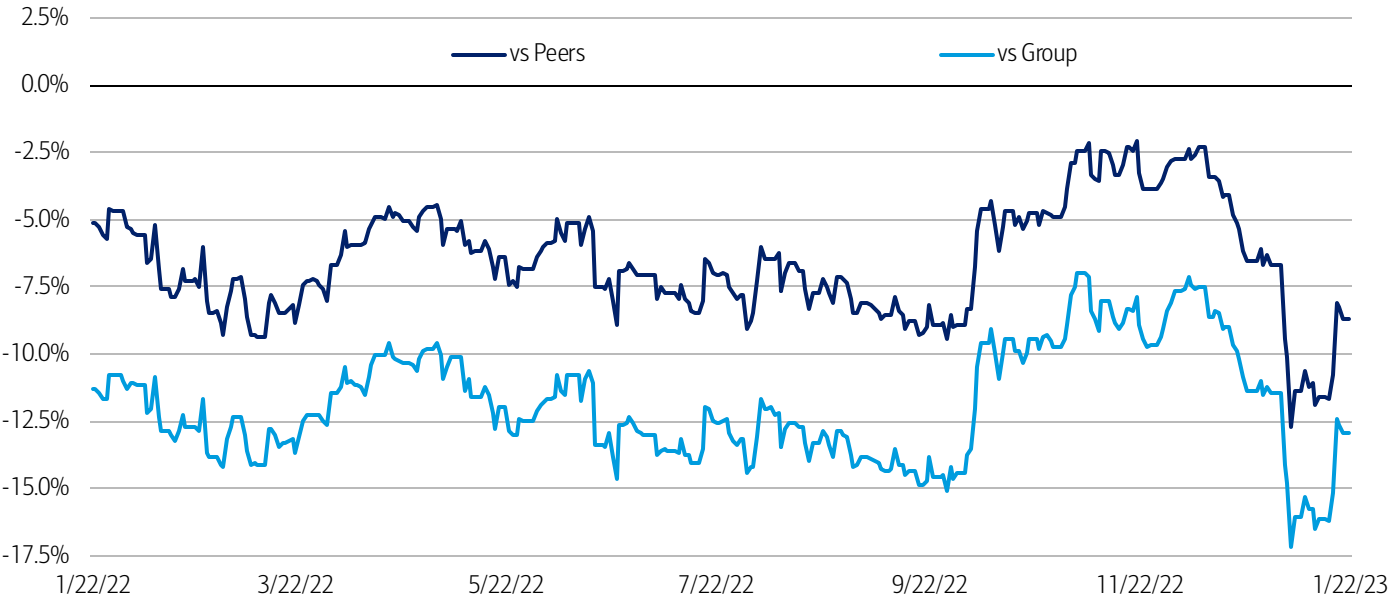
Core Regulated Electric Utilities	2025 EPS	Premium/(Discount)		Multiple Applied	$ per Share
Southern California Edison - CPUC Ratebase	$5.13	-3.0x	-18%	13.7x	$70.23
Southern California Edison - CPUC Variances	(0.27)	-3.0x	-18%	13.7x	($3.68)
Southern California Edison - FERC	$1.14	-1.0x	-6%	15.7x	$17.90
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.

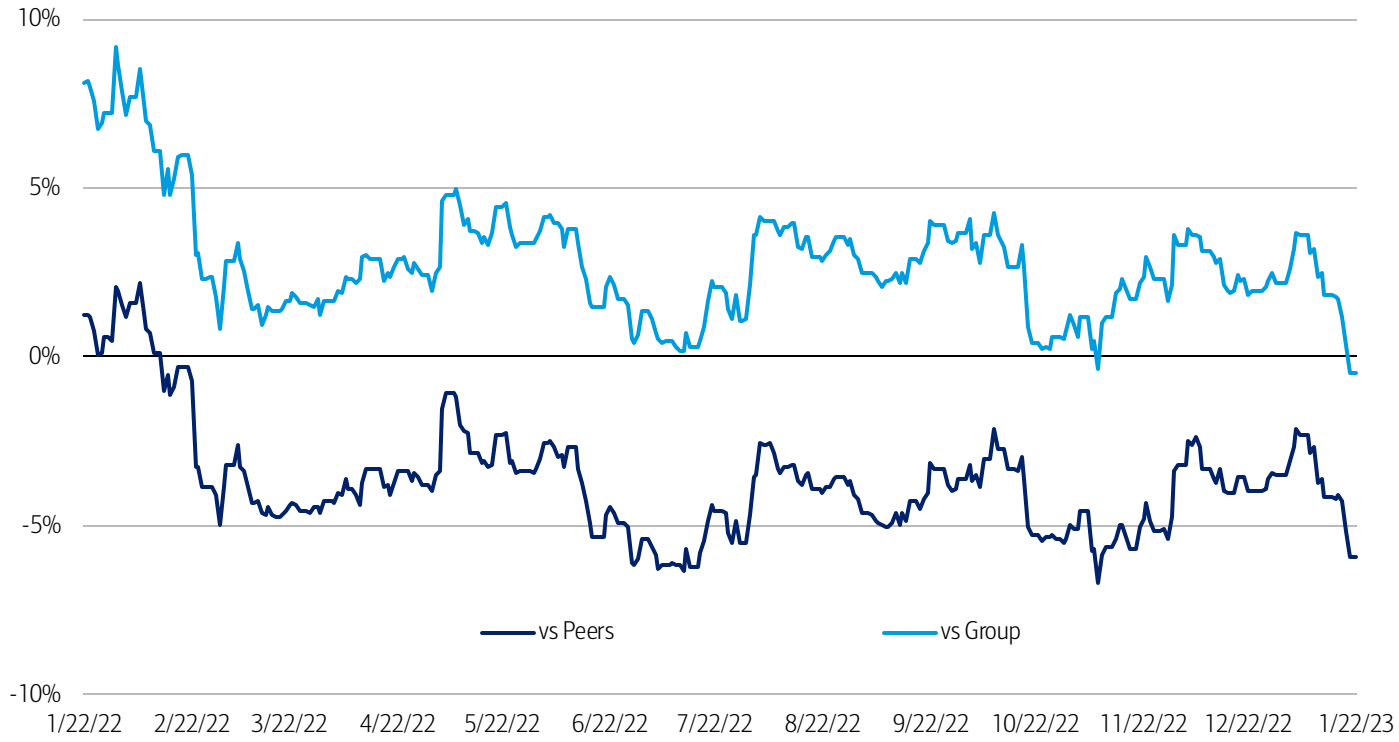
BofA Global Research Reports

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

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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.

BofA Global Research Reports

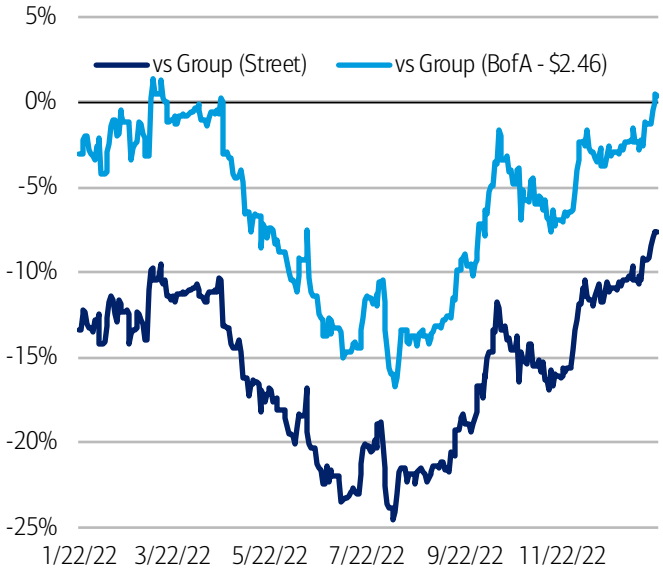
Title: Subtitle	Primary Author	Date Published
US Utilities & Clean Tech: Offshore Wind Latest Headwind: Ørsted Impairs Sunrise Wind – ES Joint Venture	Paul Zimbardo	20 January 2023
US Utilities & IPPs: CT utilities 'shareholder contribution plan' could leave intervenors wanting more	Julien Dumoulin-Smith	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

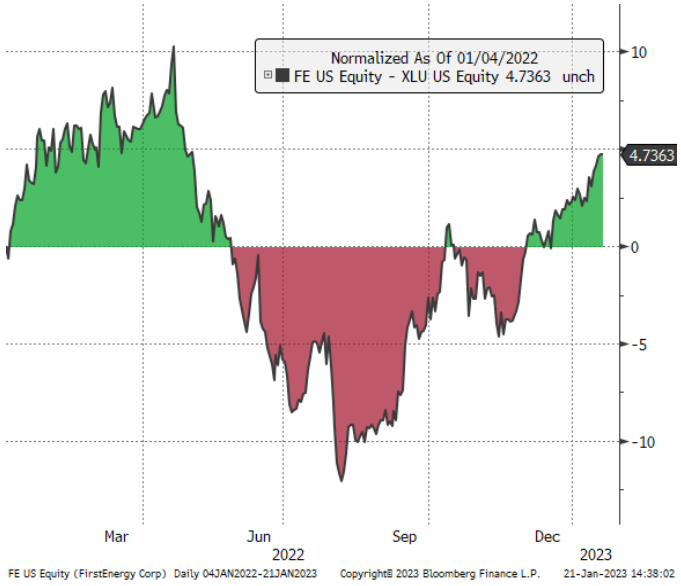
Exhibit 28: FE Relative 2024E P/E versus Utilities Peers (XLU)
While FE appears to trade at a ~8% discount on Street, we are much lower



Source: Company Filings, Bloomberg, & BofA Global Research

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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

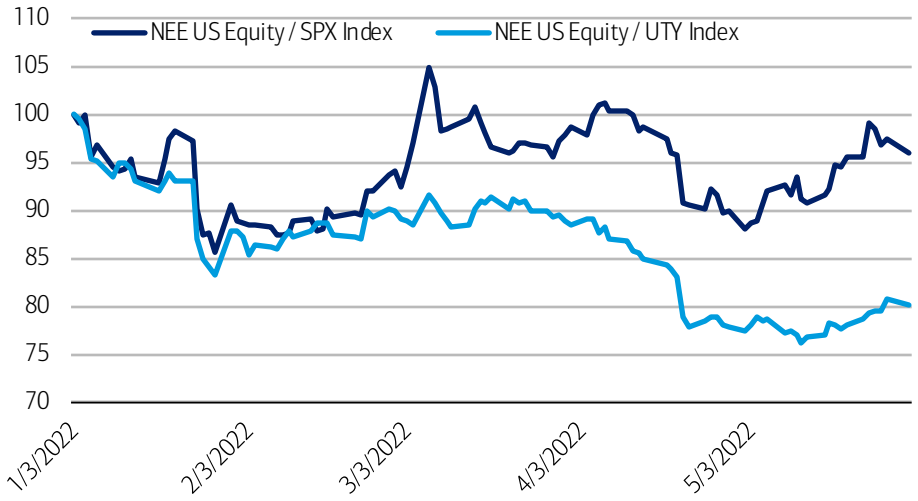
NextEra Energy (NEE)

(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

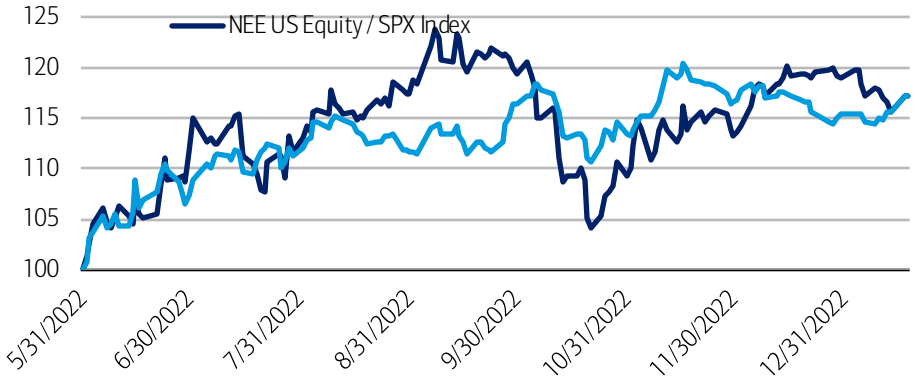


Source: Bloomberg, BofA Global Research

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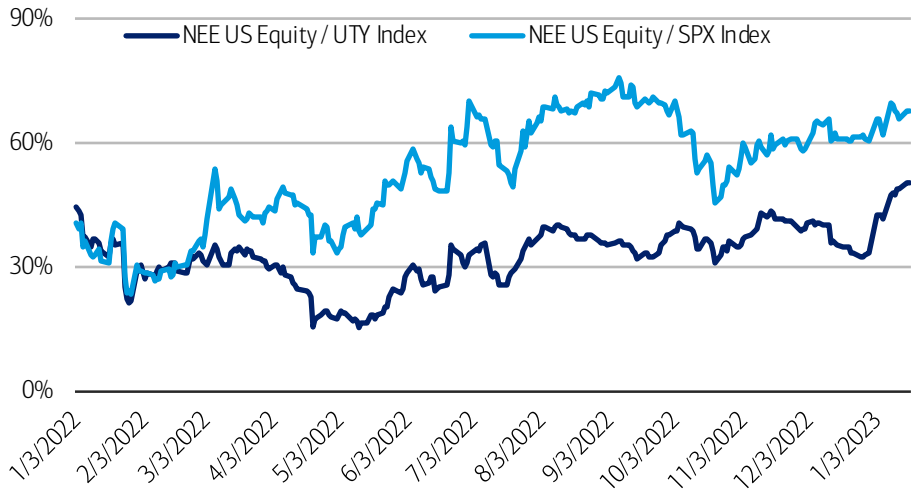
A similar dynamic can be seen in valuation, with NEE's premium vs. peers and the broader market shrinking early on in 2022 before rebounding mid-year and climbing higher following the passage of the IRA. Critically in the near-term we continue to watch backlog trends across all segments.

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

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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

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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		Valuation				Equity Value		
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

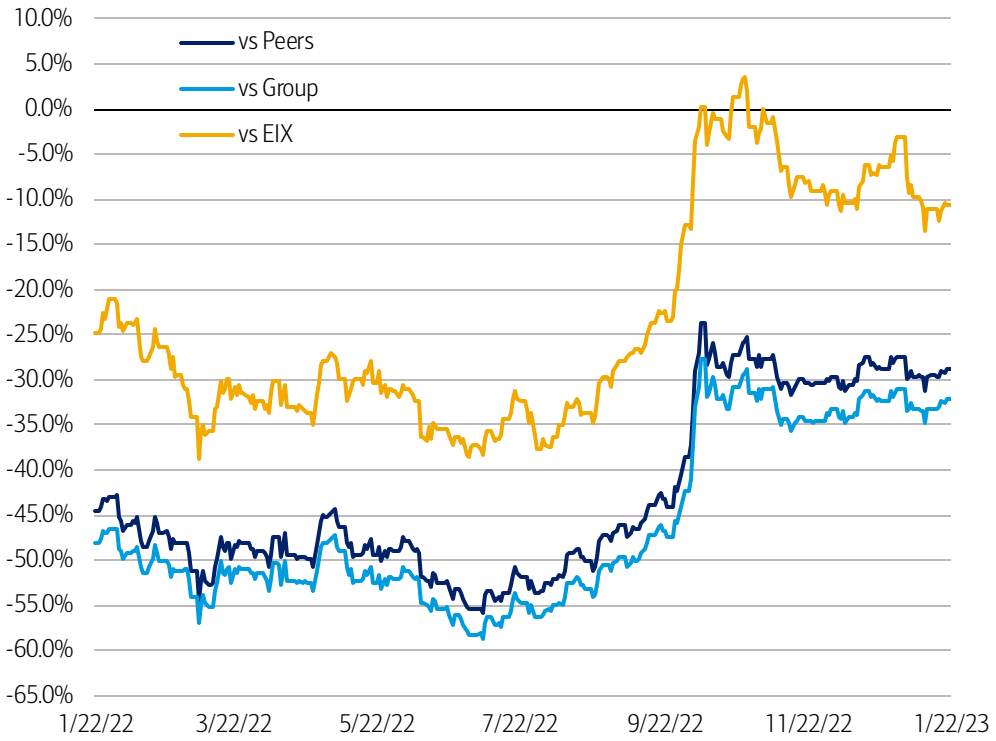
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See our detailed 4Q22 for more on regulatory proceedings and the outlook: NiSource Inc: The Hoosier Rundown: Indiana in the spotlight with lots of activity ahead 09 January 2023

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

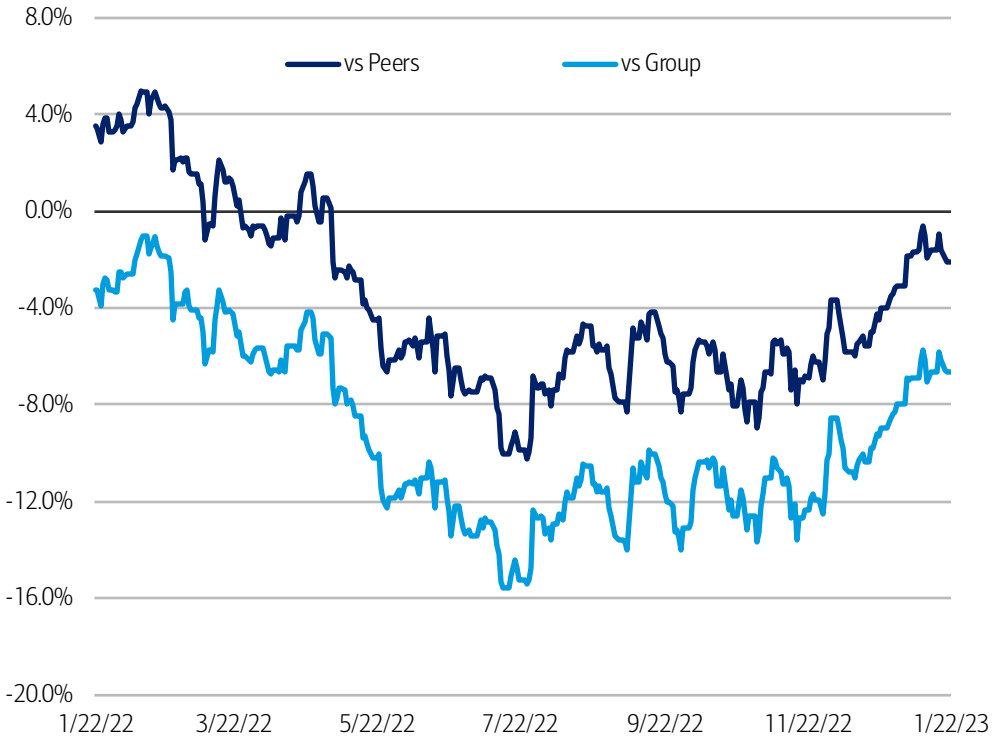
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See our latest thoughts below: PPL Corporation: PPL Takes Another Giant Step in Transformation: A Top Pick for 2023 17 January 2023

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

BofA GLOBAL RESEARCH

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

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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

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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

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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

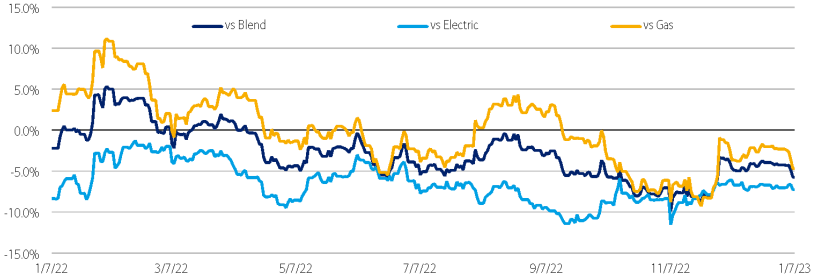
Price	27.61 USD
Price Objective	32.00 USD
Date Established	9-Jan-2023
Investment Opinion	A-1-7
52-Week Range	23.78 USD - 32.59 USD
Mrkt Val (mn) / Shares Out (mn)	12,242 USD / 443.4
Average Daily Value (mn)	101.91 USD
BofA Ticker / Exchange	NI / NYS
Bloomberg / Reuters	NI US / NI.N
ROE (2022E)	10.8%
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.

BofA GLOBAL RESEARCH

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.

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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.

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 (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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Click for important disclosures. Analyst Certification. Price Objective Basis & Risk.

*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 BUY	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

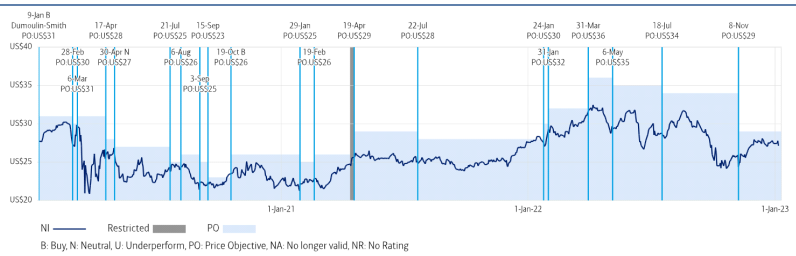
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Coverage Universe	Count	Percent	Inv. Banking Relationships[R1]	Count	Percent
Buy	82	59.85%	Buy	65	79.27%
Hold	32	23.36%	Hold	21	65.63%
Sell	23	16.79%	Sell	14	60.87%

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]
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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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.

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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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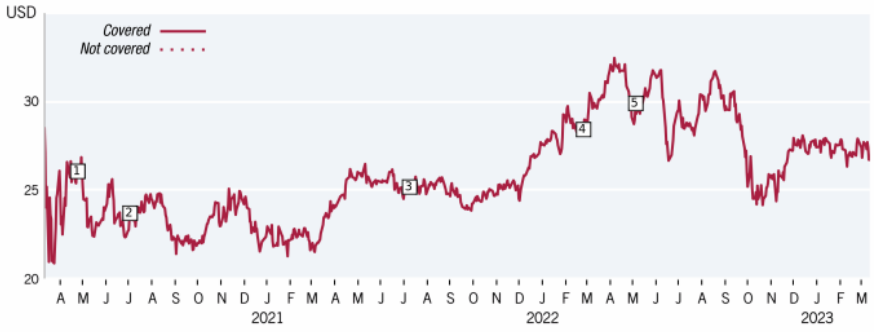
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Fundamental Research

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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11 January 2023
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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)

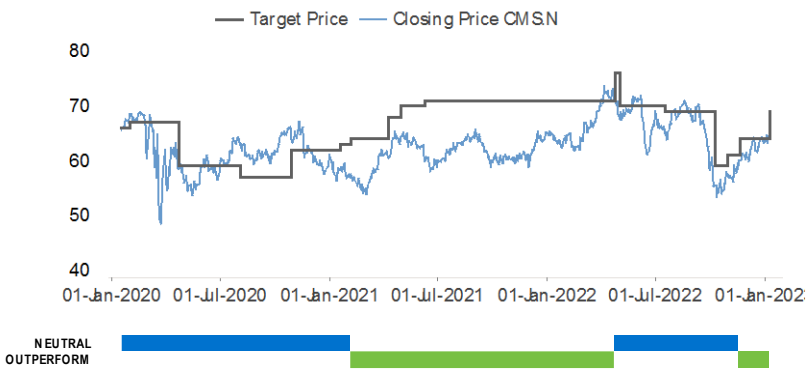
Disclosure Appendix

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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	

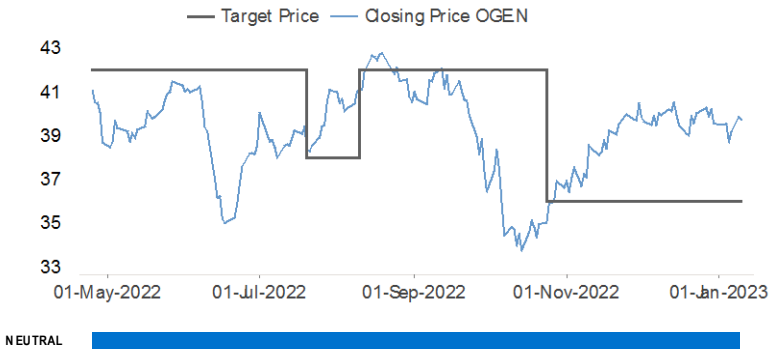


** Asterisk signifies initiation or assumption of coverage.*

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

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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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13 March 2023
Equity Research
Americas | United States

CREDIT SUISSE

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.

Credit Suisse ID 10111678

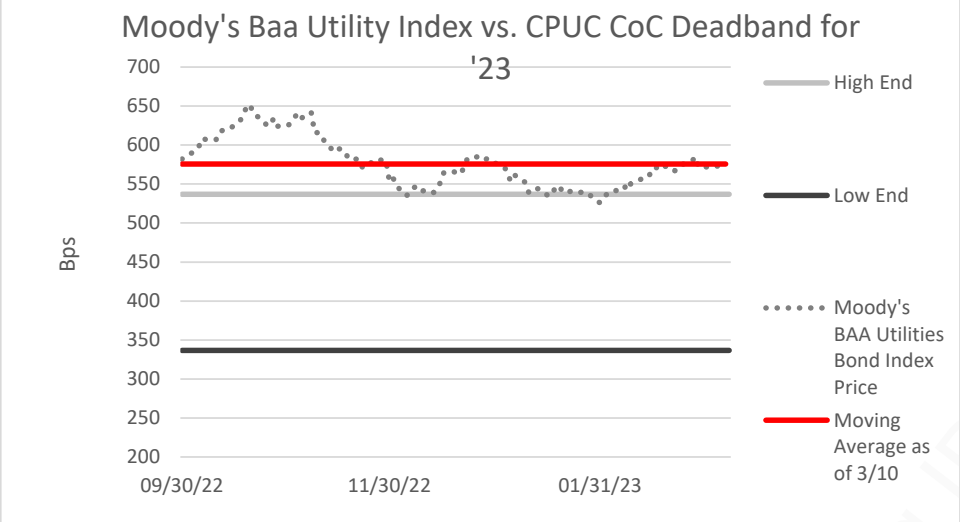
Figure 1: CSe Blended Forward Price by ISO

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

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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.

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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:

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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.

Date of Production 31-Jan-2023 04:55:14 AM UTC Date of Dissemination: 31-Jan-2023 05:03:14 AM UTC

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31 January 2023
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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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Table of Contents

AEP Inc 3

AES Corp 7

Atmos Energy 12

Constellation Energy 16

DTE Energy 21

Duke Energy 25

Consolidated Edison 31

Edison International 37

Eversource Energy 42

Entergy Corporation 49

Evergy 56

FirstEnergy 63

NiSource 69

OGE Energy 74

PG&E Corporation 79

PPL Corporation 86

WEC Energy Group 91

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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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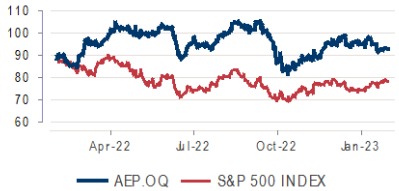
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Financial and valuation metrics

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**

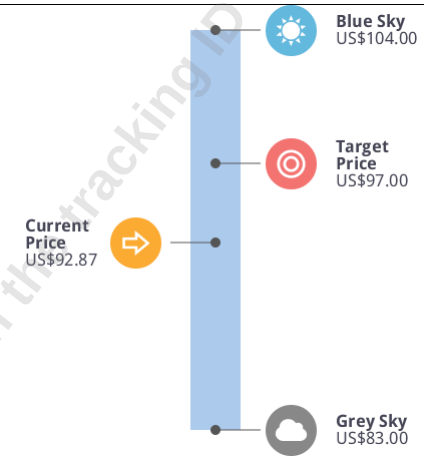
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**16,792.0**	**16,144.1**	**16,158.0**	**16,792.9**
EBITDA (US$ m)	**6,237**	**6,634**	**6,970**	**7,547**
Depr. & amort.	(2,826)	(3,016)	(3,082)	(3,307)
EBIT (US$)	**3,411**	**3,618**	**3,888**	**4,240**
Net interest exp	(1,199)	(1,236)	(1,303)	(1,404)
PBT (US$)	**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



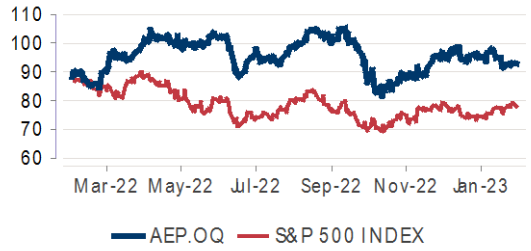
Our Blue Sky Scenario (US$) **(from 107.00) 104.00**

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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CREDIT SUISSE

AES Corp

FY23 Preview: Contemplating Headwinds to '23 while 7-9% likely affirmed; Neutral

AES

Target price (12M, US$) 30.00
Neutral

Multi Utilities

This article is intended for the sole use of the customer with the tracking ID of 10111678

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

AES Corp (AES)

Analyst: **Nicholas Campanella**

Price (27 Jan 2023): **US$26.97**

Target Price: **(from 26.00) 30.00**

Rating: **Neutral**

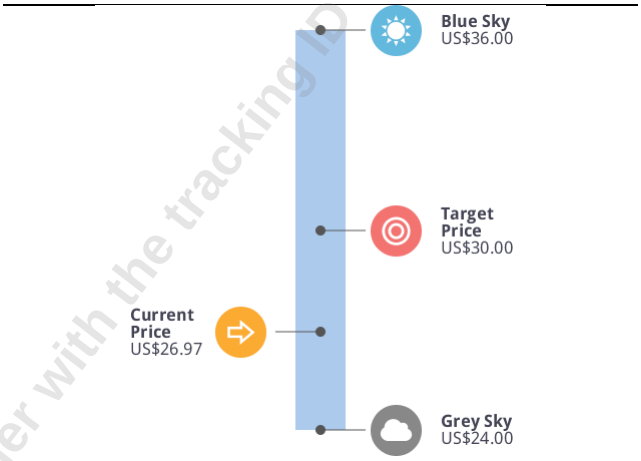
Income Statement	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Revenue (US$ m)	**11,141.0**	**8,824.6**	**9,056.5**	**10,074.6**
EBITDA (US$ m)	**970**	**1,954**	**2,005**	**2,230**
Depr. & amort.	-0	-0	-0	-0
EBIT (US$)	**970**	**1,954**	**2,005**	**2,230**
Net interest exp	(613)	(692)	(705)	(719)
PBT (US$)	**(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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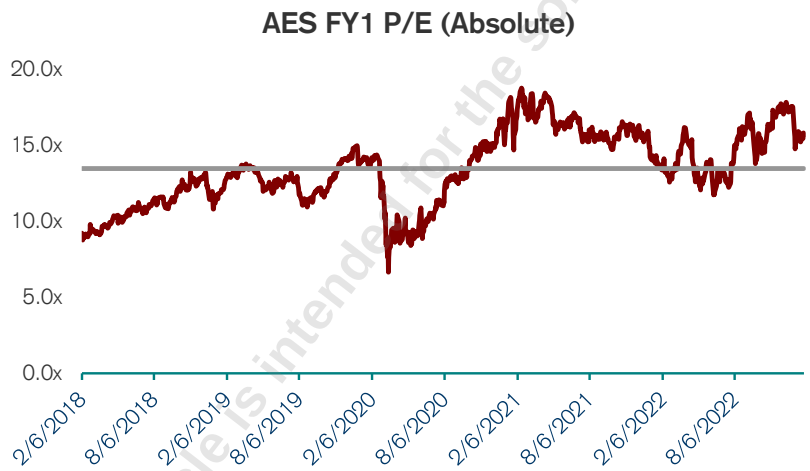
Valuation: TP Tweaked to $30

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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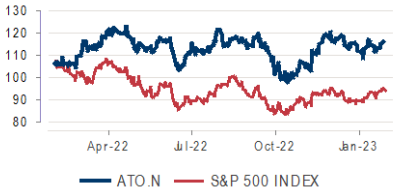
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Financial and valuation metrics

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)

Analyst: **Nicholas Campanella**

Price (27 Jan 2023): **US$115.95** Target Price: **(from 121.00) 131.00**

Rating: **Outperform**

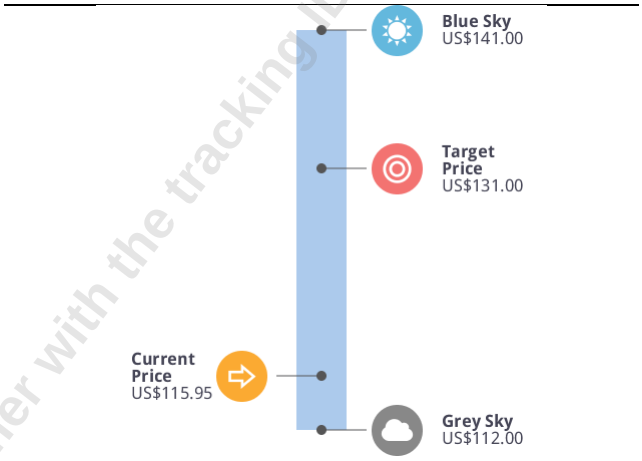
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**3,407.5**	**4,201.7**	**4,059.8**	**4,359.9**
EBITDA (US$ m)	**1,383**	**1,457**	**1,981**	**2,250**
Depr. & amort.	(478)	(536)	(615)	(687)
EBIT (US$)	**905**	**921**	**1,367**	**1,564**
Net interest exp	(84)	(103)	(289)	(334)
PBT (US$)	**819**	**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



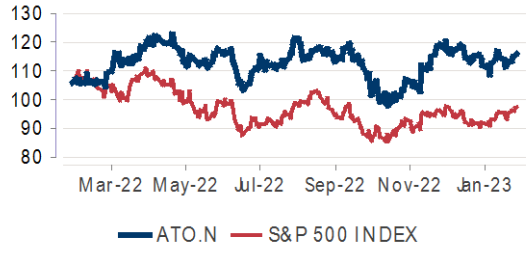
Our Blue Sky Scenario (US$) **(from 130.00) 141.00**

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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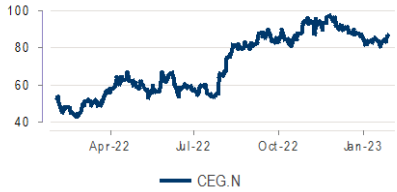
Nathan Richardson
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Financial and valuation metrics

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**

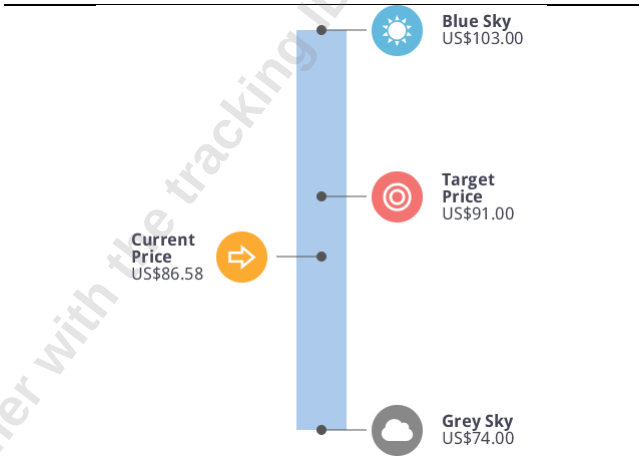
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**19,649.0**	**18,983.0**	**21,987.1**	**20,842.2**
EBITDA (US$ m)	**2,448**	**2,630**	**3,277**	**3,067**
Depr. & amort.	(3,003)	(3,003)	(3,003)	(3,003)
EBIT (US$)	**(346)**	**(732)**	**(85)**	**(295)**
Net interest exp	(297)	(297)	(297)	(297)
PBT (US$)	**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



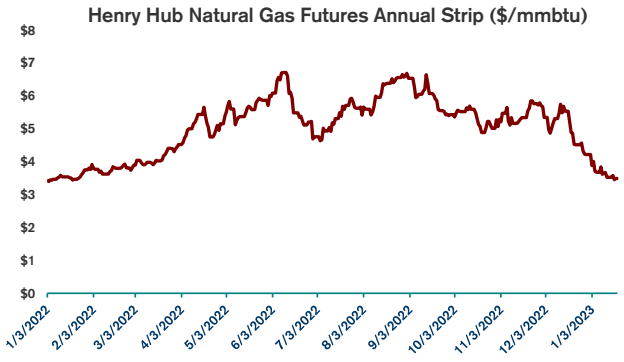
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Daily Jan27, 2022 - Jan27, 2023, 01/27/22 = US$45.2

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Commodities Pricing Dynamics

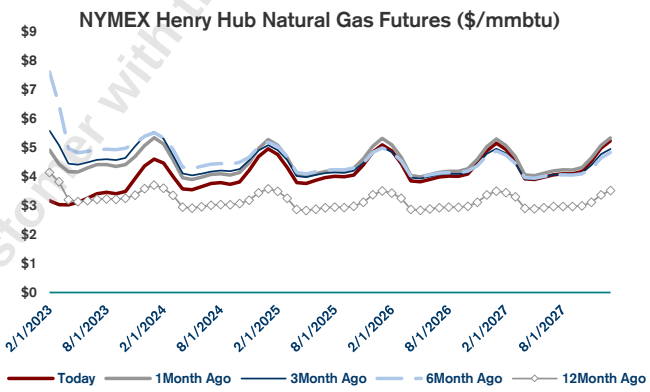
- **Where forward curve is now vs. PTC floor & when we launched:** We note that the current Cse forward power price in '23 (excluding capacity revenue and other ancillary revenues) is slightly lower than the ~$42/MWh PTC floor price, although the investment community is still waiting for IRS/treasury 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



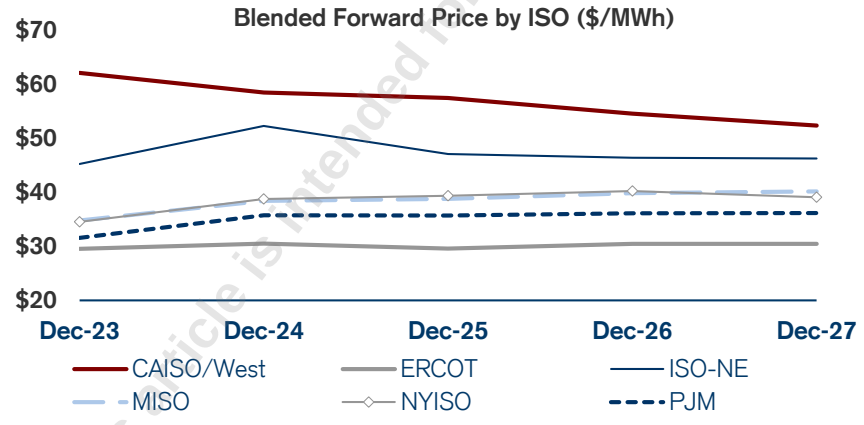
Source: SNL

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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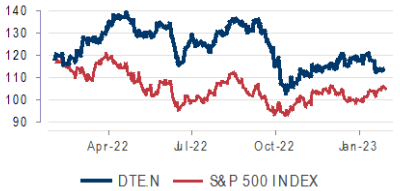
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Financial and valuation metrics

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**

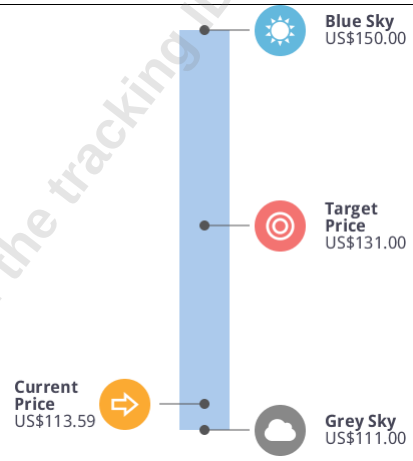
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**14,964.0**	**15,354.4**	**15,787.0**	**16,235.1**
EBITDA (US$ m)	**2,872**	**3,272**	**3,558**	**3,852**
Depr. & amort.	(1,377)	(1,469)	(1,587)	(1,703)
EBIT (US$)	**1,495**	**1,803**	**1,972**	**2,149**
Net interest exp	(630)	(629)	(708)	(779)
PBT (US$)	**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



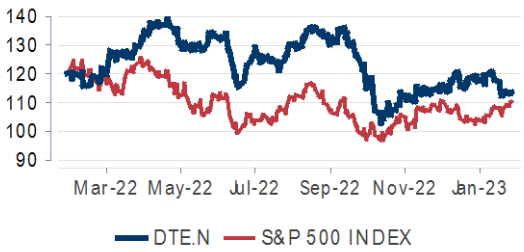
Our Blue Sky Scenario (US$) **(from 132.00) 150.00**

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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GAS-ROR-010
Attachment A
Page 243 of 657

CREDIT SUISSE

Duke Energy

4Q22/FY23 Preview: All About the Carolinas; Neutral

DUK

Target price (12M, US$) 106.00
Neutral

Electric Utilities

This article is intended for the exclusive use of UserID 10111678 with the tracking ID of 10111678

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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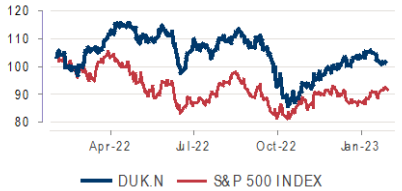
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Financial and valuation metrics

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

Duke Energy (DUK)

Price (27 Jan 2023): **US$101.58** Target Price: **(from 94.00) 106.00**

Analyst: **Nicholas Campanella**
Rating: **Neutral**

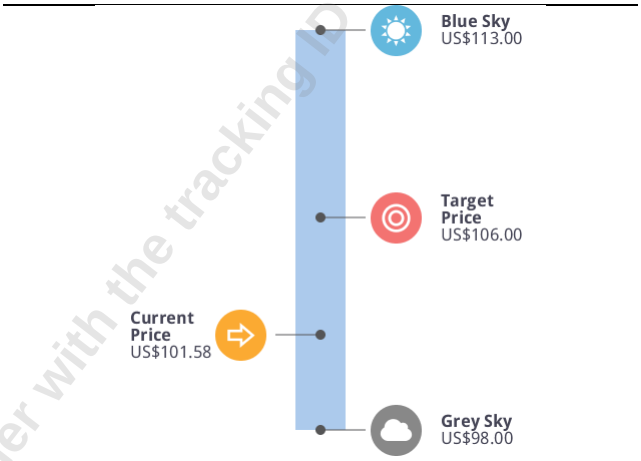
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**25,097.0**	**26,261.2**	**27,280.7**	**28,240.8**
EBITDA (US$ m)	**10,363**	**11,393**	**12,255**	**13,064**
Depr. & amort.	(4,990)	(5,245)	(5,519)	(5,770)
EBIT (US$)	**5,373**	**6,148**	**6,736**	**7,293**
Net interest exp	(2,280)	(2,519)	(2,860)	(3,051)
PBT (US$)	**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



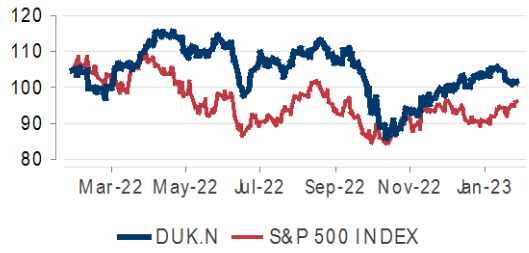
Our Blue Sky Scenario (US$) **(from 101.00) 113.00**

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

This article is intended for the sole use of customer with the tracking ID of 3011670

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 A
Page 248 of 657

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

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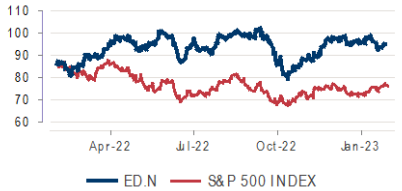
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Financial and valuation metrics

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

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Consolidated Edison (ED)

Price (27 Jan 2023): **US$94.91** Target Price: **(from 78.00) 95.00**

Analyst: **Nicholas Campanella**
Rating: **Neutral**

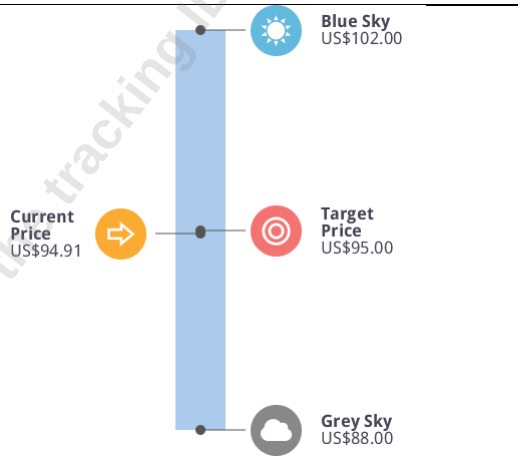
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**13,676.0**	**13,829.9**	**13,354.0**	**13,765.3**
EBITDA (US$ m)	**4,858**	**5,139**	**5,107**	**5,487**
Depr. & amort.	(2,032)	(2,170)	(2,029)	(2,225)
EBIT (US$)	**2,288**	**2,843**	**2,963**	**3,146**
Net interest exp	(905)	(998)	(910)	(961)
PBT (US$)	**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



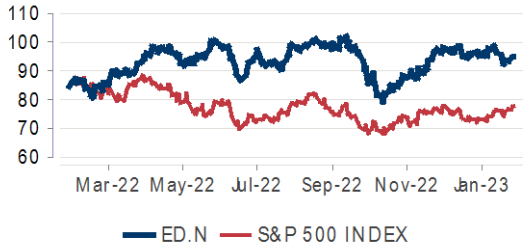
Our Blue Sky Scenario (US$) **(from 83.00) 102.00**

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

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Edison International

4Q Preview; Wildfire De-Risking and CoC Key Focus Areas; Neutral

EIX

Target price (12M, US$) 68.00

Neutral

Electric Utilities

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

Research Analysts

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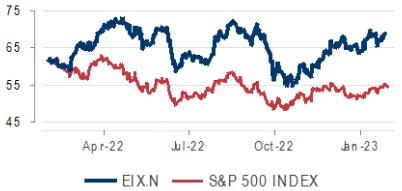
Nathan Richardson
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Financial and valuation metrics

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

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Edison International (EIX)

Analyst: **Nicholas Campanella**

Price (27 Jan 2023): **US$68.74**

Target Price: **(from 64.00) 68.00**

Rating: **Neutral**

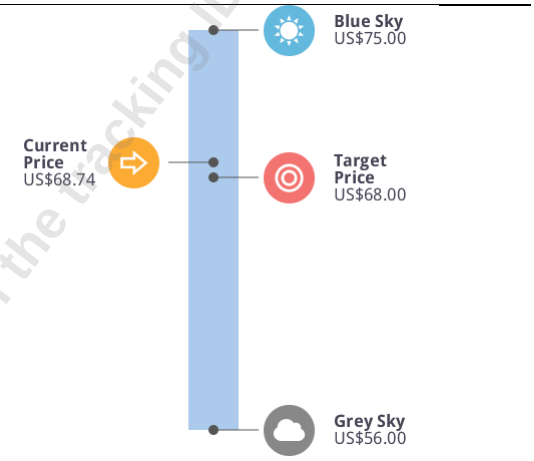
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**14,905.0**	**14,896.1**	**15,178.6**	**15,571.3**
EBITDA (US$ m)	**3,695**	**5,106**	**5,346**	**5,695**
Depr. & amort.	(2,218)	(2,351)	(2,464)	(2,589)
EBIT (US$)	**1,714**	**2,992**	**3,119**	**3,343**
Net interest exp	(925)	(1,047)	(1,103)	(1,201)
PBT (US$)	**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



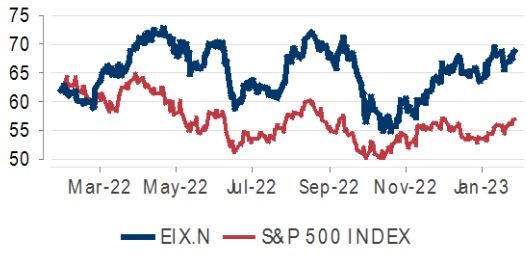
Our Blue Sky Scenario (US$) **(from 71.00) 75.00**

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



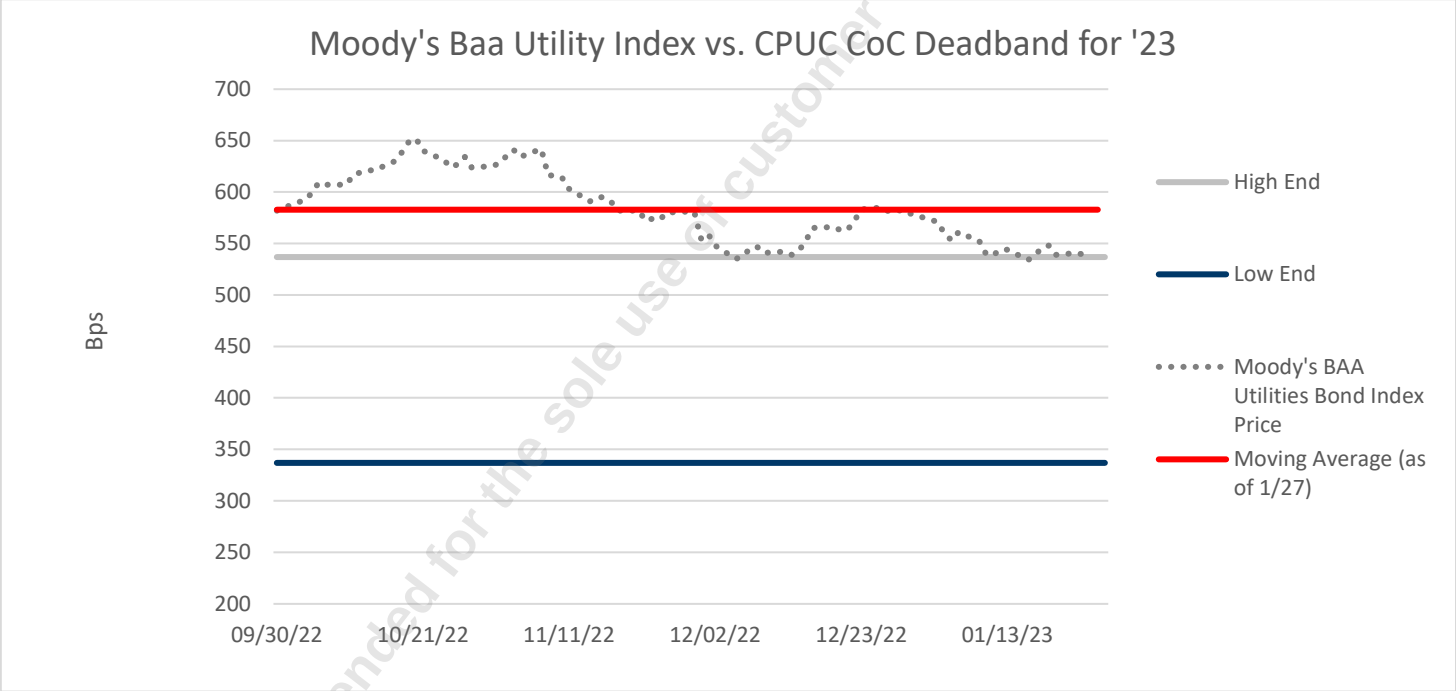
On 27-Jan-2023 the S&P 500 INDEX closed at 4070.56
Daily Jan31, 2022 - Jan27, 2023, 01/31/22 = US$62.79

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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

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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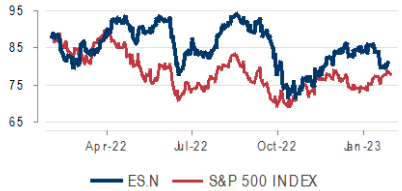
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Financial and valuation metrics

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**

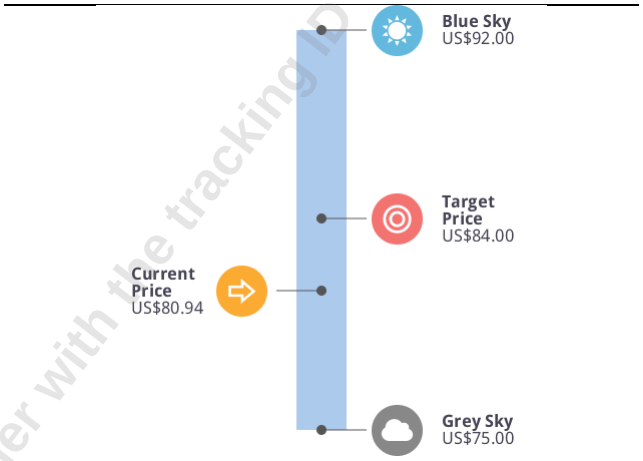
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**9,863.1**	**10,819.6**	**11,116.5**	**11,453.2**
EBITDA (US$ m)	**3,328**	**3,797**	**4,063**	**4,369**
Depr. & amort.	(1,335)	(1,469)	(1,561)	(1,649)
EBIT (US$)	**1,993**	**2,328**	**2,502**	**2,720**
Net interest exp	(582)	(651)	(716)	(703)
PBT (US$)	**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



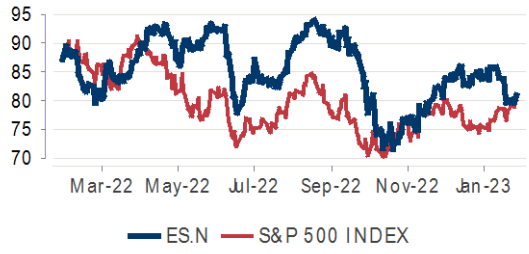
Our Blue Sky Scenario (US$) **(from 86.00) 92.00**

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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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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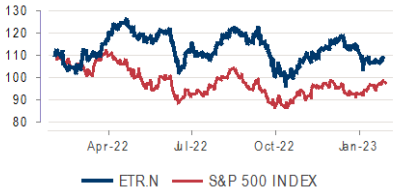
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Financial and valuation metrics

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**

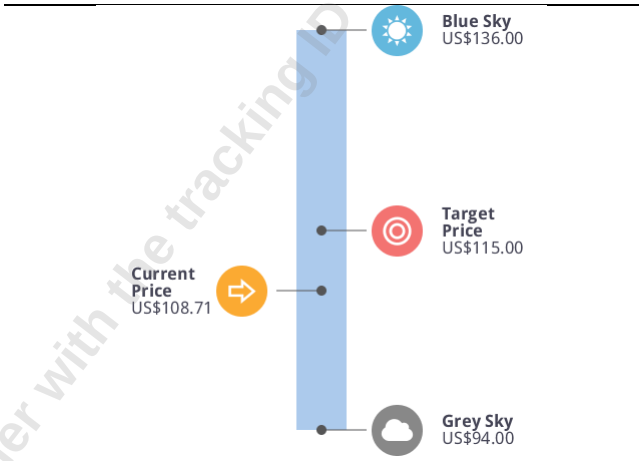
Income Statement	**12/21A**	**12/22E**	**12/23E**	**12/24E**
Revenue (US$ m)	**11,742.9**	**10,864.3**	**11,230.7**	**11,624.0**
EBITDA (US$ m)	**3,530**	**3,859**	**4,133**	**4,417**
Depr. & amort.	(1,684)	(1,761)	(1,842)	(1,959)
EBIT (US$)	**2,145**	**2,398**	**2,590**	**2,757**
Net interest exp	(835)	(898)	(933)	(973)
PBT (US$)	**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



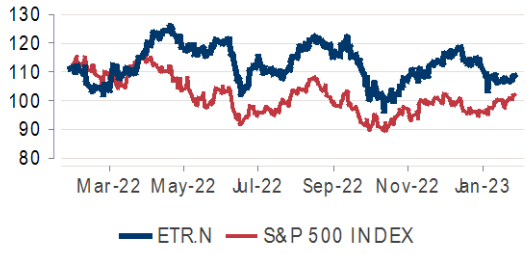
Our Blue Sky Scenario (US$) **(from 126.00) 136.00**

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 clients with the tracking ID of 10111678

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

Research Analysts

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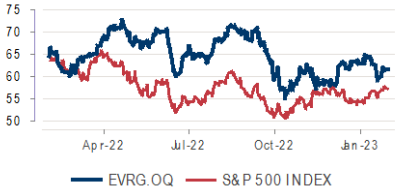
Nathan Richardson
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Financial and valuation metrics

Year	12/21A	12/22E	12/23E	12/24E
EPS (CS adj.) (US$)	3.54	3.78	3.61	3.81
Prev. EPS (US$)	-	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**

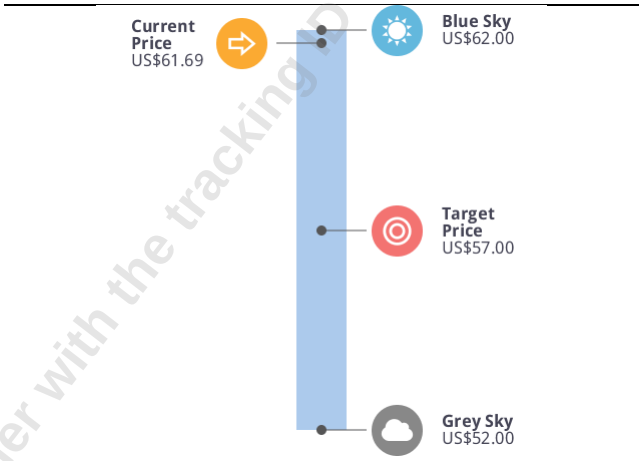
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**5,586.7**	**5,472.6**	**5,478.0**	**5,582.9**
EBITDA (US$ m)	**2,251**	**2,354**	**2,389**	**2,523**
Depr. & amort.	(896)	(935)	(983)	(1,021)
EBIT (US$)	**1,374**	**1,410**	**1,397**	**1,493**
Net interest exp	(373)	(426)	(457)	(504)
PBT (US$)	**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



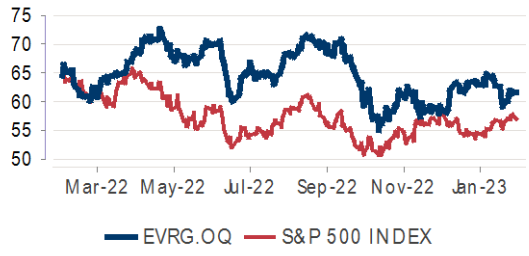
Our Blue Sky Scenario (US$) **62.00**

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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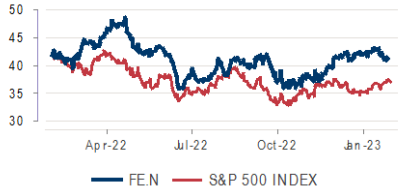
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Financial and valuation metrics

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



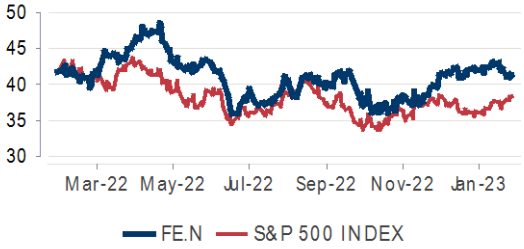
Our Blue Sky Scenario (US$) **(from 42.00) 46.00**

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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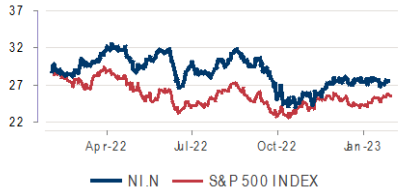
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Financial and valuation metrics

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**

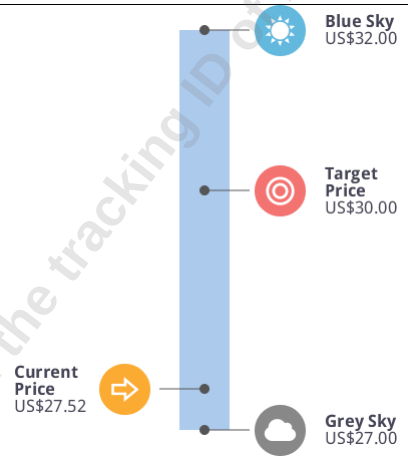
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**4,899.6**	**5,316.8**	**5,528.3**	**5,900.8**
EBITDA (US$ m)	**1,755**	**2,179**	**2,393**	**2,764**
Depr. & amort.	(748)	(811)	(889)	(966)
EBIT (US$)	**1,007**	**1,368**	**1,504**	**1,798**
Net interest exp	(341)	(428)	(470)	(496)
PBT (US$)	**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



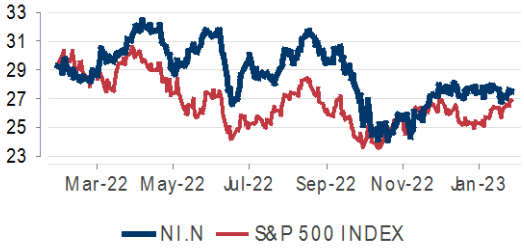
Our Blue Sky Scenario (US$) **(from 29.00) 32.00**

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

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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

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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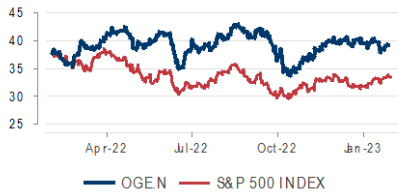
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Financial and valuation metrics

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

This article is intended for the sole use of customer with the tracking ID of 10111678

OGE Energy (OGE)

Analyst: **Nicholas Campanella**

Price (27 Jan 2023): **US$39.23** Target Price: **(from 36.00) 38.00**

Rating: **Neutral**

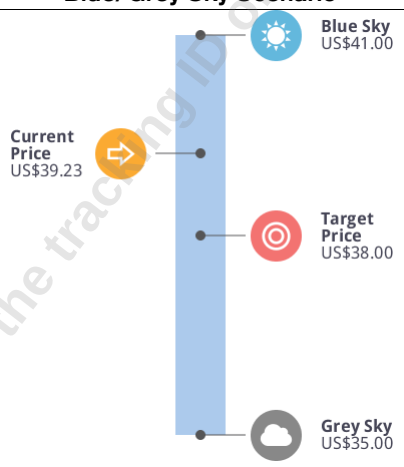
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**3,653.7**	**3,810.7**	**3,895.1**	**3,973.3**
EBITDA (US$ m)	**960**	**1,039**	**1,105**	**1,164**
Depr. & amort.	(416)	(435)	(453)	(471)
EBIT (US$)	**1,037**	**662**	**659**	**700**
Net interest exp	(158)	(167)	(181)	(194)
PBT (US$)	**879**	**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



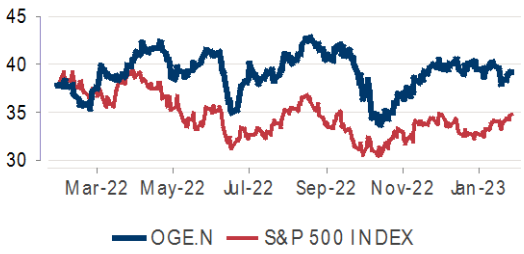
Our Blue Sky Scenario (US$) **(from 38.00) 41.00**

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



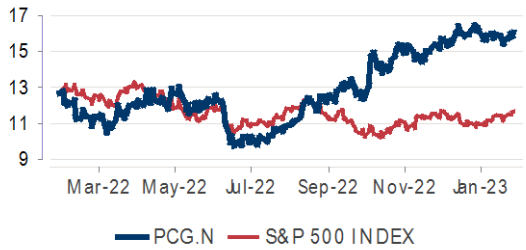
Our Blue Sky Scenario (US$) **(from 22.00) 23.00**

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

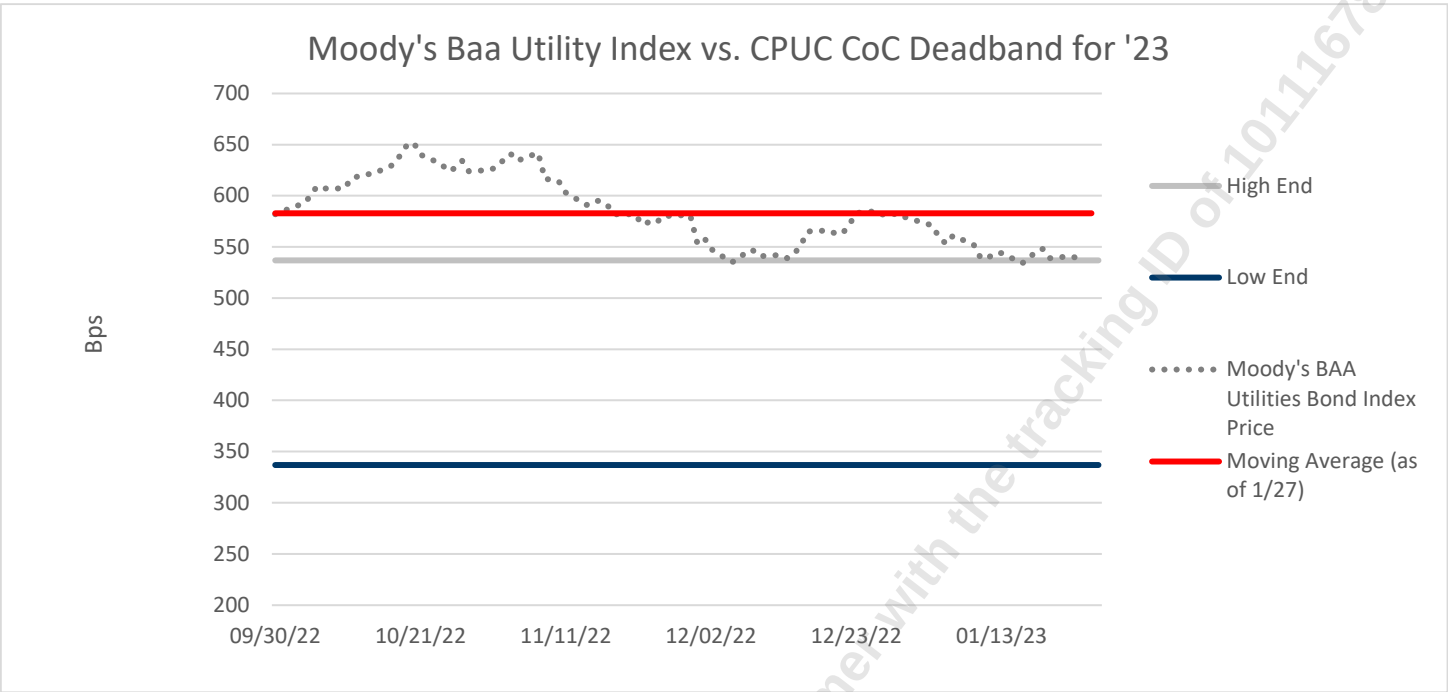
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Investment Considerations

- **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 A
Page 304 of 657

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**

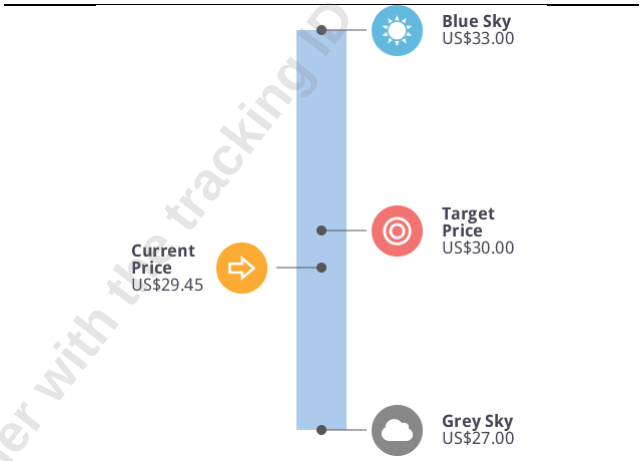
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**5,783.0**	**7,382.1**	**7,746.5**	**8,087.9**
EBITDA (US$ m)	**2,506**	**3,119**	**3,336**	**3,521**
Depr. & amort.	(1,082)	(1,263)	(1,307)	(1,358)
EBIT (US$)	**1,439**	**1,875**	**2,049**	**2,182**
Net interest exp	(918)	(556)	(584)	(615)
PBT (US$)	**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



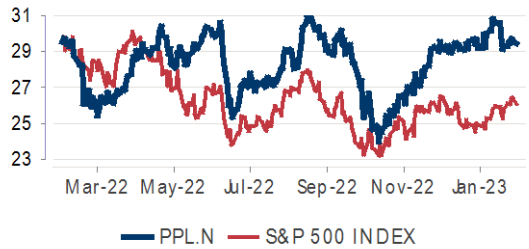
Our Blue Sky Scenario (US$) **(from 35.00) 33.00**

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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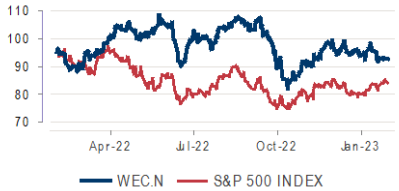
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Financial and valuation metrics

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**

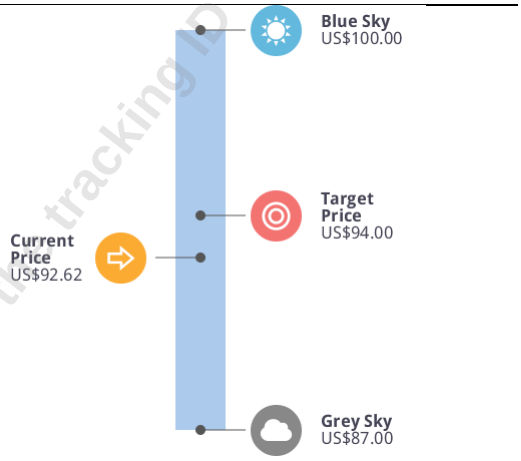
Income Statement	12/21A	12/22E	12/23E	12/24E
Revenue (US$ m)	**8,316.0**	**8,224.5**	**8,504.1**	**8,771.3**
EBITDA (US$ m)	**2,789**	**2,627**	**2,834**	**3,027**
Depr. & amort.	(1,074)	(1,145)	(1,221)	(1,295)
EBIT (US$)	**1,715**	**1,482**	**1,613**	**1,732**
Net interest exp	(471)	(148)	(165)	(195)
PBT (US$)	**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



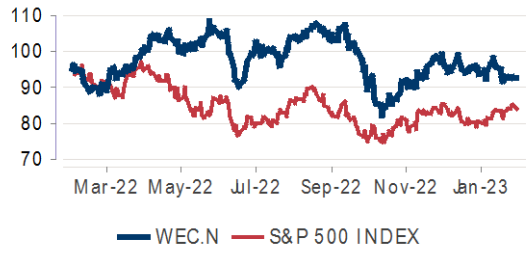
Our Blue Sky Scenario (US$) **(from 99.00) 100.00**

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.*

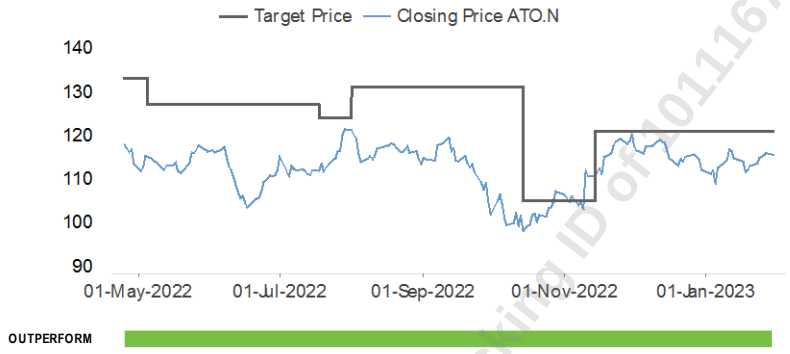


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3-Year Price and Rating History for Atmos Energy (ATO.N)

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.*

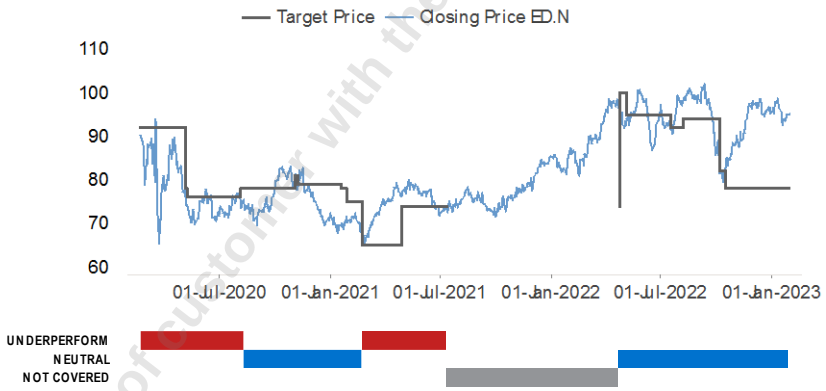


3-Year Price and Rating History for Consolidated Edison (ED.N)

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.*



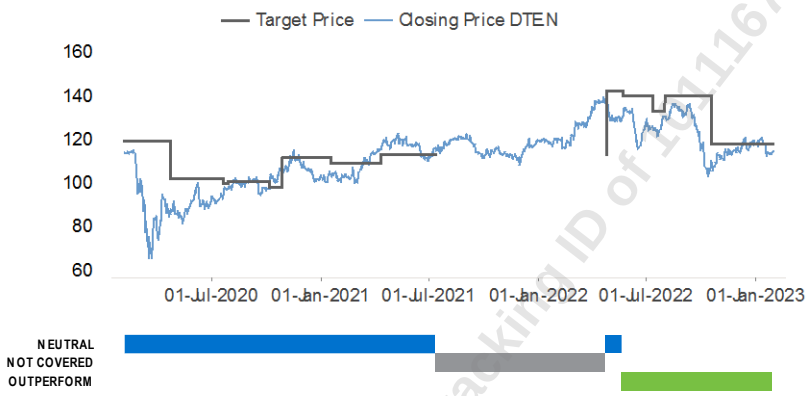
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3-Year Price and Rating History for DTE Energy (DTE.N)

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.*

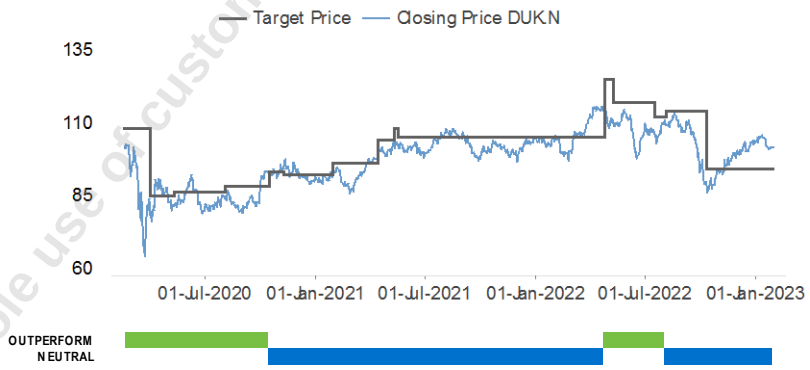
Effective July 3, 2016, NC denotes termination of coverage.



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	

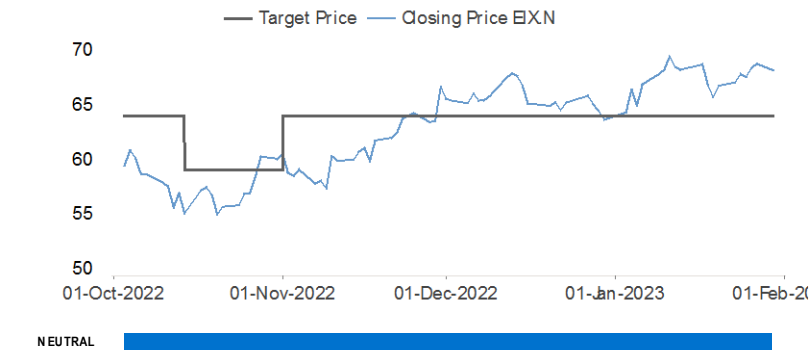
** Asterisk signifies initiation or assumption of coverage.*



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	

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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	

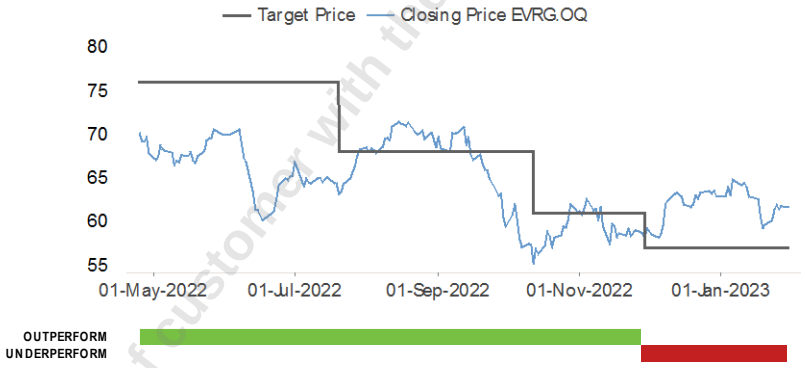
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3-Year Price and Rating History for Evergy (EVRG.OQ)

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

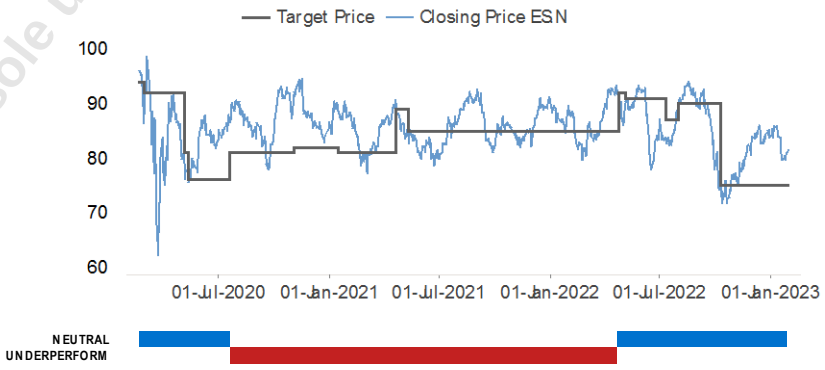
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3-Year Price and Rating History for Eversource Energy (ES.N)

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	

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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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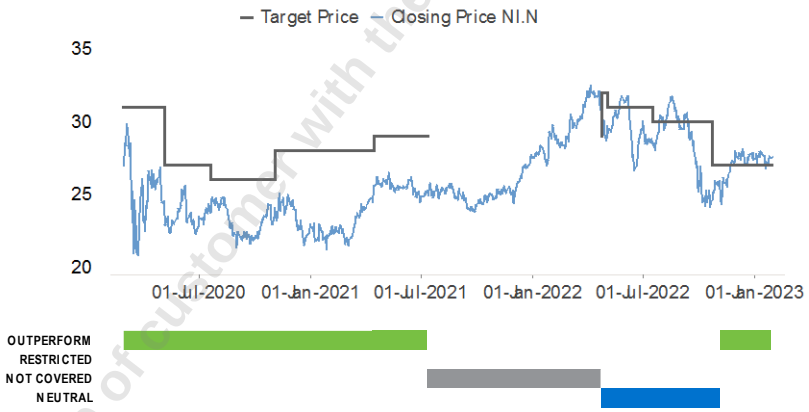


3-Year Price and Rating History for NiSource (NI.N)

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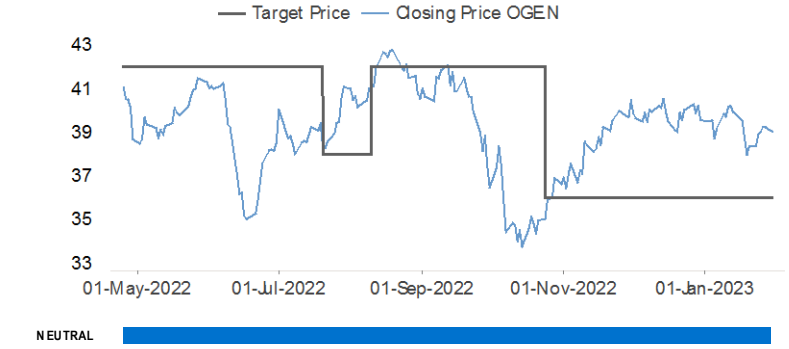
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3-Year Price and Rating History for OGE Energy (OGE.N)

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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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	

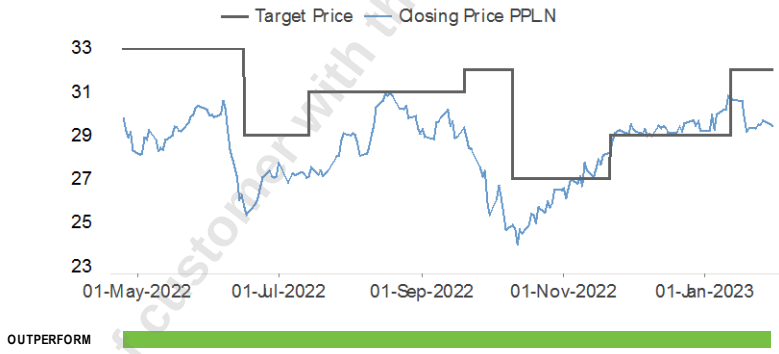
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3-Year Price and Rating History for PPL Corporation (PPL.N)

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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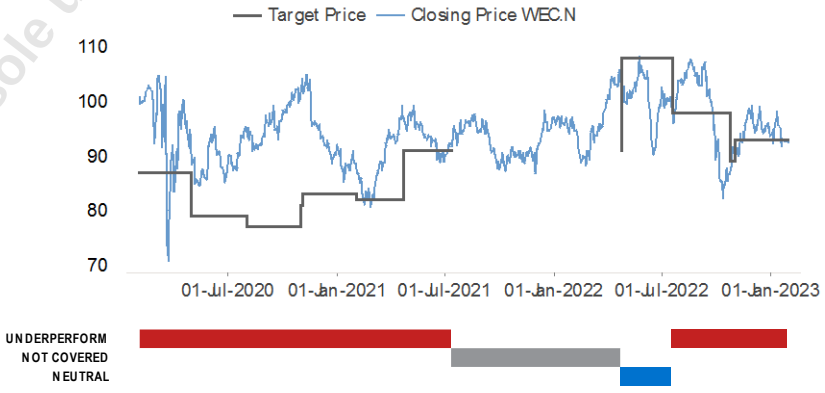


3-Year Price and Rating History for WEC Energy Group (WEC.N)

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.

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

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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

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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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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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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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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)

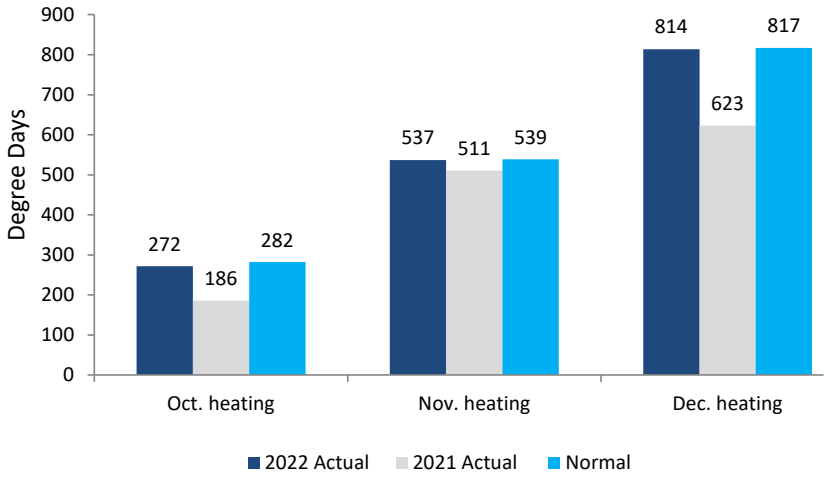
Ticker	Evercore ISI	Consensus	% Diff	Positioning for Q4
CEG	550	550	0.0%	Neutral
NRG	431	583	-26.1%	Neutral
VST	800	808	-1.0%	Neutral
Average			**-9.0%**	

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

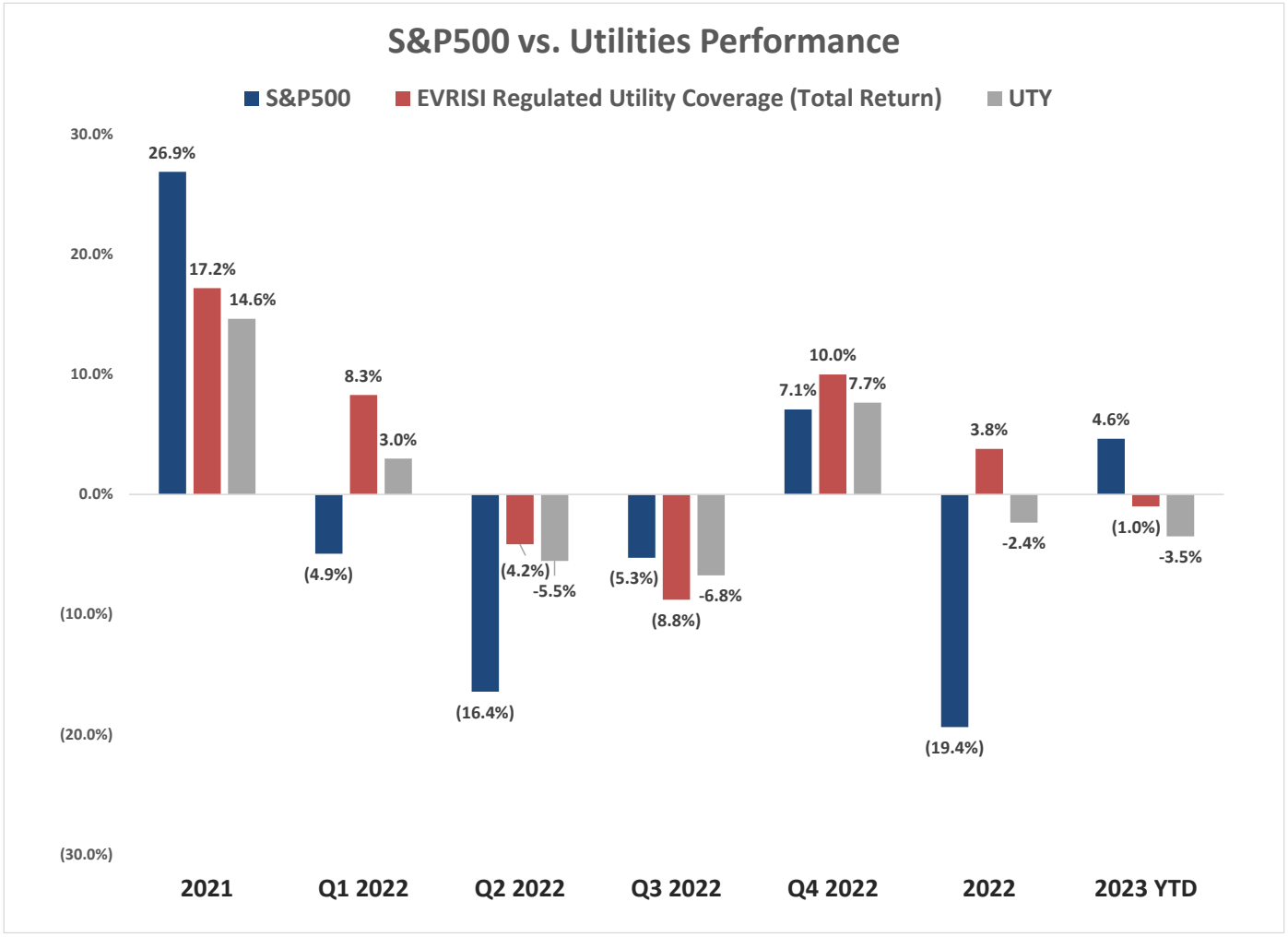
Ticker	Company Name	1/30/23 Price	ISI Rating	Shares Out	Market Cap	2023 Div Yld	2023 Payout	ISI EPS Estimate 2023	2024	2025	P/E Multiple 2023	2024	2025	Price to Book	Prem. to Group
NEE	NextEra Energy, Inc.	$75.05	In Line	2,004	150,365	2.5%	60%	3.10	3.40	3.65	24.2x	22.1x	**20.6x**	3.4x	30%
PEG	Public 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

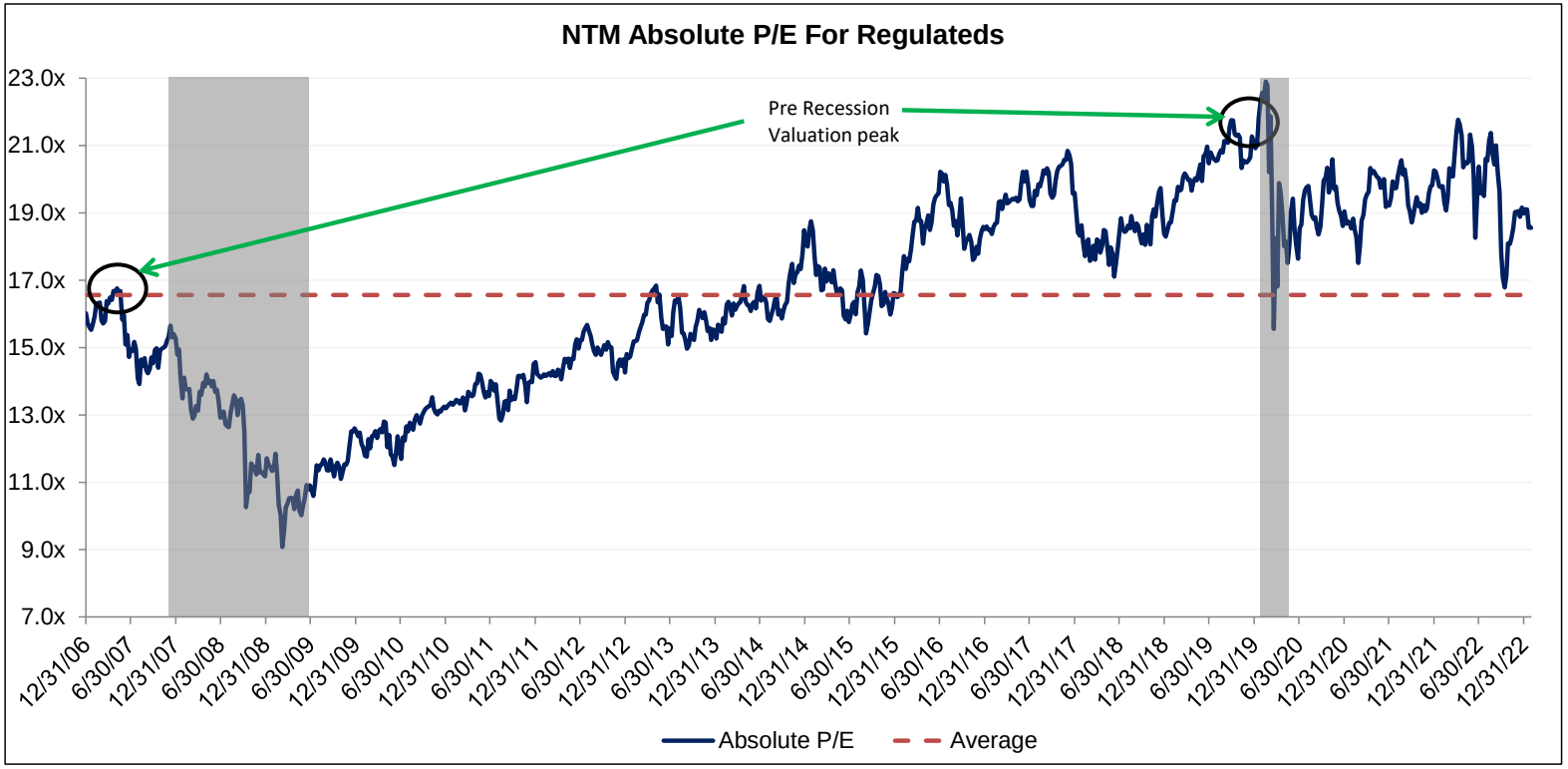
Updated as of 1/30/23

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.



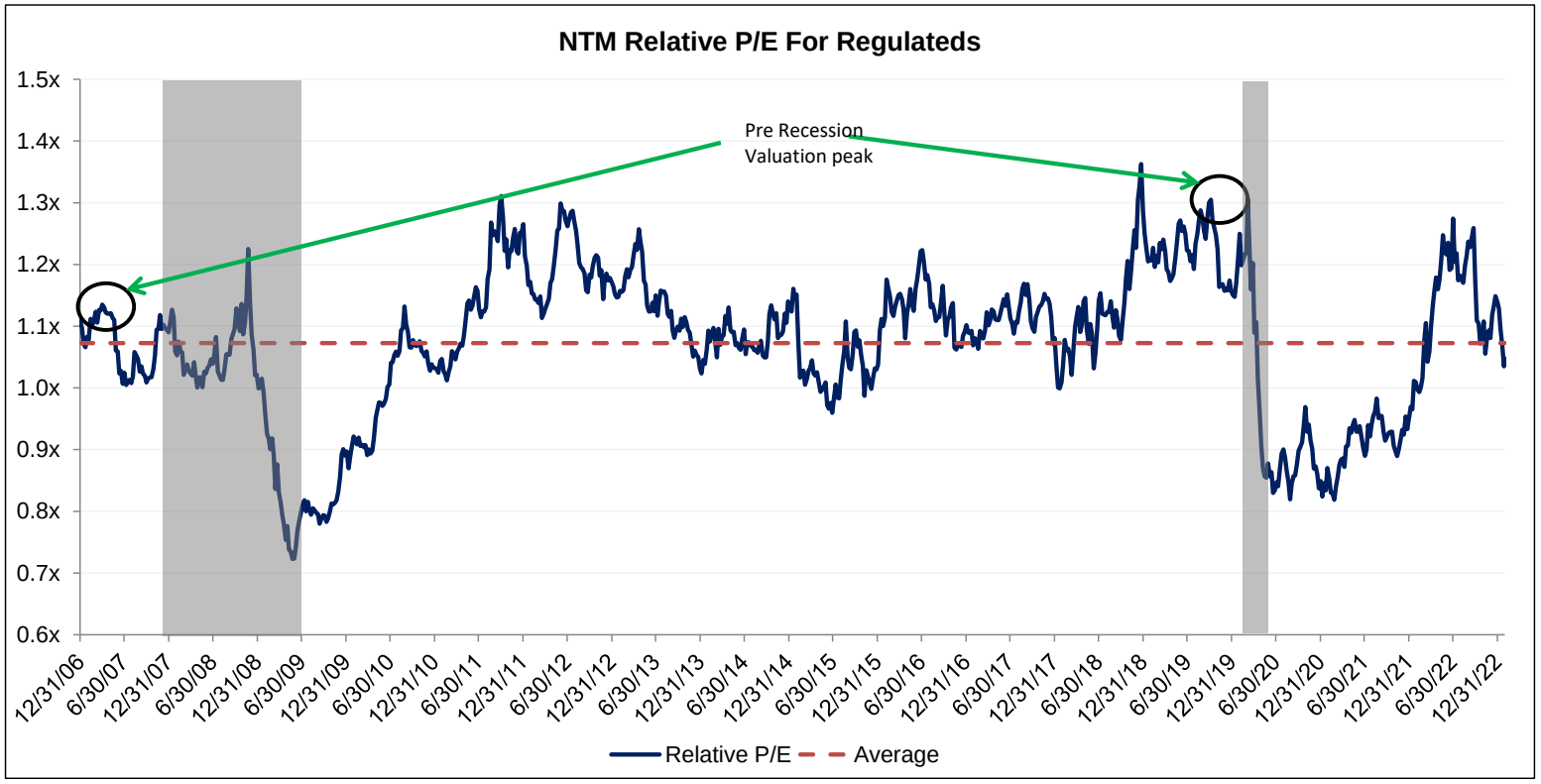
Updated as of 1/30/23

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.



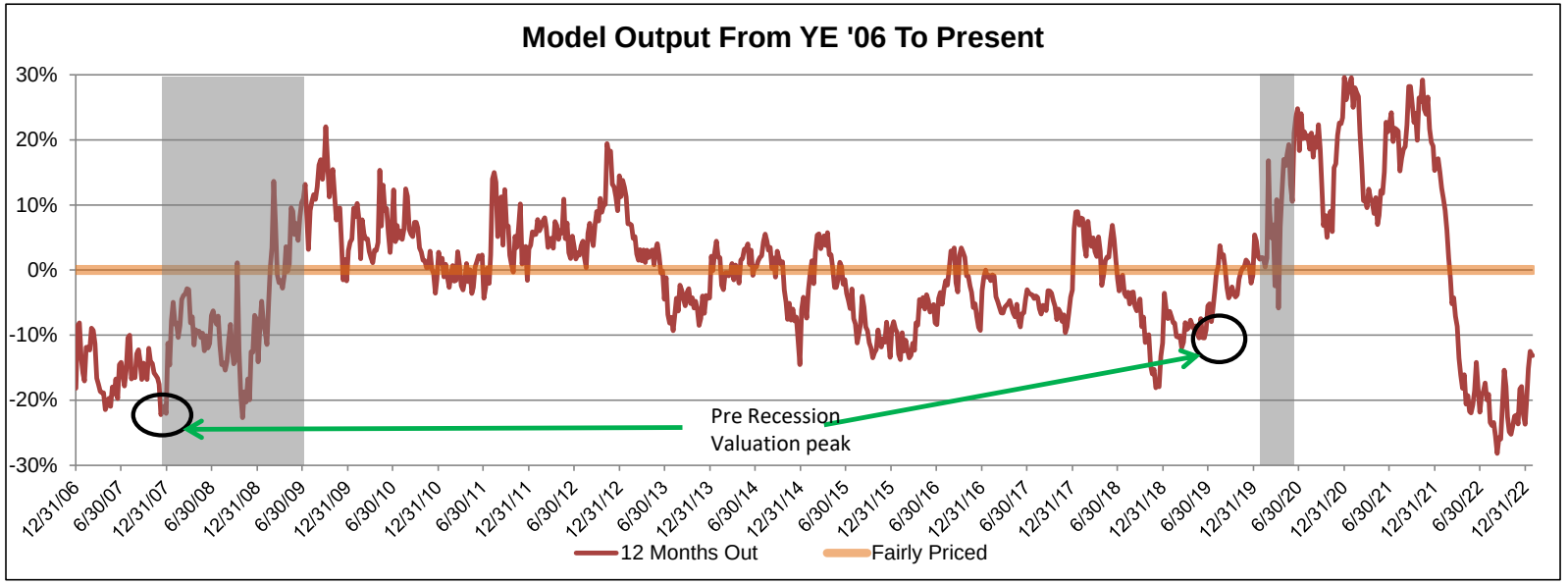
Updated as of 1/30/23

Source: FactSet, Evercore ISI Research

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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

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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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*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%

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.

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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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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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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

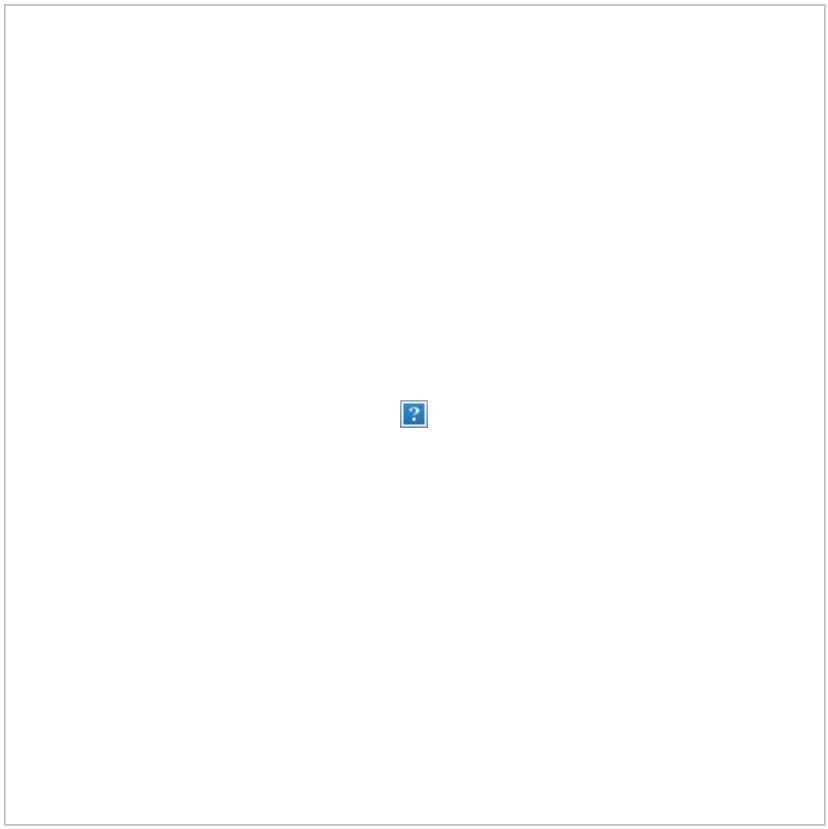
- City of San Francisco restarted the analysis on forming a public utility that was a part of the PG&E bankruptcy alternatives plan.
- The alternative utility system proposal is supported by energy advocates.
- More in media here

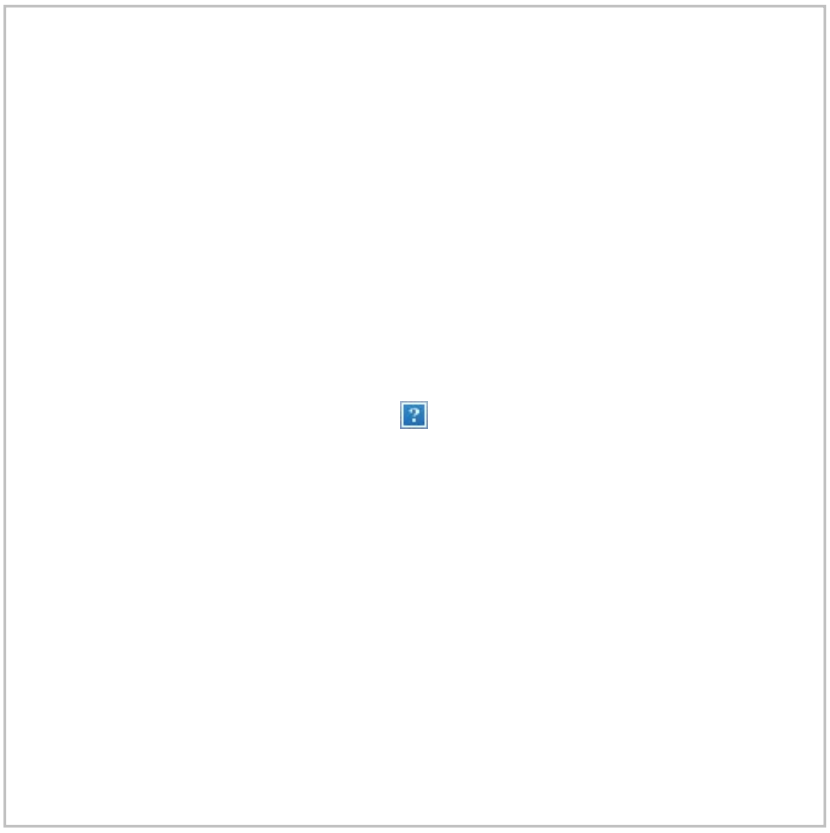
Guggenheim takeaway: *FYI. The conversation of municipal utility options occasionally comes up, but the complexity usually makes such action prohibitive or expensive as the municipal entity would have to compensate PG&E for the assets. More specifically in the case of San Francisco, such a move would concentrate wildfire risk and would be at odds with state policy.*

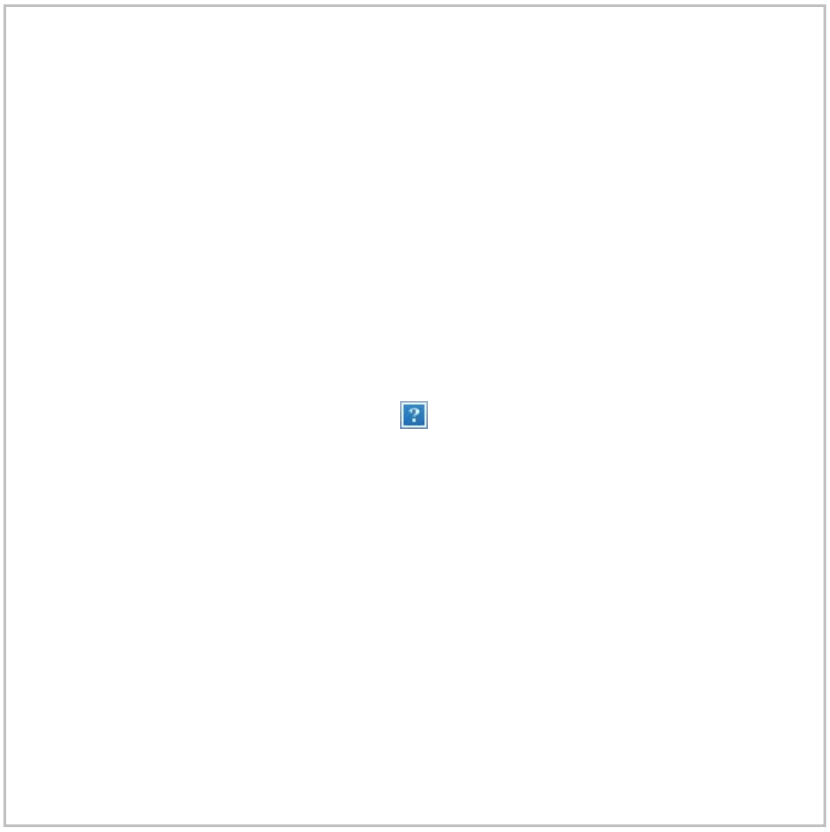
IRS – Republican IRS policies could endanger tax credit deployments

- 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

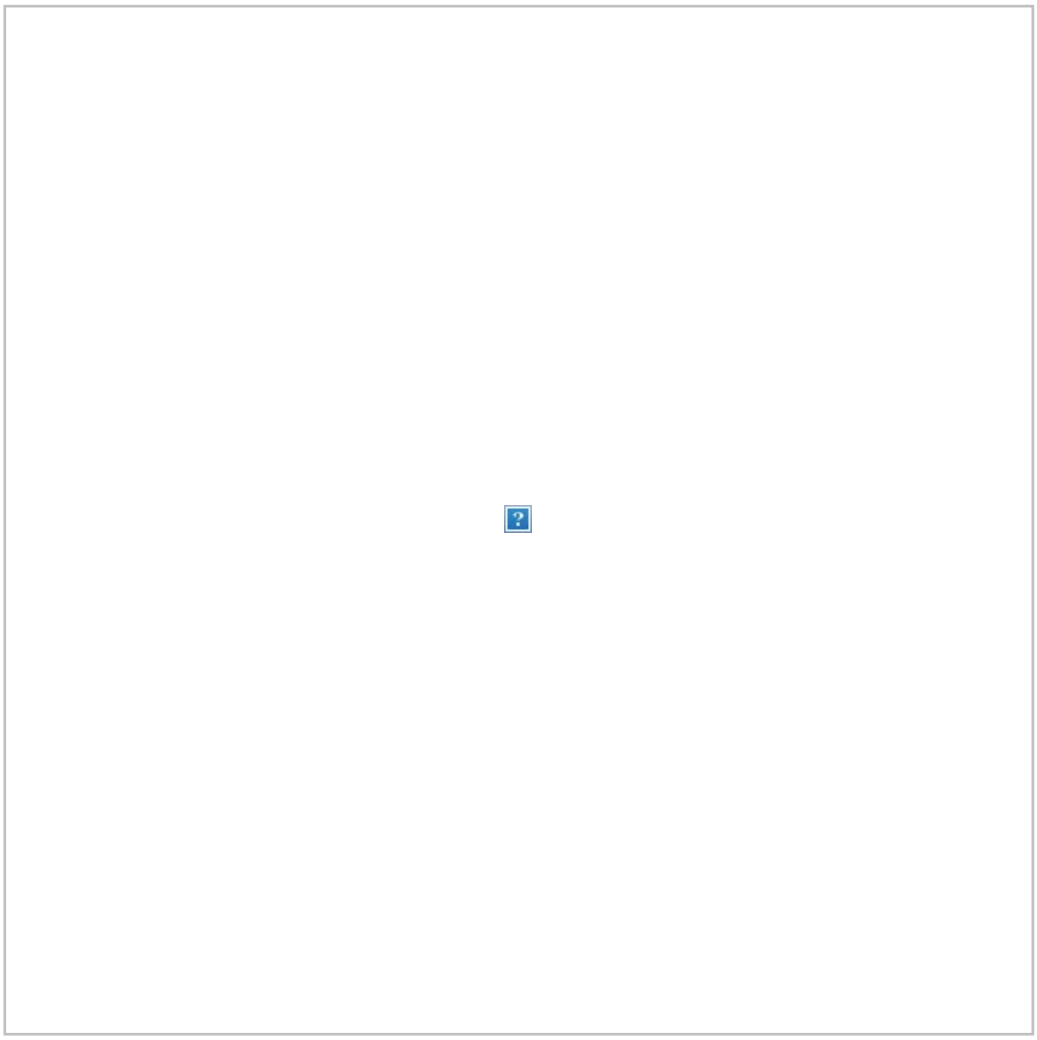
Guggenheim takeaway: *The implementation processes at Treasury and the IRS are moving somewhat slowly in our view – we continue to monitor.*



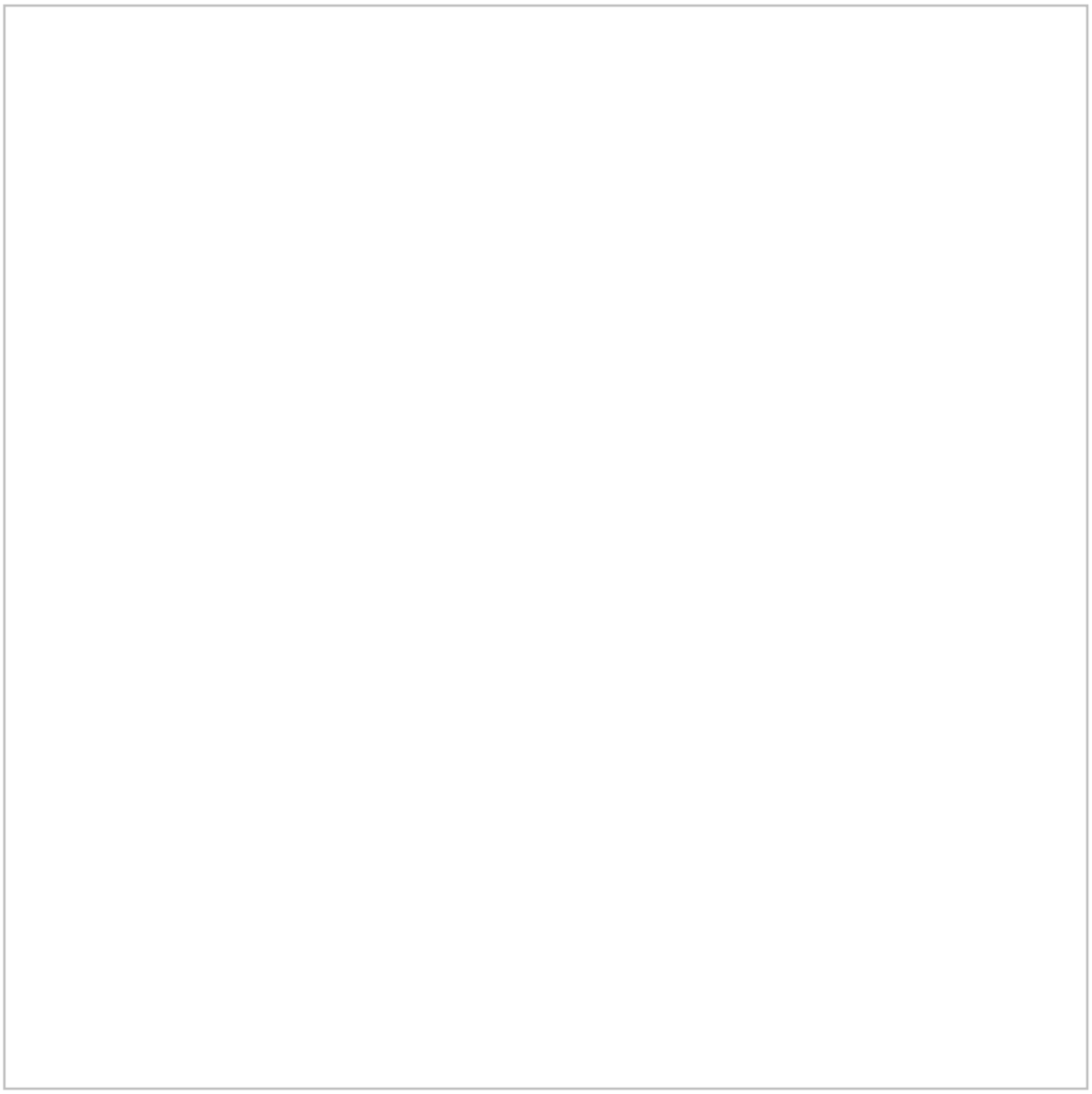




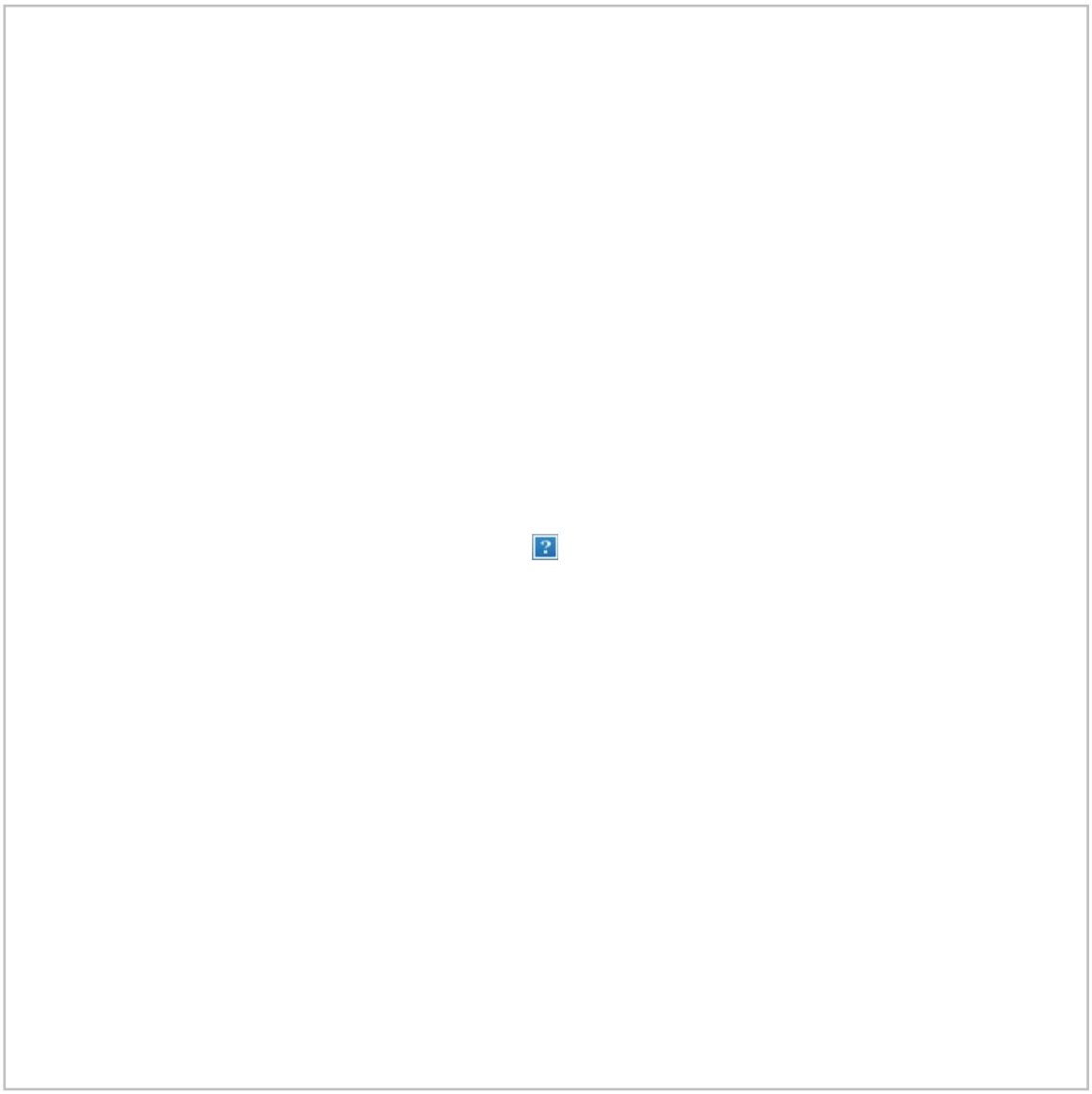
Guggenheim 2023 Client and Corporate Access Utility Events



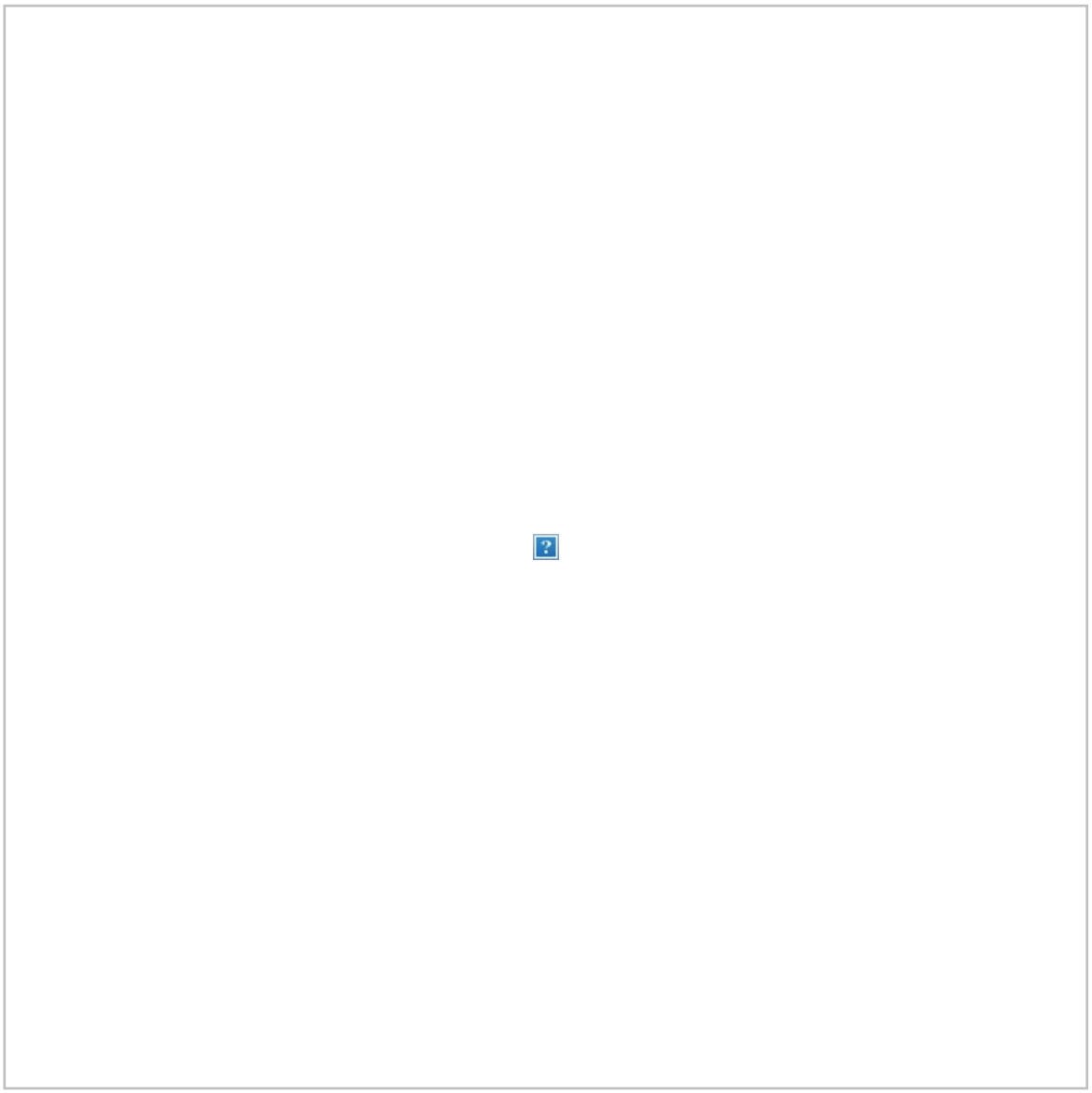
Guggenheim Comp Sheet



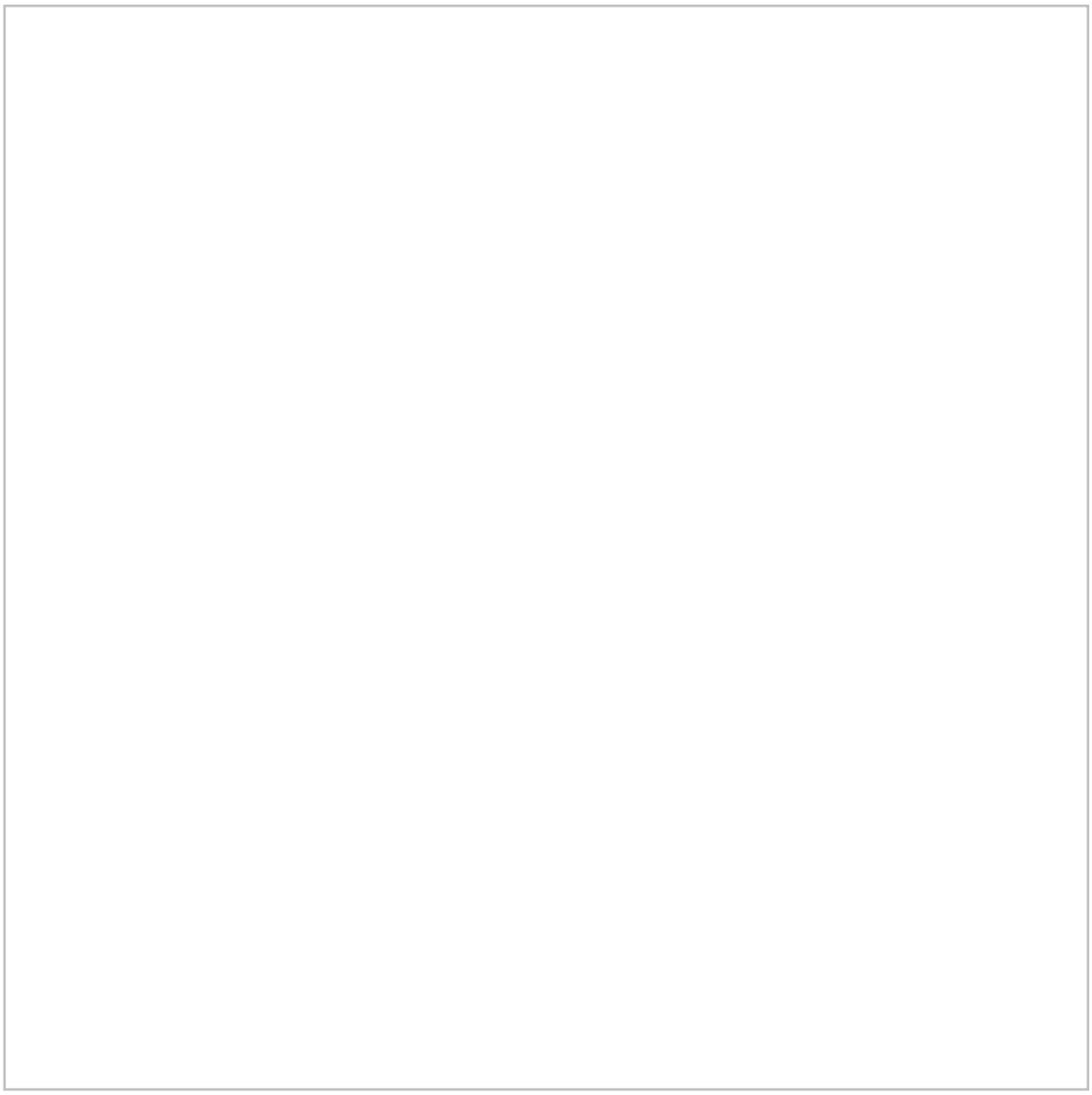
Share Price Performance (Year-to-Date, Three-Month, One-Month, & Five-Day Trailing)



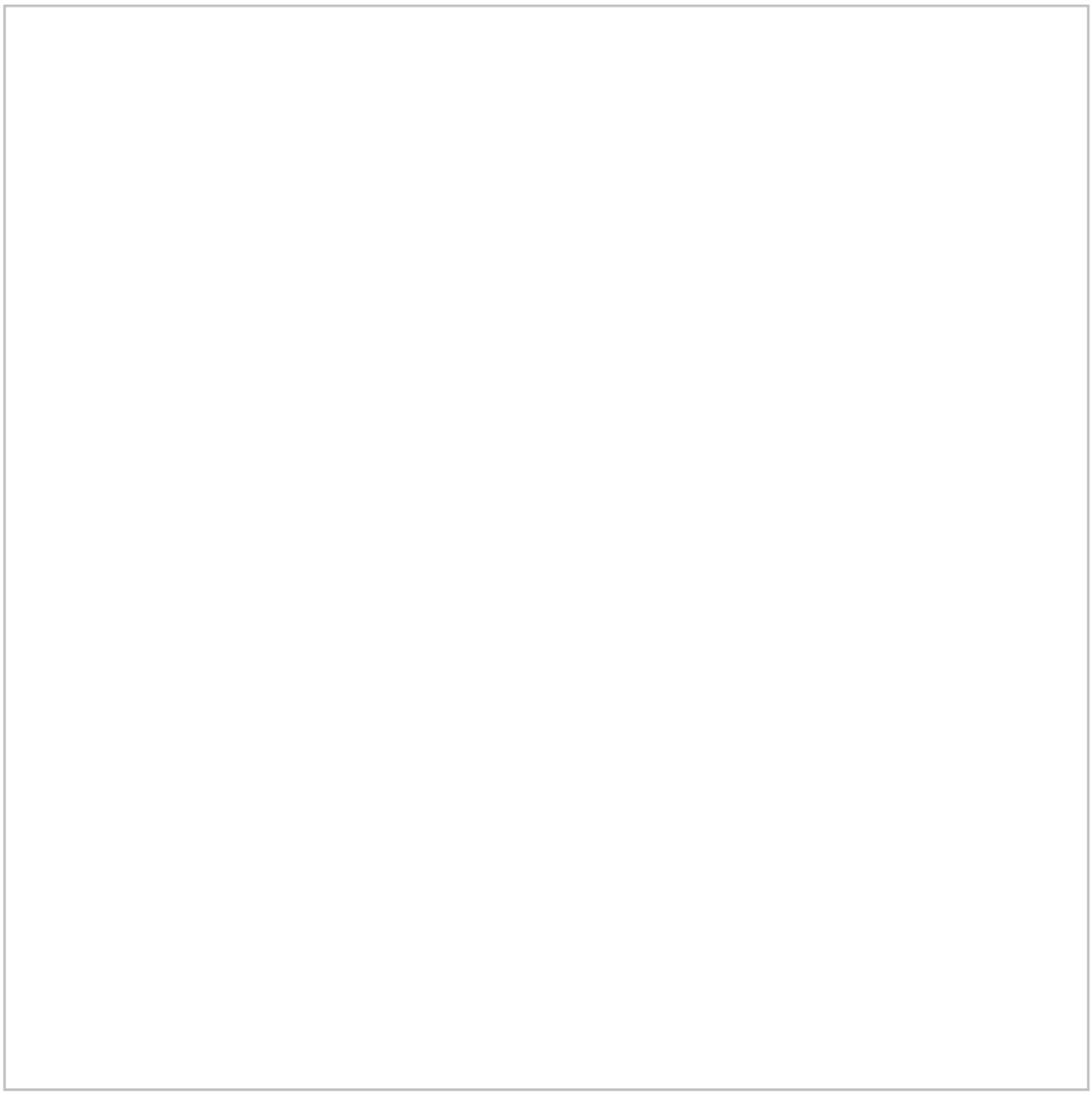
Generation and Mix



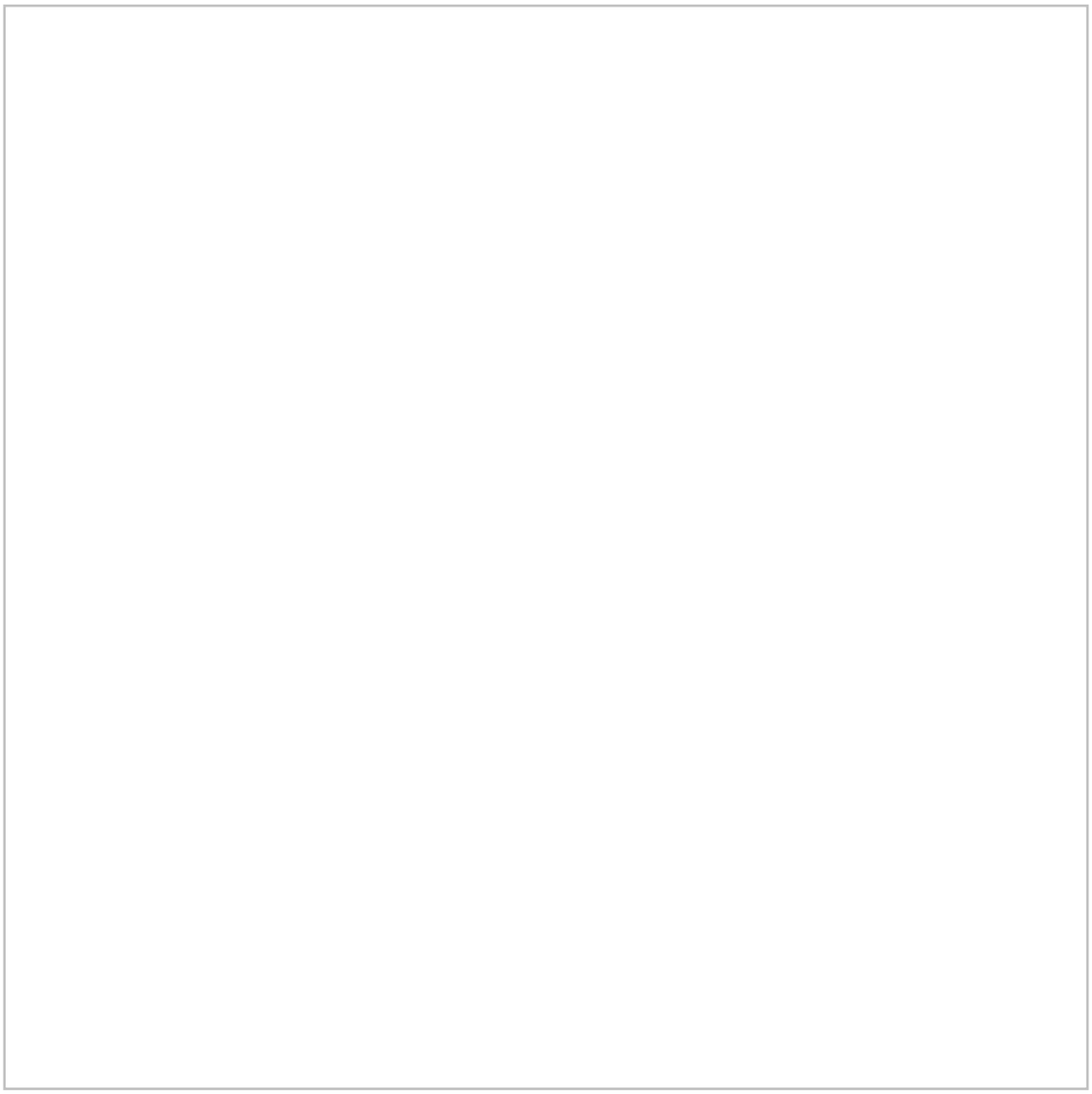
Generation and Mix (continued)



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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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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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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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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Equity Research | Corporate Access

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.*
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%**						

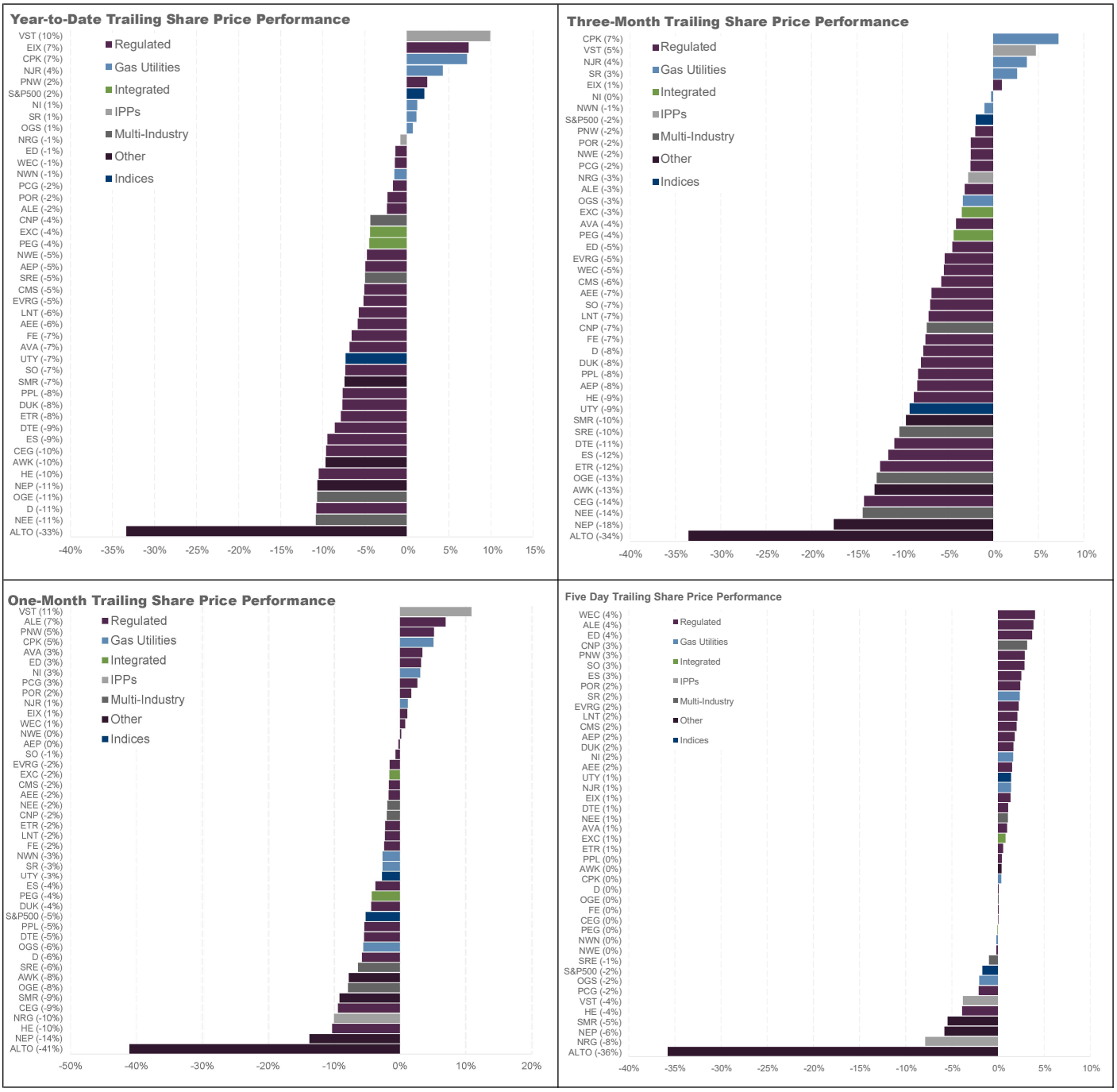
		Market	Guggenheim EPS Ests					Consensus					Δ vs Consensus (>$0.02)					Implied P/E Multiple					Prem/(Disc) vs Mid/Lg Cap Utes				'22–'27	NTM	Payout	Guggenheim		NTM Total	Consensus		NTM Total
Diversified	Price	Cap ($m)	2022E	2023E	2024E	2025E	2026E	2022E	2023E	2024E	2025E	2026E	2022E	2023E	2024E	2025E	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).

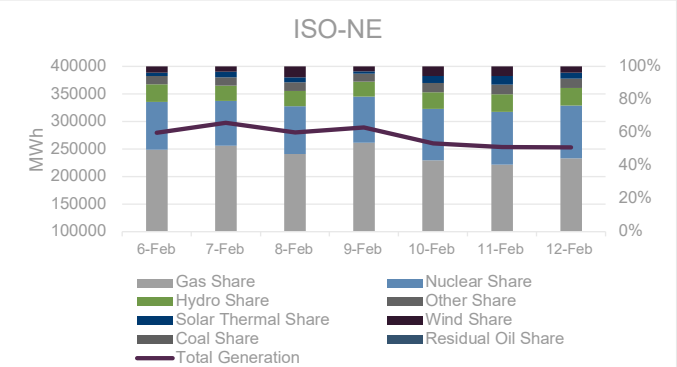
(3) Inte rated utlte n and erate re ulated T D ran e , a ella un-re ulated er enerat n t dty ex ure.

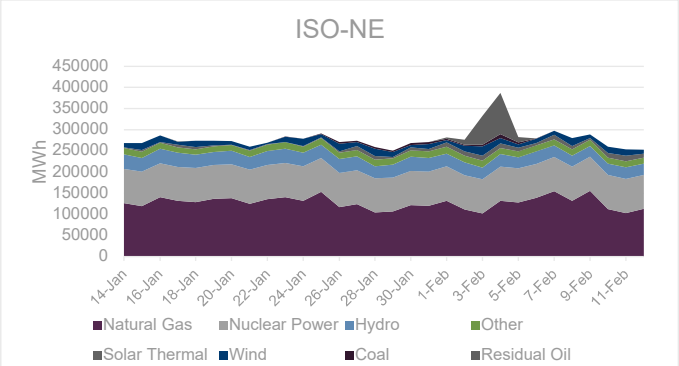
(4) IPP erate er ant (.e., un-re ulated, n n-utlty) er lant t at etet ell er n le ale ar et rt r u retal ar etn u ne e .

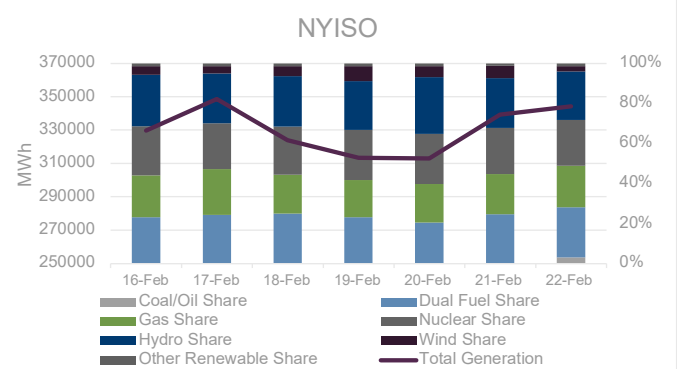
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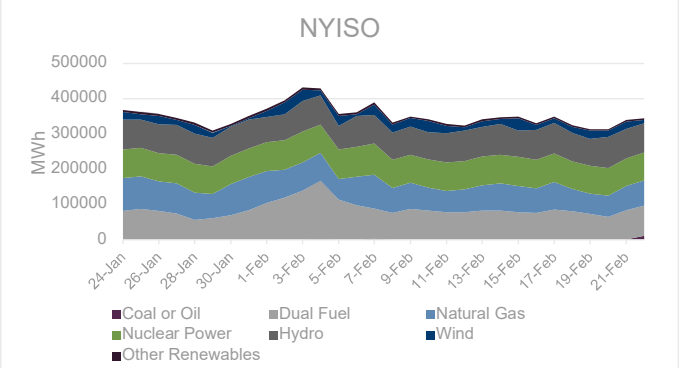
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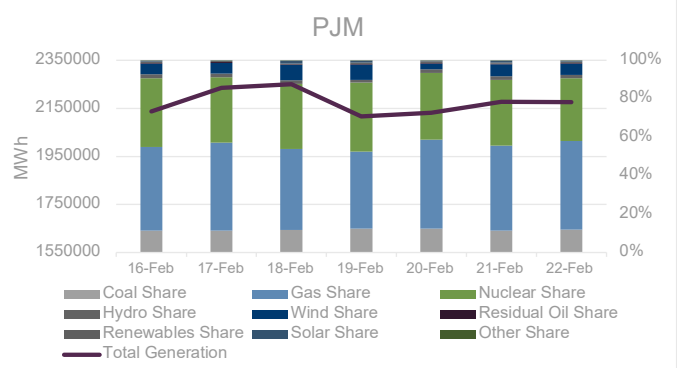
Generation and Mix

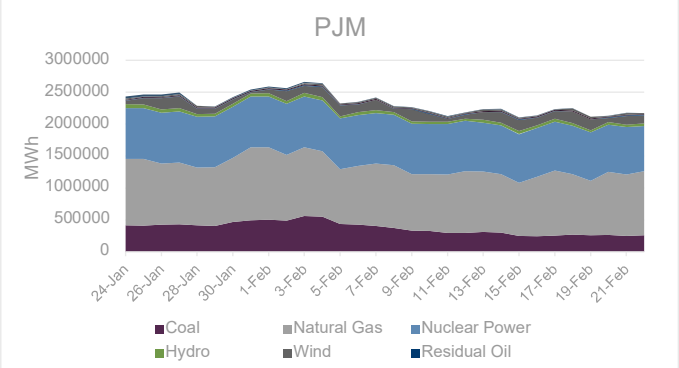


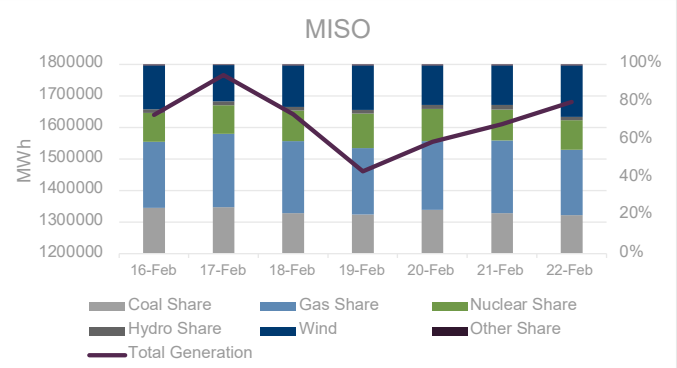


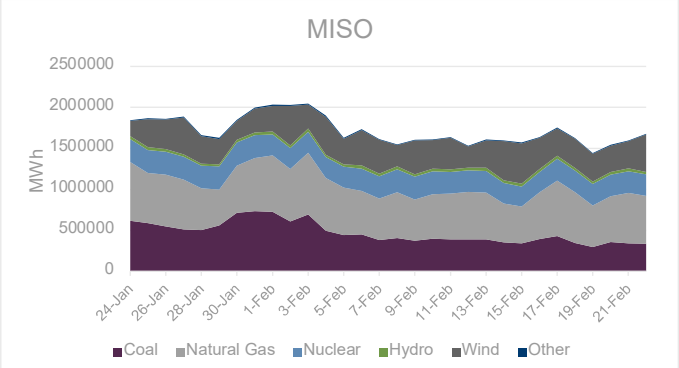








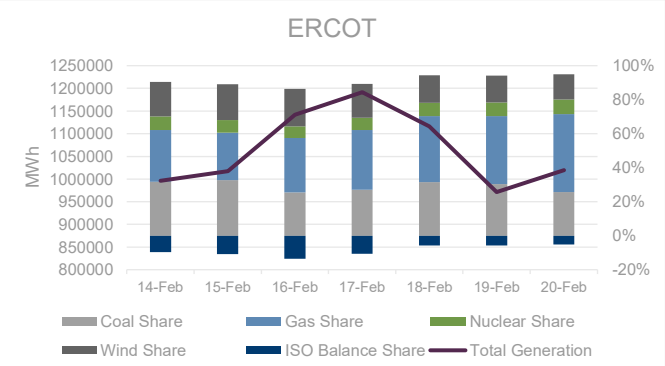


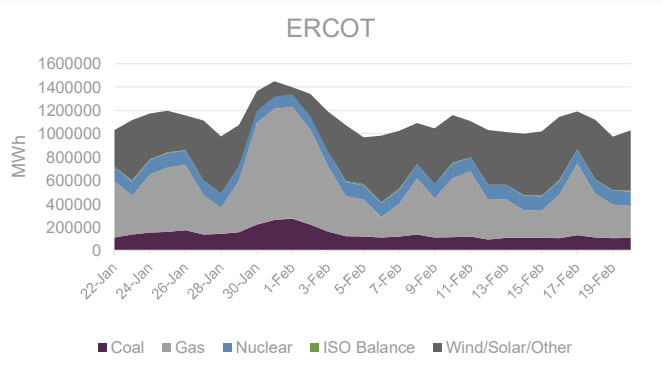


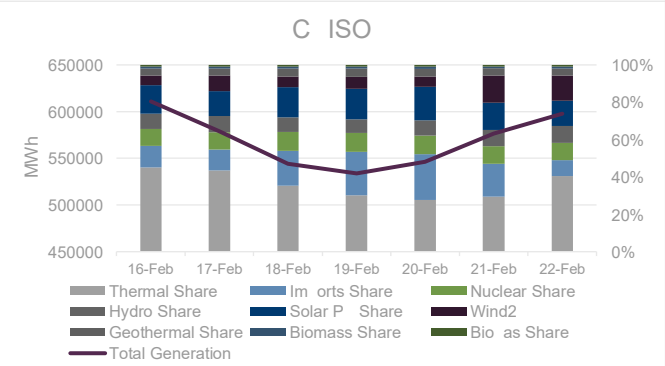
Source: S P Global Platts, Guggenheim Securities, LLC.

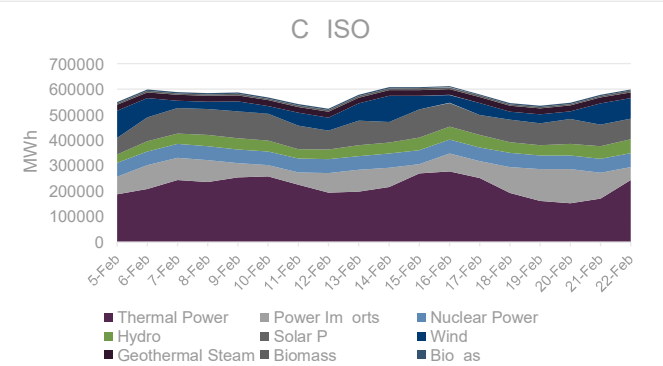
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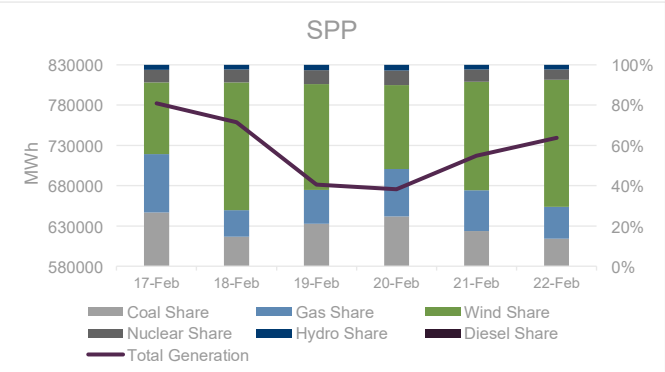
Generation and Mix (continued)

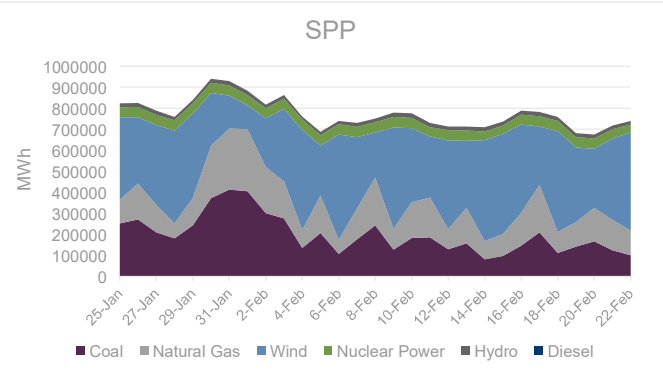








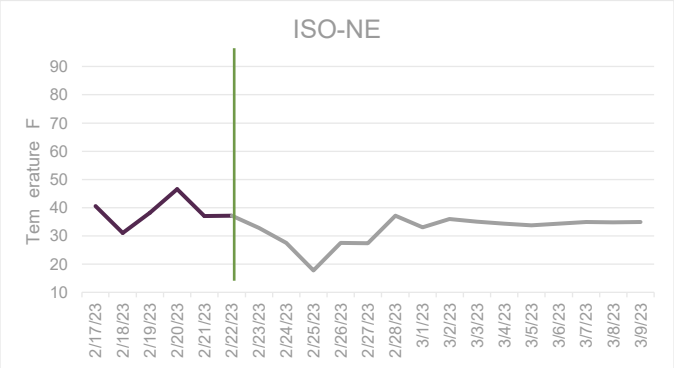


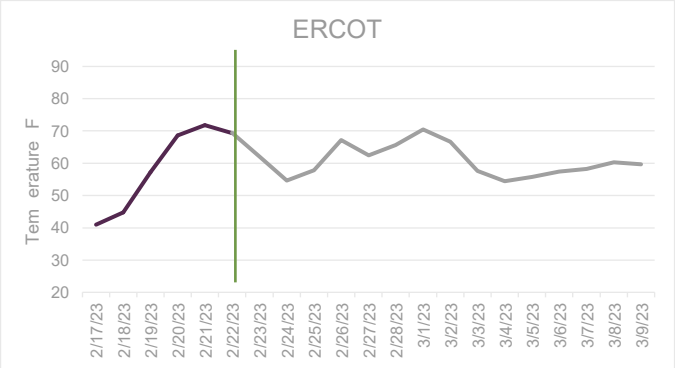


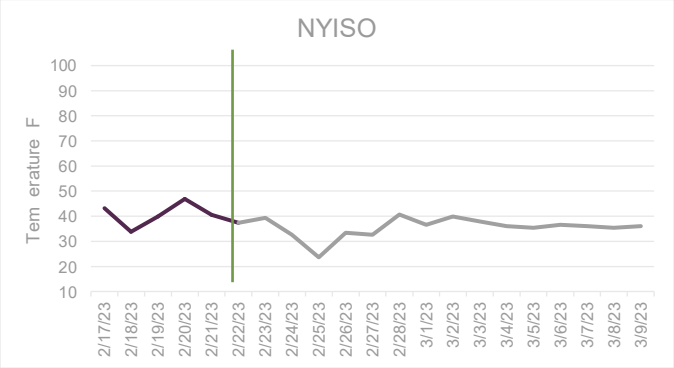
Source: S P Global Platts, Guggenheim Securities, LLC.

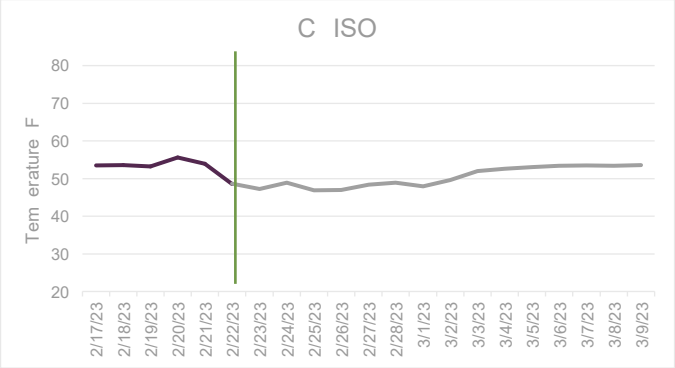
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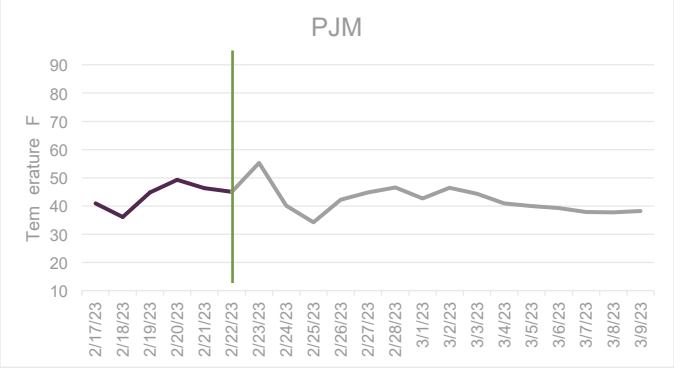
Weather

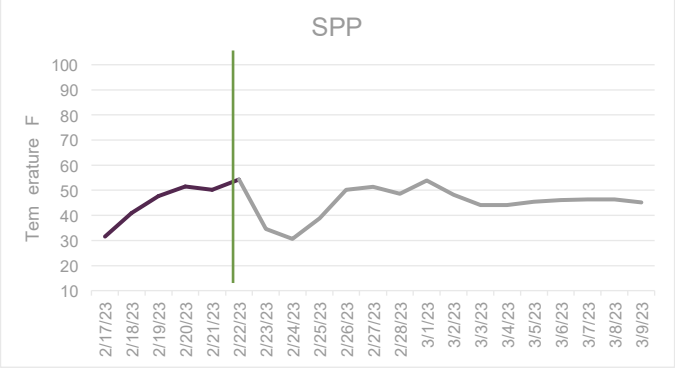










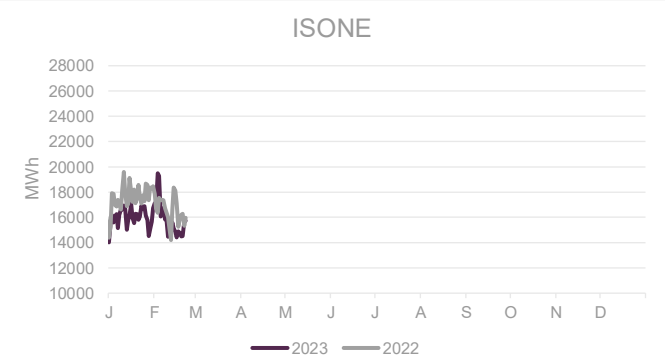


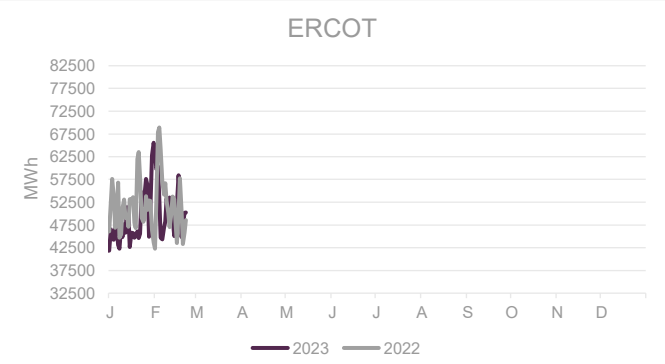


Source: S P Global Platts, Guggenheim Securities, LLC.

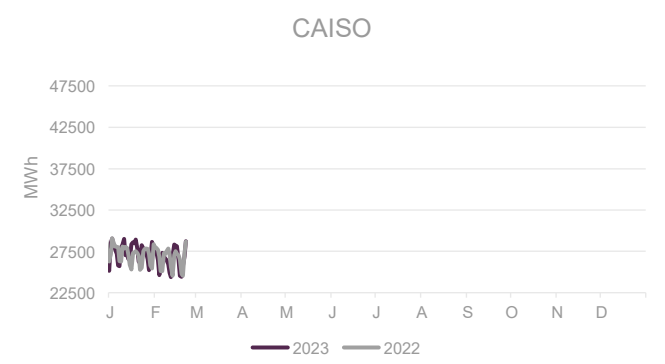
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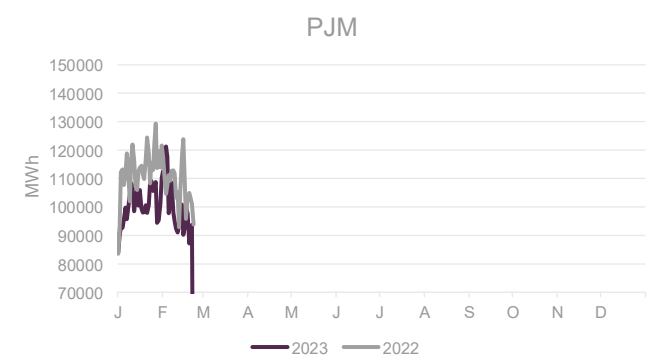
YTD Peak Load

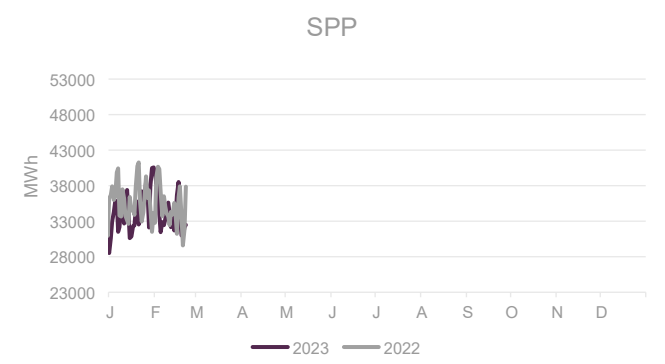


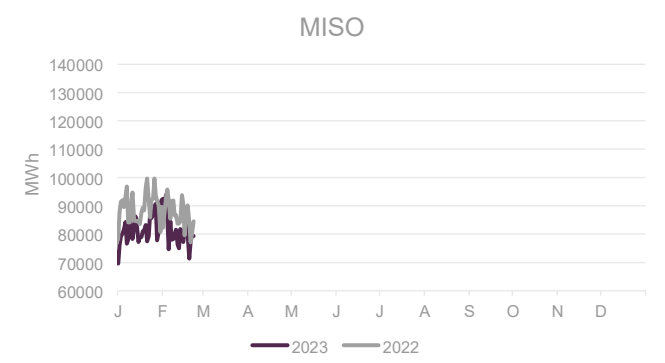












Source S P Global Platts Gu enheim Securities LLC

Average Deviation in Peak Load vs Prior Year

RTO/ISO	1Q22	2Q22	3Q22	4Q22	1Q23
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

Po er and ti ities Coverage Ca endar 1/1/2 23 3/31/2 23

Date	State	Ti ker	ti it /Event	Do ket	Des ri tion
1/1/2023-1/31/2023	IL	EE	meren Illinois		Electric rate ilin e ected
1/1/2023-3/31/2023	IL	EE	meren Illinois		Gas rate case ilin e ected
1/1/2023-1/31/2023	IL	E C	Commonwealth Edison Co		Electric rate ilin e ected
1/1/2023-1/31/2023	IN	CNP	Indiana Gas Co	Ca-45611-TDSIC-1	Decision ossible in TDSIC roceedin
1/1/2023-1/31/2023	IN	NI	Northern IN Public S c Co	Ca-45557-TDSIC-2	Decision ossible in TDSIC roceedin
1/1/2023-3/31/2023	NC	D	Du e Ener y Carolinas LLC		Multi-year eneral rate case to be iled
1/1/2023-1/31/2023	OH	NI	Columbia Gas Ohio Inc	C-21-0637-G - IR	Decision ossible in rate roceedin
1/1/2023-1/31/2023		NI	Columbia Gas o ir inia Inc	C-P R-2022-00036	Hearnin E aminer s re ort may be issused in rate case
1/1/2023-1/31/2023	W	EP	alachian Power Co	C-22-0393-E-ENEC	Decision ossible in ENEC roceedin
1/9/2023	SC	D	Du e Ener y Pro ress LLC	D-2022-254-E	E identiary hearin s be in
1/10/2023	MO	EE	nion Electric Co	C-ER-2022-0337	Sta and inter enor testimony re ardin re enue re uirement due in rate roceedin
1/10/2023	T	ETR	Enter y Te as Inc	D-53719	Settlement status re ort due in rate case
1/10/2023-1/11/2023		D	ir inia Electric Power Co	C-P R-2022-00090 Rider W	Hearin s slated in Rider W u date roceedin
1/11/2023		D	ir inia Electric Power Co	C-P R-2022-00121 Rider S4	Sta to ile testimony in Rider S 4 roceedin
1/13/2023-1/27/2023	T	ETR	Enter y Te as Inc	D-53719	Brie s to be iled in rate case sus ended due to settlement tal s
1/18/2023-1/19/2023		D	ir inia Electric Power Co	C-P R-2022-00089 Rider	Hearin s scheduled in Rider roceedin
1/20/2023	IN	NI	Northern IN Public S c Co	Ca-45772	O CC and inter enor testimony due in rate roceedin
1/20/2023		D	ir inia Electric Power Co	C-P R-2022-00120 Rider S3	Sta to ile testimony in Rider S 3 roceedin
1/24/2023	MO	EE	nion Electric Co	C-ER-2022-0337	Sta and inter enor testimony re ardin rate desi n due in rate roceedin
1/24/2023		D	ir inia Electric Power Co	C-P R-2022-00140 Rider GT	Inter enin arties to ile testimony in Rider GT u date roceedin
1/25/2023-2/15/2023		D	ir inia Electric Power Co	C-P R-2022-00090 Rider W	Hearin E aminers re ort may be issued in Rider W u date roceedin
1/30/2023-1/31/2023		D	ir inia Electric Power Co	P R-2022-00124 Rider CE	Hearin scheduled in Rider CE u date roceedin
2/1/2023-2/28/2023	MO	E RG	E er y Missouri West	C-ER-2023-0185	Electric rate case ilin e ected
2/1/2023-2/15/2023		D	ir inia Electric Power Co	C-P R-2022-00089 Rider	Hearin E aminer re ort may be issued in Rider roceedin
2/3/2023		D	ir inia Electric Power Co	C-P R-2022-00164 Rder S-2	Inter enin arties to ile testimony in Rider S 2 u date roceedin
2/7/2023-2/8/2023		D	ir inia Electric Power Co	C-P R-2022-00121 Rider S4	Hearin s scheduled in Rider S 4 roceedin
2/15/2023	MO	EE	nion Electric Co	C-ER-2022-0337	Rebuttal testimony due in rate roceedin
2/16/2023	IN	NI	Northern IN Public S c Co	Ca-45772	Com any rebuttal testimony due in rate roceedin
2/17/2023		D	ir inia Electric Power Co	C-P R-2022-00162 Rider SN	Inter enin arties to ile testimony in Rider SN ad ustment roceedin
2/17/2023		D	ir inia Electric Power Co	C-P R-2022-00164 Rder S-2	Sta to ile testimony in Rider S-2 roceedin
2/21/2023-3/20/2023	NC	D	Du e Ener y Pro ress LLC	D-E-2 Sub 1300	Hearin s scheduled in electric rate case
2/21/2023		D	ir inia Electric Power Co	C-P R-2022-00140 Rider GT	Sta to ile testimony in Rider GT u date roceedin
2/22/2023-2/23/2023		D	ir inia Electric Power Co	C-P R-2022-00120 Rider S3	Hearin s scheduled in Rider S 3 roceedin
2/24/2023	C	PCG	Paci ic Gas and Electric Co	-21-06-021 Trac 2	Brie s due in Trac 2 roceedin
2/27/2023	IN	NI	Northern IN Public S c Co	Ca-45772	Deadline or settlement to be iled in rate roceedin
2/28/2023	MI	CMS	Consumers Ener y Co	C- -21224	Decision e ected in rate case by
2/28/2023		NI	Columbia Gas o ir inia Inc	C-P R-2022-00036	Decision may be issued in rate case
2/28/2023		D	ir inia Electric Power Co	C-P R-2022-00088 Rider B	Decision may be issued in Rider B roceedin
2/28/2023		D	ir inia Electric Power Co	C-P R-2022-00089 Rider	Decision e ected in Rider u date roceedin
2/28/2023		D	ir inia Electric Power Co	C-P R-2022-00090 Rider W	Decision e ected in Rider W u date roceedin
2/28/2023		D	ir inia Electric Power Co	P R-2022-00124 Rider CE	Hearin E aminer s re ort may be issued in Rider CE roceedin
3/1/2023	SC	D	Du e Ener y Pro ress LLC	D-2022-254-E	Final order due in rate case
3/1/2023-3/31/2023	T	ETR	Enter y Te as Inc	D-53719	LJ recommended decision may be issued in rate case sus ended due to settlement tal s
3/1/2023-3/15/2023		D	ir inia Electric Power Co	C-P R-2022-00120 Rider S3	Hearin E aminers re ort may be issued in Rider S 3 roceedin
3/1/2023-3/15/2023		D	ir inia Electric Power Co	C-P R-2022-00121 Rider S4	Hearin E aminers re ort may be issued in Rider S 4 roceedin
3/1/2023		D	ir inia Electric Power Co	C-P R-2022-00164 Rder S-2	Rebuttal testimony due in Rider S-2 roceedin
3/6/2023	MO	EE	nion Electric Co	C-ER-2022-0337	Settlement con erence to be in in rate roceedin
3/10/2023	Y	D	Du e Ener y entuc y Inc	C-2022-00372	Inter enor testimony due in rate roceedin
3/13/2023	IN	NI	Northern IN Public S c Co	Ca-45772	Hearin to be in in rate roceedin
3/14/2023-3/15/2023		D	ir inia Electric Power Co	C-P R-2022-00164 Rder S-2	Hearin s scheduled in Rider S-2 roceedin
3/17/2023	C	SRE	San Die o Gas Electric Co	-22-05-016 Elec	Inter enor testimony due
3/17/2023	C	SRE	San Die o Gas Electric Co	-22-05-016 Gas	Inter enor testimony due
3/21/2023-3/22/2023		D	ir inia Electric Power Co	C-P R-2022-00140 Rider GT	Hearin s scheduled in Rider GT u date roceedin
3/21/2023		D	ir inia Electric Power Co	C-P R-2022-00162 Rider SN	Sta to ile testimony in Rider SN ad ustment roceedin
3/24/2023	C	PCG	Paci ic Gas and Electric Co	-21-06-021 Trac 2	Re ly brie s due in Trac 2 roceedin
3/24/2023		SO	ir inia Natural Gas Inc	C-P R-2022-00052	Inter enin arties to ile testimony in rate case
3/27/2023	NC	D	Du e Ener y Pro ress LLC	D-E-2 Sub 1300	Public Sta inter enor testimony due by
3/31/2023	T	SRE	Oncor Electric Deli ery Co	D-53601	Decision may be issued in rate case
3/31/2023		D	ir inia Electric Power Co	C-O R-2022-00187 Rider OSW	Inter enin arties to ile testimony in Rider OSW u date roceedin
3/31/2023		D	ir inia Electric Power Co	C-P R-2022-00120 Rider S3	Decision e ected in Rider S 3 roceedin
3/31/2023		D	ir inia Electric Power Co	C-P R-2022-00121 Rider S4	Decision e ected in Rider S 4 roceedin
3/31/2023		D	ir inia Electric Power Co	P R-2022-00124 Rider CE	Decision e ected in Rider CE u date roceedin

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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Rating and Price Target History for: Ameren Corporation (AEE) as of 03-14-2023



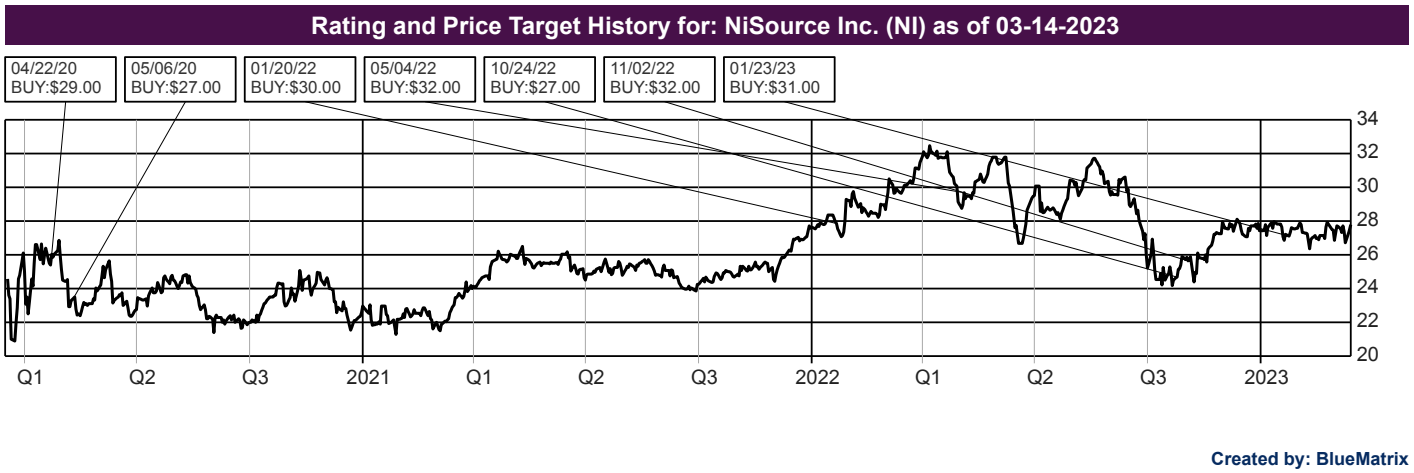
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Rating and Price Target History for: Hawaiian Electric Industries, Inc. (HE) as of 03-14-2023



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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

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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

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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

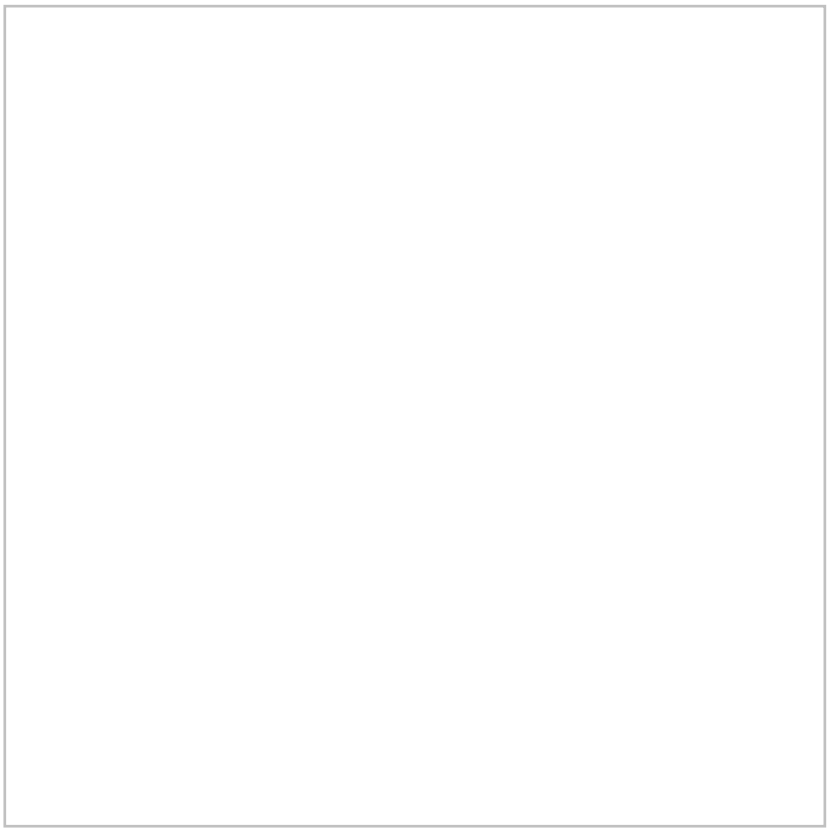
- January 26, 2023: the Commission issued its Opinion and Order in this proceeding, **approving the Stipulation**.
- February 27, 2023: OPAE, ELPC, and CUB each filed an application for rehearing. OPAE filed a corrected application for rehearing later that same day. ELPC filed a corrected application 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

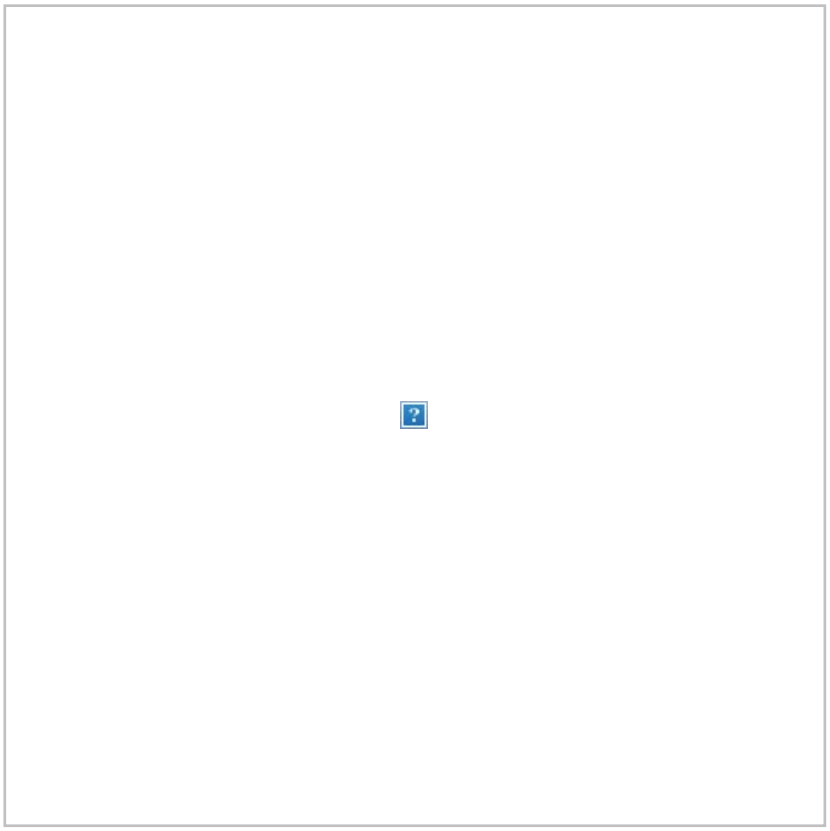
Guggenheim takeaway: *For your awareness. We continue to model the $68.2m rate increase authorized, with a 9.6% ROE and 50.6% equity layer.*

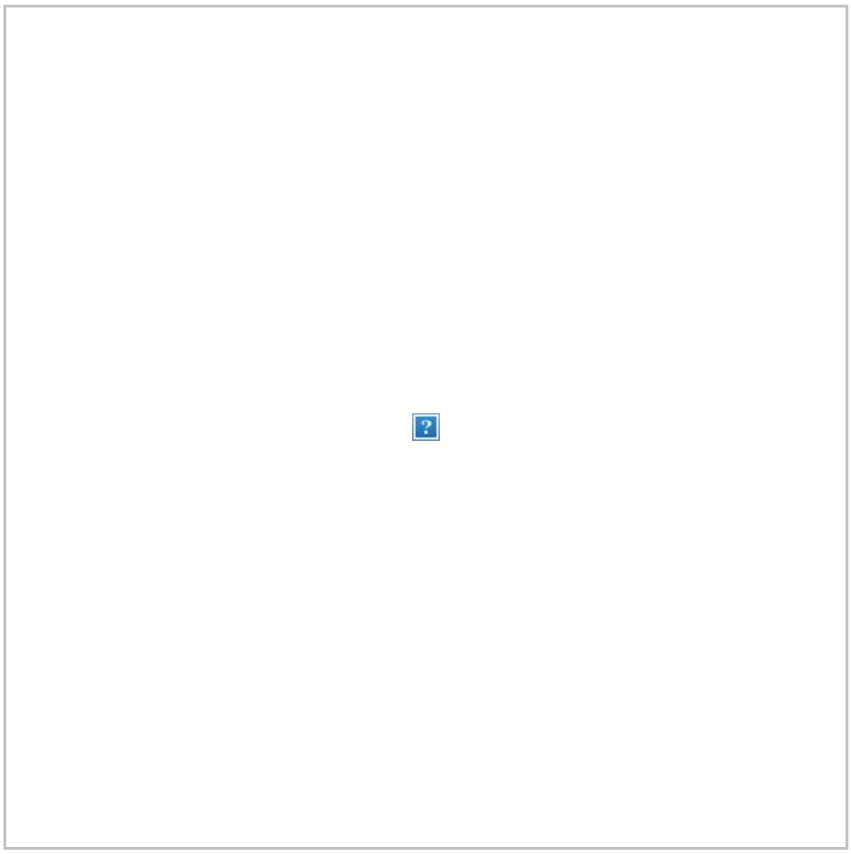
CMS – MI appeals court denies rehearing appeal of CMS IRP

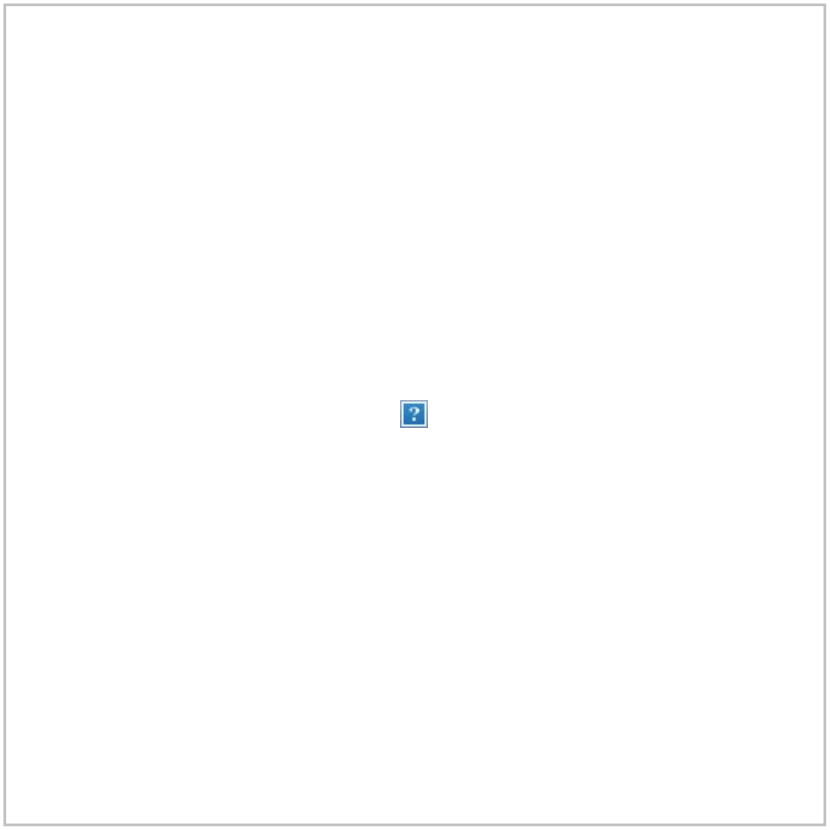
- The MI appeals court denied a stakeholder appeal for rehearing of the CMS IRP.
- The complaint was opposed to shutting down coal but didn't prove there was an unjust MPSC decision in approving settlement.
- The IRP settlement was a strong multiparty agreement. Key points from the IRP are:
    - A full 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

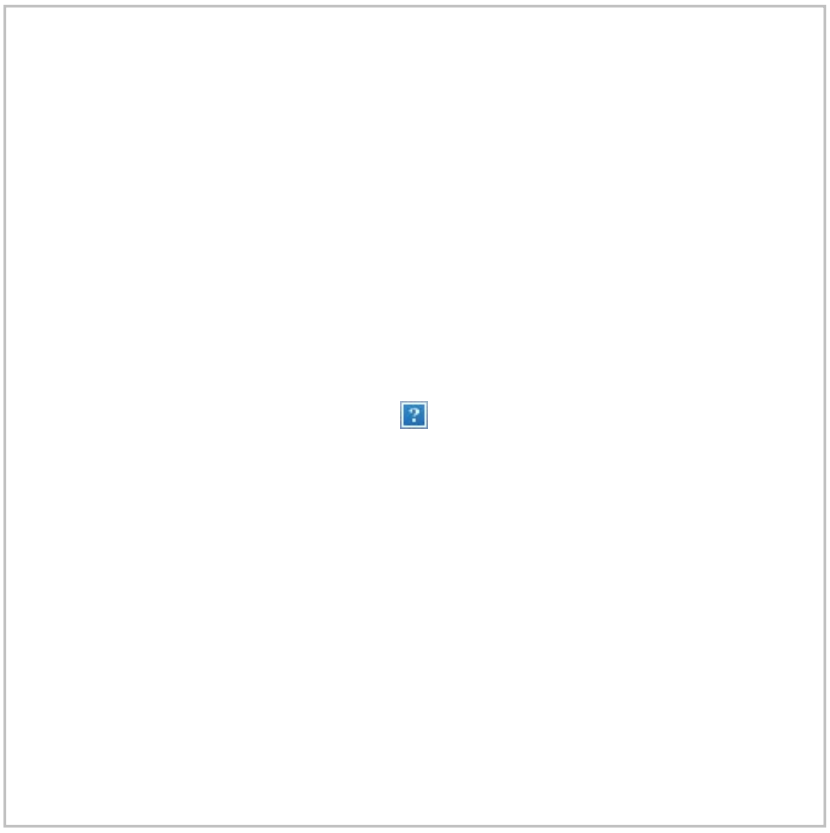
Guggenheim takeaway: *FYI and not a surprise. CMS has one of the more aggressive coal retirement stories within our coverage.*

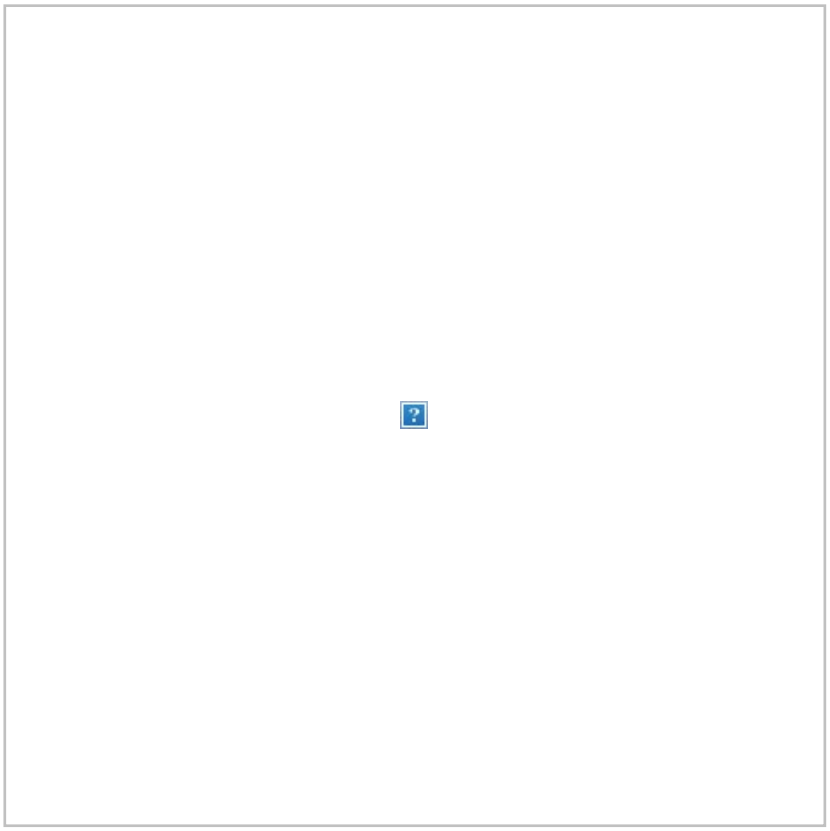




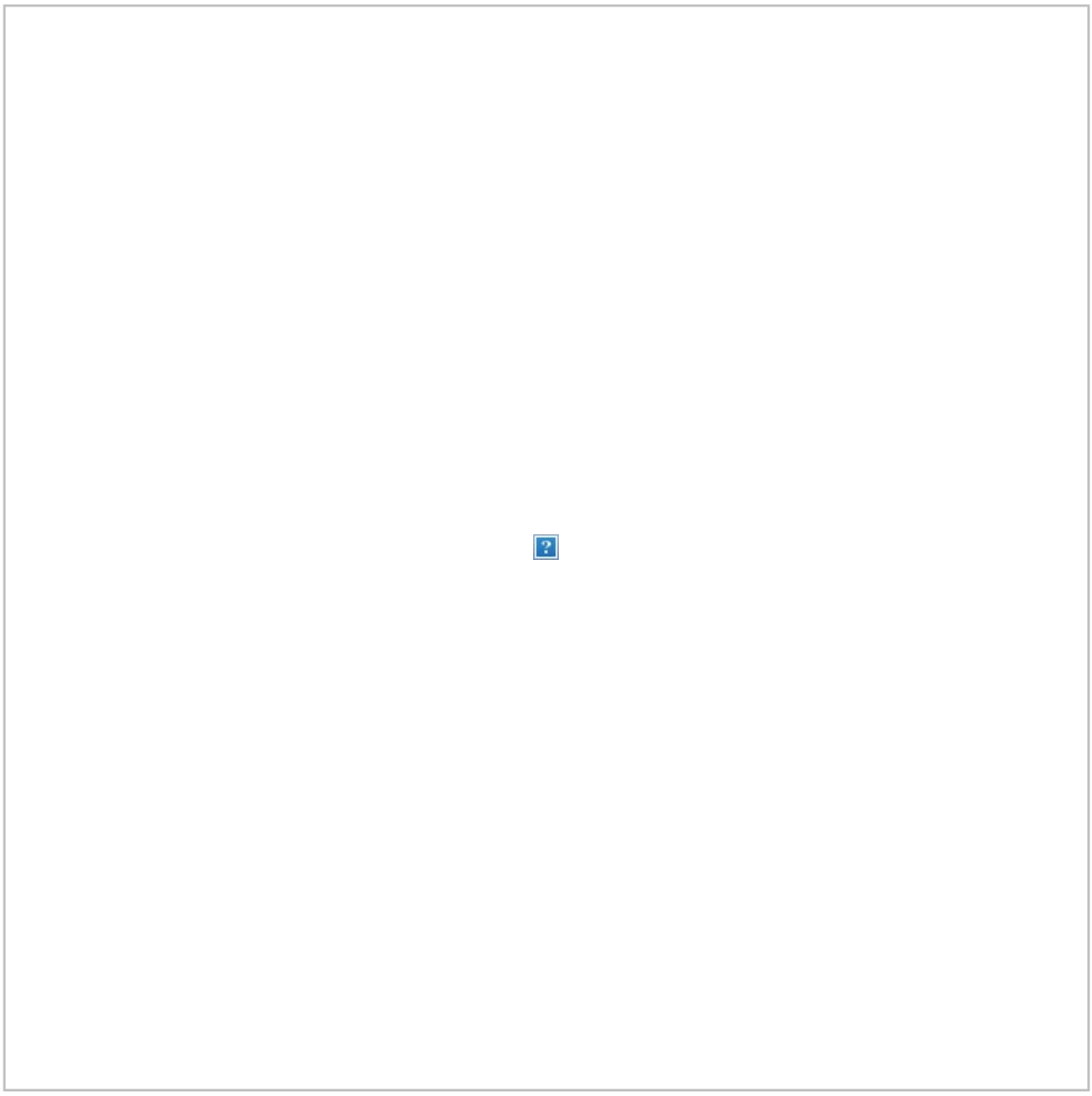




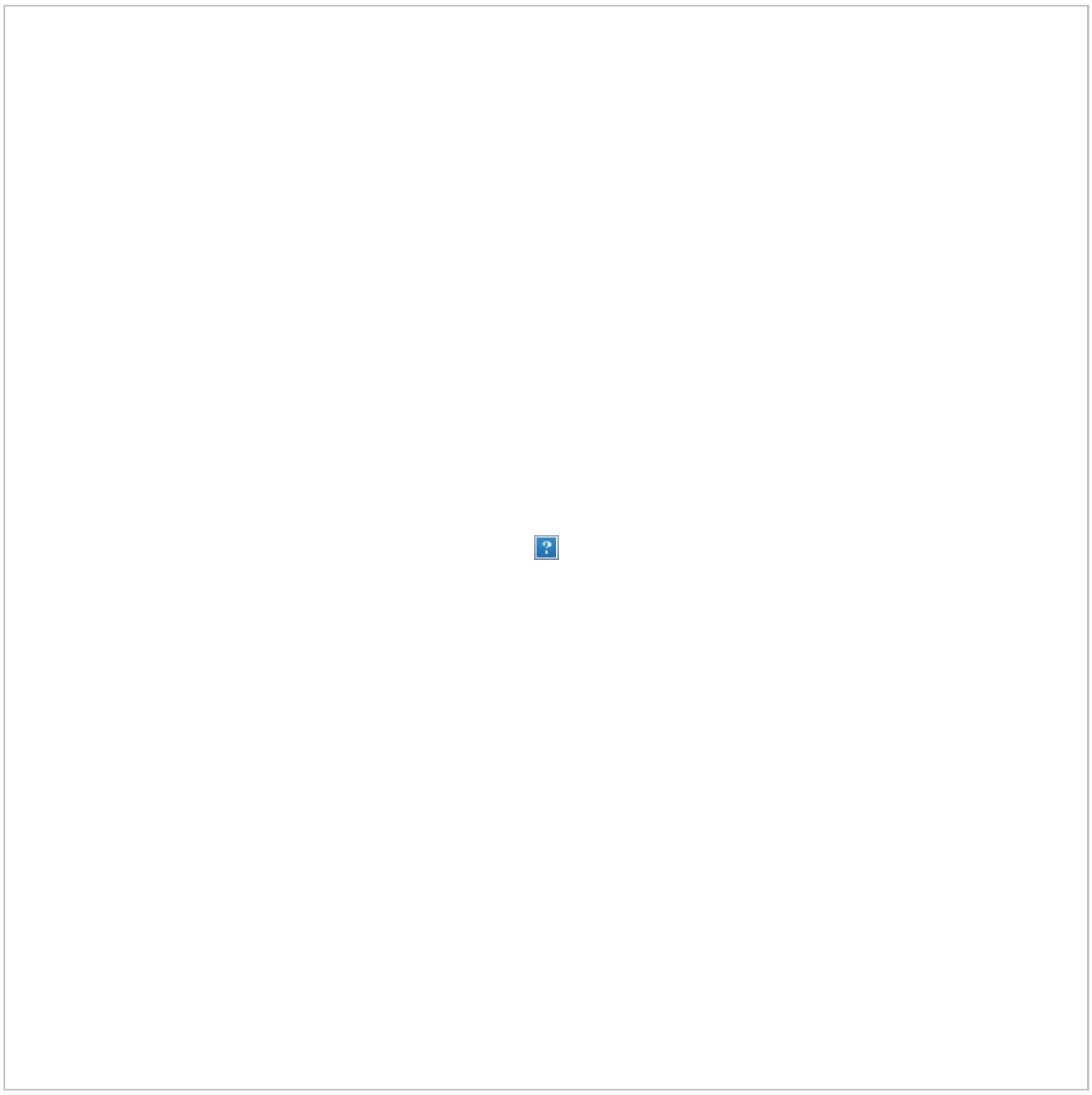




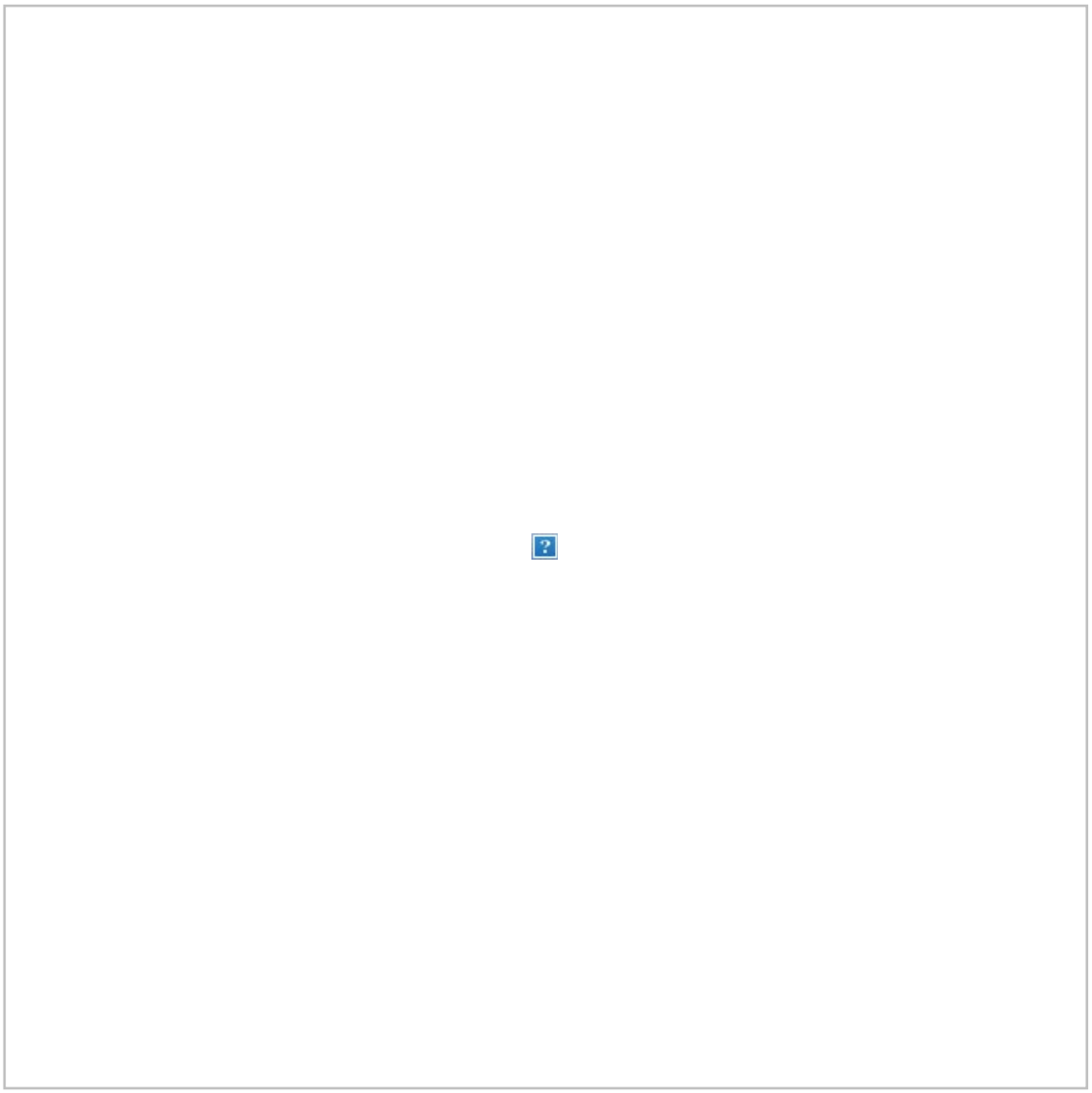
Guggenheim 2023 Client and Corporate Access Utility Events



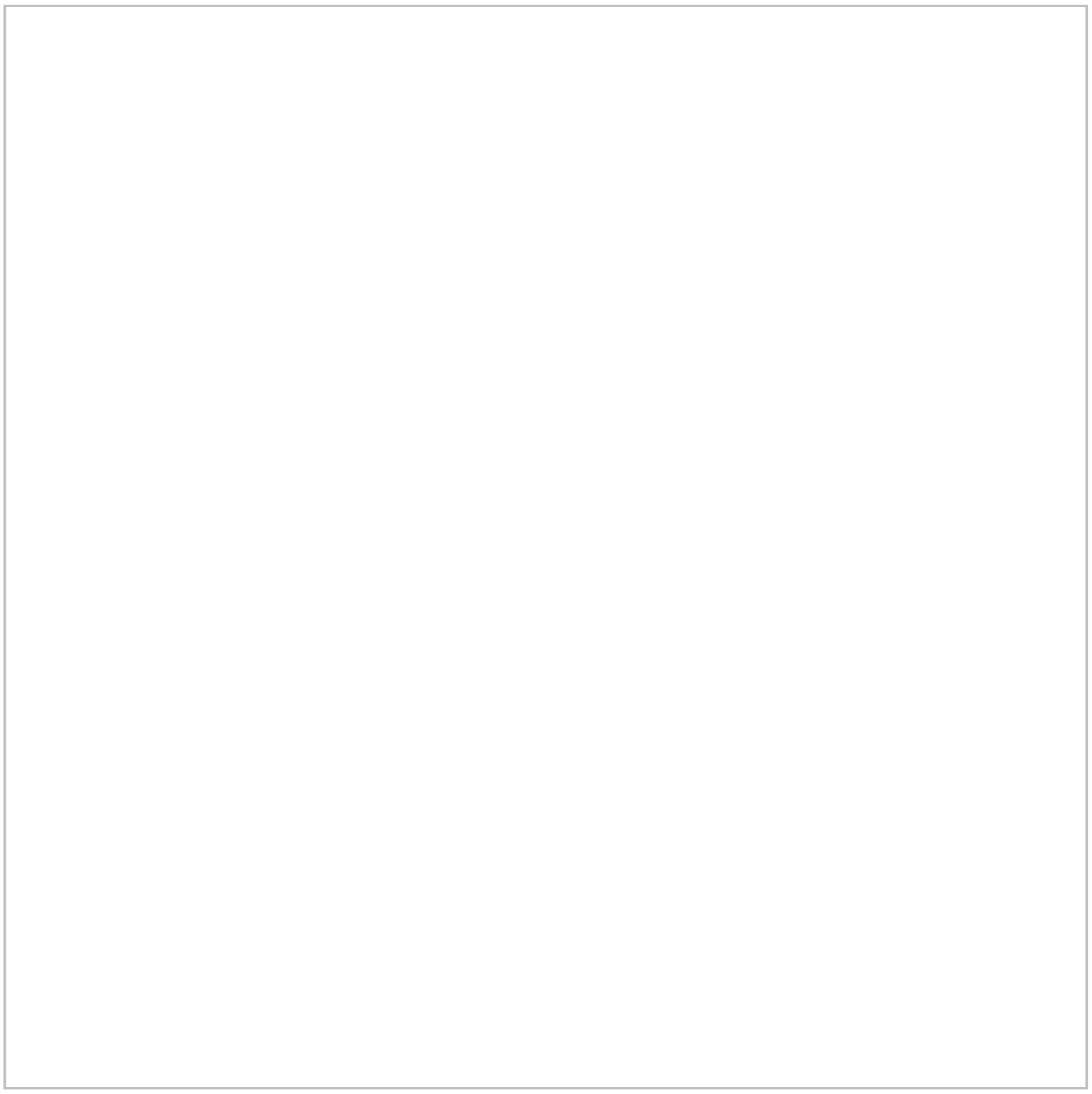
Guggenheim Comp Sheet



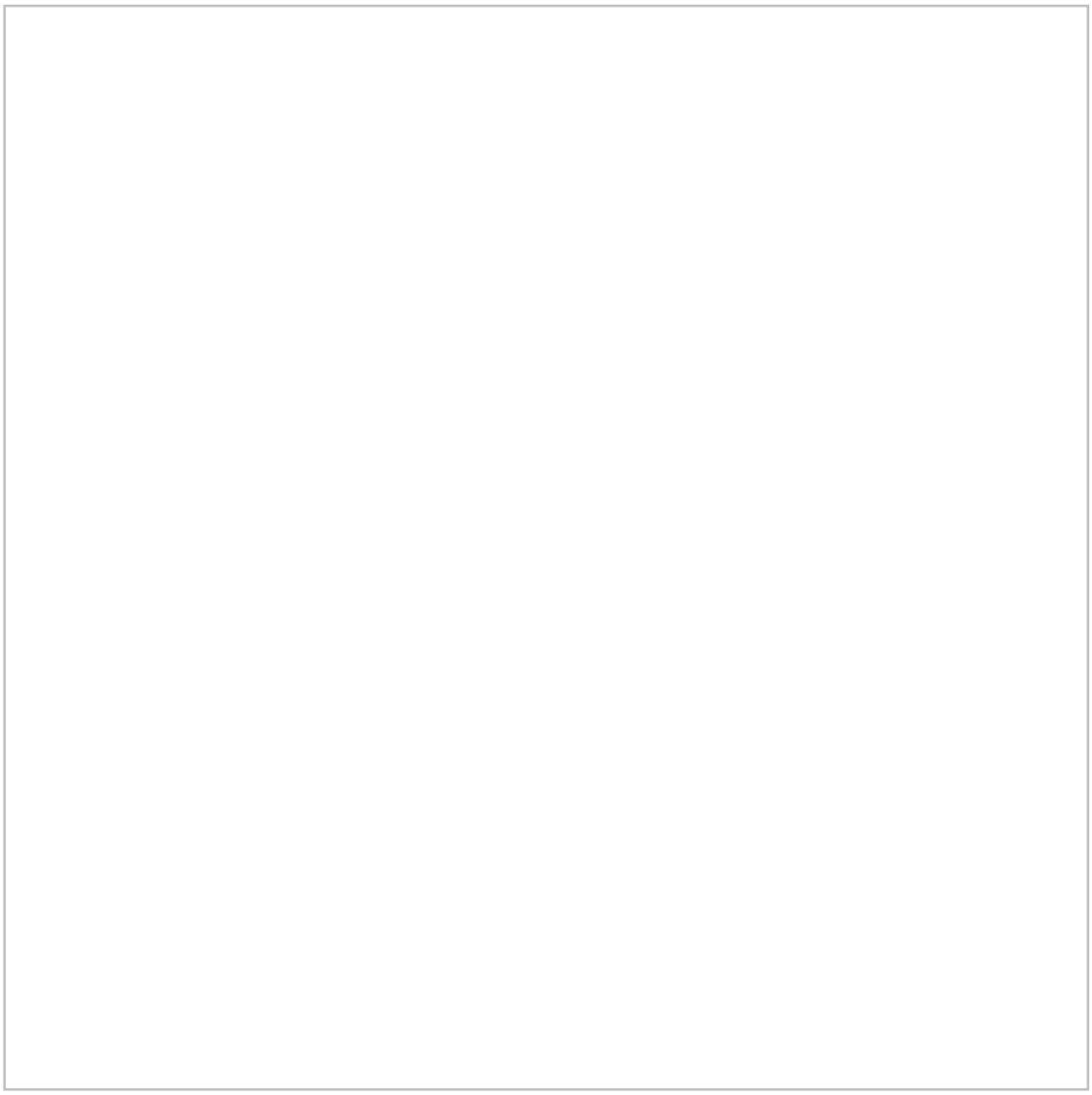
Share Price Performance (Year-to-Date, Three-Month, One-Month, & Five-Day Trailing)



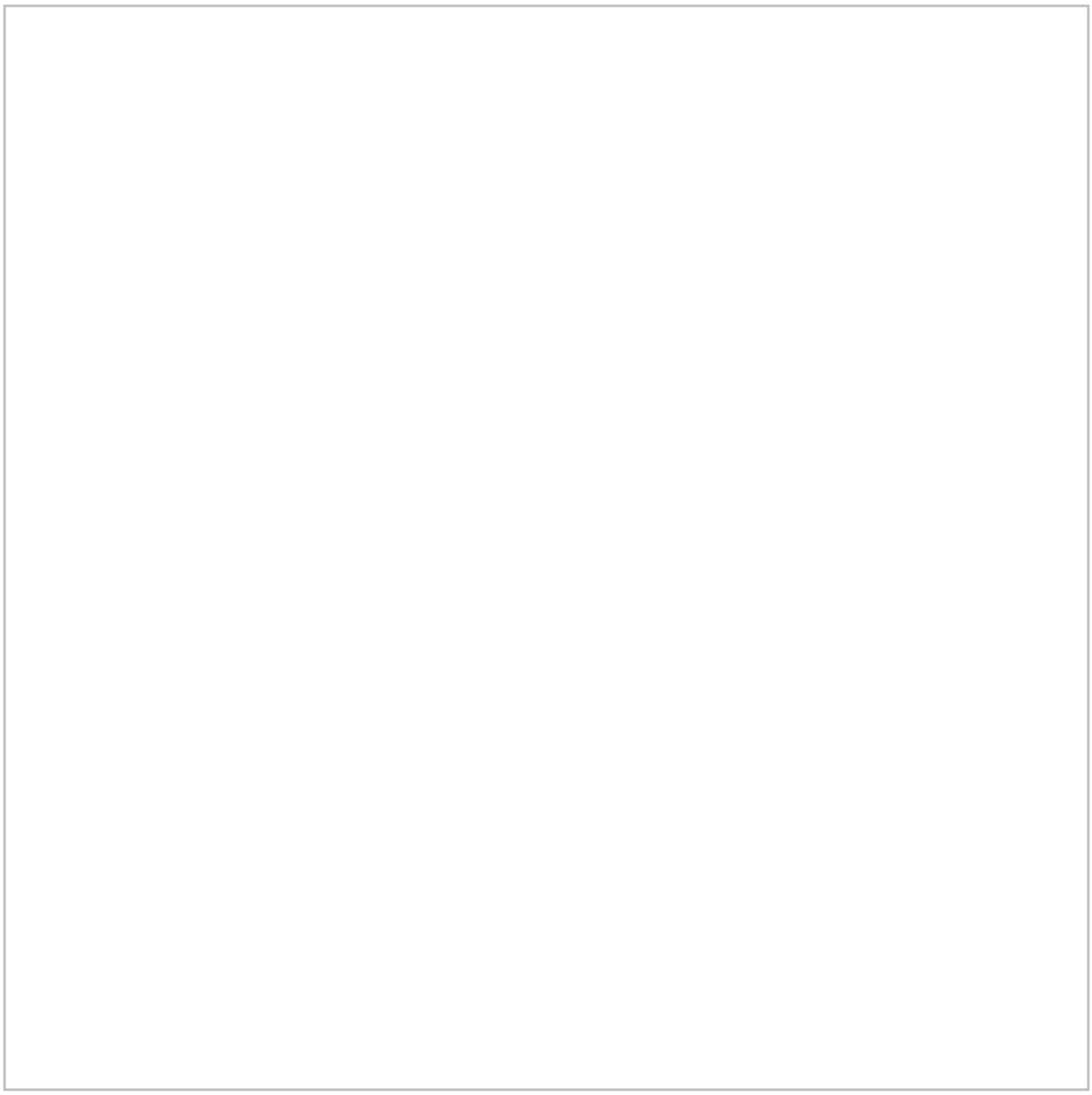
Generation and Mix



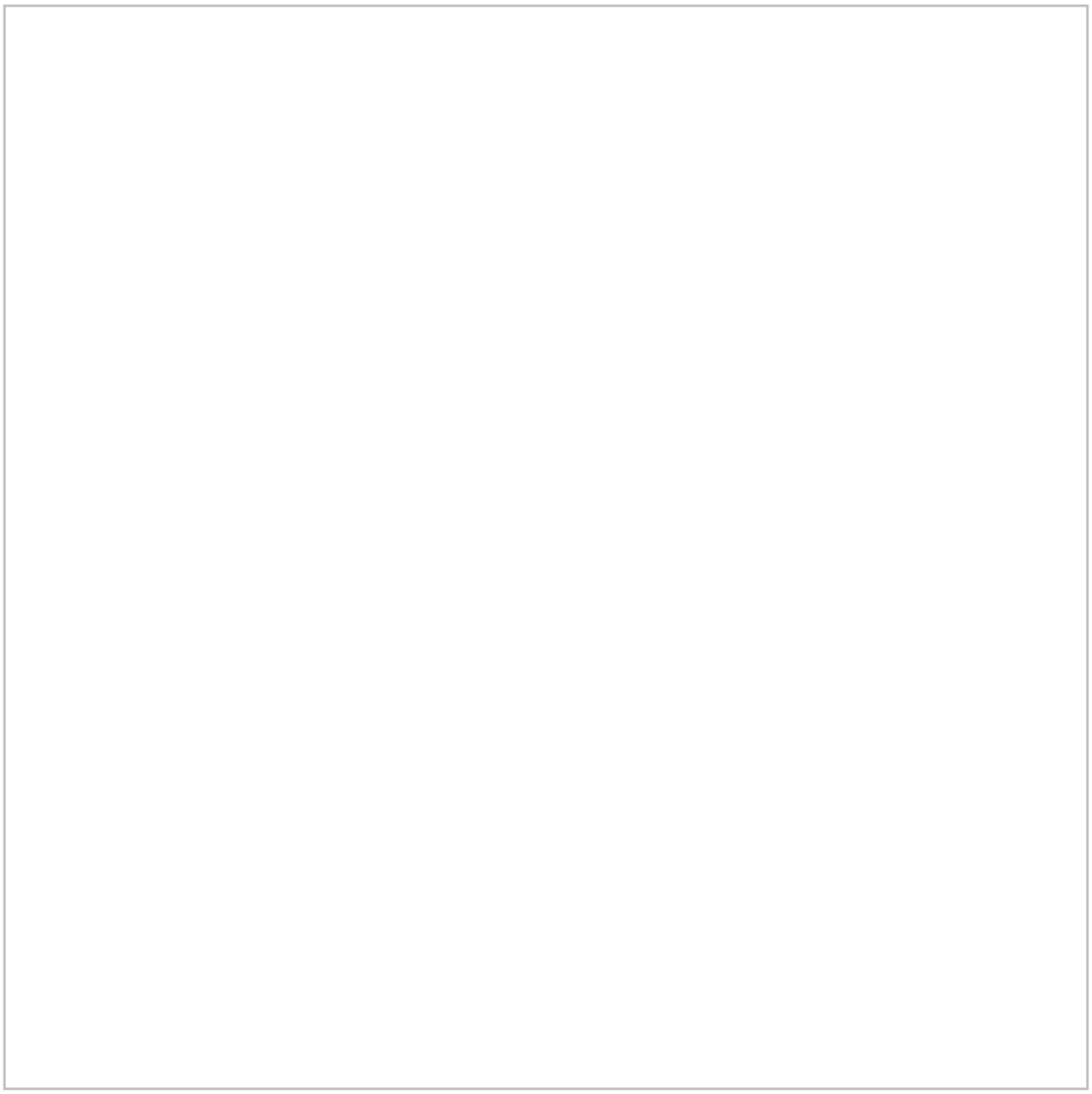
Generation and Mix (continued)



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.

North American Utilities

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Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price	Rating Cur	Rating Prev	Price Target Cur	Price Target End Date	Price Target Prev	Price Target End Date
Atmos Energy	ATO US	15,307.18	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.

See page 13 for analyst certification and important disclosures.

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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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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



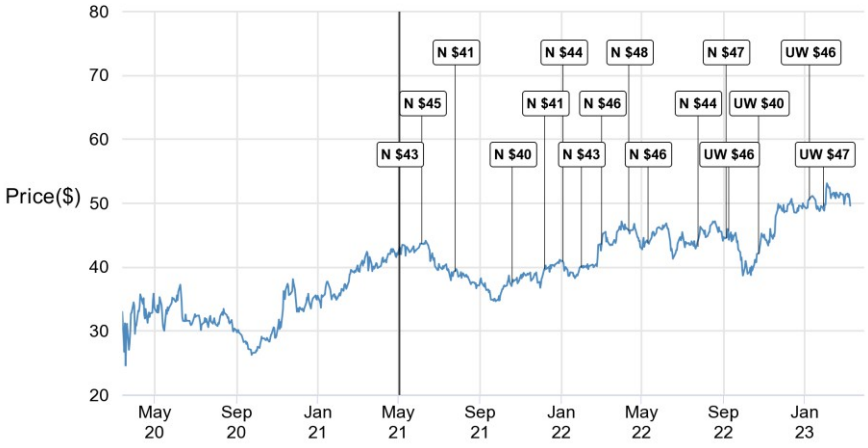
Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

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

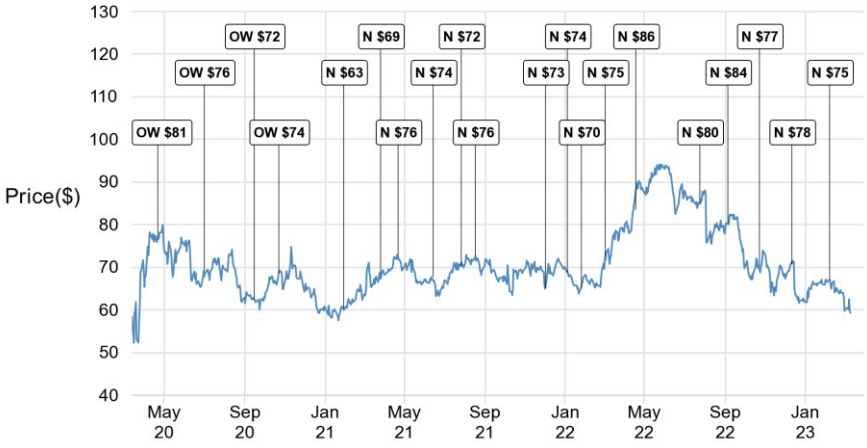


Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 20, 2013. All share prices are as of market close on the previous business day.

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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Completed 13 Mar 2023 09:40 AM EDT

Disseminated 13 Mar 2023 10:43 AM EDT

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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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Key Reports:
PEG 2023 Investor Day Takeaways, 3/10
Utilities 2023 Outlook Slides, 12/13
Nuclear Fireside Chat Series: I, II, III, IV, V
NARUC Winter Policy Summit Takeaways, 2/28
LDES Fireside Chat Series I, 2/21
CMS Meeting Takeaways, 2/12
SJW Downgrade to Neutral, 2/7
FE Interest Sale Takeaways, 2/5
Thoughts into 4Q22, 2/3
NREL Fireside Chat Takeaways, 1/13
2023 Outlook Audio Replay, 12/13
2023 Outlook Video Replay, 12/13
2023 Outlook Note, 12/13
ETR 2023 Top Pick, 12/13
Regression Analysis, 12/12
Green Ranker VI, 12/9
Cost Structure/O&M Analysis, 12/8
SR Downgrade to Neutral, 12/5
EEI 2022 Takeaways, 11/17
ALE Upgrade to Neutral, 11/17
JPM Qbank (EEI), 11/11
NI Investor Day Takeaways, 11/9
D Downgrade to Neutral, 11/7
NWE Initiation, 11/1
CNP Investor Meeting Takeaways, 10/11
AEP Investor Day Takeaways, 10/4
AGA Mini Forum Takeaways, 9/26
Upgrades: SR, AWK, EMA CN. Downgrades: NJR, 9/9
JPM Energy Conference Takeaways, 6/26
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

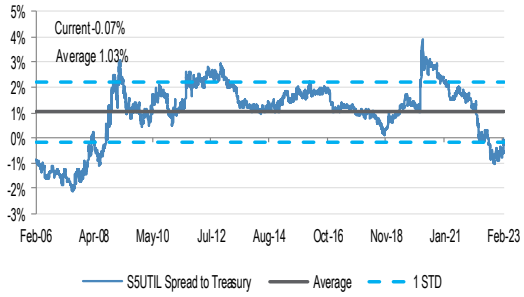
Company	Ticker	Rating	4Q22 Consensus EPS Est. Max	Min	Mean	Median	JPMe	JPMe vs. Median	Actual	Actual vs. Median	Actual vs. JPMe
Regulated											
Ameren Corporation	AEE	OW	$0.59	$0.54	$0.57	$0.57	$0.57	0%	$0.63	11%	11%
American Electric Power	AEP	OW	$1.02	$0.96	$0.99	$0.99	$1.00	2%	$1.05	7%	5%
Allete 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%

Source: J.P. Morgan, Bloomberg Finance L.P.

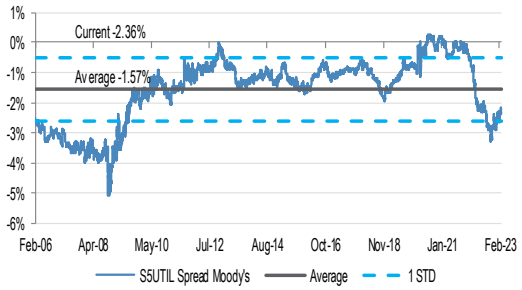
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Utility Valuation Snapshot

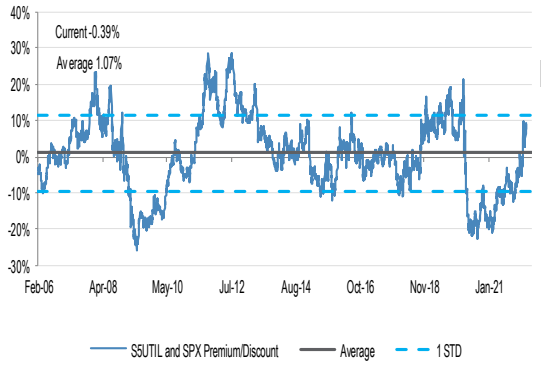
S&P Utilities Index Spread to 10-Year Treasury



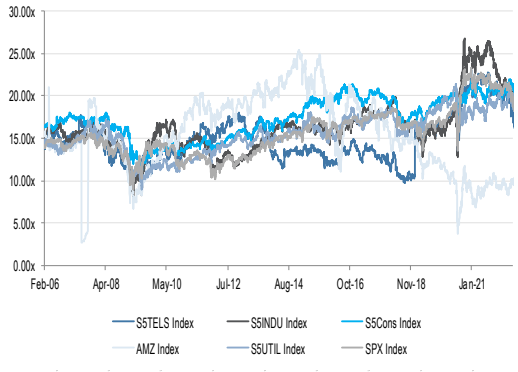
S&P Utilities Index Spread to Moody's Corporate BAA Bond Index



S&P Utilities Index and SPX Historical Premium/Discount on Forward P/E



Historical Forward P/Es by Sector



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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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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.

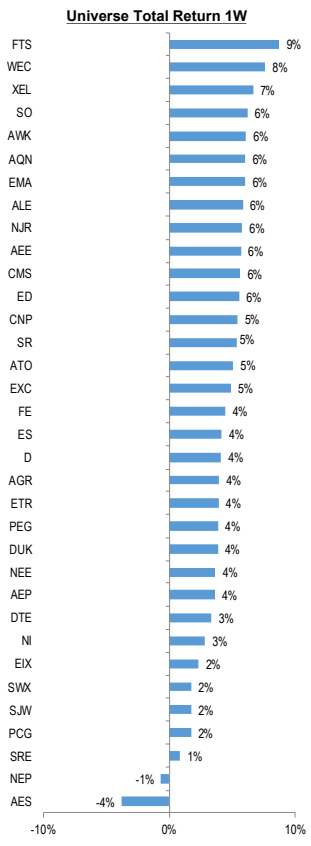
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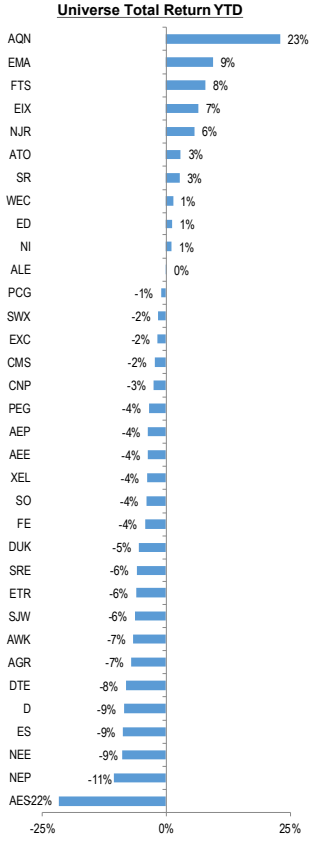
J.P.Morgan

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%

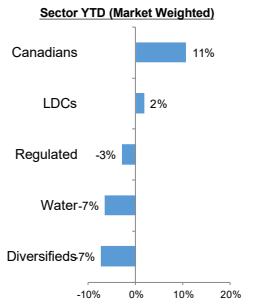
Source: Bloomberg Finance L.P., J.P. Morgan estimates.

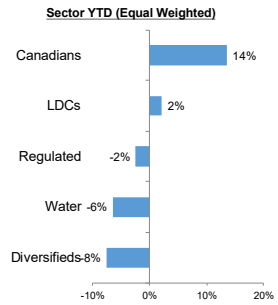


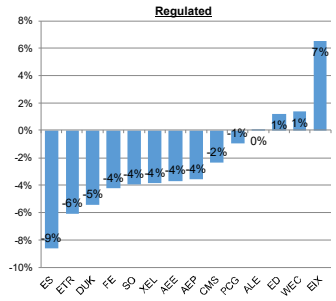


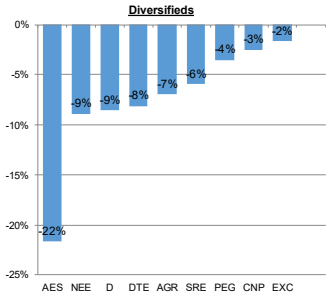
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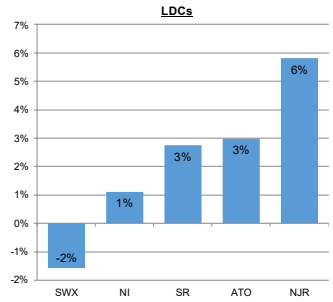
Year-to-Date Total Return Performance By Sector

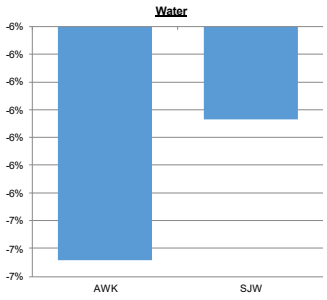


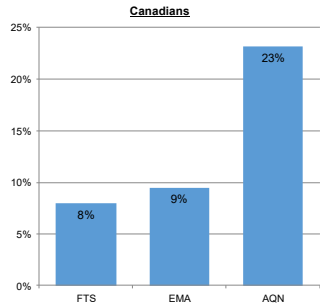












Source: Bloomberg Finance L.P.

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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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Sunderland III, Richard W: AES Corp. (AES), Algonquin Power & Utilities Corp. (AQN.TO), Allete Inc. (ALE), American Water Works Company, Inc. (AWK), Atmos Energy (ATO), Avangrid, Inc (AGR), Emera Inc. (EMA.TO), Fortis Inc. (FTS.TO), New Jersey Resources (NJR), NiSource Inc. (NI), SJW Group (SJW), Southwest Gas Holdings Inc. (SWX), Spire Inc (SR)

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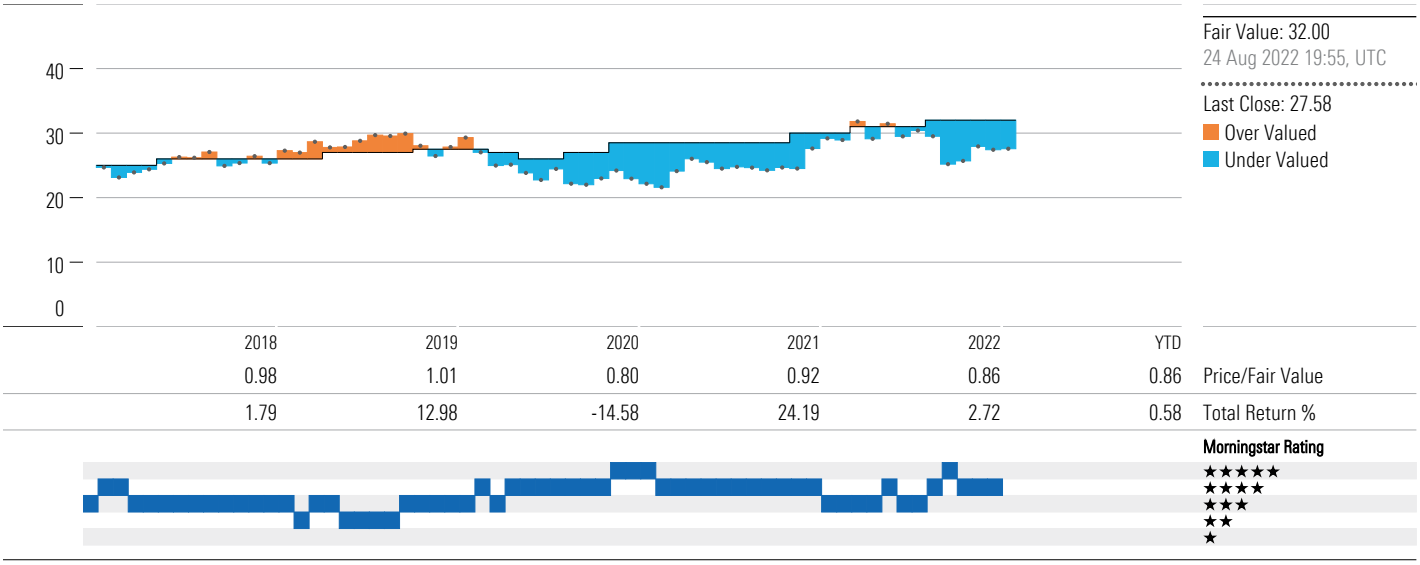
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NiSource Inc NI ★★★★ 25 Jan 2023 22:28, UTC

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.

Contents

Business Description
Business Strategy & Outlook (26 Jan 2023)
Bulls Say / Bears Say (26 Jan 2023)
Economic Moat (26 Jan 2023)
Fair Value and Profit Drivers (26 Jan 2023)
Risk and Uncertainty (26 Jan 2023)
Capital Allocation (26 Jan 2023)
Analyst Notes Archive
Financials
Appendix
Research Methodology for Valuing Companies

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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.

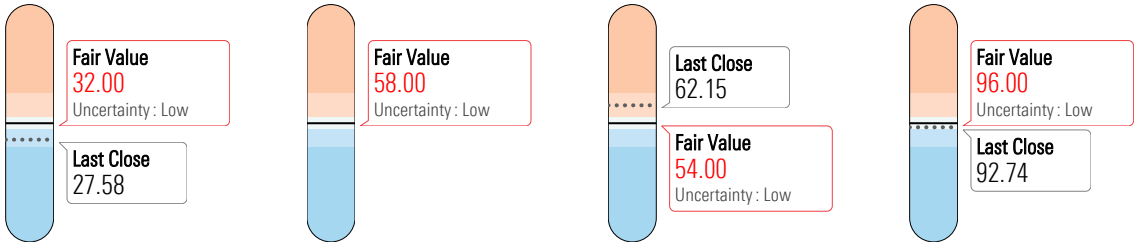
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Competitors



	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]
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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.

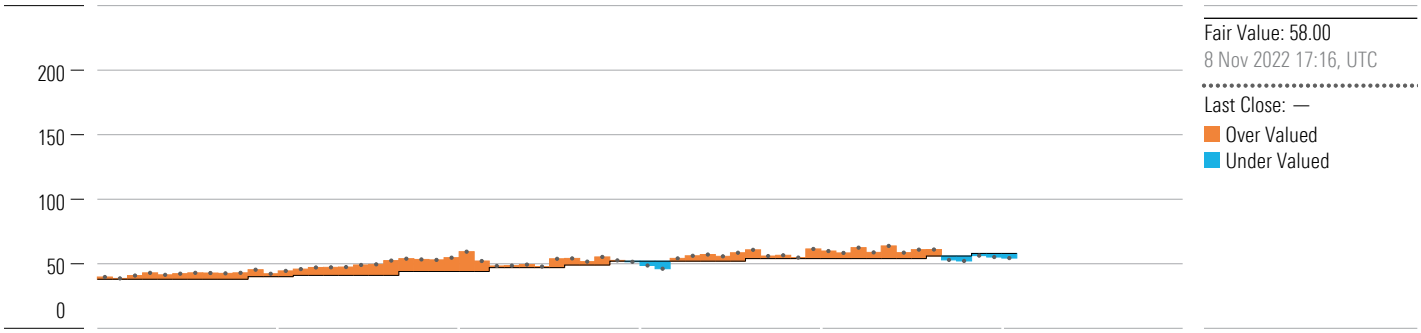
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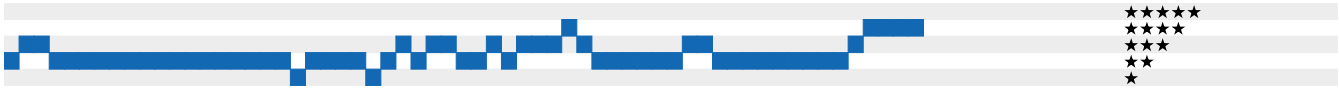
NiSource Inc NI ★★★★ 25 Jan 2023 22:28, UTC

Competitors Price vs. Fair Value

Alliant Energy Corp LNT

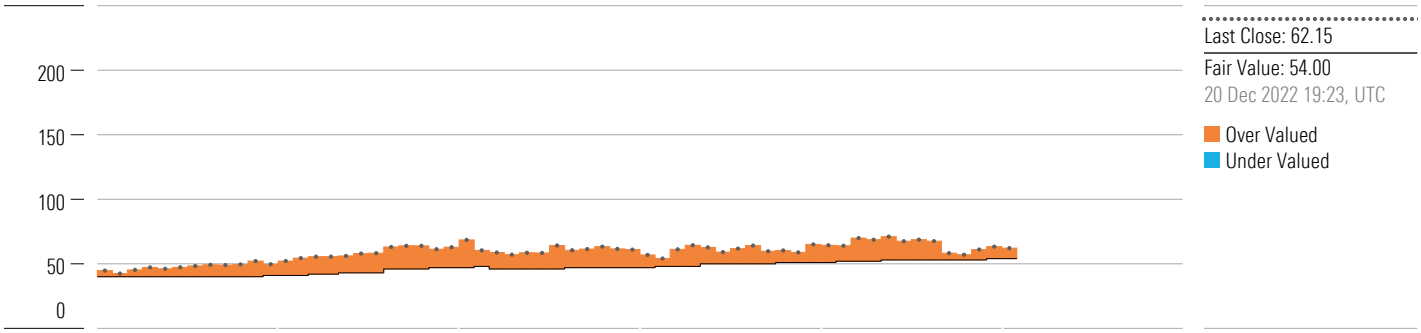


	2018	2019	2020	2021	2022	YTD	
	1.06	1.24	0.99	1.14	0.95	—	Price/Fair Value
	2.30	32.88	-3.05	22.41	-7.40	-1.45	Total Return %



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 %



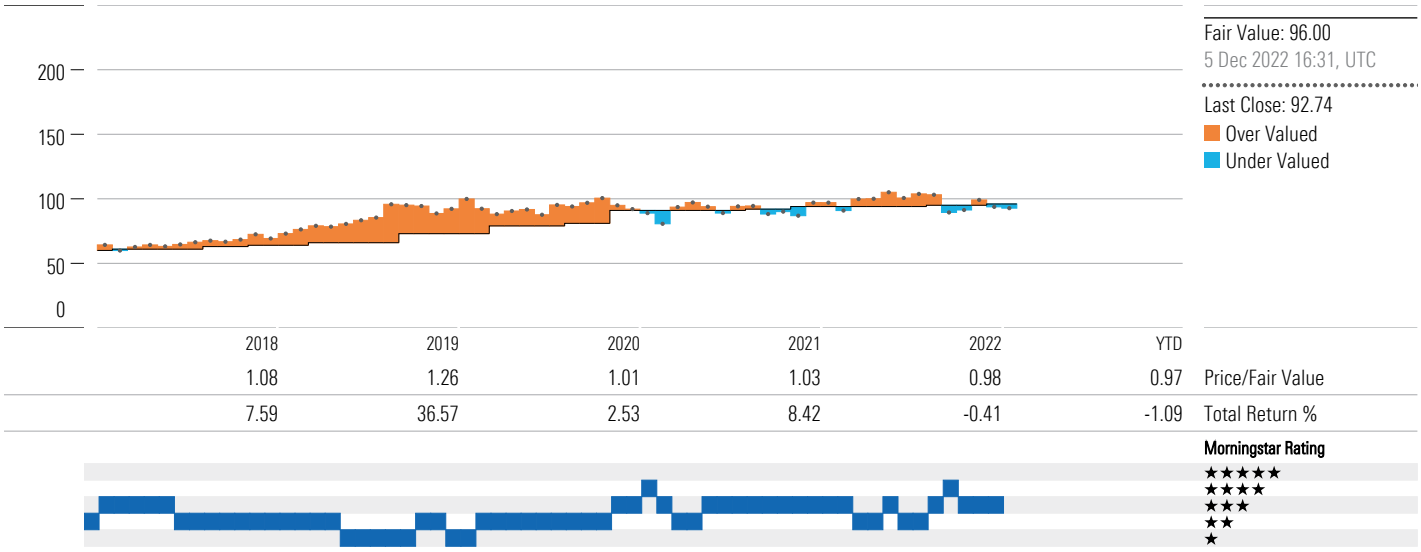
Total Return % as of 25 Jan 2023. Last Close as of 25 Jan 2023. Fair Value as of 20 Dec 2022 19:23, UTC.

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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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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

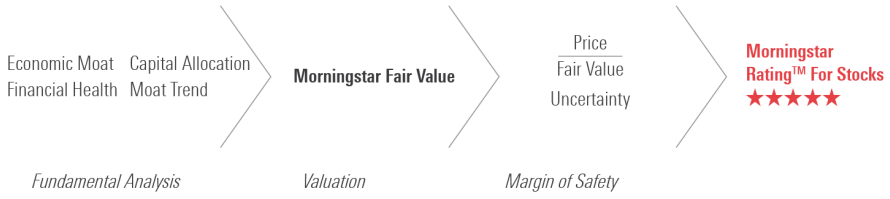
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with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

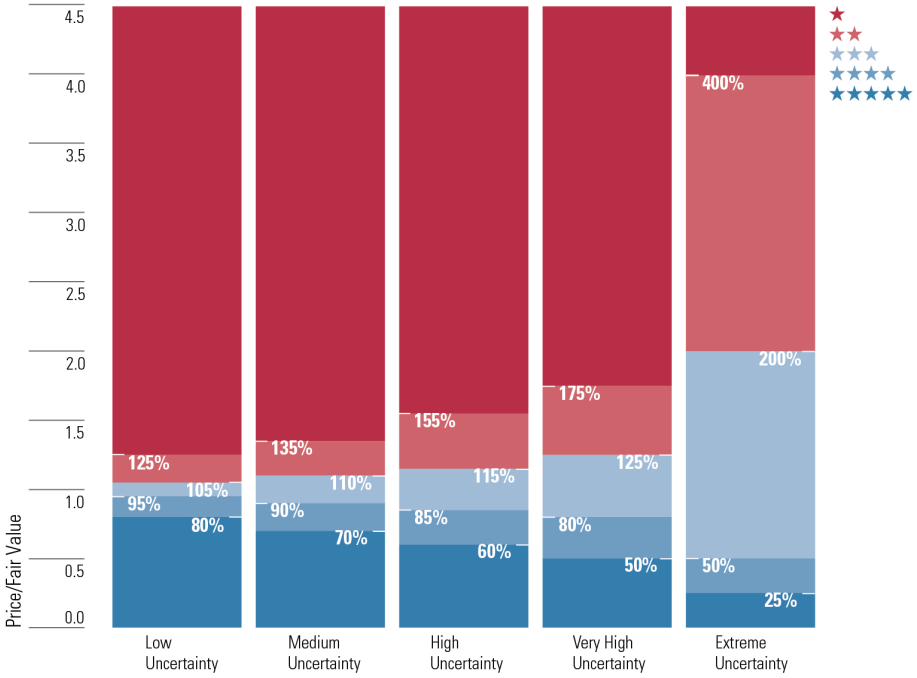
	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

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.

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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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Research Methodology for Valuing Companies

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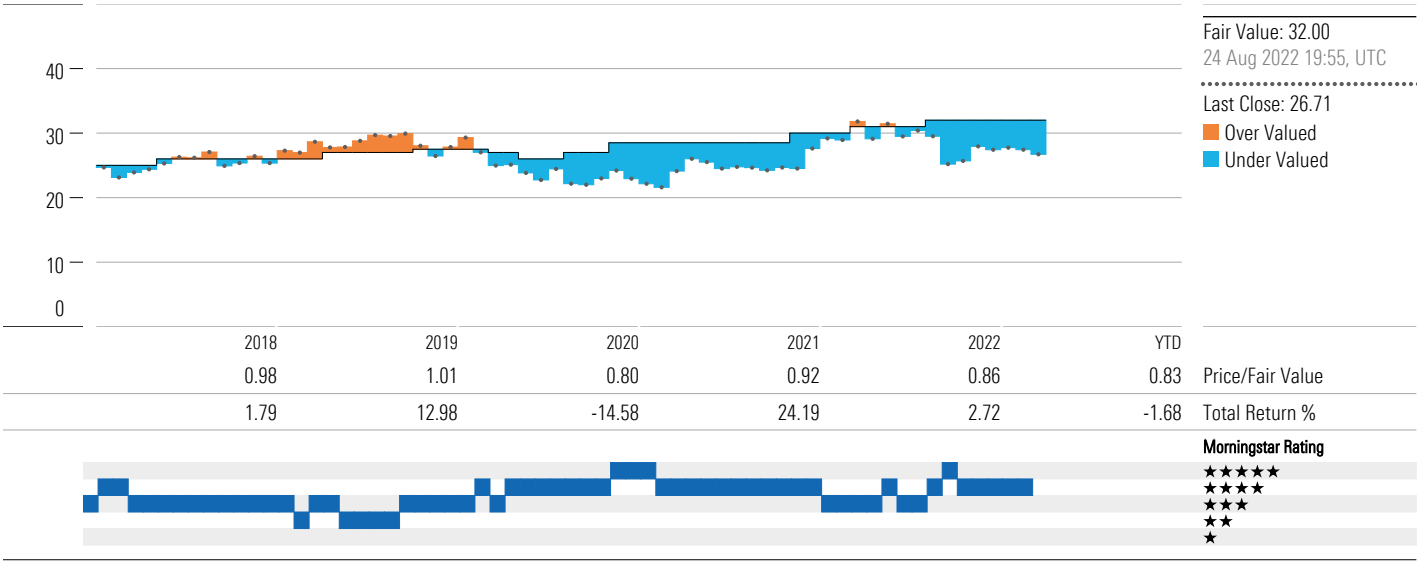
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NiSource Inc NI ★★★★ 10 Mar 2023 22:17, UTC

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.

Contents

Analyst Note (13 Mar 2023)
Business Description
Business Strategy & Outlook (26 Jan 2023)
Bulls Say / Bears Say (26 Jan 2023)
Economic Moat (26 Jan 2023)
Fair Value and Profit Drivers (26 Jan 2023)
Risk and Uncertainty (26 Jan 2023)
Capital Allocation (26 Jan 2023)
Analyst Notes Archive
Financials
Appendix
Research Methodology for Valuing Companies

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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%

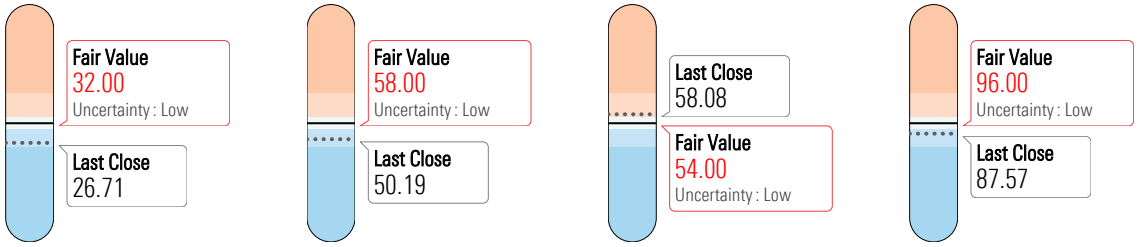
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Competitors



	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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MORNINGSTAR®

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.

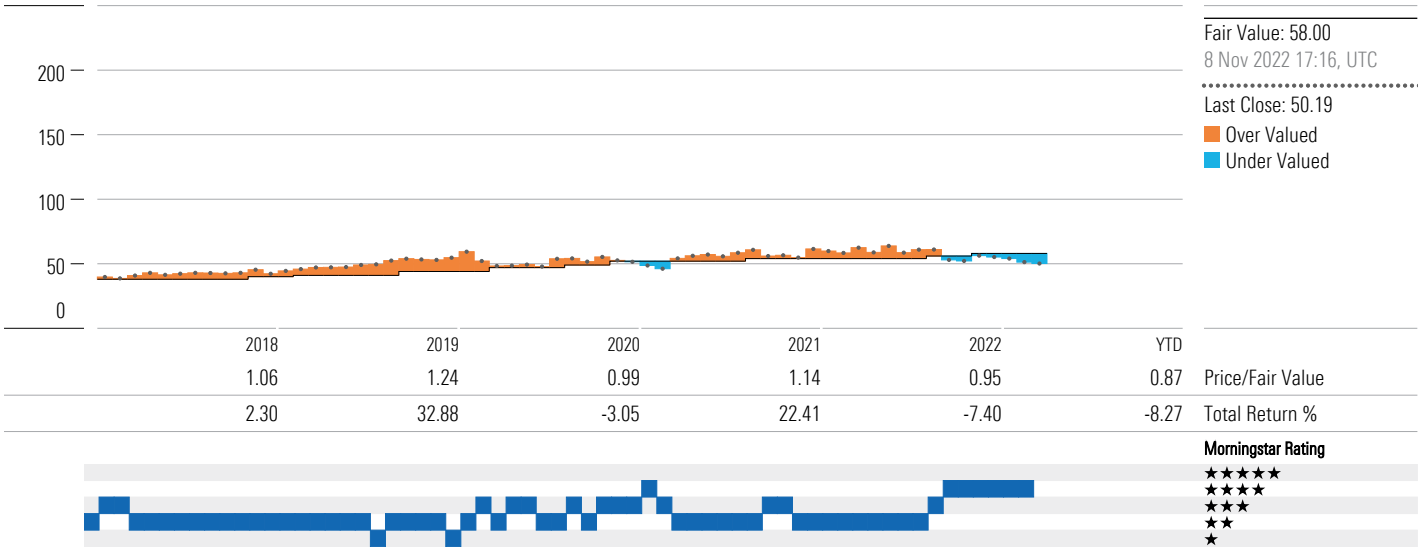
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Competitors Price vs. Fair Value

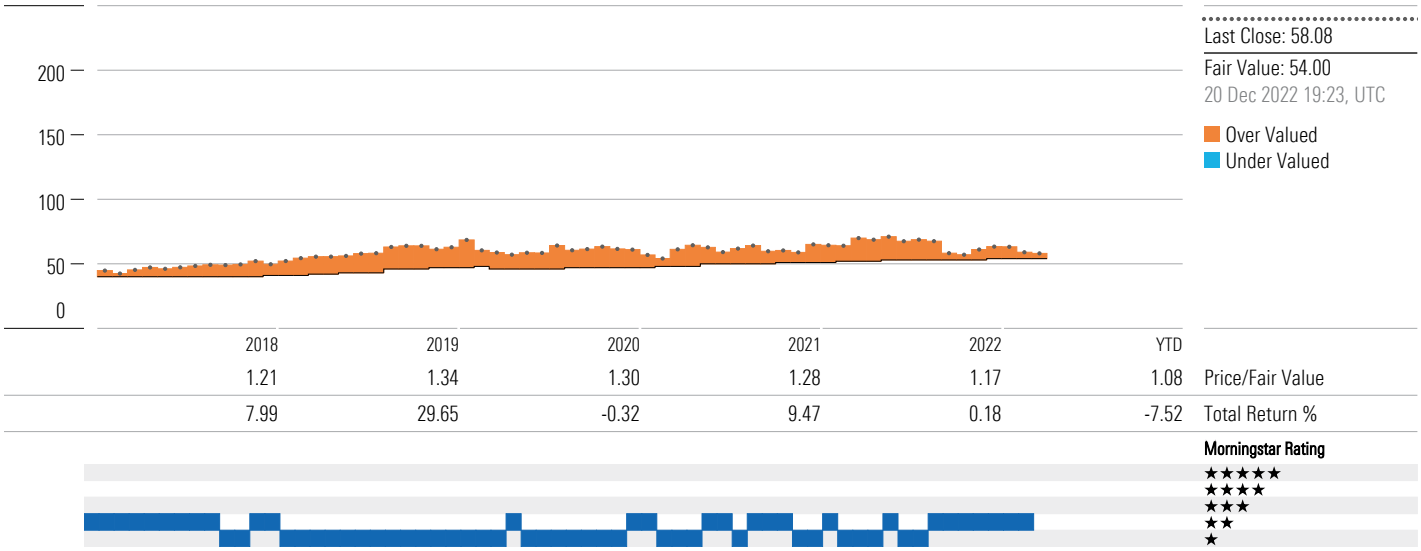
Alliant Energy Corp LNT



	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 %

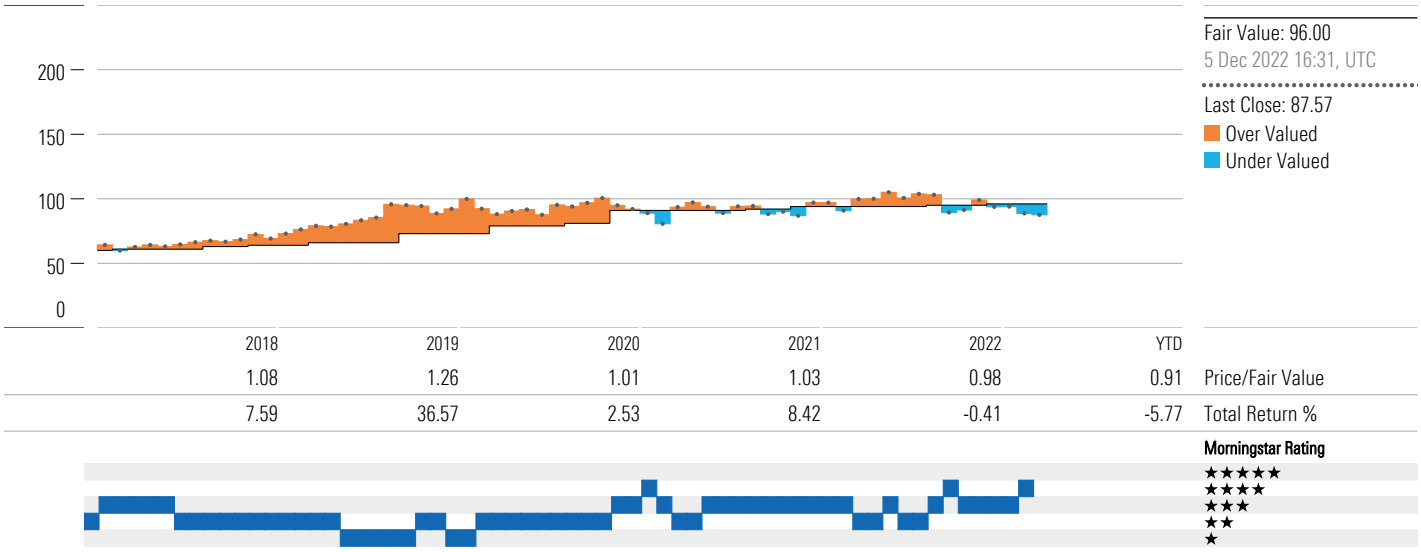
Total Return % as of 10 Mar 2023. Last Close as of 10 Mar 2023. Fair Value as of 20 Dec 2022 19:23, UTC.

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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
★★★★	★★★★	★★★★★	★★★★	★★★	★★★	★★★★	★★★	★★★	★★★	★★★	★★★★
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 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
★★★★	★★★★	★★★★	★★★	★★	★★	★★	★★	★★	★★	★★	★★
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 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
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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
★★	★★	★★	★★	★	★★	★★	★★	★★	★★	★★	★★
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 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
★★	★★	★★	★★	★	★	★★	★	★	★	★★	★
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 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
★★★	★★★	★★★★	★★★	★★	★★	★★★	★★	★★	★★★	★★★	★★★
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

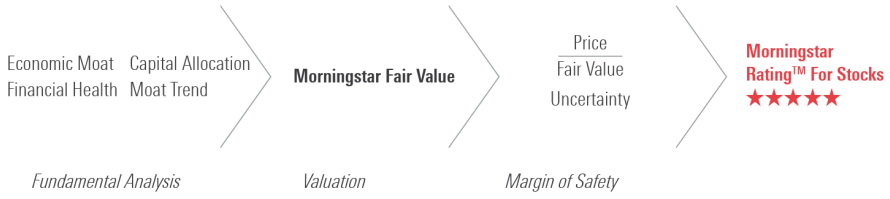
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with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

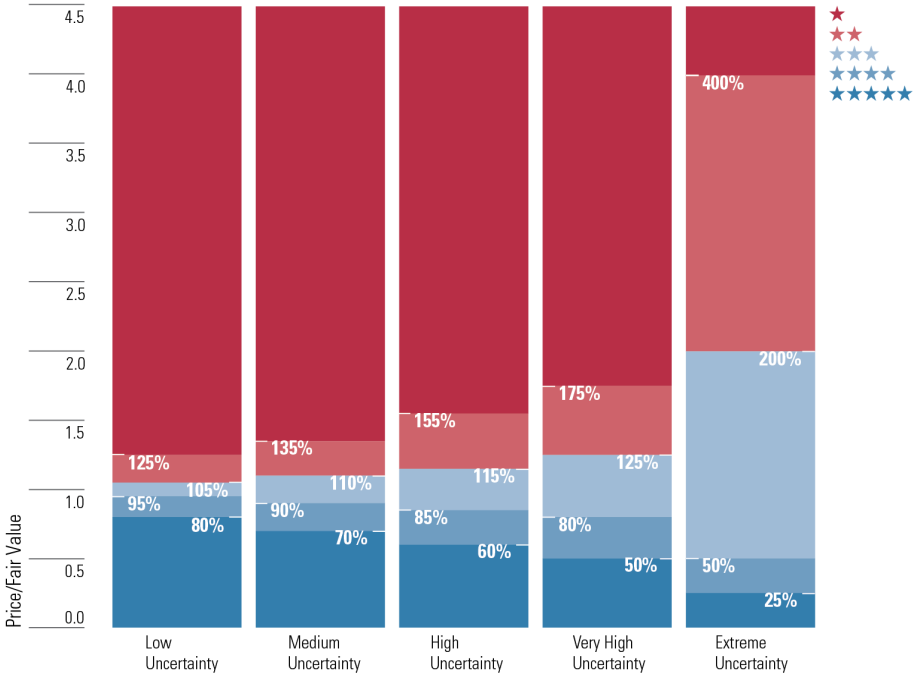
	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

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/

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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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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Coverage Universe: Sunderland III, Richard W: AES Corp. (AES), Algonquin Power & Utilities Corp. (AQN.TO), Allete Inc. (ALE), American Water Works Company, Inc. (AWK), Atmos Energy (ATO), Avangrid, Inc (AGR), Emera Inc. (EMA.TO), Fortis Inc. (FTS.TO), New Jersey Resources (NJR), NiSource Inc. (NI), SJW Group (SJW), Southwest Gas Holdings Inc. (SWX), Spire Inc (SR)

J.P. Morgan Equity Research Ratings Distribution, as of January 01, 2023

	Overweight (buy)	Neutral (hold)	Underweight (sell)
J.P. Morgan Global Equity Research Coverage*	48%	37%	14%
IB clients**	47%	45%	35%
JPMS Equity Research Coverage*	47%	40%	13%
IB clients**	65%	66%	55%

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****Percentage of subject companies within each of the "buy," "hold" and "sell" categories for which J.P. Morgan has provided investment banking services within the previous 12 months.**
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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 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

Equity
United States
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

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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.

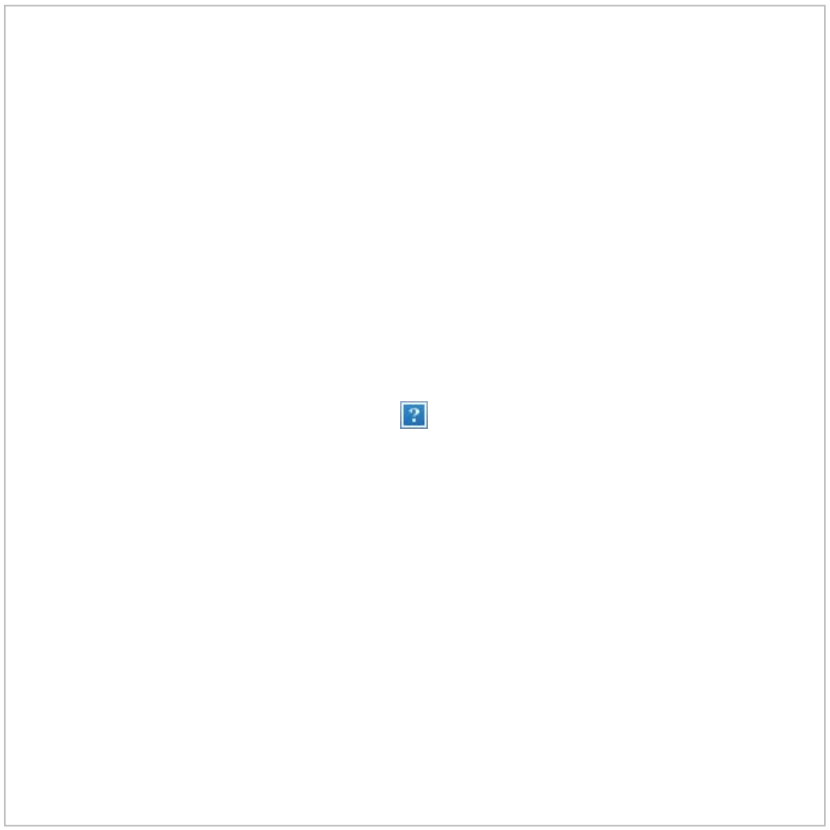
- Weather forecasts anticipate potential snowfall even at low elevations
- PR here.

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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Contents

Analyst Note (22 Feb 2023)
Business Description
Financials
Research Methodology for Valuing Companies

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

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

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

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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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.

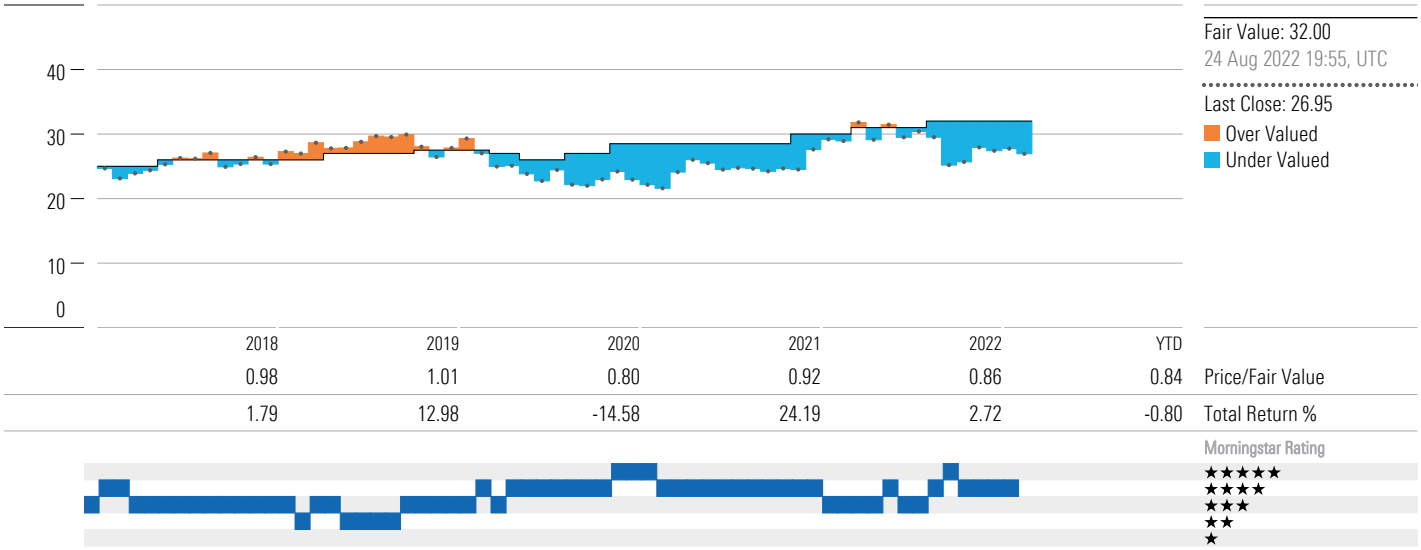
Elliott Management, which has been active in the utilities sector during the last decade, made NiSource one of its top six new buys and the only utilities holding during the fourth quarter, according to recent fund filings.

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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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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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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

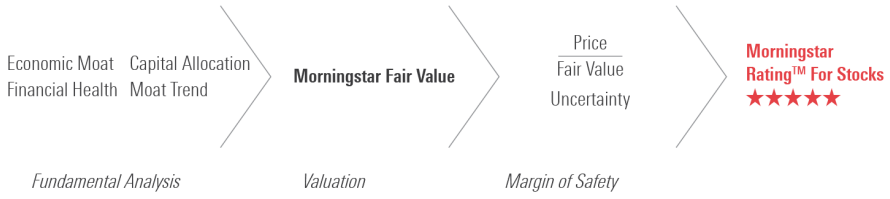
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with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

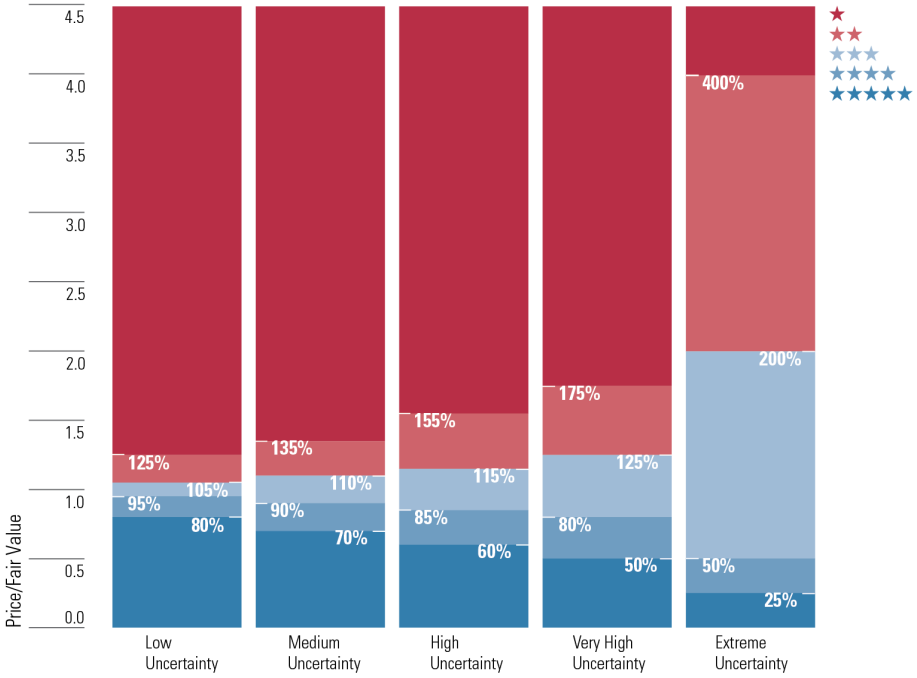
	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

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 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.

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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.**

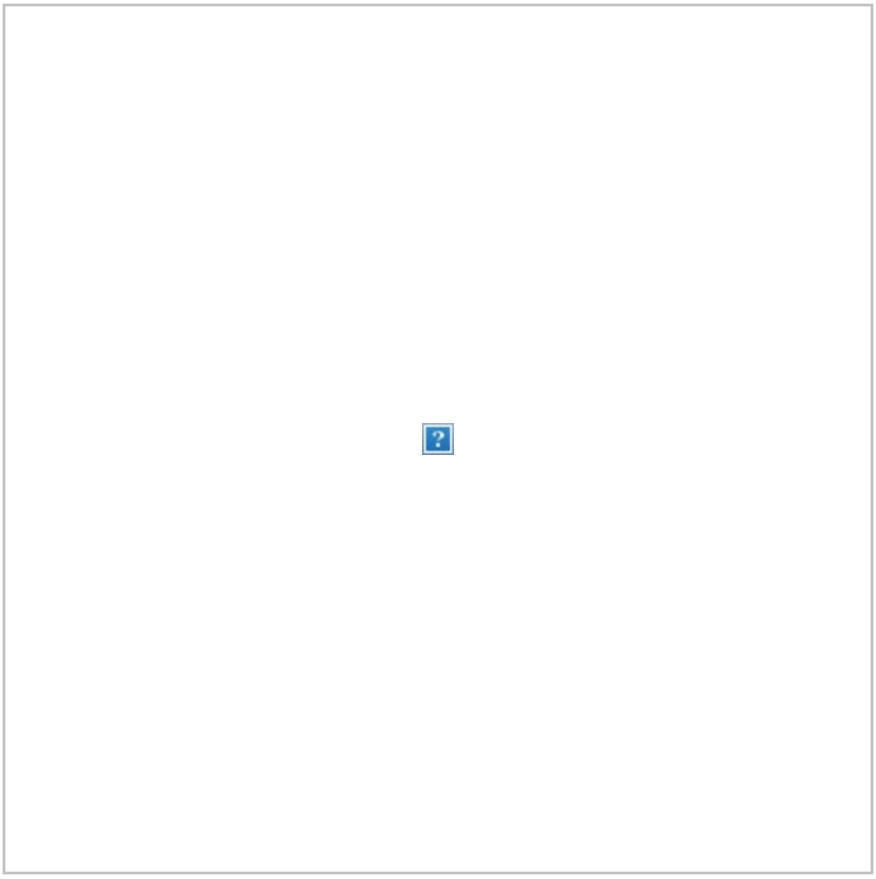
NIPSCO has already begun settlement discussions with the other parties in its Electric's general rate case in Indiana after the utility filed its rebuttal testimony on February 16th. While the official deadline to file a settlement is February 27th, mgmt. stated on today's earnings call that if discussions 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

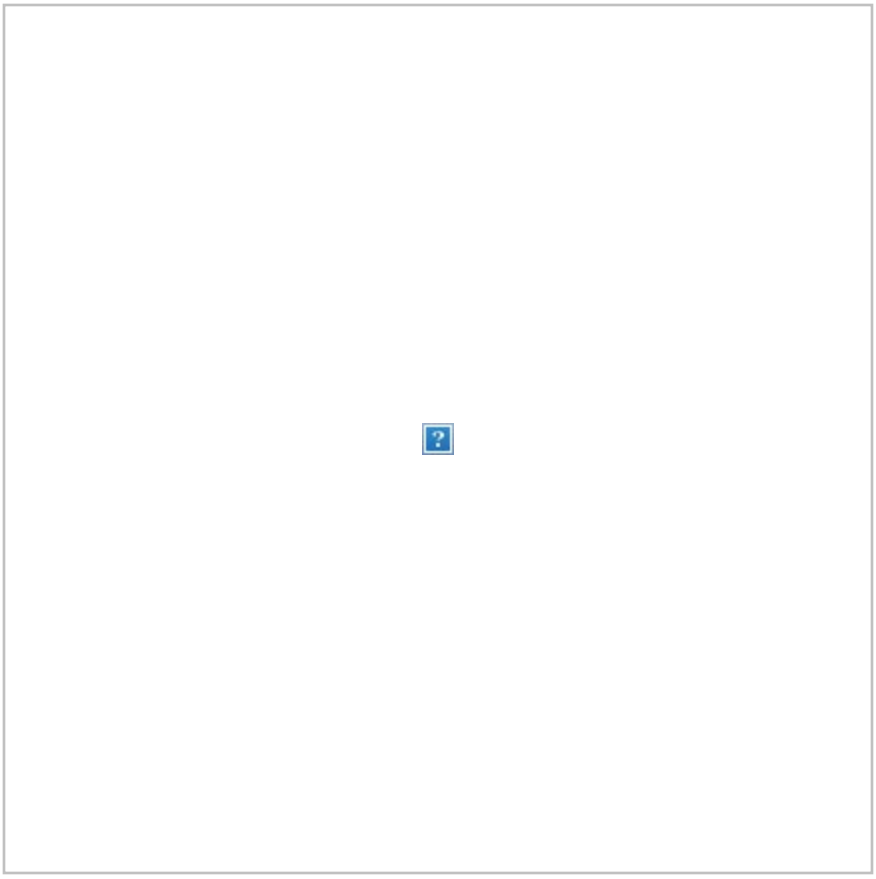
NI 2023–2027 capex plan changes



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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Appendix A-1

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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.

IMPORTANT DISCLOSURES



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.

View Comment >

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Sent to mweisenburger@nisource.com

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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.

<u>NY offshore wind – At least five bidders into state's third RFP; Ørsted/ES JV bid but shouldn't impact ES' sale</u>

- <u>Ørsted</u> 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
Midstream of Consciousness - What's the bull case, MVP court hearing, and readthroughs from KMI

Clean Energy

Wolfe GREEN Playbook – Inverter share in CA; PLUG preview; Off week for offshore; Corp. PPAs keep growing

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

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.

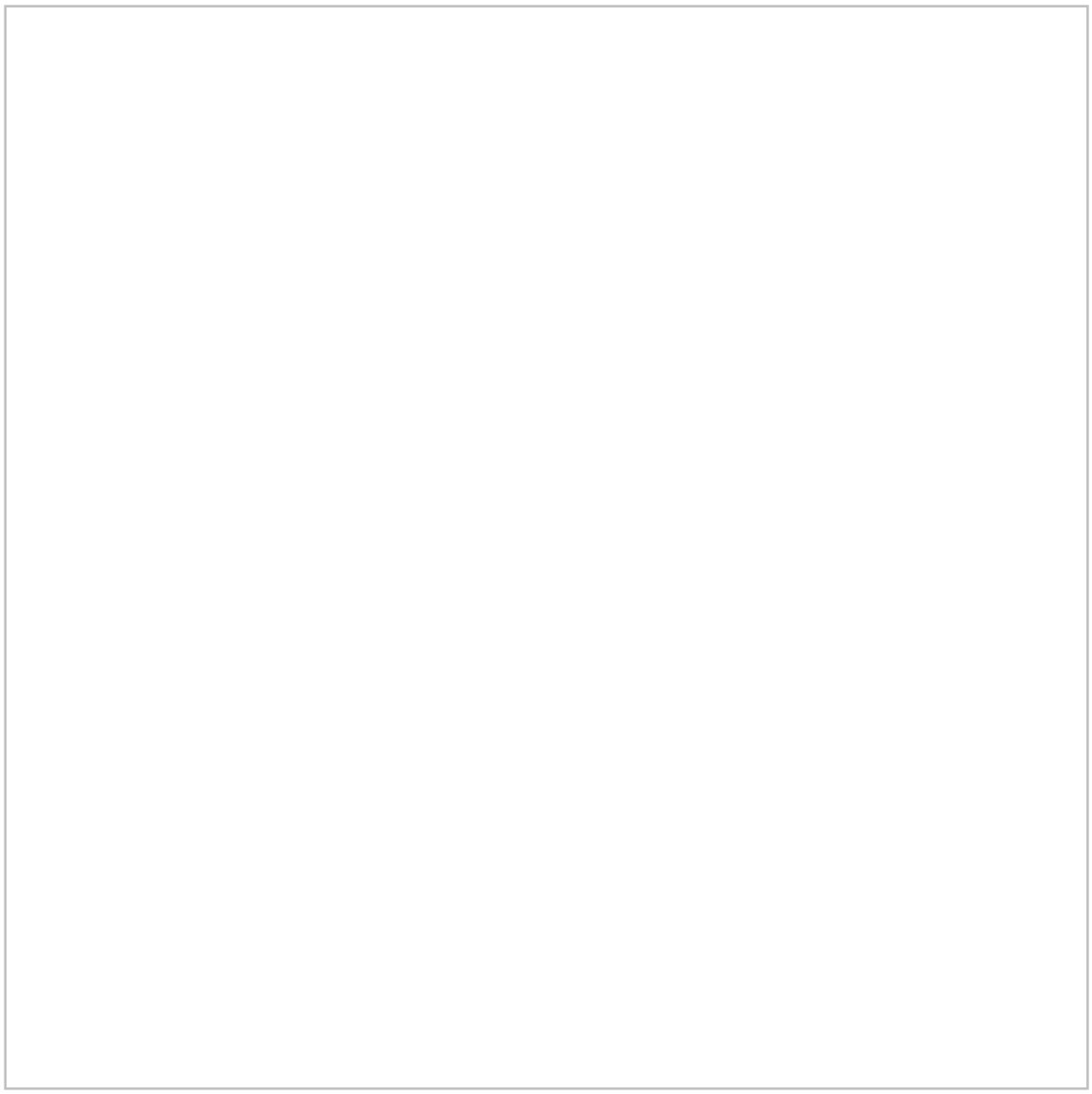
EMA – Three sections of Labrador Island Link transmission reportedly failed during Dec/Jan ice storms

- 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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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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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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January 22, 2023

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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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

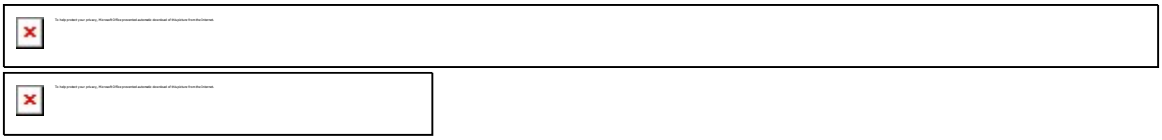
- **2023 guidance of $3.40-3.50 reaffirmed.** Segment has been renamed back to PEG Power (from Carbon-Free In
- **Reaffirms 5-7% EPS CAGR over 2023-2027**. Notes 85-90% of EPS is regulated over duration of plan
- **Reaffirms Rate base CAGR.** 6-7.5% over 2023-2027
    - Reaffirms PSE&G capex of $15.5-18B 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 W 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

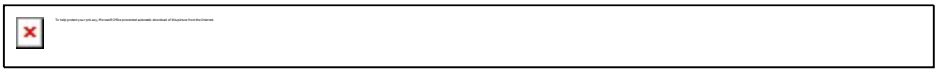
- The WES short rose 20% in the second half of February alongside the company reporting a Q4 miss and issuing EBITDA guidance below consensus

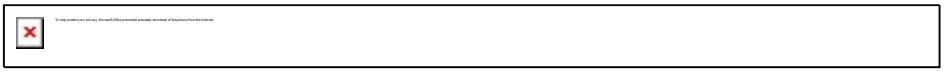
- The EPD short rose 17% but remains at fairly low levels. The stock had outperformed in the first half of Februar interest period) on good results and a constructive 2023 outlook.
- The ETRN short rose 14% alongside high capex guidance for 2023 and continued poor stock performance. The s its lowest 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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To: Weisenburger \ Michael \ V
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.

<u>New England – Capacity auction prices at $2.59 across zones for 2026-2027; similar to last year and in-line</u>

- 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).

<u>FE/Ohio – Ohio AG seeking to resume civil lawsuit against FE/Randazzo/Jones following last week's Householder verdict</u>

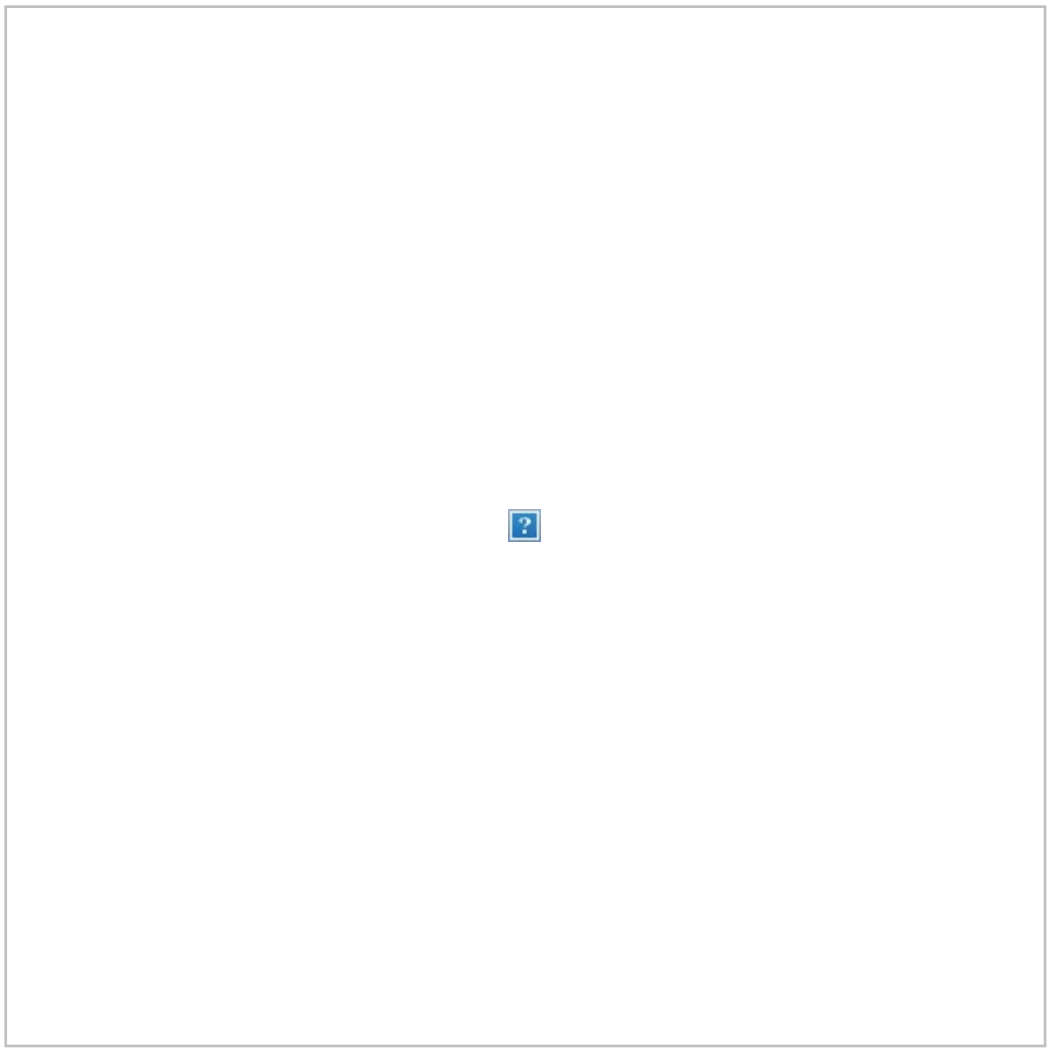
- Late last week, Ohio Attorney General Dave Yost filed a motion to lift the stay on his civil case against FE (along with its former CEO Chuck Jones and former PUCO Chair Sam Randazzo) tied to the HB6 fallout
- This followed a jury verdict last Thursday in the trials for former Ohio House Speaker Larry 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.
3:Percentage of companies under coverage globally within the Short-Term rating category.
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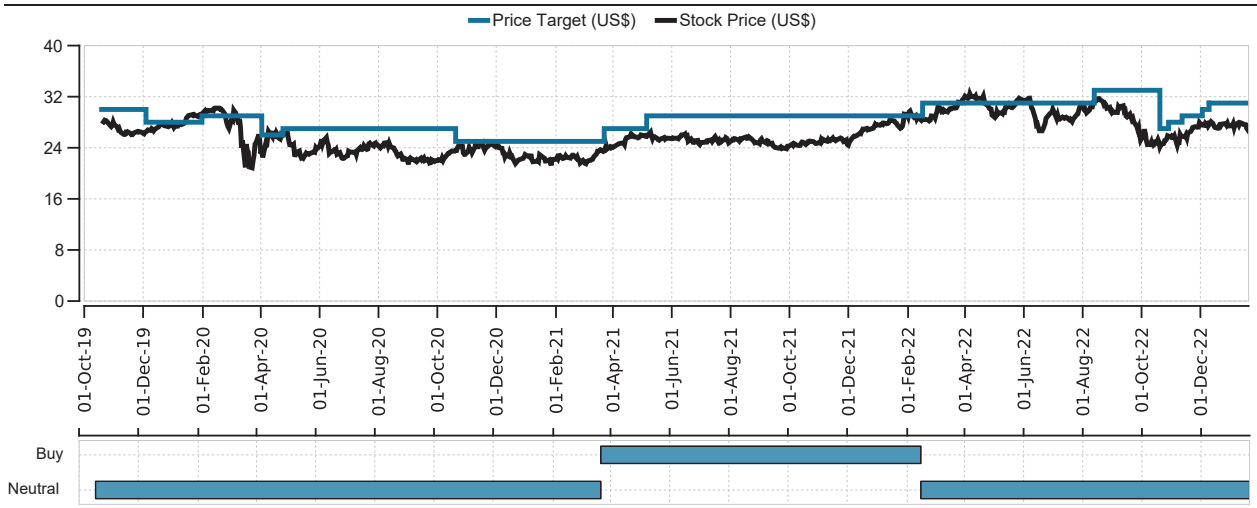
Company Disclosures

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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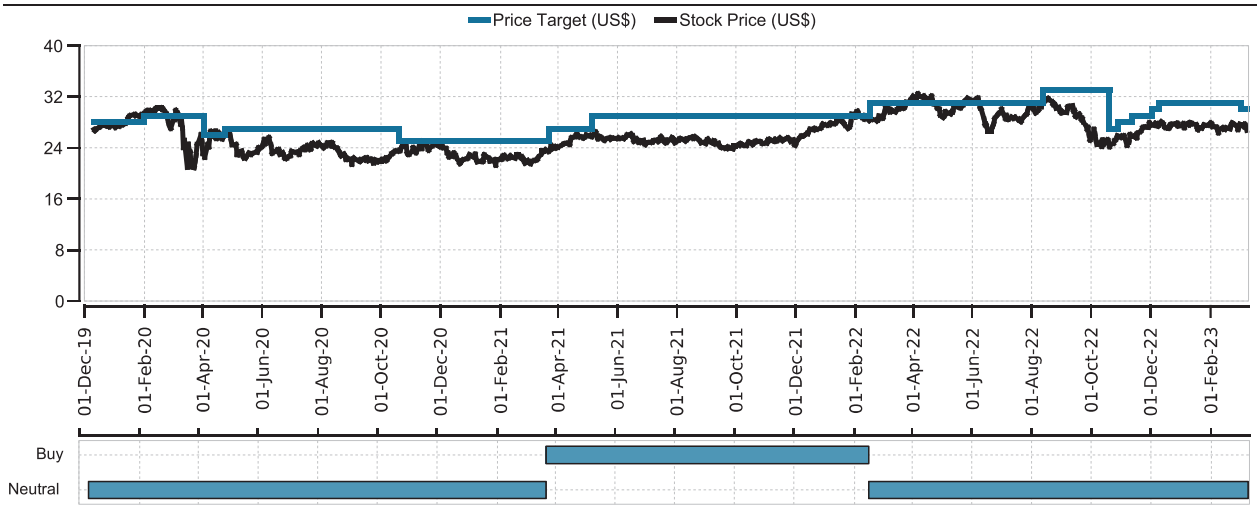
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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$26.71	10 Mar 2023

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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