- **OH gas rate case**: On Oct 31st, 2022, Columbia Gas of Ohio filed a settlement representing a $68.2M revenue increase with 9.6% ROE and 50.6% equity layer. The company originally requested $221MM with ROE of 10.9%. The equity ratio request of ~51% was not disputed. The commission approved the settlement in January 2023 for new rates effective in March.
- **Leadership changes:** The company announced several leadership changes on March 15th, link. Notably Shawn Anderson formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer effective Mar 27th. Donald Brown, NiSource's former chief financial officer, assumed the role of executive vice president and chief innovation officer on Mar 27th, replacing Melody Birmingham, who was named as executive vice president, and group president, NiSource utilities.

VALUATION METHODOLOGY

We use a SOTP analysis to arrive at our price target

RISKS

Risks to our thesis include an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs

TIMESTAMP

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

Time of dissemination: May 03 2023 7:36 AM ET

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Current Ratings Definition

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage sector.
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's coverage sector.
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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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Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

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

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

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Evercore ISI rating (as of 03 May 2023)

Coverage Universe			Investment Banking Services I Past 12 Months		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	465	57	Buy	53	11
Hold	296	36	Hold	26	9
Sell	16	2	Sell	0	0
Coverage Suspended	35	4	Coverage Suspended	4	11
Rating Suspended	9	1	Rating Suspended	2	22

Issuer-Specific Disclosures **03 May 2023**

Price Charts

Ratings Key

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

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From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: EIX, PEG, OGS, EXC, NI, ALE, SR, AVA, SMR, MA/Wind, Policy, SPP, PCG, CAISO, WEC, AEP/DUK/NI - Guggenheim Securities, LLC
Date: Wednesday, May 3, 2023 10:14:50 AM

The Guggenheim Daily Transmission: EIX, PEG, OGS, EXC, NI, ALE, SR, AVA, SMR, MA/Wind, Policy, SPP, PCG, CAISO, WEC, AEP/DUK/NI

Power & Utilities May 3, 2023

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Access This Report

SAVE THE DATE: We are hosting a dinner with CNP's COO, new CFO, and others on May 22nd...

For our AGA conference (May 20-23) meeting schedule, please scroll down...

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our EXC NDR, AEP NDR, ETR NDR, DTE NDR, PCG NDR, ES NDR, SMR NDR, LNT NDR, PNW NDR, AWK NDR, CMS NDR, SO NDR, POR NDR, CEG NDR, PEG NDR, and other events, scroll down...

EIX: 1Q23 EPS Beat; All Quiet on the Western Front, Regulatory Activity Spikes Mid-May but More Tailwinds, in Our View (see our note HERE)

PEG – 1Q EPS Beat; Quiet Quarter Emblematic of Lower Risk Business Mix; Electrification for the Long-Haul Upside (see our note HERE)

OGS: Calm Despite Stormy Weather — 1Q23 In Line & 2023 Guidance Maintained (see our note HERE)

EXC reports 1Q23 earnings

NI 1Q23 in line; reiterates all guidance, including YE23 anticipated NIPSCO minority interest sale closing date

ALE reports 1Q23 earnings

SR reports fiscal Q2 2023 NEEPS beat; narrows guidance around unchanged midpoint

AVA reports large miss for 1Q23; maintains annual guidance

EXC/IL — ComEd trial results in 4 guilty verdicts

SMR — NuScale continues to pursue opportunities in SE Asia; news release correction clarifies SMR's role

MA/Wind — MA DOER and other agencies issue RFP for up to 3.6GWs of offshore wind

Policy — Senator Manchin advances efforts on permitting reform in Senate

SPP — Grain Belt developers update on phasing of HVDC work

PCG — PCG CEO makes constructive comments on company culture in media interview

CAISO — CA transmission RTO bill is referred to Appropriations committee

WEC — S&P Revises WEC Energy Group Outlook to Negative

AEP/DUK/NI — Indiana legislation signed into law this week protects utilities' control over building power lines

EXC reports 1Q23 earnings

- EXC reported $0.70 vs. Gugg/Cons of $0.67/0.66
- Reaffirmed 2023 EPS guidance of $2.30-2.42 vs. Gugg/Cons $2.36/2.37
- Results for the quarter featured ($0.04) of weather at PECO, ($0.01) at PHI
- Key long term outlook messages unchanged from 4Q22 update (EPS and DPS growth/payout ratio commentary)
- Key parameters of financing plan unchanged ($425m equity by '25), 80% of debt financing needs executed in 1Q
- Call at 10am – register HERE
- Slides HERE

NI reports 1Q23 in line net operating EPS of $0.77 vs Gugg/consensus at $0.76/$0.76; maintains 2023 guidance of $1.54-$1.60 ($1.57 midpoint) vs Gugg/consensus at $1.57/$1.56

- **Asset sale update:** NI reports being "on track" with regard to strengthening its balance sheet via a successful minority interest sale of its NIPSCO utility
    - Company still expects a **close in 2023**

- **Credit:** continuing to target 14%-16% FFO/debt post-sale of NIPSCO minority interest
- **EPS CAGR:** reiterates 6%-8% expected annual NOEPS growth through 2027 (illustrated clearly on slide 5)
- **Cost management:** reiterates guidance of flat O&M
- **Capex:** $15bn 2023–2027 capex plan reiterated, along with 2023 capital investment guidance
- **Rate Base:** reiterated 8%-10% expected annual rate base growth; recall that FY22 projected rate base was estimated at ~$16.6bn
- **Credit:** ~$11.6bn of total debt as of March 31, 2023; ~$10.3bn of LT debt; ~13yr weighted average maturity; 3.83% weighted average interest rate
    - Committed to maintaining current investment-grade credit ratings: S&P (BBB+), Moody's (Baa2), and Fitch (BBB)
- **Financing:** maintains 2023–2027 financing plan; equity plans (excluding the remarketed equity units of $863m) are to restart the company's ATM equity in 2025+, to support current investment grade credit ratings; may also be used to redeem o/s preferred stock ($900m)
- **TSR:** continuing to target 9%-11% total shareholder return
- **Dividend:** reiterated 60%–70% payout target.
- Call is at **11:00am at 1-888-330-2391... Passcode: 28323**

ALE reports 1Q23 earnings

- ALE reported $1.02 vs. Gugg/Cons of $1.22/1.18
- Reaffirmed 2023 EPS guidance of $3.55 to $3.85 vs. Gugg/Cons of $3.70/3.71
- Weather was ($0.10) impact on the quarter
- "Sales to residential, commercial and municipal customers decreased from 2022 primarily due to warmer weather in 2023 compared to 2022. Sales to municipal customers also decreased as a result of a new contract entered into with Hibbing Public Utilities in April 2022 with sales under the new contract classified under other power suppliers." - Q
- ACE 'below expectations' on lower wind and availability of assets
- ACE O&M up 25% (+$2.9m)
- Higher O&M also dragged on MN Power (+$10.4m vs. 1Q22)
- 1Q23 contribution of $4.5mm from New Energy
- Still planning next MN Power case in 4Q23
- Call at 10am – register HERE
- Slides to be posted HERE

SR reports 2FQ23 beat of $3.70 in NEEPS vs Gugg/consensus at $3.44/$3.50; narrows FY23 NEEPS guidance to $4.20–$4.30 (from $4.15–$4.35), maintaining $4.25 midpoint, vs Gugg/consensus at $4.25/$4.25

- Reiterates confidence in 5-7% long-term EPS growth off of a base of the midpoint of the company's original fiscal 2023 earnings guidance of $**4.15**

- Following fiscal Q2 2023 results, SR has updated its segment guidance as below:
  - **Gas Utility:** $210m–$220m, **down** from $225m–$235m, previously
  - **Gas Marketing:** $43m–$48m, **up** vs $25m–$30m, previously
  - **Midstream**: $10m–$12m **a minor tweak upwards** vs $9m–$11m, previously
  - **Corporate & Other:** $-25m–$-30m vs $-20m–$-25m, previously
  - *Notable offsets to the strength at Marketing and Midstream were the impacts of lower margins during the winter of the Gas Utilities, as well as high interest expenses (impactful at both Gas Utilities and Corporate costs).*

- **Capex:** targeted 10-year capital investment plan remains $7bn, and expected capex for fiscal 2023 remain $700m, including the company's Midstream expansion for Spire Storage, which it reports "remains on plan".
- **Rate Base growth:** Capex is anticipated to drive 7%–8% utility rate base growth
- *Presentation and accompanying details not yet released*
- Earnings call will be held today at 9**:00 AM ET**… Dial-in: **844-824-3832**…(**no access code**)

AVA reports large miss for 1Q23 of $0.73 vs Gugg/consensus at $1.23/$1.16 and 1Q22 EPS of $0.99; maintains 2023 annual guidance of $2.27–$2.47 ($2.37 midpoint) vs Gugg/consensus at $2.28/2.34

- $–0.11 of EPS decline was driven primarily by inflationary pressures resulting in increased labor and benefits costs, among other operating expenses.
- $–0.09 came from timing-driven changes to AVA's effective tax rate; EFT was –13.7% in 1Q23 vs –17.8% in 1Q22.
- $–0.08 was a direct result of higher interest rates.
- $–0.02 at "other businesses", due to net investment losses recognized in 2023 compared to net investment gains recognized in 2022.
- **Margins:** compared to 1Q22, electric utility margin was flat, while natural gas utility margin increased EPS by $0.06 in 1Q23
- **"***We expect lower net power supply costs for the remainder of the year, resulting in a benefit under the ERM***" —** Dennis Vermillion, President and CEO
  - AVA booked a $7.6m pre-tax expense under the Energy Recovery Mechanism (ERM) in Washington, compared to a $1.9m pre-tax benefit in 1Q22

- **Capex:** 2023 capex guidance at Avista Utilities was reiterated at $475m; AEL&P capex is expected to be $19m vs $15m previously.
- **Debt Financing:** AVA issued $250m of long-term debt in 1Q23 (vs prior guidance of $200m for 2023) and does not expect to issue further LT debt this year.
  - The company ***does however*** expect to increase the capacity of its $400m credit facility to $500m in 2Q23.

- **Equity Financing:** $30m of equity was issued in 1Q23, and common stock issuance guidance was maintained at $120m for 2023.

EXC/IL — ComEd trial results in 4 guilty verdicts

- Michael McClain, former ComEd CEO Anne Pramaggiore, ex-ComEd lobbyist John Hooker and former City Club President Jay Doherty were convicted on all counts following 27 hours of deliberation
- More HERE

Guggenheim takeaway: *The case has been a constant point of media noise in IL in recent weeks, so good to see resolution in our view ahead of the second phase (former speaker Madigan). As a reminder, this matter was the driver of the July 2020 deferred prosecution agreement between the utility and the US Attorney's Office for the Northern District of Illinois. More recently, the case had tangential readthrough to the ICC given certain linkages (see HERE).*

SMR — NuScale continues to pursue opportunities in SE Asia; news release correction clarifies SMR's role

- Alongside a state visit of the Philippine president to DC, the president's office initially indicated in a release that the company would invest ~$7bn in the country to build a 430MW plant
- The language around the meeting with NuScale executives was subsequently amended yesterday to clarify that the company is working on a study and potentially with a local developer
- More HERE

Guggenheim takeaway: *The headline of NuScale potentially investing several times its market cap in the country generated some noise yesterday, with the subsequent clarifications helping to underscore that this is a normal outreach process for the country – similar to what we have seen to date in eastern Europe. We continue to monitor for additional data points on leads like these.*

MA/Wind — MA DOER and other agencies issue RFP for up to 3.6GWs of offshore wind

- The blockbuster RFP will set in motion a ~8 month response period in which projects of varying sizes may be bid in
- "If approved, the draft RFP will invite submittals for offshore wind generation to procure up to 3,600 MW, which represents 25 percent of the state's annual electricity demand and a significant increase over the previous procurement, which sought approximately 1,600 MW of offshore wind." - release
- "The procurement team would have flexibility to evaluate bids ranging from 400 MW to 2,400 MW in size, and to select a project or projects that bring significant benefits to the Commonwealth." - release
- Bids are due 31 January 2024
- More HERE

Guggenheim takeaway: *Flagged for your awareness as MA joins NY in seeking additional procurements of wind. The latest request is the first to come after last summer's modifications to the process and is the first to be lead by the DOER. The solicitation includes a weighting towards economic development and other social considerations, which was a point of interest in the state during last year's session. While we would not be* *surprised to see ES' JV bid into this latest RFP, we continue to expect an exit in the coming quarters, with an announcement potentially by the 2Q call. The state is also grappling with the ongoing fallout around the technical default for the Commonwealth project.*

Policy — Senator Manchin advances efforts on permitting reform in Senate

- The Senator's office has re-released his prior legislation on permitting reform to serve as a starting point in Senate and Congressional negotiations
- "Today, U.S. Senator Joe Manchin (D-WV), Chairman of the Senate Energy and Natural Resources Committee, introduced the *Building American Energy Security Act of 2023*, the text of the National Defense Authorization Act (NDAA) amendment that was supported by 47 Senators (40 Democrats and 7 Republicans) in a tied floor vote in December 2022. This legislation will serve as a starting point for upcoming conversations in the Senate around reforming energy permitting to ensure American energy security and independence." – Manchin's office
- More HERE

Guggenheim takeaway: *Heads up as the process begins to heat up on both sides of the Hill – the successful passage of a budget package (with permitting items) by Republicans sets up further conversations on this specific topic, and we continue to see the area as ripe for bipartisanship in the coming weeks.*

SPP — Grain Belt developers update on phasing of HVDC work

- The developers continue to analyze potential impacts of the line and its second phase into IL for impacts on energy and capacity pricing in MISO and potentially PJM
- "Preliminary design has begun. Detailed design is required to start Q4 2023, in order to meet 2028 COD. Results of SPP TWG studies are needed to start detailed design in Q4 2023." - presentation
- More HERE

Guggenheim takeaway: *We continue to monitor Grain Belt as a both a resource adequacy option for adjacent utilities, and for its potential impact on energy and capacity pricing in MISO Zone 4 and beyond.*

PCG – PCG CEO makes constructive comments on company culture in media interview

- PCG CEO Patti Poppe made comments in a Press Democrat interview on transformation progress.
- Commentary directly addressed the ongoing culture change and PG&E.
- More here.

Guggenheim takeaway: *FYI. Transparent and open commentary on PG&E legacy issues.*

CAISO – CA transmission RTO bill is referred to Appropriations committee

- CA Legislature re-referred the bill addressing CAISO expansion into a western RTO to the appropriations committee.

- CA introduced an assembly bill (AB538) that would look for CAISO to become an expanded western RTO with increased governance and multistate jurisdiction.
- The CAISO would be able to submit a plan to the CEC for expanded governance and multistate inclusion of resources into the RTO structure.
- Lawmakers believe this would be a solution to the resource adequacy constraints that CAISO has felt in recent years and would open up more availability of clean energy resources aligned with CA policy goals.
- Bill text here: AB538.

Guggenheim takeaway: *FYI. Resource adequacy work continues in CA.*

WEC — S&P Revises WEC Energy Group Outlook to Negative

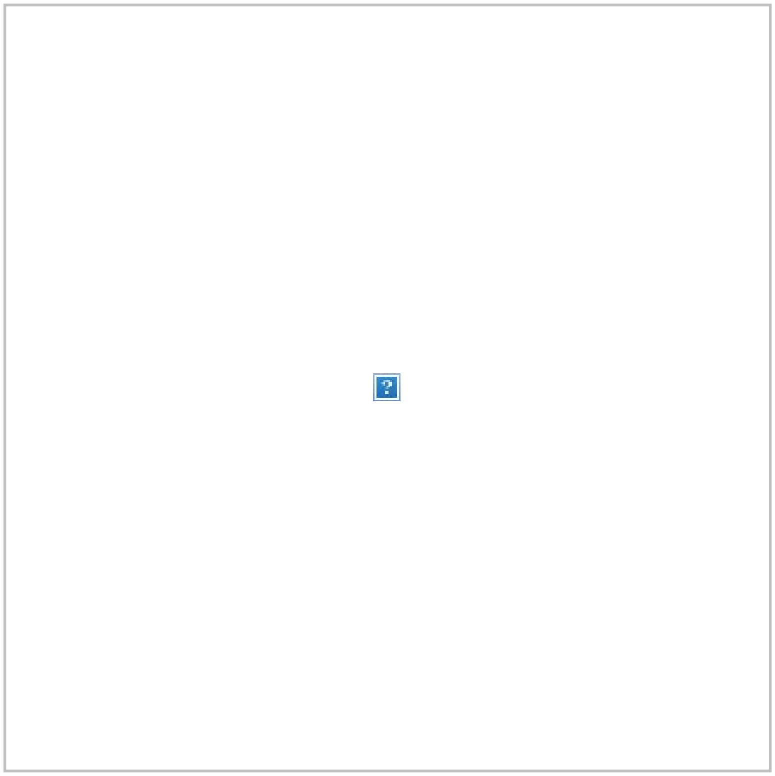
- S&P highlighted at the top of its report that WEC reaffirmed its expectation to fund its capital plan without any new equity issuance, a plan which incorporates $12.4bn of investments through 2025.
- S&P further states that WEC's negative operating cash flow has grown in recent years primarily from high capital spending and large nonutility acquisitions, and that S&P believes the company is disproportionately funding this cash deficit with incremental debt, weakening financial measures, in the rating agency's view.
- As a result, S&P believes its consolidated FFO- to-Debt could reside below S&P's downgrade threshold for the next three years.
- Bloomberg link to S&P release HERE

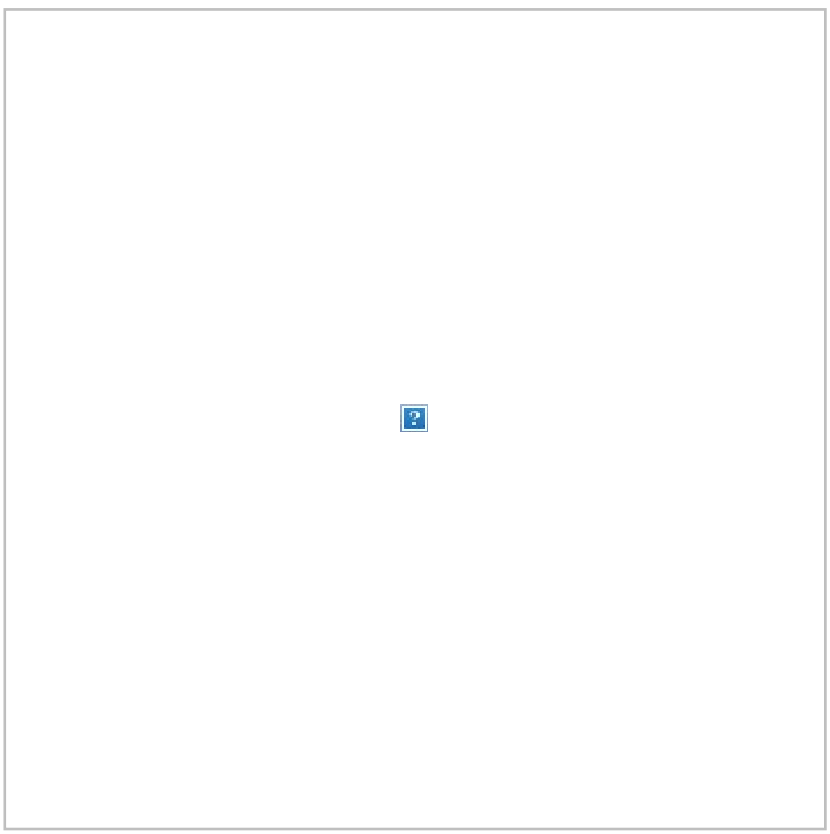
Guggenheim takeaway: *We caught up with the company following this release. WEC stated that from their perspective, S&P hasn't looked at the longer term, and highlighted that the outlook on WEC's utilities remains stable. The company does not expect this will materially impact its ability to access the capital markets, a view which we agree with, while also explicitly clarifying that WEC remains confident in its outlook.*

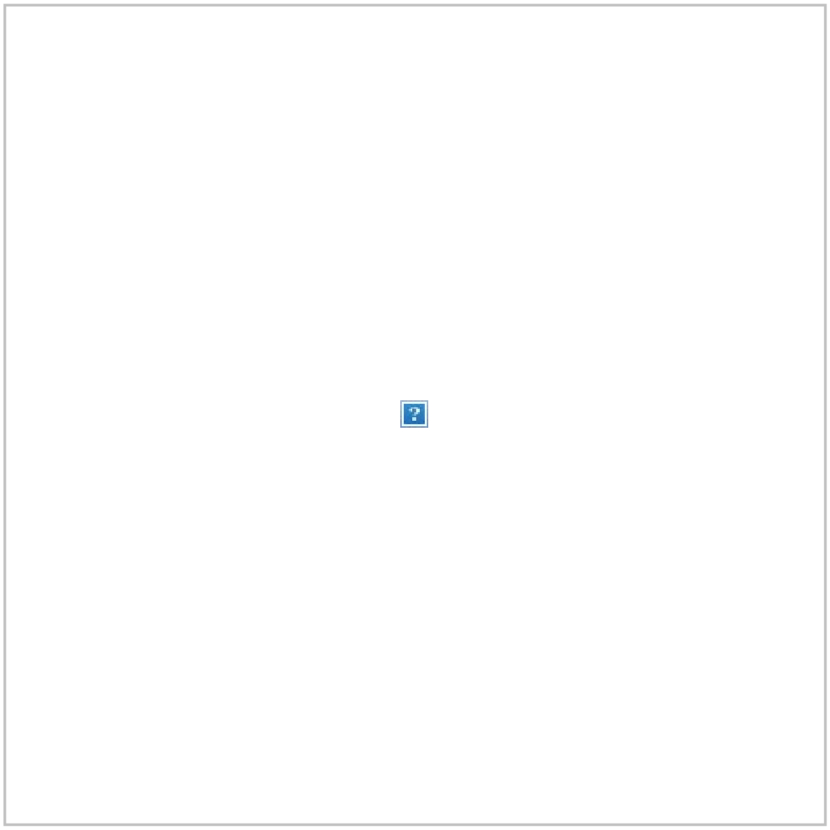
AEP/DUK/NI — Indiana legislation signed into law this week protects utilities' control over building power lines

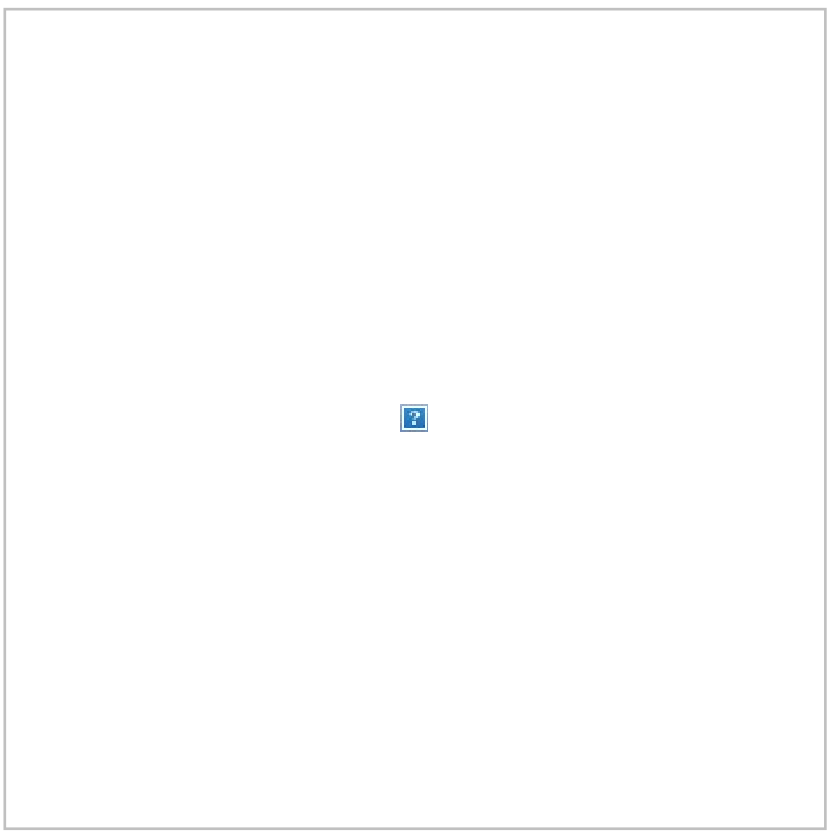
- Governor Eric Holcomb, a Republican, signed legislation Monday that will give utilities the right to build and operate transmission projects that connect to their existing systems. Utilities owned by NiSource Inc. and AES Corp. also stand to benefit.
- Indiana Energy Association President Danielle McGrath hailed the new law as "sound policy," in response to an email sent to Duke for comment. AEP, AES and NiSource also referred to McGrath for comments.
- We note that transmission costs have apparently increased by an average of ~63% in Indiana over the preceding five years, as per the Electricity Transmission Competition Coalition, an advocacy group representing manufacturers and others who opposed the bill.
- Utilities will have to competitively bid to build projects and have the advantage of having crews on hand to make timely repairs after storms, according to McGrath.
- More HERE

Guggenheim takeaway: *From our coverage universe, we see AEP, DUK, and NI, as best positioned to benefit* *from this new law.*









Guggenheim 2023 Client and Corporate Access Utility Events

Guggenheim Comp Sheet

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

Generation and Mix

Generation and Mix (continued)

Weather

YTD Peak Load

Regulatory Calendar

Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- Utility and IPP 1Q23: Valuation and Estimate Adjustments
- Quarterly Weather Review: Cloudy With a Chance of Lower EPS
- Rising Debt Costs a Problem? Nah, Fake It Till You Make It
- AEP: No Surprise, KY Deal Breaks – Clearing Event
- Guggenheim Nuclear Conference Wrap: If You Build It, They Will Come?
- NEP: CEPF and Near-Term Financing Drilldown – Headwinds? Yes. Distribution Reset? Unlikely. Share Weakness Unwarranted; Bear Calls Flawed

- ERCOT: Policy Call Reinforces Uphill View on Repricing as TX Legislature Mulls Resource Adequacy Tweaks
- AEE NDR: Bread and Butter Utility Update Underscores Ameren's Premium Attributes
- NEE NDR: Management Continues to Chop Through IRA Upside Opportunities but Baseline Remains Conservative; Headline Hurdles Require Time
- ES: What Are the Bears Playing for Now? The Dislocation to Group Getting Out of Hand
- SRE: Port Arthur Reaches FID, Few Holdovers with Project Equity, but Economics Are Broadly Accretive
- SMR: 2023 to See Slightly Heightened Cash Usage as Focus Remains on Execution
- HE – Making Sense of Banking Turbulence; HE's ASB Remains Well Insulated From Isolated Liquidity Issues
- DUK: CEO NDR – How to Strengthen the Balance Sheet Without a "Rip-the-Band-Aid-Off" Equity Scenario? Patience.
- PEG Analyst Day – Straight Talking with PEG; Mgmt. Backs Up Sustainable 5-7% EPS Growth with Room to Exceed
- SRE: PUCT Modifies Oncor PFD, Approves Oncor Rate Case; 9.7% ROE and 42.5% Equity Ratio – Above Our Expectation
- Arizona Regulation: Taking a Deep Dive in the Desert — New Commissioners Bring a Wealth of Experience, Insights, and Planned Improvements to the ACC
- PNW: APS Wins Appeal of 2019 Rate Case's Penalty ROE and SCR Disallowance — Arizona Supreme Court May Be Next
- VST: Sensible Transaction and Organizational Realignment Look to Freeze the Melting Ice Cube Argument
- Deal or No Deal? Taking the Pulse of Fuel Deferrals Across Our Coverage Universe
- PJM: How Low Can You Go? Residualization of the BRA Marches On…
- D: Legislative Breakthrough Yields a Deal; Focus Turns to Credit Repair
- AEP: Contracted Renewables Sale Above Our Expectations
- LNT: Cleanup in Aisle 4? PSCW's Damage Control Proves Effective: Upgrading to NEUTRAL
- PSCW: Conversation with Chair Valcq Strikes a Balanced Tone
- D: Halftime in Richmond as Multiple Bills Advance
- D: SB1265 Amended Ahead of Crossover Deadline Tomorrow
- FE – The Same Board Who Set The Current Strategic Plan Is Also Picking The CEO… Follow-Up Thoughts Post Our Mgmt. Call
- FE – Rebase Coming? No. Asset Sale Delay? No. New CEO Strategy Shift? No. Balance Sheet Concerns? No. More Growth Opps? Yes. FE Remains '23 Best Idea
- D: General Assembly Sausage-Making Enters Full Swing as Lawmakers Continue to Cement the Bid-Ask
- D: Key Bills Pass Out of Senate Committee
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D: New Legislation Proposes Novel Option for OSW Stake Sale – Mosaic Pieces Continue to Form a Clearer Picture
- ETR – LPSC Votes on Modified Settlement Proposal with Customer Benefits, but Recognition of Hurricane

Cost Prudency

- D: Opening Move in Richmond: Evolutionary Legislation Lays Path Forward

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UBS

Global Research and Evidence Lab
3 May 2023

First Read

NiSource Inc.

Q1 Earnings Inline, LT Outlook Reaffirmed

Q: How did the results compare vs expectations?

A: Inline. The company reported adjusted Q1'23 earnings of $0.77/ per share vs. UBS/ consensus of $0.76/$0.75 per share. The company reported $0.75 per share for Q1'22.

Q: What were the most noteworthy areas in the results?

A: The company removed the impact of weather from its adjusted earnings, but weather would've been a 6c negative in the quarter relative to the operating number. The company saw higher revenues at both the electric and gas segments, but this was largely offset by higher interest and D&A. The company also benefited from higher corporate owned life insurance, while also facing a modestly higher tax rate in the quarter.

Q: Has the company's outlook/guidance changed?

A: No. The company reaffirmed 2023 full year EPS guidance of $1.54-1.60 and longer-term guidance of 6-8% annual EPS guidance through 2027 driven by 8-10% rate base growth. The company remains on track to transact a minority interest in the NIPSCO subsidiary in 2023.

Q: How would we expect investors to react?

A: Neutral. The print looks inline with expectations. We expect questions to focus on the sales process at NIPSCO, efforts to keep O&M flat going forward and the recently announced NIPSCO settlement.

Key Metrics ()

	Consensus estimates	UBS estimates	Actual	% diff vs. UBS
Adjusted EPS	$0.75	$0.76	$0.77	1.3%

Source: Company Reports, UBS Estimates, FactSet

Equities

Americas
Electric Utilities

12-month rating	**Neutral**
12m price target	**US$31.00**
Price (02 May 2023)	**US$27.91**

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

Trading data and key metrics

52-wk range	US$31.77-24.15
Market cap.	US$12.7b
Shares o/s	446m (COM)
Free float	99%
Avg. daily volume ('000)	1,162
Avg. daily value (m)	US$32.1
Common s/h equity (12/23E)	US$6.31b
P/BV (12/23E)	2.0x
Net debt to EBITDA (12/23E)	6.3x

EPS (UBS, diluted) (US$)

	12/23E	
	UBS	Cons.
Q1E	0.76	0.75
Q2E	0.13	0.15
Q3E	0.11	0.14
Q4E	0.45	0.50
12/23E	1.45	1.55
12/24E	1.56	1.67
12/25E	1.68	1.79

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Highlights (US$m)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Revenues	4,697	4,900	5,851	5,972	6,261	6,521	6,771	6,996
EBIT (UBS)	1,031	1,046	1,162	1,140	1,327	1,473	1,624	1,750
Net earnings (UBS)	507	573	597	642	692	747	814	896
EPS (UBS, diluted) (US$)	1.32	1.37	1.35	1.45	1.56	1.68	1.80	1.92
DPS (net) (US$)	0.88	0.90	0.96	1.02	1.08	1.14	1.20	1.20
Net (debt) / cash	(10,501)	(11,253)	(12,821)	(13,070)	(14,494)	(16,210)	(17,039)	(17,716)

Profitability/valuation	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
EBIT (UBS) margin %	22.0	21.3	19.9	19.1	21.2	22.6	24.0	25.0
ROIC (EBIT) %	7.5	7.4	7.4	6.6	7.3	7.4	7.5	7.6
EV/EBITDA (UBS core) x	9.9	10.4	11.3	11.5	10.4	9.9	9.4	8.9
P/E (UBS, diluted) x	18.6	17.9	21.4	19.7	18.2	17.0	15.9	14.8
Equity FCF (UBS) yield %	(6.0)	(6.2)	(7.6)	(14.0)	(7.7)	(10.6)	(5.6)	(4.0)
Dividend yield (net) %	3.6	3.6	3.3	3.6	3.8	4.0	4.2	4.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$ 27.91 on 02-May-2023

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Forecast returns

Forecast price appreciation	+11.1%
Forecast dividend yield	3.7%
Forecast stock return	+14.8%
Market return assumption	9.1%
Forecast excess return	+5.6%

Company Description

NI is a fully regulated gas and electric utility serving customers in six states in the Midwest and Mid-Atlantic. NI is a gas distribution utility with 3.2 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NI is an integrated electric utility serving 0.5 million customers in Indiana. NI's mix of operating earnings is 60% gas and 40% electric.

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. Our $31 price target is based off a 14% premium to the regulated group average or 19.8x our 2024 estimate of $1.56. The premium consists of +5% for the group undervaluation, +5% for second quartile regulation and +4% for first quartile EPS growth.

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)	3
3. Over the last 3-6 months in broad terms have things been improving/no change/getting worse for this stock? Rate on a scale of 1-5 (1 = getting a lot worse, 3 = not much change, 5 = getting a lot better, N/A = no view)	3
4. Relative to the current CONSENSUS EPS forecast, is the next company EPS update likely to lead to: (1 = negative surprise vs consensus, 3 = in-line with consensus, 5 = positive surprise vs consensus expectations, N/A = no view)	3
5. What's driving the difference?	
6. Relative to YOUR current earnings forecast, is there relatively greater risk at the next earnings result of:(1 = downside skew risk to earnings, 3 = equal upside or downside risk to earnings, 5 = upside skew risk to earnings, N/A = no view)	3
7. What's driving the difference?	
8. Is there an upcoming catalyst for the company over the next three months?	
9. Is there an actual or approximate date for the catalyst?	
10. Is the catalyst date an actual or approximate date?	
11. What is the catalyst?	

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	54%	22%
Neutral	FSR is between -6% and 6% of the MRA.	36%	21%
Sell	FSR is > 6% below the MRA.	10%	18%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2023.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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UBS Securities LLC: Ross Fowler, CFA, William Appicelli, CFA.

Company Disclosures

Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$27.91	02 May 2023

Source: UBS. All prices as of local market close. Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date.
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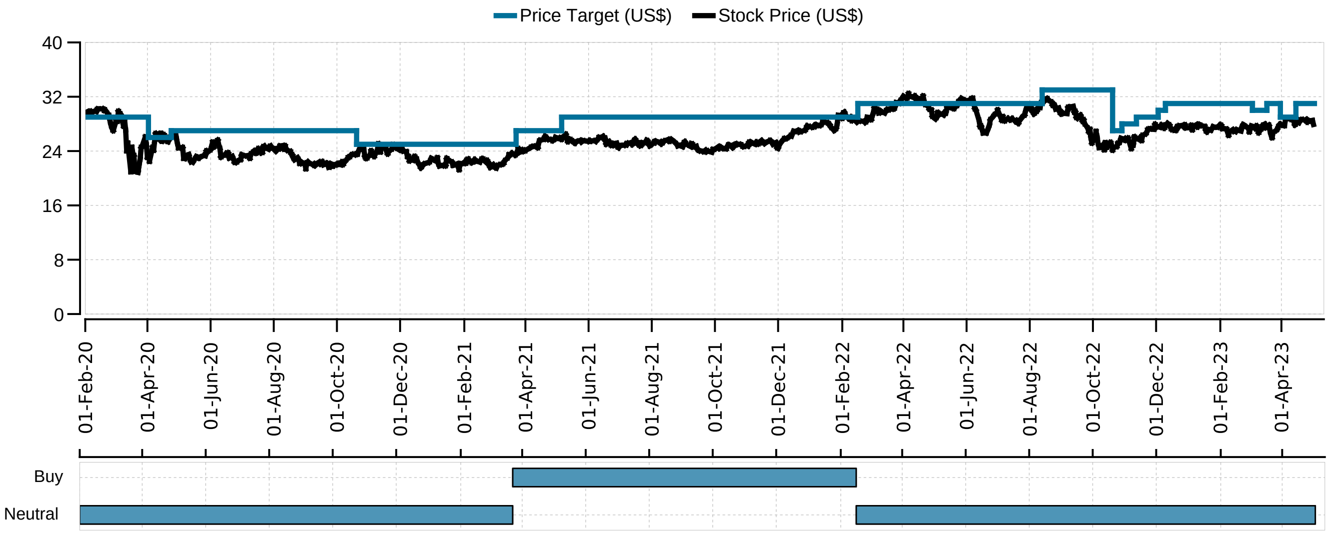
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2020-01-31	29.31	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy

Date	Stock Price (US$)	Price Target (US$)	Rating
2022-02-15	28.26	31.00	Neutral
2022-08-12	31.14	33.00	Neutral
2022-10-19	24.88	27.00	Neutral
2022-10-28	25.89	28.00	Neutral
2022-11-11	25.81	29.00	Neutral
2022-12-02	27.57	30.00	Neutral
2022-12-09	27.39	31.00	Neutral
2023-03-03	27.70	30.00	Neutral
2023-03-17	27.47	31.00	Neutral
2023-03-30	27.84	29.00	Neutral
2023-04-14	27.85	31.00	Neutral

Source: UBS;as of 02-May-2023. All prices as of local market close. Ratings as of date shown.

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To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 5/3/23 - EXC, NI, FTS, AGR/PNM, NY Gas Ban, EIX, PEG, OKE, ET, EPD, SPWR, Ørsted, Offshore Wind, ENPH
Date: Wednesday, May 3, 2023 9:01:50 AM

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May 3, 2023

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EXC, NI, FTS, AGR/PNM, NY Gas Ban, EIX, PEG, OKE, ET, EPD, SPWR, Ørsted, Offshore Wind, ENPH

The Fleishman Daily 5/3/23
Utilities: EXC, NI, FTS, AGR/PNM, NY Gas Ban, EIX, PEG
Midstream: OKE, ET, EPD, Earnings Takeaways in one page
Clean Energy: SPWR, Ørsted, Offshore Wind, ENPH

Utilities

EXC – Q1 beat but FY guidance and EPS growth target affirmed
NI – Small Q1 beat; FY23 guidance and L-T 6-8% annual EPS growth target reaffirmed; NIPSCO minority interest sale on track for 2023; in-line
FTS – Big Q1 EPS beat; capex, rate base growth, dividend growth all unchanged
AGR/PNM – Latest filings by companies and New Mexico PRC provide more transparency on merger rehearing discussions; still waiting on NM Supreme Court
NY Gas Ban – Bill to prohibit gas use in new construction progressing as part of state's annual budget process
EIX – File GRC in May and go away till key Q2 call
PEG – Devils win; "gotta support the team"

Midstream

OKE - Q1 tops estimate on insurance recovery; 2023 guidance unchanged
ET – Setting up for a beat and raise repeat in 2023

EPD – Count Project $10B be a stretch goal in 2024?
Earnings Takeaways in one page – LNG, MPLX, EPD, ETRN, DTM

Clean Energy

SPWR – 1Q EBITDA weaker than anticipated on backlog build and adverse weather; FY23 guidance affirmed due to growing backlog
Ørsted – 1Q23 EBITDA misses Bloomberg consensus but in line with sell-side survey; FY23 guidance affirmed
Offshore Wind – Massachusetts set to launch 4th RFP
ENPH – CFO Yang acquires $549k of stock

Quarterly data: Weather, Forward Prices, Spot Prices, Nuke Outages

Wolfe Utility & Midstream Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Charts, Clean Energy Comps, Clean Energy Stock Charts, Models

Utilities

EXC – Q1 beat but FY guidance and EPS growth target affirmed

- **1Q23 beat**. $0.70 vs $0.66 consensus, $0.67 WRe.
- **2023 guidance affirmed:** $2.30-2.42 vs $2.36 consensus, $2.37 WRe
- **Affirmed 6-8% EPS growth rate through 2026 off 2022.** EXC's 6-8% CAGR off midpoint of 2022 guidance ($2.25), implying 2025E of $2.76 vs $2.74 consensus and $2.76 Wolfe estimate; reaffirmed same annual growth indicators below:
  - 2023: below low end of 6-8%
  - 2024: low end of 6-8% growth
  - 2025: above 6-8% growth
  - 2026: middle of 6-8%
- **IRA impact reflected in FFO/D range of 13-14% in 2023-26; no incremental equity needs through 2025 beyond the remaining $425M.** EXC notes if repairs deduction issue is fixed, then EXC sees high end of 13-14% through 2026; if not, then low end. EXC's downgrade threshold is 12%.
- **IL MYP rate case:** Intervenor testimony is expected 5/22 on ComEd 4-yr rate plan under the 2021 law, requesting 10.5% ROE; every 50bp of ROE is $0.04 in 2024-26. A decision is expected by 12/20/23.
- **Says earned ROE on track to be within 9-10% target range**. Earned ROE for trailing twelve months through 1Q23 was not specified; 4Q22 was 9.4%.

Slightly positive given Q1 beat but guidance and growth outlook affirmed. midpoint of 6-8% or better and providing indications of annual growth. On the call, we expect questions around the repairs deduction and cash tax impact, ComEd rate case intervenor testimony this month, and other MYP/reconciliation cases in Maryland and DC. We also anticipate some questions on any read-through from yesterday's jury verdict in the former ComEd executive's bribery case.

NI – Small Q1 beat; FY23 guidance and L-T 6-8% annual EPS growth target reaffirmed; NIPSCO minority interest sale on track for 2023; in-line

- **Small Q1 EPS beat.** NI reported 1Q23 EPS of $0.77, slightly above us/cons. at $0.76/$0.75.
- **2023 guidance reaffirmed.** Range of $1.54-1.60 vs. cons. at $1.55 (WRe $1.58).
- **L-T 6-8% annual EPS growth target reaffirmed through 2027.**
- **5-yr. capex plan unchanged.** $15B of capex over 2023-27 drives 8-10% annual rate base growth.
- **Updates on IN renewables projects.** Estimated in-service date for Fairbanks Solar refined to 2Q25 (from 2024-25 prior); amendment for Green River Solar PPA approved.
    - Construction on Indiana Crossroads Solar and Dunns Bridge Solar I projects is nearing completion; work has begun on Dunns Bridge II and Cavalry Solar projects.
- **NIPSCO minority interest sale.** Remains on track for 2023; L-T 14-16% FFO/D target reiterated.
- **NIPSCO electric rate case.** Settlement stipulates a $292M revenue increase based on a 9.8% ROE and $5.95B rate base; order anticipated in Aug. with rates effective Sept. 2023/Mar. 2024.

An in-line update from NI, as Q1 slightly beats, the $15B 5-yr. capex plan & L-T growth outlook are reaffirmed, and IN renewables projects remain on target with previously revised in-service dates. On the call, we will be looking for color from mgmt. on how NISPCO's minority interest sale process is progressing.

FTS – Big Q1 EPS beat; capex, rate base growth, dividend growth all unchanged

- **FTS reported adjusted 1Q23 EPS of $0.91 vs. $0.78 last year – up 16.7% YoY and big beat** versus $0.82 consensus and our $0.82
    - Driven by rate base growth, FX, AZ weather, and Aitken Creek gas / Belize hydro; partially offset by financing costs and share dilution
        - Timing of wholesale sales and FERC transmission in AZ also had a +$0.04-0.05 impact
- No 2023 guidance as expected (consensus: $2.95, WRe: $2.96)
    - Consensus implies 6.1% YoY set-up off 2022A
- **Reaffirms dividend growth at 4-6% through 2027**
- **Five-year capex plan over 2023-2027 of $22.3B reaffirmed**
- **Rate base growth CAGR affirmed at 6.2% ($40.7B/$46.1B in 2025/2027)**
- **Aitken Creek sale.** Announced earlier this week for $400M CAD – proceeds used to repay credit facilities and support regulated growth
- **FX. Assuming $1.30 in plan** vs. $1.36 currently (every $0.05 in FX change = $0.06 EPS and $500M capex)

Another solid quarter from FTS, even though some of the beat appears to be timing. The company is starting to show material EPS growth again for the first time in several years. The call is ongoing, but we expect focus on the pending AZ rate case, Iowa Supreme Court decision on ROFRs, and future ITC opportunities in MISO.

AGR/PNM – Latest filings by companies and New Mexico PRC provide more transparency on merger rehearing discussions; still waiting on NM Supreme Court

- Merger applicants AGR/PNM's most recent filing was in response to New Energy Economy's (the only party opposed to the original merger settlement) claims that the New Mexico PRC had ex parte discussions
- These claims were centered around the pending Supreme Court process and eventual reconsideration of the merger at the NM PRC
- AGR/PNM explain that the communications were not improper, as it didn't concern the merits of the merger applications
- AGR/PNM and the NM PRC have made public the email exchanges that were alleged to be ex parte
- NM PRC stated its intention is to indicate support for a motion that would dismiss this appeal and remand jurisdiction to the Commission so that Commission may consider a motion to reopen

The AGR/PNM and NM PRC filings push against the latest claims of the one party that opposed the original settlement. AGR/PNM's intention is that they have nothing to hide. We're still waiting on the New Mexico Supreme Court to decide on remanding the case, but our conversations with AGR indicated that a decision at the NM PRC is still possible by the current merger deadline of July 20.

NY Gas Ban – Bill to prohibit gas use in new construction progressing as part of state's annual budget process

- On 5/1, NY lawmakers released a budget bill that directs state code officials to prohibit fossil fuel equipment and building systems in new construction with 7 or fewer floors by 2026.
    - This requirement would expand to all new construction by 2029.
- This measure passed as part of the state's annual budget process; the budget is overdue and legislators are expected to vote on the bill this week.
- Recall, Gov. Hochul had backed the Climate Action Council's earlier recommendation to prohibit fossil fuel combustion in small/larger buildings by the end of 2025/2028.
- To address emissions from existing buildings, the Climate Action Council separately recommended a requirement to replace end-of-life equipment with heat pumps or other non-fossil fuel systems beginning in 2030; the legislature has not taken up that recommendation yet.

This bill would support electrification and energy efficiency investments, which in-state utilities like ED have been focused on. However, we worry about the reliability and affordability issues that could stem from transitioning away from natural gas use too fast, especially given that NY is depending on future offshore wind projects, which run intermittently.

EIX – File GRC in May and go away till key Q2 call

Click here to view our complete note

Stock recovery continues, still cheap option on 17/18 recoveries; raise PT to $79. EIX 1Q23 of $1.09 beat $0.95 cons but was in-line with our $1.08. EIX affirmed 2023 and 2025 guidance. EIX raised its 2017-18 wildfire costs by $90M but still sees the total costs at $8.8B ($6B of which it plans to request recovery). EIX is the best performing utility YTD, beating the UTY by 1,920bp. But it still trades at a ~19% discount. None of the potential 17/18 fire cost recovery is in its 5-7% EPS growth target through 2025, which EIX will update through 2028 this Jul. We raise our PT by $1 to $79.

PEG – Devils win; "gotta support the team"

Click here to view our complete note

Q1 EPS beats, 2023 guide reaffirmed. PEG posted Q1 EPS of $1.39 – ahead of our above-consensus estimate. This was also above $1.33 a year ago – driven by utility rider recovery and higher nuke hedge pricing; offset by weaker BGSS, lower pension earnings, and interest costs. The CIP mechanism neutralized weather impacts on sales, while transmission formula rates protect as well. PEG maintained its $3.40-3.50 guidance range and reaffirmed the 5-7% EPS CAGR over 2023-2027.

Midstream

OKE - Q1 tops estimate on insurance recovery; 2023 guidance unchanged

- ONEOK reported Q1 EBITDA of $1.72B vs. $864M last year, ahead of street consensus
- The quarter was up on a $779M insurance settlement gain for Medford, higher volumes and fees at the G&P and NGL segments, and higher storage rates at the transmission segment
- **Guidance maintained.** OKE reaffirmed 2023 guidance of $4.425B-$4.725B inclusive of the net insurance recovery benefit ($779M gain less $240M in 3rd party frac costs)
- **Key projects completed.** OKE's two major growth projects - Demicks Lake III processing plant and MB-5 fractionator were completed and placed into service; MB-5 will help partially handle volumes from Medford as MB-6 work continues

The quarter looked solid benefiting from higher volumes and rates generally as expected. The key will be any incremental color on guidance and what potential impact the commodity price dynamics may be having on the year.

ET – Setting up for a beat and raise repeat in 2023

Click here to view our complete note

Big Q1 beat. EBITDA beat consensus by 5% with strong beats vs. our estimate in 1) NGLs on an inventory item and blending, 2) Interstate on what appears to be core business improvement, and 3) Intrastate on better gas sales with volatility. Volumes were pretty much in line with our expectations to even a little light in the NGL segment.

EPD – Count Project $10B be a stretch goal in 2024?
Click here to view our complete note
Q1 beat on market opportunities...and despite very weak NGL marketing. EBITDA of $2,321M was 3% ahead of our estimate / consensus. The beat was driven by very strong propylene results on a blow-out in PGP-RGP spreads, gas gathering uplift from Rockies price strength, and high NGL export and pipeline volumes, the latter of which EPD sees continuing. Strong results came despite the lowest NGL marketing margin quarter (excluding MTM items) since 3Q21.

Earnings Takeaways in one page – LNG, MPLX, EPD, ETRN, DTM
Click here to view our complete note
An overall constructive surge of earnings this morning ran into an unfavorable macro tape. MPLX had a big beat that lends support to mid-single digit growth commentary, the LNG guide raise was a nice relief after spreads weakened, and EPD beat with a "growthy" tone. *We will update models with company-specific notes at a later time.

Clean Energy

SPWR – 1Q EBITDA weaker than anticipated on backlog build and adverse weather; FY23 guidance affirmed due to growing backlog

- Customer additions of 21,000 vs. WRe of 20,289.
  - Enters Q2 with backlog of 23,000 retrofit customers.
  - NEM 2.0 bookings for retrofit customers up 135% resulting in >6 month backlog.
  - Leases grew 268% y/y.
- Adj. EBITDA of $0.6M vs. WRe of $3.9M and consensus of $14M.
  - Adjusted EBITDA/customer before platform investment of $1,200 vs. WRe of $1,725.
- **Affirmed 2023 guidance of $2,450–$2,900 Adjusted EBITDA per customer before platform investment; 90,000–110,000 customer adds; $125–$155M Adjusted EBITDA.**
- SPWR also put out a separate press release announcing a new $550M solar loan purchase agreement with KKR.
  - YTD capital raised sufficient to fund $1 billion of solar loans.

SPWR's EBITDA miss vs. consensus was expected by us due to adverse weather, but results were even weaker than anticipated. Adverse weather was flagged as keeping crews idle while SG&A was higher due to NEM 2.0 grandfathering backlog build. Management notes that NEM 2.0 orders are still coming in from dealers and the growing backlog gives them confidence in meeting the FY23 guide. The conference call is underway.

Ørsted – 1Q23 EBITDA misses Bloomberg consensus but in line with sell-side survey; FY23 guidance affirmed

- Ørsted reported 1Q23 results both with and without farmdown gains that missed *Bloomberg* consensus but was in line with a recent sell-side survey.
- **1Q23 EBITDA vs sell-side survey consensus and WRe (all in DKK); Offshore beat, Onshore in line, Bio/other missed.**
  - Total: DKK 6.9B vs DKK 6.9B sell-side survey; WRe was DKK 7.8B; Bloomberg has consensus at DKK 7.1B
  - Offshore: DKK 5.4B vs 4.8B sell-side survey vs WRe of DKK 5.8B
  - Onshore: DKK 0.8B vs 0.9B vs 1.1B
  - Bio/other: DKK 0.5B vs 1.1B vs 0.8B
- **2023 EBITDA of DKK 20-23B (ex gains) affirmed.** Sell-side survey consensus (ex gains) was DKK 22.0B vs WRe of DKK 21.6B; Bloomberg has consensus at DKK 22.8B.

- **FFO/adj net debt is 38% vs 37% in previous quarter; target remains 25%**.
- **6/8 CMD**. Expects to update outlook, which was last provided in 2021; updates will include financial targets.

We view the update as modestly negative, as it relates mostly to the Bioenergy/CHP business, not the company's core offshore and onshore business. The call is ongoing, as we publish. We anticipate questions on the US, including potential impact on returns from energy communities tax bonus and other IRA benefits, as well as the company's interest in Eversource's offshore wind sale and pending offshore wind solicitations. We also expect questions on any potential equity needs and any previews to next month's CMD strategic and financial outlook.

Offshore Wind – Massachusetts set to launch 4th RFP

- Yesterday, a request for approval to launch the 4th offshore wind solicitation was filed with the Massachusetts DPU – allowing bids for 200-2,400 MWs
  - The proposed timeline would have bids due in January 31 2024 and selection of winners in June 12 2024
- Recall that AGR's Commonwealth Wind (1.2 GWs) and Shell/EDPR/Engie's Mayflower Wind (0.4 GWs) were winners of the third solicitation (these same parties have won all MA bids thus far and were the only bidders in the most recent one
- AGR's Commonwealth Wind subsequently sought to renegotiate its contract, then cancel it and re-bid, due to economic conditions
  - The originally filed PPAs were starting at $59.60/MWh nominal price ($47.68/MWh for energy and $11.92 for RECs, both of which escalate by 2.5% annually)
  - The total levelized all-in energy price for Commonwealth Wind was $72.17/MWh
- Massachusetts has a goal of 5.6 GWs of offshore wind by 2027 and has awarded 3.2 GWs so far (including Commonwealth Wind)

We'll be interested to see how the next MA solicitation progresses, as AGR has made it clear it intends to re-bid. Shell/EDPR/Engie have been successful in the past and Ørsted owns lease areas that can bid. One important nuance is that a change in MA law makes it such that each successive auction no longer has to have a lower PPA price than the last. The ability to bid higher PPA prices this time, should help with economic viability.

ENPH – CFO Yang acquires $549k of stock

- Yesterday, ENPH CFO Mandy Yang acquired 3,500 shares of ENPH for a total of $549,022.

Good to see, especially following board member TJ Rodgers' >$10M of purchases last week

Wolfe Events

May 12: Group Breakfast with NEE CEO in NYC
May 16-17: DUK non-deal roadshow in Midwest and Canada
May 17-18: AES non-deal roadshow on West Coast
May 21-22: 2023 AGA Conference Management Meetings in Florida
May 22: Dinner with PAA CEO at EIC
May 24: NXT, ENPH, and RUN Clean Energy Bay Ara Tour
June 14-15: Midstream, Utilities, and Renewables Bus Tour in Texas
June 20-21: EVRG non-deal roadshow in New York/Boston

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03 May 2023 13:50:43 ET | 12 pages

NiSource Inc (NI.N)

Slight Beat, NIPSCO Sale Timeline Guidance Unchanged

CITI'S TAKE

Ni modestly beat on EPS, reaffirmed NIPSCO sale and generation buildout timeline, and should modestly benefit from new Indiana law on T&D.

Q1 — Nisource's $0.77 beat consensus's $0.75/Citi's $0.73, driven by new gas rates and weather decoupling mechanism, offset by higher D&A, interest expense, & taxes.

NIPSCO Sale – Timeline Unchanged? — NI talked to a broad range of qualified buyers. They do not anticipate any approval process with the IURC but will engage with the commission by filing after an agreement is reached. The company reiterated the current timeline for the transaction (YE 2023 transaction), but choppy deal markets and lots of assets on the market increases deal execution risk, in our opinion.

Indiana ROFR Bill Signage, Transmission Projects — Under HB1420 (just signed by the Governor), NIPSCO and other incumbent Indiana utilities have the right to build, own and operate transmission projects in their current service territory without going through competitive bidding. This bill gives Nisource more footing to participate in MISO's transmission plan, earliest in service date in 2028 -- tranche 1 outlined 18 projects with $10B cost, and tranche 2 targeted approval in 1H24. Nisource will work with MISO to quantify the capex. Beyond HB1420, SB9 and HB1007 may modestly impact the Company's outlook given impact for generation outside of IRPs and future rates (although doesn't impact our current estimates).

Future of Gas: As the 9th circuit decision in California makes it harder to ban gas hookups, NiSource has laws on the books in 3 of 6 jurisdictions that prevent local governments to ban gas hookups, so the impact is limited for NiSource.

Program Apollo: $40M-$60M Recurring Savings — Management is working on recurring lean program to cut $40-60M/yr in O&M. The current CIO is focused on $1B investment in IT to cut costs in planning, execution, and customer service.

Renewable Projects on Track — Dunns Bridge I Solar and Crossroads Solar are still targeting Q2 COD. Calvary Solar and Dunns Bridge II Solar have started construction, and Crossroads 2 Wind is targeting 2023 COD.

Convert Financing? — Nisource could consider doing a convert with *cash* premium paid in the future (if necessary), in our view, to lower interest expense modestly. In investor dialogue, NI is on a short list of utilities investors focused on this.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2022A	0.75A	0.12A	0.10A	0.50A	1.47A	1.47A	1.70A
2023E	**0.77A**	**0.22E**	**0.28E**	**0.31E**	**1.58E**	**1.55E**	**1.54E**
Previous	0.73E	0.22E	0.28E	0.31E	1.54E	na	na
2024E	**0.75E**	**0.26E**	**0.32E**	**0.36E**	**1.69E**	**1.67E**	**1.65E**
Previous	0.76E	0.25E	0.32E	0.36E	1.69E	na	na
2025E	**na**	**na**	**na**	**na**	**1.80E**	**1.79E**	**1.77E**
Previous	na	na	na	na	1.80E	na	na

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

Click here for Visible Alpha consensus data

Neutral	
Price (02 May 23 16:00)	US$27.91
Target price	US$30.00
Expected share price return	7.5%
Expected dividend yield	3.6%
Expected total return	11.1%
Market Cap	US$11,526M

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

Ryan Levine AC

Xinru Yin

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

We adjusted our estimates modestly to reflect Q1 results, and cost cutting initiative.

NI.N: Fiscal year end 31-Dec — Price: US$27.91; TP: US$30.00; Market Cap: US$11,526m; Recomm: Neutral

Profit & Loss (US$m)	2021	2022	2023E	2024E	2025E
Sales revenue	4,900	5,851	5,410	5,420	5,677
Cost of sales	-2,141	-2,931	-2,417	-2,206	-2,313
Gross profit	2,759	2,919	2,993	3,214	3,365
Gross Margin (%)	56.3	49.9	55.3	59.3	59.3
EBITDA (Adj)	**1,755**	**2,087**	**2,178**	**2,411**	**2,647**
EBITDA Margin (Adj) (%)	35.8	35.7	40.3	44.5	46.6
Depreciation	-748	-821	-816	-898	-1,000
Amortisation	0	0	0	0	0
EBIT (Adj)	**1,007**	**1,266**	**1,362**	**1,514**	**1,648**
EBIT Margin (Adj) (%)	20.6	21.6	25.2	27.9	29.0
Net interest	-341	-362	-469	-540	-610
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	37	65	32	47	47
Pre-tax profit	**703**	**969**	**925**	**1,020**	**1,084**
Tax	-118	-165	-183	-203	-216
Extraord./Min.Int./Pref.div.	-55	-55	-55	-55	-55
Reported net profit	**530**	**749**	**687**	**762**	**813**
Net Margin (%)	10.8	12.8	12.7	14.1	14.3
Core NPAT	560	649	710	762	813
Per share data	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Reported EPS ($)	1.30	1.69	1.53	1.69	1.80
Core EPS ($)	1.37	1.47	1.58	1.69	1.80
DPS ($)	0.89	0.94	1.02	1.09	1.15
CFPS ($)	2.97	3.21	3.11	3.61	3.97
FCFPS ($)	-1.53	-1.76	-3.90	-2.50	-3.24
BVPS ($)	14.55	15.61	15.85	16.54	17.31
Wtd avg ord shares (m)	409	433	439	441	441
Wtd avg diluted shares (m)	409	443	448	450	451
Growth rates	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Sales revenue (%)	4.8	19.4	-7.5	0.2	4.8
EBIT (Adj) (%)	61.3	25.7	7.6	11.1	8.8
Core NPAT (%)	10.1	15.8	9.5	7.3	6.7
Core EPS (%)	3.7	6.9	8.1	6.8	6.5
Balance Sheet (US$m)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Cash & cash equiv.	95	75	148	148	148
Accounts receivables	826	1,042	766	813	851
Inventory	499	752	567	598	623
Net fixed & other tangibles	20,491	22,442	24,783	26,635	28,886
Goodwill & intangibles	1,486	1,486	1,486	1,486	1,486
Financial & other assets	761	939	819	841	858
Total assets	**24,157**	**26,737**	**28,570**	**30,521**	**32,852**
Accounts payable	698	900	407	411	412
Short-term debt	618	1,792	2,833	3,894	5,322
Long-term debt	9,183	9,524	10,940	11,540	12,140
Provisions & other liab	6,385	6,620	6,305	6,309	6,311
Total liabilities	**16,884**	**18,835**	**20,484**	**22,154**	**24,184**
Shareholders' equity	7,273	7,902	8,086	8,367	8,668
Minority interests	0	0	0	0	0
Total equity	**7,273**	**7,902**	**8,086**	**8,367**	**8,668**
Net debt (Adj)	**9,707**	**11,240**	**13,624**	**15,286**	**17,313**
Net debt to equity (Adj) (%)	133.5	142.2	168.5	182.7	199.7

Valuation ratios	2021	2022	2023E	2024E	2025E
PE (x)	20.4	19.0	17.6	16.5	15.5
PB (x)	1.9	1.8	1.8	1.7	1.6
EV/EBITDA (x)	14.1	12.4	12.7	12.3	11.9
FCF yield (%)	-5.5	-6.3	-14.0	-9.0	-11.6
Dividend yield (%)	3.2	3.4	3.7	3.9	4.1
Payout ratio (%)	65	64	65	64	64
ROE (%)	9.9	12.4	10.6	11.3	11.5
Cashflow (US$m)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
EBITDA	1,755	2,087	2,178	2,411	2,647
Working capital	-260	-285	-237	-90	-78
Other	-281	-380	-544	-697	-780
Operating cashflow	**1,214**	**1,422**	**1,397**	**1,625**	**1,790**
Capex	-1,838	-2,203	-3,145	-2,750	-3,250
Net acq/disposals	0	0	0	0	0
Other	-367	-367	-171	0	0
Investing cashflow	**-2,205**	**-2,570**	**-3,315**	**-2,750**	**-3,250**
Dividends paid	-345	-382	-450	-489	-520
Financing cashflow	**1,011**	**1,196**	**2,061**	**1,213**	**1,548**
Net change in cash	**21**	**48**	**142**	**88**	**88**
Free cashflow to s/holders	**-624**	**-781**	**-1,748**	**-1,125**	**-1,460**

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

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NiSource Inc

Company description

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

Investment strategy

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

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $32. We value regulated assets at a multiple of 1.5x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $32 and $29, respectively.

Risks

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

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Appendix A-1

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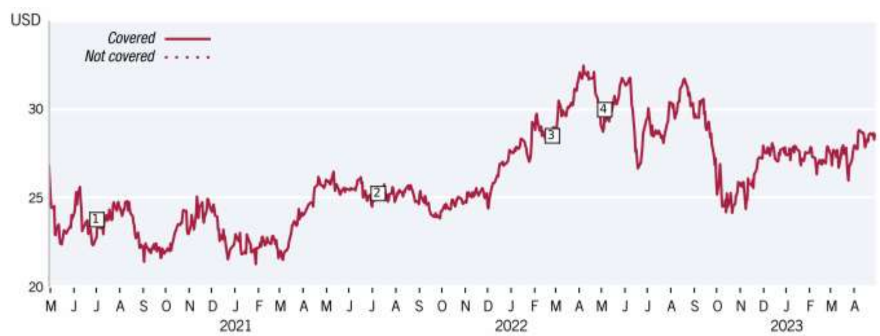
Fundamental Research

Analyst: Ryan Levine



	Date	Rating	Target Price	Closing Price
1	01-Jul-20 14:08:34	2	*24.00	23.46
2	08-Jul-21 15:00:03	2	*27.00	24.95
3	23-Feb-22 23:34:02	2	*28.00	28.21
4	04-May-22 17:57:28	2	*30.00	29.67

*Indicates Change

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NiSource Inc.

1Q Lands Just Ahead; NIPSCO Sale Process Tracking Expectations; Transmission ROFR Legislation Stands Out

Overweight

NI, NI US
Price (02 May 23):$27.91

North American Utilities

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- **1Q23 lands just ahead of estimates; 2023 guidance reaffirmed.** NI reported 1Q23 adj EPS of $0.77, just ahead of the $0.75/$0.76 JPM/Street median estimates. The company also reaffirmed its 2023 guidance range of $1.54-1.60 (JPMe/Street median $1.56), plus long-term growth targets. Management spent meaningful time on the call outlining active O&M efficiency efforts, continuing a significant topic since the company's fall investor day. On balance, targeted flat O&M through 2027 remains on track, and NI intends to offer further details on efficiencies as the latest cost effort progresses.
- **NIPSCO transaction remains on track.** NI offered no new information on the NIPSCO minority stake sale process, but framed the transaction as on track for its 2023 targets (mid-year announcement and 2023 completion). Overall tone remains positive, in our view, with management noting broad interest and a straightforward process to close. While investor attention remains firmly focused on the prospects for a favorable deal valuation and overall execution on this key element of NI's long-term plan, we did not anticipate any significant update into the quarter and instead await a targeted mid-year announcement as the next sale update.
- **IN transmission ROFR legislation further underpins plan upside.** Recently signed Indiana transmission ROFR legislation received notable enthusiasm from management, with the impacts framed as solidifying NI's transmission upside within the 2028+ outlook. To quantify this, NI pointed to MISO's ongoing LRTP work, where we expect tranche 2 potential to start emerging into the end of 2023 and early 2024. Securing clearer leverage to this long-dated theme is a positive starting point, in our view, and we look to further updates as MISO's process unfolds.
- **Other takeaways: Gas M&A, IN rate case settlement.** On gas M&A, topical given recent media reports around LDC assets hitting the market, management emphasized the current focus on organic growth and executing NI's investor day plan. We see no surprises in this response, although note this topic has been a source of recent investor questions. Separately, the company highlighted positive regulatory progress in reaching a settlement in NIPSCO's electric rate case, and we expect closing out the final case hurdles will further showcase NI's declining regulatory risk.

See page 3 for analyst certification and important disclosures.

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Table 1: NI 1Q23 Results

Income Statement:	Actual 1Q22	Actual 1Q23	JPM 1Q23E	% Chg Y/Y	% Chg vs JPMe	YoY Drivers
Operating Earnings	494	563	533	14%	6%	New base and infra replacement program rates, customer growth/usage, lower O&M, higher D&A
Net Income	329	343	336	4%	2%	Favorable COLI impacts, higher interest expense and non-service pension costs
Share Count	441	447	448	1%	0%	
Operating EPS	**$0.75**	**$0.77**	**$0.75**	**3%**	**3%**	

Source: Company reports and J.P. Morgan estimates.

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Initiated coverage Aug 23, 2011. All share prices are as of market close on the previous business day.

Date	Rating	Price ($)	Price Target ($)
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26
29-Jan-21	OW	22.17	25
22-Feb-21	OW	22.84	24
22-Apr-21	OW	26.03	28
31-Aug-21	OW	24.76	29
14-Oct-21	OW	24.69	28
04-Jan-22	OW	27.52	31
26-Jan-22	OW	27.14	30
03-Mar-22	OW	29.19	32
18-Apr-22	OW	31.75	34
11-May-22	OW	29.32	33
25-Jul-22	OW	28.44	31
05-Sep-22	OW	29.55	34
24-Oct-22	OW	24.49	30
09-Dec-22	OW	27.77	31
13-Mar-23	OW	26.71	30
24-Apr-23	OW	28.64	31

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EVERCORE ISI

Energy | Power & Utilities

May 03, 2023

NiSource Inc

NI | $27.91

Outperform | Target Price/Base Case: $31.00

Company Update

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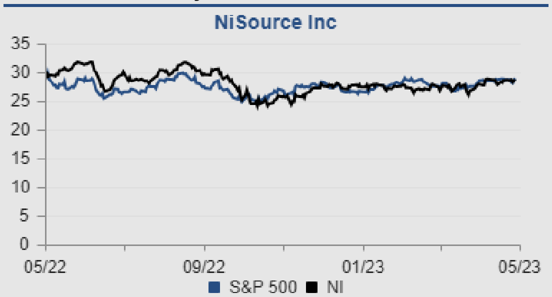
Company Statistics

Market Capitalization (M)	$11,996
Shares Outstanding (M)	413
Dividend	0.94
Dividend Yield	3.2%
Payout Ratio	59.7%
Expected Total Return	9.8%
Fiscal Year End	Dec

Earnings Summary

	2023E	2024E	2025E
EPS	$1.57	$1.69	$1.80
P/E	18.5	17.2	16.1
EPS vs Consensus	1.5%	1.4%	0.7%
Consensus EPS	$1.55	$1.67	$1.79
Consensus P/E	18.8	17.4	16.3

1 Year Price History



Source: FactSet

Effective Execution

Key Takes:

- NI reported Q1 adjusted diluted Net operating EPS (NOEPS) of $0.77 vs. our estimate of $0.77 and street consensus of $0.75. 1Q23 NOEPS is 3% higher than 1Q22 NOEPS of $0.75.
- Reaffirmed 2023 non-GAAP NOEPS guidance range of $1.54-$1.60.
  - Midpoint of $1.57 represents 6.8% growth off 2022 NOEPS. Consensus is at $1.55.
- Reaffirmed annual non-GAAP NOEPS growth of 6-8% through 2027.
  - Off the 2023 earnings guidance range of $1.54-$1.60.
- Reaffirmed $15B 2023-2027 capex plan with ~75% of investments beginning earning in less than 18 months
  - Driving 8%-10% annual utility rate base growth
- Northern Indiana Public Service Company (NIPSCO) minority sale process on track for 2023
- Long-term 14-16% FFO/Debt target reaffirmed
- NIPSCO reached a settlement in the electric rate case on March 10th

Maintaining our Outperform rating and $31TP (details within)

Additional Details:

- **Minority Interest Sale:** Minority interest sale of NIPSCO is still expected to be completed in 2023 and continues to track as expected. The company remains confident in the attractiveness of the asset and has previously stated that there is no decline in interest attributable to higher rates, particularly given the quality of the potential counterparties with ready capital to deploy, bank leverage tools, and long-term investment preference. NiSource has initiated the sale process, and we anticipate an announcement and close by year end. We estimate $1.5-$2B in cash proceeds.

- **NIPSCO Electric rate case**: On March 10th, NIPSCO and other parties reached a settlement agreement in its electric rate case in Indiana. The settlement proposed a $292M rate increase compared with $395M company requested, including base rate increase and tracker. The parties agreed on an ROE of 9.8% versus current 9.75%, and an equity layer of 51.63% versus current 47.86%. Recall that company requested a 10.4% ROE and a 58.5% equity ratio on a rate base of $5.95B. We view the settlement as constructive if approved. A final Commission order is expected in mid-August with rates going into effect in September.

- **Virginia gas rate case**: On Dec 9th, Columbia Gas of Virginia reached a settlement with $25.8 million rate increase, inclusive of SAVE (Steps to Advance Virginia's Energy Plan) infrastructure tracker ($14.5MM), representing a settlement as to a specific revenue number but not as to a specific ROE. Recall that NiSource requested $40.6MM revenue increase net of the SAVE infrastructure tracker ($17.7MM) with a 10.75% ROE and 39.3% equity ratio on a rate base of $1.0B with a 12/21 test year. A final order is expected in 2Q23.

- **OH gas rate case**: On Oct 31st, 2022, Columbia Gas of Ohio filed a settlement representing a $68.2M revenue increase with 9.6% ROE and 50.6% equity layer. The company originally requested $221MM with ROE of 10.9%. The equity ratio request of ~51% was not disputed. The commission approved the settlement in January 2023 for new rates effective in March.

- **Indiana ROFR legislation**: HB 1420 was signed by the Governor on May 1st, which gives Indiana utility companies the right of first refusal (ROFR) to build, own, and operate new transmission lines approved by a regional transmission organization in their service area, and prevents new projects from being bid on by other competitive transmission companies. The legislation would solidify NI's position to own and invest in Transmission assets, which could be upside to their current capex plan.

- **Leadership changes:** The company announced several leadership changes on March 15th, link. Notably Shawn Anderson formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer effective Mar 27th. Donald Brown, NiSource's former chief financial officer, assumed the role of executive vice president and chief innovation officer on Mar 27th, replacing Melody Birmingham, who was named as executive vice president, and group president, NiSource utilities.

- **Target Price**: Maintaining our Outperform rating and our target price of $31/share. We keep our 2023/2024/2025 EPS estimates of $1.57/$1.69/$1.80 unchanged. See our base case SOTP valuation of $31 on Exhibit 1. We apply a conservative 5% premium to our peer target 17x multiple for the electric business, which we estimate will grow rate base by 8-10% through 2027 versus peers at 6-7%. Our base case for the LDCs applies an in-line gas multiple, now of 16.6x 2025 EPS as we mark to market comparable trading multiples. Our bear case in Exhibit 1 below derives $27/share valuation assuming NI can grow EPS at 6% using low end of 2023 guidance range of $1.54, while our bull case is $33/share assuming the company can grow at 8% using high end of 2023 guide of $1.60.

Exhibit 1: NiSource SOTP Valuation

Base

Base Case	'25 EPS	P/E	Val/Shr
Gas EPS	$1.35	16.6x	$22.53
Electric EPS	$0.75	17.9x	$13.47
Parent/Other	($0.31)	17.2x	($5.27)
Consolidated 2024 EPS	$1.80	17.2x	$31.00
ETR (including dividend)			15%

Bull 1.86

Bull Case	'24 EPS	P/E	Val/Shr
Gas EPS	$1.39	17.5x	$24.33
Electric EPS	$0.77	17.9x	$13.81
Parent/Other	($0.31)	17.7x	($5.44)
Consolidated 2024 EPS	$1.86	17.7x	$33.00
ETR (including dividend)			22%

Bear 1.73

Bear Case	'24 EPS	P/E	Val/Shr
Gas EPS	$1.31	15.0x	$19.55
Electric EPS	$0.73	16.1x	$11.74
Parent/Other	($0.31)	15.6x	($4.79)
Consolidated 2024 EPS	$1.73	15.6x	$27.00
ETR (including dividend)			0%

Source: Evercore ISI, Note: ETR based on closing price as of 5/2/23

VALUATION METHODOLOGY

We use a SOTP analysis to arrive at our price target

RISKS

Risks to our thesis include an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2023-03-05)	Evercore ISI Target
AEE	Ameren Corp.	Outperform	$89.11	$94.00
AEP	American Electric Power	In Line	$91.28	$102.00
AES	The AES Corporation	Outperform	$22.60	$30.00
AWK	American Water Works Company, Inc.	Outperform	$146.74	$160.00
AWR	American States Water Company	Underperform	$88.42	$70.00
CEG	Constellation Energy Corp	Outperform	$76.79	$93.00
CMS	CMS Energy Corp.	In Line	$61.49	$68.00
CNP	CenterPoint Energy, Inc.	Outperform	$30.05	$32.00
CWT	California Water Service Group	In Line	$55.81	$50.00
D	Dominion Energy, Inc	In Line	$55.53	$65.00
DTE	DTE Energy Co.	Outperform	$111.60	$126.00
DUK	Duke Energy Corp.	In Line	$97.60	$102.00
ED	Consolidated Edison Inc.	In Line	$98.57	$93.00
EIX	Edison International	In Line	$73.28	$70.00
ES	Eversource Energy	Outperform	$76.44	$92.00
EVRG	Evergy	In Line	$61.44	$62.00
EXC	Exelon Corp.	Outperform	$42.57	$46.00
NEE	NextEra Energy Inc	In Line	$75.94	$90.00
NI	NiSource Inc	Outperform	$27.91	$31.00
NRG	NRG Energy Inc.	In Line	$33.33	$40.00
OGE	OGE Energy Corp	In Line	$36.82	$39.00
PCG	PG&E Corp.	Rating Suspended	$17.26	
PEG	Public Service Enterprise Group	Outperform	$62.81	$68.00
PPL	PPL Corp.	Outperform	$28.50	$32.00
SJW	SJW Group	In Line	$75.71	$67.00
SO	Southern Co.	In Line	$73.15	$69.00
SRE	Sempra Energy	Outperform	$153.20	$175.00
VST	Vistra Energy Corp	Outperform	$23.11	$31.00
WEC	WEC Energy Group, Inc.	In Line	$95.25	$98.00
WTRG	Essential Utilities Inc.	Outperform	$42.28	$55.00
XEL	Xcel Energy Inc.	Outperform	$69.10	$75.00

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In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's coverage sector.
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's coverage sector.
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Sell -the total forecasted return is expected to be less than 0%

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

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Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

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Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
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Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company, and in certain other circumstances; a stock in the model portfolio is removed.
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Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	465	57	Buy	53	11
Hold	296	36	Hold	26	9
Sell	16	2	Sell	0	0
Coverage Suspended	35	4	Coverage Suspended	4	11
Rating Suspended	9	1	Rating Suspended	2	22

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Price Charts

Ratings Key

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

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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 Marie Ferguson, June 28, 2023

ARGUS RATING: BUY

- Maintaining BUY
- NiSource recently posted above-consensus 1Q23 EPS and reaffirmed its 2023 guidance.
- We are raising our 2023 adjusted EPS estimate to $1.57 from $1.55 and our 2024 forecast to $1.67 from $1.65.
- NiSource recently boosted its dividend by 6% to an annualized $1.00. The current yield is about 3.7%.
- In June, the company agreed to sell a 19.9% minority stake in its NIPSCO utility to Blackstone for $2.15 billion. It will use the proceeds to strengthen its balance sheet, and invest in utility operations and renewables.

INVESTMENT THESIS

Our rating on NiSource Inc. (NYSE: NI) is BUY based on valuation and historical earnings performance. Focusing on its regulated electric and gas utilities, NiSource recently completed a corporate restructuring that resulted in the spinoff of its nonregulated pipeline group. The company keeps a tight rein on operating expenses as well as capital spending, though it is making significant investments in green energy generation. Our target price is $34.

We note that NiSource, with an $11 billion market cap, could become a buyout target, as larger utilities and private equity firms pursue smaller utilities because of their stable earnings growth and above-average dividend yields.

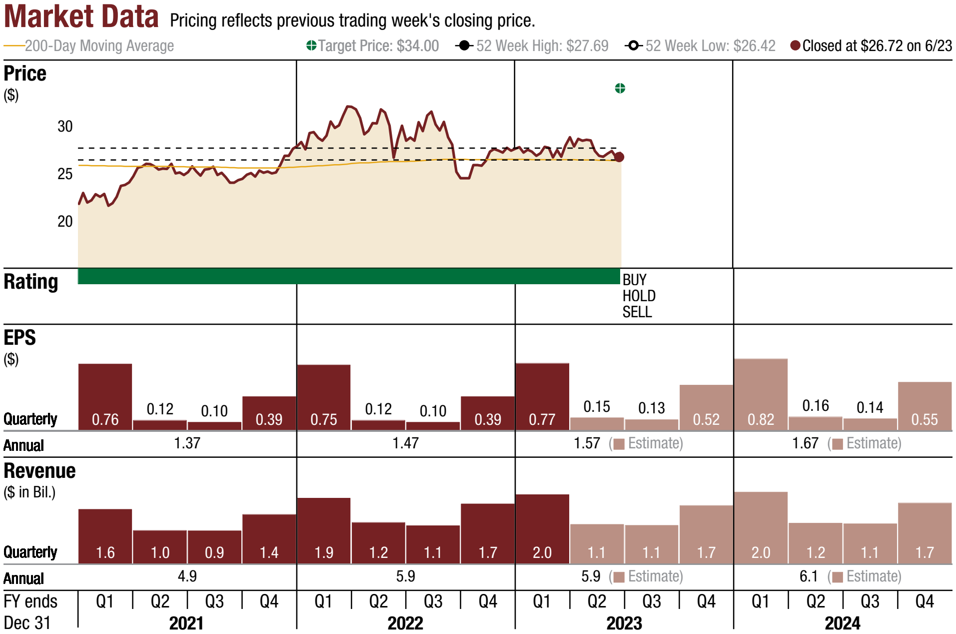
RECENT DEVELOPMENTS

NI shares have underperformed over the past three months, rising 2.2% while the S&P 500 has risen 9.4%. The shares have fallen 4.5% over the past year, compared to a 10.7% gain for the index. They have underperformed over the past five years.

NiSource reported 1Q23 results on May 3. The company posted adjusted net income of

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating	SELL	HOLD	**BUY**
Five Year Rating	SELL	HOLD	**BUY**
Sector Rating	Under Weight	**Market Weight**	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 70% Buy, 30% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview	
Price	$27.44
Target Price	$34.00
52 Week Price Range	$23.78 to $31.87
Shares Outstanding	413.06 Million
Dividend	$1.00
Sector Overview	
Sector	Utility
Sector Rating	MARKET WEIGHT
Total % of S&P 500 Market Cap.	2.00%
Financial Strength	
Financial Strength Rating	MEDIUM
Debt/Capital Ratio	59.0%
Return on Equity	10.4%
Net Margin	12.0%
Payout Ratio	0.64
Current Ratio	0.55
Revenue	$5.94 Billion
After-Tax Income	$710.30 Million
Valuation	
Current FY P/E	17.48
Prior FY P/E	18.67
Price/Sales	1.91
Price/Book	1.85
Book Value/Share	$14.87
Market Capitalization	$11.33 Billion
Forecasted Growth	
1 Year EPS Growth Forecast	6.80%
5 Year EPS Growth Forecast	4.00%
1 Year Dividend Growth Forecast	6.38%
Risk	
Beta	0.74
Institutional Ownership	93.82%

Please see important information about this report on page 5

Analyst's Notes...Continued

$343.0 million or $0.77 per share, up from $328.7 million or $0.75 per share a year earlier. EPS beat the consensus forecast of $0.75. Revenue rose 5% from the prior year to $1.97 billion.

In 2022, adjusted net income rose to $648.2 million or $1.47 per share from $571.2 million or $1.37 per share in 2021. Revenue rose 19% to $5.85 billion.

Along with the 1Q results, management reaffirmed its 2023 adjusted EPS guidance of $1.54-$1.60, which it raised from $1.50-$1.57 in February. The company expects to grow adjusted EPS at a 6%-8% annual rate through 2027.

NiSource projects capex of $3.3-$3.6 billion in 2023, $2.6-$2.9 billion in 2024, and a total of $15 billion in 2023-2027. It expects to reduce greenhouse gas emissions by 90% by 2030 and to be coal-free by 2028.

EARNINGS & GROWTH ANALYSIS

NiSource has two segments: Gas Distribution Operations (77% of 1Q23 revenue) and Electric Operations (23%). In 1Q23, Gas Distribution operating revenue rose 7% to $1.54 billion, while Electric Operations revenue increased 8% to $466 million.

In the Electric Operations segment, in September 2022, operating subsidiary Northern Indiana Public Service Co. (NIPSCO) filed it first electric case since 2018. The NIPSCO rate case settlement provides a revenue increase of $292 million, in line with the company's request, to support renewable generation and associated transmission projects, grid modernization, and customer-centric improvements. A final order is anticipated in August 2023.

At Columbia Gas of Ohio, new rates were implemented in the first quarter of 2023 following a rate case settlement. The company has also had gas rate settlements approved in Pennsylvania and Maryland.

The company continues to work on the Indiana Crossroads II Wind project, which is expected to enter service in 2023.

We are raising our 2023 adjusted EPS estimate to $1.57 from $1.55 and our 2024 forecast to $1.67 from $1.65.

NiSource relies on its utility infrastructure programs for earnings and dividend growth. The company's regulated gas and electric segments are investing in pipelines and in electric transmission projects as well as in distribution modernization programs, and should continue to benefit from favorable regulation.

FINANCIAL STRENGTH & DIVIDENDS

NiSource has improved its balance sheet by selling noncore assets, recalibrating capital expenditures, and carefully managing operating expenses and working capital. As part of this effort, it recently agreed to sell a 19.9% minority stake in its NIPSCO utility to Blackstone for $2.15 billion.

Our financial strength rating on NiSource is Medium. The company receives average scores on our main financial strength criteria of debt levels, fixed-cost coverage, profitability, earnings quality, and cash generation. The company has investment-grade

Growth & Valuation Analysis

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

Financial & Risk Analysis

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

Analyst's Notes...Continued

ratings from Moody's (Baa2/stable) and Standard & Poor's (BBB+/stable).

The company had cash of $35.8 million at the end of 2022 and net available liquidity of $1.56 billion. Debt totaled $9.6 billion at the end of 2022, and accounted for 58.9% of total capitalization. As noted above, the company expects to make capital investments of approximately $15 billion through 2027.

In February 2023, NiSource raised its quarterly dividend by 6% to $0.25, or $1.00 annually, for a yield of about 3.7%. We think the dividend is safe and likely to grow modestly. Our dividend estimates are $1.00 for 2023 and $1.04 for 2024.

MANAGEMENT & RISKS

Lloyd Yates succeeded Joseph Hamrock as the company's president and CEO in February 2022. Donald E. Brown is the CFO. The chairman is Kevin T. Kabat, the former CEO of Fifth Third Bancorp. The COO is Pablo Vegas.

Management is committed to electric and gas service expansion strategies in the company's regulated service territories, and to the expansion of its gas transmission and storage business. We think the company's platform for a return to growth is solid, and are confident in management's ability to provide shareholders with increased value over the long term.

Key risks for stocks in our electric utility universe include fluctuations in interest rates and commodity prices, the effect of adverse weather on revenue, regulatory issues (especially involving construction cost recovery), and potential environmental and safety liabilities. In addition, the capital-intensive nature of the utility industry creates ongoing liquidity risk that must be actively managed by each company.

COMPANY DESCRIPTION

NiSource Inc. is an energy holding company whose subsidiaries are fully regulated natural gas and electric utility companies serving nearly 4 million natural gas customers and 500,000 electric customers in six states. NiSource's principal subsidiaries include Columbia Gas, a natural gas distribution holding company; and NIPSCO, a regulated gas and electric company. NiSource derives substantially all of its revenues and earnings from the operating results of these rate-regulated utilities. The company has approximately 7,500 employees. NI shares are a component of the S&P 500.

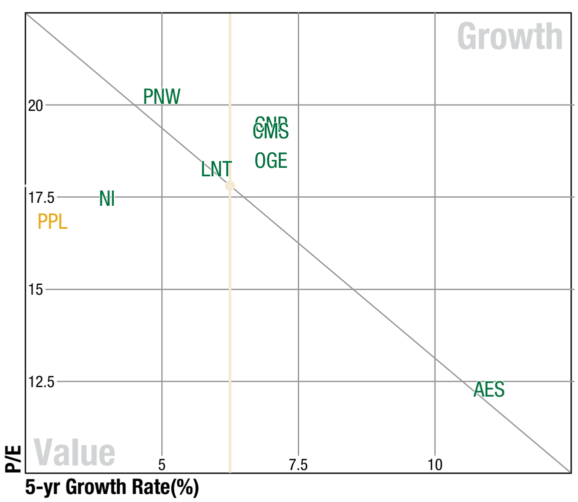
VALUATION

We think that NI shares are attractively valued at current prices near $27. On the fundamentals, the shares trade at 17.9-times our 2023 EPS estimate, near the average multiple of 17.6 for comparable electric and gas utilities. They are also trading at a price/sales multiple of 2.0, below the peer average of 2.4, and at a PEG ratio of 2.3, below the peer average of 2.8. The dividend yield of about 3.7% is in line with the industry average. We are reiterating our BUY rating on NI with a 12-month target price of $34.

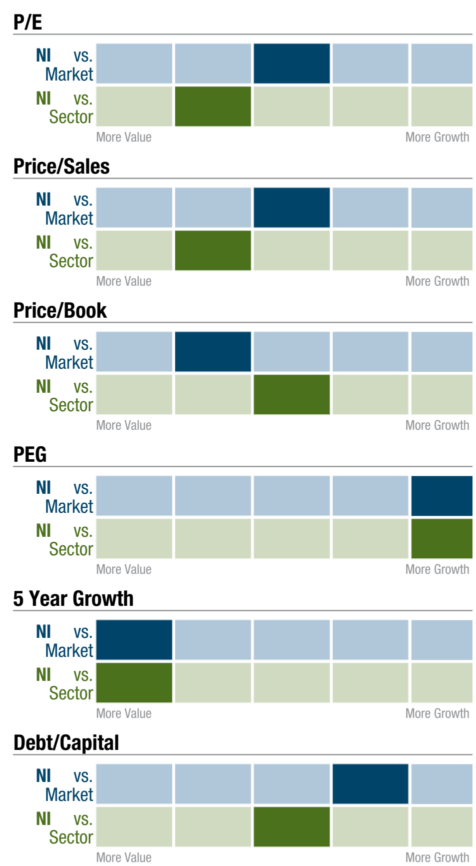
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare NI versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- **The scatterplot shows how NI stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.**
- **The table builds on the scatterplot by displaying more financial information.**
- **The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how NI might fit into or modify a diversified portfolio.**



Ticker	Company	Market Cap ($ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
PPL	PPL Corp	19,628	3.0	16.9	9.0	7.6	HOLD
CNP	Centerpoint Energy Inc.	18,386	7.0	19.5	9.1	8.0	BUY
CMS	CMS Energy Corporation	17,394	7.0	19.3	8.1	8.4	BUY
AES	AES Corp.	13,996	11.0	12.3	-3.9	11.8	BUY
LNT	Alliant Energy Corp.	13,278	6.0	18.3	15.6	9.0	BUY
NI	Nisource Inc. (Holding Co.)	11,334	4.0	17.5	12.0	6.4	BUY
PNW	Pinnacle West Capital Corp.	9,287	5.0	20.2	10.3	24.7	BUY
OGE	OGE Energy Corp.	7,228	7.0	18.5	12.7	5.1	BUY
Peer Average		**13,817**	**6.3**	**17.8**	**9.1**	**10.1**	



Analyst's Notes...Continued

On June 28 at midday, BUY-rated NI traded at $27.05, down $0.39.

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Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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High Grade Utilities: 1Q23 Results (EIX, EXC and NI)

Improving Credit Pathways Persist

Key points: 1) Issuance needs: EXC sees remaining needs at PECO ($525mn) and BGE ($600mn), NiSource expects to issue senior unsecureds, and we see continued needs at SoCalEd and EIX holdco; 2) NI 5.65% perp near-term call in focus; 3) credit metric improvement path for EIX and NI, still scope for S&P upgrade at EXC.

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Trade Recommendations

- **Hybrids:** Buy NI 5.650% perps; sell EIX 8.125% 2053s/buy EIX 5.000% perps
- **Opco FMBs:** Buy EIX 5.700% 2053s (Southern California Edison)
- **CDS:** Buy EXC 5y CDS (48/51) and sell FE 5y CDS (87/96)

Relative Value

- **Buy NI 5.650% perps** (~$95; first call June 15): The NiSource perps lose equity credit on the first call date. Further, given a reset to 6.3%, we think they become expensive to maintain on the balance sheet, and we expect NiSource to redeem them. The perps have discrete 5y calls (next call is in June 2028), so the window to call them is now fairly tight (we think it would have to give 30 days' notice).

- **Sell EIX 8.125% 2053s/buy EIX 5.000% perps:** We view the newly issued EIX 8.125% 2053s as less attractive than the outstanding EIX 5.000% perps. The latte rare being quoted at a 10% yield to first call (December 2026), which is the call date preceding their loss of equity credit in March 2027 (given a cumulative 100bp coupon step in 2047). Given that EIX has utilized hybrid issuance to help keep FFO/debt above 15%, we expect EIX to call and replace to maintain equity credit (the 5% perps are worth ~20bp right now, with FFO/debt thinly positioned versus their 15% downgrade threshold at S&P). The 8.125% 2053s are quoted at a 7.3% yield to first call (March 2028), but the loss of equity credit would not occur until 2033 (ie, 20 years before maturity). The reset on the EIX 8.125% 2053s and the EIX 5.000% perps is similar (386.4bp versus 390.1bp). Finally, we prefer the low dollar price of the EIX holdco hybrids through the traditional fire season period.

- **Buy EXC 5y CDS (48/51) and sell FE 5y CDS (87/96):** We see a 30bp compression opportunity, largely with FE tightening in. We view EXC as a good comp to FE, as both are largely T&D utilities. We also see improving credit trajectories for both, though FE has the higher FFO/debt target in the medium term (14-15%, post the sale of the FET minority

Please see analyst certifications and important disclosures beginning on page 8 .

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interest in 2024). FE targets FFO/debt improvement to 12% in 2023 from 11% in 2022, which is only slightly below EXC at 13%. Over time, we expect ratings to compress (FE to mid-BBB over the next two to three years, reflecting the higher metrics). Prior to FE's negative governance headlines in summer 2020 , FE and EXC 5y CDS traded about flat (Figure 1). For more on FirstEnergy, see FE: With New CEO, upgrade to IG within reach, 1 May 2023.

FIGURE 1. **FE 5y CDS used to trade about flat to EXC 5y CDS prior to the summer 2020 HB 6 related headlines, and the CEO departure/revolver drawings and downgrade to HY in November 2020**

Open in Barclays Live Chart
Source: **Credit** - Barclays Trading, IHS Markit

- **Buy EIX 5.700% 2053s (Southern California Edison):** At ~177bp, the A2/A-/A- rated FMBs are only ~5bp tight of mid-BBB rated Duk holdco 30y. We think SoCalEd has made meaningful progress in its wildfire risk mitigation plans, and over the next three years has a line of sight to effectively reduce risk largely through an accelerated covered conductor rollout (Figure 4). While we think issuance needs will persist for the opco, especially as it continues to pay for 2017-18 wildfire liabilities, we also think there is path to improve precedence around wildfire recovery, albeit this is not a 2023 event. Even partial recovery could help drive further upside to ratings (wildfire liabilities currently weighs down FFO/debt by ~500bp). We think fair value for EIX 30y should be modestly wide to other California-exposed electric utilities, which have seen lower wildfire costs over the past 10 years (eg, SDG&E or PacifiCorp). This implies ~20-25bp of spread compression opportunity.

Edison International (EIX): 1Q23 Highlights

We maintain our Overweight rating on Southern California Edison (EIX). While EIX opco has outperformed in excess return terms YTD (Figure 2), we continue to see compression opportunities (~20bp across the curve), as levels are more consistent with mid-BBB utility holdocs than A category opcos. EIX has a pathway to substantially cover its high-fire-risk distribution line miles with covered conductor by 2026, and has seen limited material fires since 2017-18, having implemented a wide-ranging wildfire mitigation plan. Given an elevated capex plan, and deferred recovery in California's regulatory framework, cash flow recovery has been gradual, but we expect cash flow to improve through 2023-25. As with other opcos, we expect SoCalEd to regularly access debt, and note it had ~$0.9bn drawn under its credit facilities at end 1Q23.

We maintain our Market Weight rating on Edison International (EIX). EIX holdco has also outperformed YTD, and it remains a wider-trading holdco (~50-60bp back of other mid-BBB holdcos). We think risk-reward is relatively negatively skewed against the holdco going into the traditional wildfire season, and therefore maintain a relative preference for SoCalEd. At ~60bp, the holdco-opco differential for EIX is broadly similar to PCG, though EIX holdco differentials have been less volatile (Figure 3).

FIGURE 2. **EIX Entities versus the Index**

Issuer	Ticker	Amt Out ($mn)	Moody's	S&P	OAS	OASD	Excess Return 1Month	Excess Return 3Months	Excess Return YTD
Utility Index		587,846	A2/A3	A-/BBB+	136	9.1	8	(122)	1
Holdco & Other Custom Index		220,595	Baa1/Baa2	BBB+	134	7.2	13	(91)	28
Edison International	EIX	3,000	Baa2	BBB-	139	3.2	14	(2)	95
Opco Secured Custom Index		261,574	A1/A2	A/A-	135	10.3	6	(144)	(28)
Southern California Edison	EIX	21,750	A2/A3	A-/BBB+	140	9.4	15	(95)	55

Source: Bloomberg Fixed Income Indices

FIGURE 3. **EIX Holdco/Opco Differential versus PCG**

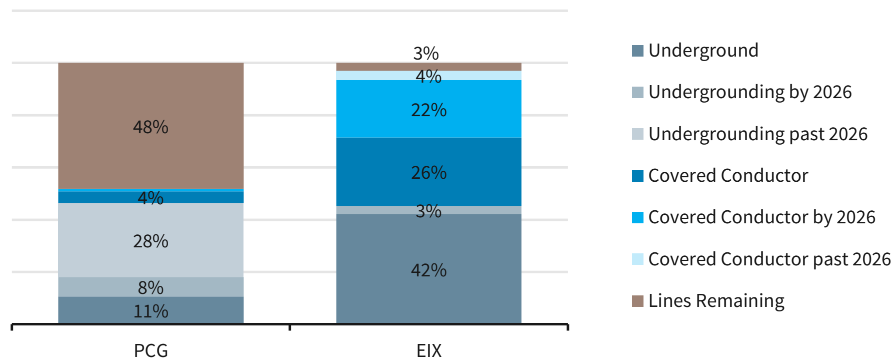
Open in Barclays Live Chart

Source: **Credit** - Barclays Trading, IHS Markit

- **1Q23 results:** We calculate 1Q23 EBITDA of $1,424mn, +8.0% y/y, with about flat revenue. O&M costs were down 27% y/y, which was the main EBITDA growth driver. We calculate a meaningful improvement to FFO to $1,058mn, up from $705mn in 1Q22. That said, working capital moves were significantly negative in the quarter, due in large part to accounts payable (-$508mn), as well as regulatory assets (-$296mn). We calculate CFO pre-WC/debt (on a GAAP basis) at 11.2%, +120bp versus 4Q22. Delays in cash flow recovery are the reason for the difference between FFO and CFO pre-WC. We estimate FFO (EBITDA less interest less cash taxes)/ debt at ~15.5% (compared with 15% or more required for the BBB- S&P rating).

- **Wildfire mitigation plan:** Management highlighted that it filed its 2023-25 wildfire mitigation plan with the Office of Energy Infrastructure, including covered conductor (2,850 miles over 2023-25), as well as 600 miles of undergrounding by the end of 2028. EIX has a total of 16.8k distribution line miles in high-fire-threat districts, of which 7.1k is already undergrounded and 4.4k has seen covered conductors completed. We estimate that by end 2026, almost all of EIX's power lines in these high-threat districts will either be undergrounded or have covered conductors.

FIGURE 4. **EIX vs. PCG Wildfire Mitigation Plan (Covered Conductor vs. Undergrounding)**



Source: Company reports

- **2017-18 wildfire costs:** Through March 31, 2023, SCE estimates ~$8.8bn of total losses, and it has so far paid $7.8bn, including $135mn left to pay under executed settlements, up from $7.6bn at end 4Q22. The company still expects to request total cost recovery of $6bn (plus interest and legal costs), which excludes $2.4bn of insurance and FERC recovery, and $0.5bn that EIX had agreed not to request to recovery. As indicated last quarter, the company will request $2bn of recovery.

- **ROE adjustment:** Management noted that if the 12-month average of Moody's Baa1 bond index exceeds 5.37% at the end of September, SCE will file a Tier 2 advice letter to implement the adjustment to the 2024 ROE. The adjustment would be half the difference between the average and 4.37%. For example, the spot difference was cited at 5.42%, so that would imply a ~52.5bp addition. The cost of debt and preferred would also be updated.

- **Issuance needs:** The company noted ~$400mn of holdco funding needs, and when asked on the call, management was open to convertibles. At the opco level, SCE has ~$0.9bn drawn, and we expect it to be in the market for opco bonds in the near term. SCE's recent securitization proceeds were used to repay a $730mn term loan priority maturity in May 2023.

- **Electrification efforts:** SCE noted that there are nearly 200 EV charging sites to potentially support 4k medium/heavy-duty vehicles. For these sites, SCE might have to upgrade the distribution system, and the company is liaising with customers to understand when and where these vehicles will materialize. For building electrification, SCE has proposed a $677mn 5y program for adopting electric heat pumps.

Exelon Corp (EXC): 1Q23 Highlights

We maintain our Overweight rating on Exelon (EXC): We recently upgraded Exelon to Overweight[1] and there are no further issuance needs at the holdco level for the remainder of the year, and a modest level of issuance left at two opcos. We believe EXC, as a pure-play T&D utility, faces less risk due to commodity price volatility, as well as to the energy transition. While there are ongoing headlines around the prior conductor issues at Commonwealth Edison, the company has addressed the topic, noting that these issues were resolved with the Justice Department under the 2020 deferred prosecution agreement. We see the IL rate case this year as also being a key regulatory item, along with the final effect of corporate minimum taxes (expected later this year). That said, we view EXC as being on the path to an upgrade to BBB+ at S&P, and view EXC holdco as one of the higher-quality holdcos (similar to Southern/NiSource).

[1] High Grade Utilities: Dislocations in Relative Value, 29 March 2023

We maintain our Market Weight on the larger operating companies (Commonwealth Edison, PECO and Baltimore Gas & Electric). We view the larger opcos as well positioned T&D opcos, and in the case of Commonwealth Edison, with some scope for improvement as it transitions to a multiyear rate case. We view valuations, along the tighter end of the range of secured opcos, as fairly reflecting a relatively low risk profile overall.

FIGURE 5. **EXC Entities versus the Index**

Issuer	Ticker	Amt Out ($mn)	Moody's	S&P	OAS	OASD	Excess Return 1Month	Excess Return 3Months	Excess Return YTD
Utility Index		587,846	A2/A3	A-/BBB+	136	9.1	8	(122)	1
Holdco & Other Custom Index		220,595	Baa1/Baa2	BBB+	134	7.2	13	(91)	28
Exelon Corp	EXC	10,376	Baa2	BBB	136	8.1	8	(188)	(73)
Opco Secured Custom Index		261,574	A1/A2	A/A-	135	10.3	6	(144)	(28)
Delmarva Power & Light Co	EXC	375	A2	A	147	13.1	6	(267)	42
Potomac Electric Power	EXC	1,150	A2	A	138	11.1	44	(49)	102
Commonwealth Edison Co	EXC	11,100	A1	A	122	11.7	45	(164)	(49)
Peco Energy Co	EXC	4,125	Aa3	A	116	13.5	58	(182)	(99)
Atlantic City Electric	EXC	700	A2	A	103	5.8	(4)	(10)	43
Opco Unsecured Custom Index		105,352	A3	A-/BBB+	140	10.1	5	(135)	5
Baltimore Gas & Electric Co	EXC	3,750	A3	A	127	11.7	31	(139)	(46)

Source: Bloomberg Fixed Income Indices

- **1Q23 results:** We calculate 1Q23 EBITDA at $1,966mn, +14.5% y/y, supported by revenue growth (+4.4%). Purchased power and fuel costs were slightly higher (+0.6%), while O&M was lower (-2.3%). Cash from operations ($484mn) was notably weaker in the quarter, driven by changes in working capital and regulatory assets/liabilities (-$833mn). Accounts payable (-$482mn) and collateral (-$214mn) were notable changes. Comparability in cash flows versus 1Q22 is impacted by the spin-off of Constellation in 1Q22. We calculate FFO/debt of 12%.

- **2023 financing plans (80% complete):** Exelon's 2023 financing plan is largely complete, with PECO ($525mn) and Baltimore Gas & Electric ($600mn) the main issuers remaining. We note that the company utilized the private placement market for Pepco, Atlantic City and Delmarva Power, and using a delayed draw feature will fund an incremental $600mn at Pepco and Delmarva in September and November 2023.

- **Credit metrics:** The company maintained its 13-14% FFO/debt targets, which gives it a cushion against Moody's downgrade threshold of 12%. S&P has a more constructive take on Exelon, and has an upgrade threshold of 13%. In its May 2023 update, S&P calculated adjusted FY22 FFO/debt at 13.1%. EXC is attempting to mitigate potential negative impacts of the Corporate Minimum Tax and is awaiting guidance from the Treasury; if its proposed repairs are not permitted, then EXC would expect to be the at the low end of the 13-14% guidance.

- **Deferred prosecution agreement:** The company reminded investors that the deferred prosecution agreement signed in 2020 resolved the Justice Department's investigation into ComEd. Management also noted that it has made substantial changes to contracting, lobbying and compliance operations to avoid future conduct issues. The comments were in response to questions regarding the trial of former Commonwealth Edison executives and associates.[2]

- **Rate cases:** We view the Commonwealth Edison Multi-Year Plan (MYP) case as the most significant for Exelon. The company filed the four-year plan on January 17, and a commission order is expected on December 20. The proposal includes a phase-in of new rates, with the equity layer increasing from 50.58% in 2024 to 51.19% in 2027, and ROE increasing from 10.50% in 2024 to 10.65% in 2027. The plan also expects to defer recovery of 35% of the rate increase to 2026 (but accrued in earnings). The existing Commonwealth Edison rate plan includes a 49.45% equity ratio, and an ROE of 7.85%. Atlantic City ($105mn), Baltimore Gas & Electric ($602mn 3y multi-year plan), Pepco DC ($191mn 3 year plan) and Delmarva - Delware ($48mn) are the other rate cases.

NiSource (NI): 1Q23 Highlights

We maintain our Overweight rating on NiSource (NI): The company maintains solid credit goals, including an FFO/debt target of 14-16% (it reported 13.5% in 2022). It still expects the sale of a minority interest in NIPSCo to take place this year (~$7bn rate base), to support financing for the $15bn capex plan over 2023-27. NiSource targets net zero scope 1 and scope 2 emissions by 2040. NiSource 10y (153bp) and 30y (172bp) are about 10bp tight to DUK holdco, which we view as about fair. Nonetheless, our Overweight for NiSource within the index reflects more modest issuance at NiSource for 2023 (given its expected minority interest sale in NISPCO), our view of better-than-average credit metrics at NI with meaningful cushion to d/g thresholds (13%), and lack of meaningful opco debt.

FIGURE 6. **NI Entities versus the Index**

Issuer	Ticker	Amt Out ($mn)	Moody's	S&P	OAS	OASD	Excess Return 1Month	Excess Return 3Months	Excess Return YTD
Utility Index		587,846	A2/A3	A-/BBB+	136	9.1	8	(122)	1
Holdco & Other Custom Index		220,595	Baa1/Baa2	BBB+	134	7.2	13	(91)	28
NiSource Inc	NI	9,697	Baa2	BBB+	132	8.2	16	(89)	41

Source: Bloomberg Fixed Income Indices

- **1Q23 results:** We calculate 1Q EBITDA at $738mn, +7.3% y/y, reflecting an increase in 1Q revenue (+4.9% y/y), which more than offset an increase in fuel costs (+8.3% y/y). Cash from operations improved by ~$100mn y/y to $683mn, due largely to working capital changes. We calculate FFO/debt at 15% on a GAAP basis, about in line with 4Q22. NiSource has $1.55bn of preferred stock, and a 50/50 debt/equity treatments leads to a ~100bp reduction in the FFO/debt metric. The company's longer-term targets are 14-16%.

- **NIPSCo minority interest sale:** The company continues to target a NIPSco minority stake sale in 2023, and is confident on the process for this year. While it is keeping the regulator up to date, it does not expect a requirement for approvals. During the investor day presentation in 2022, management indicated ~$18bn of aggregate capital uses ($15bn capex and $3bn dividends) for 2023-27. Along with $10bn of cash, and $5bn of debt, the company expected to procure the remaining $3bn from a mix of ATM equity and the proceeds from the minority stake sale. NIPSCO has a total rate base of $7.8bn (equity layer cited as ~50% inclusive of deferred taxes), and we note that Duke Energy sold a minority interest in its Indiana opco at a ~1.3-1.4x rate base.[3]

[2] https://www.justice.gov/usao-ndil/pr/former-commonwealth-edison-executives-and-associates-found-guilty-conspiring-influence

[3] https://s201.q4cdn.com/583395453/files/doc_presentation/2021/01/gic-ir-slides.pdf

- **FFO/debt:** Over 2024-27, NiSource aims to improve FFO/debt to 14-16%, versus 13.5% achieved in 2022. For 2025 and beyond, NiSource expects to use ATM equity to support the metrics, as it looks to execute on an elevated capex program. NiSource's downgrade/upgrade thresholds are 13-17% at Moody's (Baa2) and 13-16% at S&P (for BBB+), with its targets leaving significant cushion versus the downgrade thresholds.

- **NIPSCo rate case:** The settlement achieved in March 10, 2023, supports an ROE of 9.8%, a $292mn revenue increase. An order is expected in August, with rates to be effective in September.

- **Debt issuance:** Following $750mn of debt issuance earlier in the year, NiSource stated that it would likely issue more debt later this year. During the investor day, NiSource indicated ~$5bn of aggregate net debt issuance through 2023-27, implying ~$1bn a year. In its 10Q, the company stated that it has $300mn remaining under its $750mn ATM, though during the call, management said it did not expect to utilize this. The company also expects to remarket its Series C Mandatory Convertible Preferred Stock prior to December 1, 2023. Separately, NiSource has $400mn of perps callable on June 15, 2023. This security was not referenced on the call, but given that it is due to lose equity credit at S&P, and resets to ~6.3%, we expect the company to redeem the security.

Summary of Ratings

Bloomberg U.S. Credit Index

	Old	New
U.S. HG Electric Utilities	Overweight	Overweight
BALTIMORE GAS AND ELECTRIC CO	Market Weight	Market Weight
COMMONWEALTH EDISON CO	Market Weight	Market Weight
EDISON INTERNATIONAL	Market Weight	Market Weight
EXELON CORP	Overweight	Overweight
NISOURCE FINANCE CORP	Overweight	Overweight
PECO ENERGY CO	Market Weight	Market Weight
SOUTHERN CALIFORNIA EDISON CO	Overweight	Overweight

Source: Barclays Research

Analyst(s) Certification(s):
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Disclosure(s) regarding Information Sources

Primary Issuers/Bonds
BALTIMORE GAS AND ELECTRIC CO, Market Weight, CD/D/E/J/K/L/M

Representative Bond: EXC 2.4 08/15/26 (USD 93.52, 02-May-2023)

COMMONWEALTH EDISON CO, Market Weight, CD/D/E/J/K/L/M

Representative Bond: EXC 2.55 06/15/26 (USD 94.64, 02-May-2023)

EDISON INTERNATIONAL, Market Weight, A/CD/CE/D/E/J/K/L/M

Representative Bond: EIX 4 1/8 03/15/28 (USD 95.17, 02-May-2023)

EXELON CORP, Overweight, A/CD/CE/D/E/J/K/L/M

Representative Bond: EXC 3.4 04/15/26 (USD 96.65, 02-May-2023)

NISOURCE FINANCE CORP, Overweight, CD/D/E/J/K/L/M

Representative Bond: NI 4.8 02/15/44 (USD 91.74, 02-May-2023)

PECO ENERGY CO, Market Weight, CD/D/E/J/K/L/M

Representative Bond: EXC 3.15 10/15/25 (USD 97.01, 02-May-2023)

SOUTHERN CALIFORNIA EDISON CO, Overweight, A/CD/D/E/J/K/L/M

Representative Bond: EIX 4.65 10/01/43 (USD 92.61, 02-May-2023)

Materially Mentioned Issuers/Bonds
EDISON INTERNATIONAL, Market Weight, A/CD/CE/D/E/J/K/L/M

EIX 5 PERP (USD 86.38, 02-May-2023)

EIX 8 1/8 06/15/53 (USD 101.34, 02-May-2023)

FIRSTENERGY CORP, Overweight, A/CD/CE/D/E/J/K/L/M

Representative Bond: FE 3.4 03/01/50 (USD 68.82, 02-May-2023)

NISOURCE INC, A/CD/CE/D/E/FA/J/K/L/M

NI 5.65 PERP (USD 94.75, 02-May-2023)

SOUTHERN CALIFORNIA EDISON CO, Overweight, A/CD/D/E/J/K/L/M

EIX 5.7 03/01/53 (USD 103.11, 02-May-2023)

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For sectors rated against the Bloomberg U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Pan-European High Yield Finance Index or the Bloomberg EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be in line with the six-month total return of the relevant index.

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For sectors rated against the Bloomberg U.S. Credit Index, the Bloomberg Pan-European Credit Index, the Bloomberg EM Asia USD High Grade Credit Index or the Bloomberg EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be less than the six-month excess return of the relevant index.

For sectors rated against the Bloomberg U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Pan-European High Yield Finance Index or the Bloomberg EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be less than the six-month total return of the relevant index.

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Market Weight (MW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be in line with the six-month expected excess return of the relevant sector.

Underweight (UW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be less than the six-month expected excess return of the relevant sector.

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US Credit Research & Strategy

Hybrid/preferred relative value as the dust settles

CORE

Hybrids/preferreds had a difficult March but have regained about half of their losses and outperformed the corporate index year-to-date. We find the discount for Libor/SOFR-based resets too large, as investors have preferred constant-maturity reset indices. The most attractive trades are in utilities, banks, and midstream.

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Total returns were -4% for hybrids/preferreds in March as volumes and volatility spiked. Trading volumes were up 50%, driven by financials, which were at the center of the storm. At one point during the month, PFF was down more than 8% before recovering about half of those losses. From a year-to-date perspective, junior subs/preferreds have outperformed the US corporate index in total returns.

Extension risks back in focus. The recent bank turmoil has increased the attention paid to extension risk. We believe it is appropriate to think of reset/senior ratios above 1.9x as having limited extension risk and those below 1.5x as having increased risk.

We think that extension risk worries have led to an exaggerated increase in the discount for Libor/SOFR reset indices, particularly for bonds that are likely to be called. Running a multi-factor regression, we find that the penalty for Libor/SOFR-based resets has increased by about 15bp, to around 25bp, for non-bank corporate hybrids and by 20bp, to around 40bp, for US bank preferreds, implying investor preference for constant-maturity reset reference rates.

Broadly, some of the most attractive hybrid securities are in the electric utility, Big 6 bank, and midstream sectors. First, they are trading toward the wide end of the range relative to seniors. Second, bonds in these sectors have higher resets (relative to senior spreads) and higher spread ratios to seniors when priced to maturity/perpetuity. In financials, Big 6 bank preferreds have better reset/senior ratios than regionals, driving our preference for the Big 6.

Trade ideas

- **Electric utilities:** Buy NI 5.650% perps; buy CNP 6.125% perps; buy EMACN 6.750% 2076s; sell EIX 8.125% 2053s, buy EIX 5.000% perps.
- **Financials:** Buy CRBG 6.875% 2052s; buy CFG 5.65% perp NC5s (series F); buy C 5.0% perp NC5s (series U)

Please see analyst certifications and important disclosures beginning on page 17 .

Completed: 20-Apr-23, 20:47 GMT Released: 20-Apr-23, 20:51 GMT Restricted - External

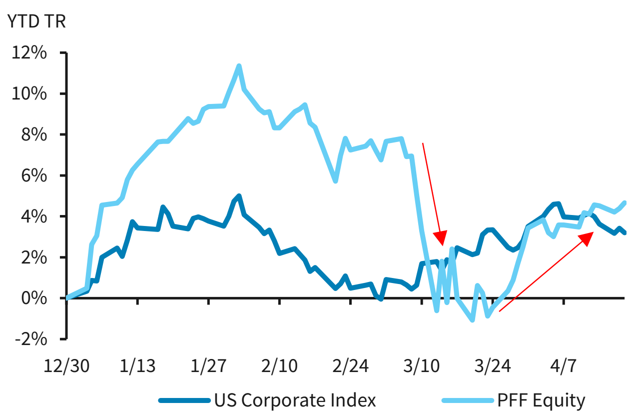
- **Energy/midstream:** Buy the ET 6.5% series H perps, sell the ET 6.625% series B perps; sell TRPCN 5.6% 2082s outright or paired against the TRPCN senior 5.1% 2049s.
- **A&D:** Buy the GE 0 perps.
- **TMT:** Buy PARA 2062s.
- **Tobacco:** Buy BATSLN €3.0 2026 perps and €3.75 2029 perps.

Strategy - Brad Elliott

Hybrids/preferreds have recovered about half of their March losses. After being up 11.4% on the year at one point in early February, PFF is now up only 4.7% for 2023 (Figure 1). That is a clear recovery from the year-to-date lows in March and slightly better than the total returns for the US corporate index (+3.2% YTD).

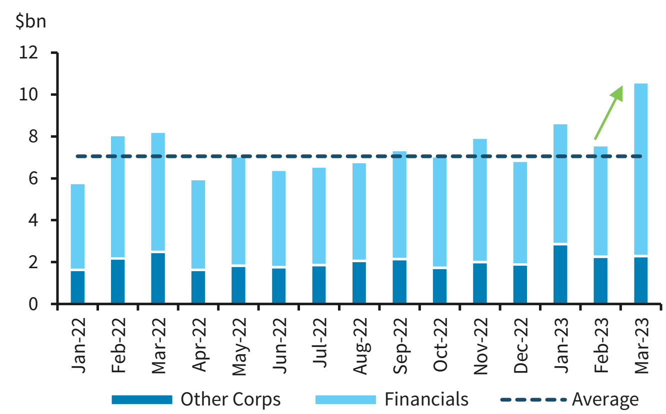
Trading volumes were up 50% in March, driven by financials. Volumes spiked amid the banking turmoil, with acute focus on the AT1 market as Credit Suisse securities were wiped out. This led to widespread underperformance of subordinated paper. Hybrid/pref volumes were up 50% versus the 2022-23 average, with the increase driven entirely by financials (Figure 2). As the dust has settled in April, volumes have dropped significantly and are on pace to be lowest since June 2022.

FIGURE 1. **Hybrids/preferreds have recovered about half of their March losses**



Source: Bloomberg, Barclays Research

FIGURE 2. **Volumes spiked 50% in March**



Source: Bloomberg, Barclays Research

Amid the turmoil, extension risks have come back into focus. One way to assess extension risk is to look at reset-to-senior ratios, with the senior bond likely being a long-dated issue for the same credit. Across the hybrid/pref universe, the average ratio of reset spread over long-dated senior spread is 1.73x, with Big 6 bank prefs having the highest average ratio, followed by electric utilities (Figure 3). We think of reset-to-senior ratios above 1.9x as having limited extension risk and those below 1.5x as having a relatively large risk of extension.

Using the reset spread over a senior long spread is a reasonable proxy for extension risk. In our view, this ratio can be thought of as cheap cost of capital when the ratio is low and expensive when high. In the US, the average cost of equity (excluding financials) is 11-12%,[1] whereas the average cost of debt is 5-6%, or 4.0-4.5% tax-adjusted. Therefore, for a 50/50 debt/equity blend, cost of capital is about 8.5% (or 7.8% using after-tax cost of debt). Looking at this cost of capital versus senior debt implies a range of 1.5x to 1.9x: The 1.5x ratio corresponds

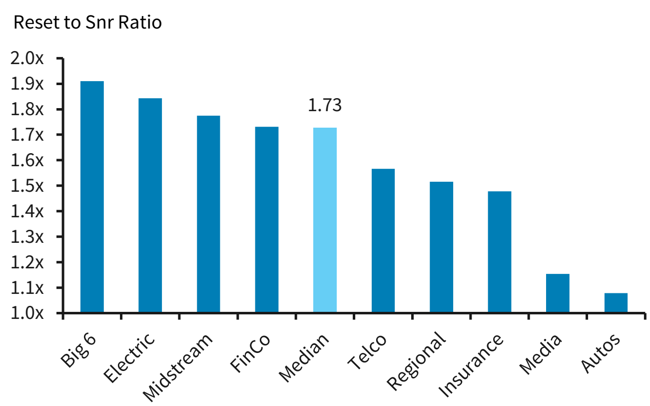
[1] https://pages.stern.nyu.edu/~adamodar/pc/datasets/wacc.xls

to 8.5% versus 5.5% cost of debt, and the 1.9x ratio corresponds to 7.80% versus 4.25% cost of debt.

Therefore, in theory, the natural range for the cost of a hybrid security should be 1.5-1.9x what senior debt costs an issuer, to be equivalent to the cost/value of the capital treatment investors are receiving.

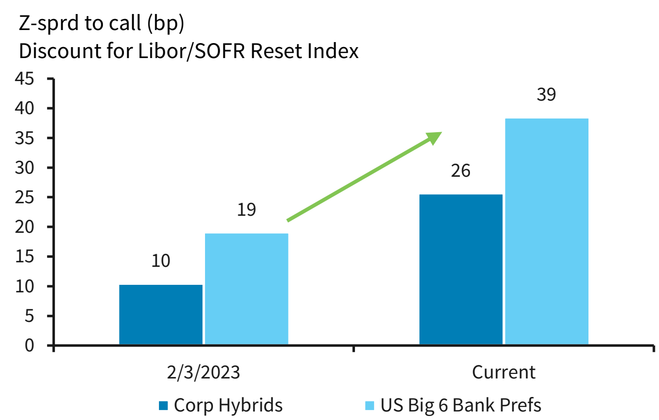
If the cost is below 1.5x, the issuer is receiving value for leaving the hybrid outstanding (ie, there is incentive to extend). If it is above 1.9x, the issuer is paying too much for the hybrid relative to its capital treatment, so it makes more sense to redeem. The current average ratio is exactly in the middle of this range at 1.73x.

FIGURE 3. **Reset/senior ratio by sector**



Source: Bloomberg, Barclays Research

FIGURE 4. **Discount for the Libor/SOFR reset index has risen**



Note: Model was run on securities with at least 1.5 years to call.
Source: Bloomberg, Barclays Research

The discount for Libor/SOFR reset indices has increased. Running a multi-factor regression[2] to explain a hybrid/pref z-spread (to call), we find that there is a discount for Libor/SOFR-based reset indices compared with constant-maturity 5y, 7y, or 10y indices. At the beginning of February, this discount was relatively small: 10bp for corporate hybrids and 19bp for US Big 6 bank preferreds. It has now increased by about 15bp for non-bank corporate hybrids and by 20bp for US bank preferreds (Figure 4). This implies a greater flight to safety from hybrid investors as extension risk concerns have increased post-SVB.

In our view, the increased compensation for Libor/SOFR-based structures creates an opportunity to pick up spread/yield in structures that have a high probability of being called, therefore eliminating uncertainty about the shape of the yield curve. The CNP 6.125% perps trade discussed below and C 5% perps are both prime examples.

In financials, we prefer Big 6 bank preferreds to regionals. On average, the Big 6 perps have a relatively high reset-to-senior ratio of 1.9x (implying lower extension risk), while the average for regional bank perps is much lower at 1.5x. Therefore, we view extension risk as too elevated broadly, although we highlight some attractive single-name trades below.

The auto, electric utility, and midstream sectors are trading toward the wide end of the range relative to seniors. Figure 5 highlight aggregate sector-level metrics. While autos trade relatively wide to call, extension risk is greater in the sector, with a 1.08x reset/senior ratio on average, and it is inherently exposed to the economic cycle. Therefore, we prefer midstream

[2] Multifactor regression was run on all non-bank corporate hybrids with more than 1.5 years to call, using reset spread, reset index, ratings, senior spreads, and years to call as inputs to explain z-spread to call. We then ran a similar regression for Big 6 preferreds.

and electric utility hybrids given higher resets (relative to senior spreads) and higher spread ratios to seniors when priced to maturity/perpetuity.

FIGURE 5. **Sector relative value table**

					Median							% of the Range since Jan-22			
	Price	Reset	Z Sprd to Call	Z Sprd to Mat	Yield to call	Yield to Mat	Hyb-Snr to call	Hyb-Snr Call Ratio	Hyb-Snr to Perp	Hyb-Snr to Perp Ratio	Reset/Snr	Hyb-Snr to call (bp)	Hyb-Snr Call Ratio %	Hyb-Snr to Perp (bp)	Hyb-Snr to Perp Ratio %
Median	**$91.1**	**333**	**502**	**389**	**9.0**	**8.2**	**346**	**3.61**	**164**	**1.71**	**1.73**	**60%**	**57%**	**66%**	**52%**
Insurance	$96.5	332	360	383	7.3	7.4	257	2.73	123	1.49	1.48	54%	61%	38%	27%
FinCo	$76.5	367	889	532	12.5	9.0	666	5.16	207	1.92	1.73	66%	78%	67%	54%
Autos	$87.0	360	613	456	9.8	9.1	406	2.96	152	1.46	1.08	72%	75%		
Electric	$89.8	322	536	376	9.5	7.9	426	4.53	150	1.66	1.84	75%	77%	80%	61%
Midstream	$88.5	394	501	445	9.1	8.8	356	3.94	215	1.82	1.77	72%	79%	70%	45%
Telco	$87.6	307	409	393	7.5	7.2	264	2.57	140	1.49	1.57	66%	61%	60%	52%
Media	$81.0	395	705	555	11.2	9.7	532	4.07	179	1.48	1.15			59%	59%
Regional	$86.8	317	678	411	11.6	8.4	386	3.44	189	1.74	1.52	28%	19%	66%	54%
Big 6	$95.3	333	435	374	8.7	8.5	325	3.83	176	1.90	1.91	47%	49%	60%	44%

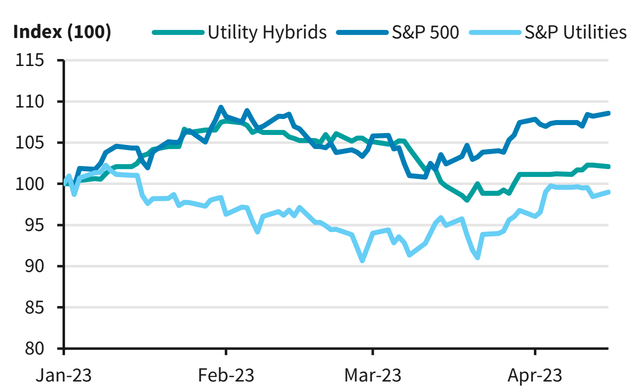
Note: Excludes hybrids that are already floating.
Source: Bloomber, Barclays Research

Power & Utilities - Srinjoy Banerjee

With Edison International (EIX 8.125% 2053s) and NRG Energy (NRG 10.250% perps) issuing hybrids in 1Q22, we believe that the power & utility sector, in general, will continue to evaluate hybrid issuance as a core part of its financing plans, largely for the purposes of obtaining equity credit to preserve ratings. For EIX, hybrid issuance is being utilized to preserve metrics as the company continues to pay for 2017/18 wildfire liabilities. For NRG, hybrid issuance was largely to fund M&A. Hybrid issuance to support funding for elevated capex plans has not been a feature this year, with companies instead turning to capital rotation, and we expect reliance on hybrids to persist as the sector continues to target elevated capex/high-single digit rate base growth. With the NI 5.650% perps (callable June 15, 2023) and CNP 6.125% perps (callable September 1, 2023) callable this year and, in our view, likely to be called, we see scope for further hybrid issuance in the sector.

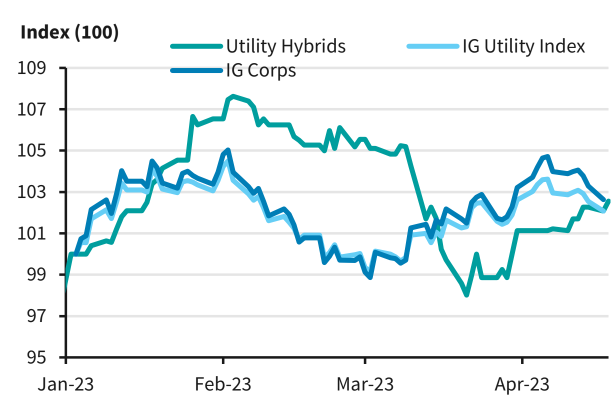
With valuations coming under pressure in recent weeks (Figure 6 and Figure 7), we like hybrids with relatively short-dated calls and with a higher probability of call due to 1) a loss of equity credit, and/or 2) a high reset that would make it more attractive to call and replace the hybrid, and/or 3) a lack of need for the hybrid. We also consider the relative ratio between a company's hybrids and its unsecured notes (or those of the closest comp if more relevant).

FIGURE 6. **Utility hybrid performance versus equities**



Source: Barclays Research

FIGURE 7. **Utility hybrid performance versus credit**



Source: Barclays Research

Trade idea - Buy NI 5.650% perps

- The NiSource hybrids are callable on June 15, 2023, and have a discrete call schedule (the following call is in June 2028). The hybrids lose equity credit at S&P on the first call date because of a cumulative 100bp coupon step in 2043. The hybrids have intent-to-replace language in the docs. We expect NiSource to evaluate refinancing the $400mn hybrids in order to maintain the equity cushion they currently provide (~30bp FFO/debt; FY22 FFO/debt was 14.4%, versus a downgrade threshold of 13%; management target 14-15%). With a reset spread of (284bp) about 1.8x that of NiSource 30y unsecureds, along with the loss of equity credit, we think management would prefer to replace rather than keep the perps outstanding.

- NiSource is looking to sell a minority stake sale of NIPSCo (expected to close by year-end 2023); it has indicated that use of proceeds will include the $900mn preferred equity. Otherwise, we expect proceeds to prioritize near-term maturities (~$1bn term loan maturing 2023), offsetting other capex-related issuance needs.

Trade idea - Buy CNP 6.125% perps

- The CNP hybrids are callable at par from September 1, 2023. While these hybrids do not lose equity credit, we think the economic decision is relatively clear for CNP, given a reset of 327bp (assumed coupon of 8.53%). Given that weaker-rated EIX was able to fund a hybrid at 8.125%, we assume that CNP would be able to refinance at a better rate (in unsecureds, CNP is quoted around 60bp tight to EIX).

- The CNP hybrids were issued to help fund the Vectren acquisition, and we think CNP has made substantial progress in improving its credit profile since. We estimate that the CNP hybrids provide about 50bp of FFO/debt cushion, and with FFO of 15% 100-200bp above downgrade thresholds, we think that the cushion is supportive, but not essential to maintain ratings.

Trade idea - Buy EMACN 6.750% 2076s

- We believe that outstanding concerns about Emera's ability to maintain its investment grade unsecured ratings have eased following the Nova Scotia rate case outcome, despite government intervention. The pathway to 12% FFO/debt remains unclear, though we think this is more relevant for the Moody's rating. That said, we think that a one-notch credit rating downgrade at Moody's is less meaningful for the already high yield-rated hybrids (rated Ba2 Neg/BB+ Neg/BB+ Neg). We expect FFO/debt to continue to improve from depressed FY22 levels (7%), supported by deferred fuel cost recovery, as well as about C$205mn of net incremental cash flow in 2022. This would mean run-rate FFO/debt at around 11.5% (above S&P's current threshold of 10%, but short of Moody's threshold for a Baa3 unsecured rating of 12%).

- We also believe there is a high probability that the Emera hybrids will be called at the first opportunity (June 2026), with a reset of 544bp (or 1.8x the 30y senior unsecured spread). The Emera hybrids would also lose S&P equity credit at that date, providing further incentivize for a call: the hybrids offer a 55bp FFO/debt benefit. At 8.6% yield to the June 2026 call, the Emera hybrids screen relatively attractive to our high yield utility universe (e.g, single-B rated CPN unsecured 2028s are quoted at 8.5% to the March 2026 call, or 7.2% to March 2028 maturity).

Trade idea - Sell EIX 8.125% 2053s, Buy EIX 5.000% Perps

- We view the newly issued EIX 8.125% 2053s less attractive than the outstanding EIX 5.000% perps. The EIX 5.000% perps are offered at a 8% yield to first call (December 2026), which is the call date preceding their loss of equity credit in March 2027 (given a cumulative 100bp coupon step in 2047). Given that EIX has utilized hybrid issuance to help keep FFO/debt above 15% (the 5% perps are worth ~20bp right now; with FFO/debt thinly positioned versus their 15% downgrade threshold at S&P). The 8.125% 2053s are quoted at a 7.3% yield to first call (March 2028), but the loss of equity credit would not occur until 2033 (ie, 20 years before maturity). The reset on the EIX 8.125% 2053s and the EIX 5.000% perps is similar (386.4bp versus 390.1bp). Finally, we prefer the low dollar price of the EIX holdco hybrids through the traditional fire season period (albeit, likely delayed this year, see: PCG - Delayed 2023 Fire Season Offers Relief, but Mitigation Work Continues, April 17, 2023).

- Through the first call period for the two EIX hybrids, we expect to gain clarity on the company's ability to recover 2017-18 wildfire claims ($6bn). EIX has been funding claims as short-term debt on the opco balance sheet, and even partial recovery would support a substantial improvement in credit metrics (~300-350bp), a potential credit positive for the structure.

FIGURE 8. **Utility hybrid pricing sheet**

										Hybrid/Senior Spread Ratios			Hybrid Features	
SECURITY	Index Rating	Coupon	Structure	Hybrid Next Call Date	Reset Index	Hybrid Reset (bp)	Price ($)	YTC (%)	YTM (%)	Reset/30 y Snr Spread Ratio (x)	To Call	To Maturity	Replace	Loss of Equity Credit at S&P
AEP 3.875 62	BBB-	3.875	Jr. Sub	11/15/2026	H15T5Y	268	80.8	10.5	7.3	1.5	4.8	1.5	No	2042
CMS 4.75 50	BB+	4.750	Jr. Sub	3/1/2030	H15T5Y	412	87.3	7.1	7.6	2.4	2.3	1.7	No	2030
CMS 3.75 50	BB+	3.750	Jr. Sub	9/1/2030	H15T5Y	290	75.3	8.3	7.4	1.7	3.0	1.7	No	2030
CNP 6.125 PERP	BB+	6.125	Preferred	9/1/2023	US0003M	327	94.3	22.9	6.8	1.4	23.3	1.6	No	n/a
D 5.75 54	BBB-	5.750	Jr. Sub	10/1/2024	US0003M	306	94.8	9.7	6.7	1.3	3.5	1.4	No	2034
D 4.65 PERP	BB+	4.650	Preferred	12/15/2024	H15T5Y	299	88.3	12.7	7.3	1.8	5.7	1.7	No	n/a
D 4.35 PERP	BB+	4.350	Preferred	1/15/2027	H15T5Y	320	84.5	9.4	7.4	1.9	5.0	1.7	No	n/a
DUK 4.875 PERP	BB+	4.875	Preferred	9/16/2024	H15T5Y	339	96.3	7.7	7.1	1.9	9.5	1.5	No	n/a
DUK 3.25 2082	BBB-	3.250	Jr. Sub	1/15/2027	H15T5Y	232	75.0	11.7	7.2	1.3	7.2	1.5	No	2062
EIX Float PERP	BB+	9.013	Preferred	5/18/2023	US0003M	420	97.5	41.6	9.7	1.9	n.a.	2.1	No	n/a
EIX 5.375 PERP	BB	5.375	Preferred	3/15/2026	H15T5Y	470	89.5	9.6	8.6	2.0	3.6	1.7	No	n/a
EIX 5 PERP	BB	5.000	Preferred	12/15/2026	H15T5Y	390	85.0	10.0	8.1	1.6	4.0	1.6	Intent to	2027
EIX 8.125% 2053	BB+	8.125	Jr. Sub	3/15/2028	H15T5Y	386	101.8	7.7	7.7	1.6	2.3	1.4	No	2033
EMACN 6.75 2076	BB	6.750	Jr. Sub	6/15/2026	US0003M	544	94.0	9.0	8.7	1.8	3.0	1.9	Intent to	2026
NEE Float 10/1/66	BBB	7.244	Jr. Sub	5/18/2023	US0003M	207	81.5	289.6	9.0	1.0	n.a.	1.8	RCC	2046
NEE Float 6/15/67	BBB	6.991	Jr. Sub	5/18/2023	US0003M	213	82.5	269.7	9.0	1.0	n.a.	1.8	RCC	2047
NEE 3.8 2082	BBB	3.800	Jr. Sub	3/15/2027	H15T5Y	255	83.5	8.9	6.8	1.8	4.5	1.6	No	2062
NEE 4.8 2077	BBB	4.800	Jr. Sub	12/1/2027	US0003M	241	85.0	8.8	6.2	1.2	4.5	1.5	No	2057
NEE 5.65 2079	BBB	5.650	Jr. Sub	5/1/2029	US0003M	316	90.0	7.8	6.7	1.5	3.2	1.7	No	2059
NI 5.65 PERP	BB+	5.650	Preferred	6/15/2023	H15T5Y	284	94.3	44.3	6.9	1.8	33.4	1.6	Intent to	2023
NRG 10.250 PERP	B+	10.250	Preferred	3/15/2028	H15T5Y	592	97.0	11.1	10.2	1.8	2.5	1.8	No	n/a
PPL Float 3/30/67	BBB	7.828	Jr. Sub	5/18/2023	US0003M	267	84.8	231.5	9.4	1.3	n.a.	2.0	RCC	2047
SO 4 51	BBB-	4.000	Jr. Sub	10/15/2025	H15T5Y	373	94.0	6.7	7.3	2.3	2.5	1.6	No	2031

SO 3.75 51	BBB-	3.750	Jr. Sub	6/15/2026	H15T5Y	292	85.0	9.3	7.2	1.8	5.3	1.6	No	2031
SRE 4.875 PERP	BB+	4.875	Preferred	10/15/2025	H15T5Y	455	94.3	7.4	8.1	2.7	2.9	2.0	No	n/a
SRE 4.125 52	BBB-	4.125	Jr. Sub	1/1/2027	H15T5Y	287	80.5	10.6	7.6	1.7	4.8	1.7	No	2032
VST 8 PERP	B+	8.000	Preferred	10/15/2026	H15T5Y	693	94.0	10.1	10.5	2.1	2.6	1.9	No	n/a
VST 7 PERP	B+	7.000	Preferred	12/15/2026	H15T5Y	574	89.0	10.7	9.8	1.7	2.9	1.7	No	n/a
WEC Float 5/15/67	BBB-	6.976	Jr. Sub	5/18/2023	US0003M	211	80.5	308.0	9.2	1.0	n.a.	1.8	RCC	2047
Median		5.625				316	89.0	10.1	7.6	1.7	4.2	1.7		

Note: Prices on the bid side.
Source: Barclays Research

Financials - Peter Troisi

Hybrids serve different purposes for financials

Financials are the largest issuers of hybrids, but the securities serve different purposes depending on issuer type. Banks, on the one hand, issue hybrids primarily for regulatory purposes. In particular, they issue perpetual preferreds to fill Additional Tier 1 (AT1) capital needs. The regulatory threshold for AT1s at US banks is 1.5% of risk-weighted assets (RWAs), and accordingly, banks optimize the amount of preferreds they have outstanding to this standard.

US-domiciled insurance companies,[3] on the other hand, issue hybrids primarily for rating agency purposes. Hybrids issued by insurance holding companies in the US do not receive regulatory credit. As a result, the way that US insurers approach the hybrids market is similar to non-financial entities, ie, the value hybrids have to insurers is mainly in the equity credit assigned by rating agencies.

For banks, the binding constraint on hybrid structure and fit within the capital structure is their regulatory treatment. However, for US insurers, the binding constraint is the rating agencies, namely S&P. Each agency assigns different levels of equity/capital credit to insurance hybrids (see this report for more detail), but S&P is the most generous. Therefore, US insurers optimize hybrids to the S&P hybrid methodology.

In general, the S&P criteria grant 100% capital credit to hybrids (eg, subs, junior subs, preferreds) as long as two conditions are met:

- The sum of all hybrids in the structure is less than 15% of the insurer's total capital. The 15% cap is under review by S&P, but we do not expect it to change materially, and any change would not affect the 100% equity treatment standard (see First Impressions: S&P's Proposed Capital Model Changes);
- For dated subordinated debt, the security has at least 20 years of remaining tenor prior to its legal final maturity. In other words, S&P grants 100% equity credit to hybrids issued by US insurers until they reach 20 years prior to their effective maturity date (pursuant to a slight tweak made in 2019 to S&P's rules, see this report).

[3] Hybrids issued by Bermuda-based insurers are given some regulatory credit because the regulatory rules there are different in the US.

Call dates are not always optimized to the S&P rules for insurers

If insurers fully optimized to S&P's methodology, the call date in their hybrids would align with the point at which they lose equity credit, 20 years prior to maturity. After that date, hybrids no longer receive 100% equity credit and are treated 100% as debt, which in many cases would be inefficient because hybrids typically have higher coupons than senior debt. For this reason, many hybrids issued by US insurers are structured as 30NC10s, for example. However, some issuers opt for an earlier call date for additional financial flexibility. Below, we evaluate one of these structures that we think is attractively priced.

Trade idea - Buy CRBG 6.875% 2052s

CRBG 6.875% 2052 (Baa3/BBB-/BBB-) is a 30NC5 hybrid, yielding 9.6% ($90.5) to its 2027 call, or a z-spread of about +590bp. This compares with its 30y senior bonds (4.4% of 2052) quoted at z+285bp. With the spread ratio above 2x, the security is pricing in extension risk, reflecting the additional five years of S&P capital credit after the call date in 2027. Priced to the date of equity treatment loss, the yield is still 8.7% and the z-spread is +524bp.

CRBG is a relatively new credit to the investment grade market following its initial separation from AIG (see Good news at the 'core' for bondholders). The 2052s were its debut offering in the hybrid market and continue to carry a spread discount because of its lack of a track record as a stand-alone credit, in our view. We expect the company's credit valuations to improve as a function of time, particularly given its solid fundamental profile. CRBG is a large, diversified life insurer with solid regulatory capitalization and moderate leverage. In our view, its combination of diversification and scale is rivaled only by higher-rated credits such as MET and PRU.

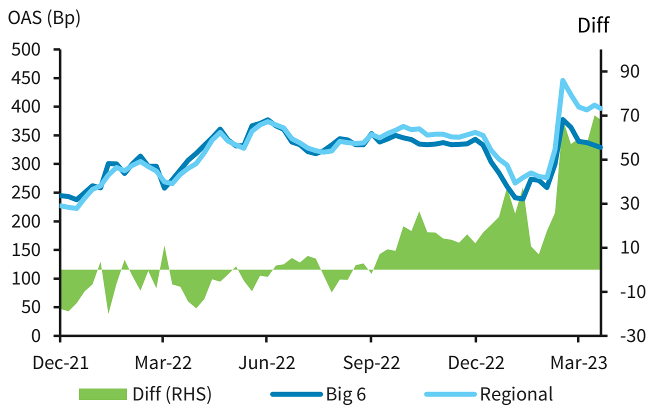
If we are correct in our view about the market's increased comfort with CRBG as a stand-alone credit, its hybrid spreads should be tighter by their call date in 2027 than they are now. The coupon on the CRBG 2052s resets at the constant-rate 5y UST plus 3.846% starting in 2027. We do not believe that spread is low enough to compensate for the loss of S&P equity credit the security would suffer in its final 25 years. **As a result, we recommend buying CRBG 6.875% 2052s.**

One risk to the trade is the likelihood of additional hybrid issuance from CRBG. The company expects to repay $1.5bn of legacy unsecured bank debt with proceeds from the issuance of new hybrids. That said, it does not face imminent pressure to execute the refinancing because the term loan does not mature until February 2025.

Despite wider spreads, not all regional preferreds look attractive

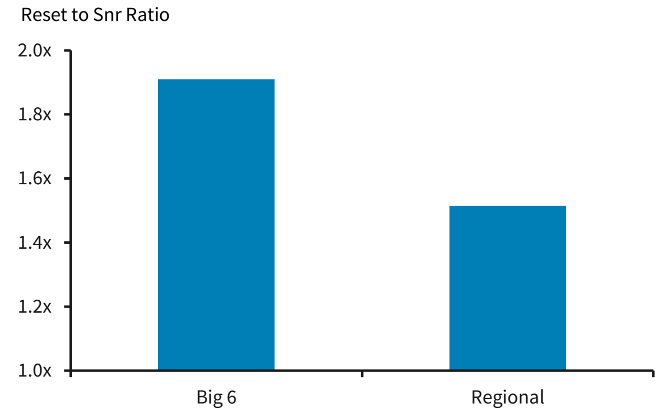
Most preferreds issued by banks sold off following the failures of SVB and emergency merger of UBS and CS. In the US, regional bank preferred spreads have underperformed the Big 6 (Figure 9), driving the basis to about 70bp, reversing the historical relationship. However, the median ratio of reset spread to senior spread in regional preferreds is only about 1.5x, compared with 1.9x for the Big 6 (Figure 10). This suggests that the decompression, broadly speaking, was warranted. On a more granular basis, though, we see select opportunities in regional bank preferreds.

FIGURE 9. **Regionals have underperformed the Big 6**



Source: Bloomberg, Barclays Research

FIGURE 10. **Reset-to-senior ratio**



Source: Bloomberg, Barclays Research

Trade idea - Buy CFG 5.65% perp NC5s (series F)

CFG 5.65% preferreds yield 10% to their 2025 call at $91. The securities have a relatively high reset spread of +531bp, which is about 2.0x its senior spreads. We think the market is pricing in too much extension risk for the preferreds. CFG reported 1Q23 earnings earlier this week that were relatively stable. Its net interest margin (NIM) was unchanged at 3.30%, and asset quality remains sound, with a low net charge-off ratio of 34bp as of 1Q23. CFG's aggregate exposure to commercial real estate (CRE) lending is comparable to peers, and the performance of its portfolio through the Global Financial Crisis was better than several other regionals, suggesting solid underwriting acumen (see HG Banks: Qualifying the CRE Discussion).

Liquidity pressure on banks from deposit volatility has dissipated, and their capital positions remain strong. We expect banks, particularly regionals, to face higher funding costs, as competition for deposits remains high. However, this is an issue that CFG can manage in the context of its earnings capacity, in our view. **We recommend buying CFG 5.65% preferreds.**

Trade idea - Buy C 5.0% perp NC5s (series U)

Citi ended 2022 with five perps totaling $6bn that reach their first call date this year (see US Banks: 2023 Supply Outlook). The three with the earliest call dates (or notice periods) have been extended (Figure 11). The first two extensions occurred prior to the failure of SVB despite seemingly uneconomic reset spreads of L+407bp and L+423bp. We think there is a temporary reason for these non-call decisions. We believe the bank is holding off on making major debt and capital decisions until there is more clarity with regard to its Banamex unit, which is in the process of being sold. We believe that Citi could return to the capital markets to refinance its extended preferreds (or just net redeem them) after it announces a definitive agreement regarding the divestiture of Banamex.

These non-call decisions have priced extension risk across the rest of Citi's preferred structure. Its 5% perps callable in September 2024 reflect this, in our view, trading at $94, or a YTC of 9.7%. The securities have a reset spread of +381bp over SOFR. Although this approximates the weighted average back-end spread of the three perps that have already been extended (+389bp), we believe it would be economic for Citi to call these securities once it has more clarity on Banamex. We expect this to occur before the 2024 call date of the C 5.0% perp NC5s.

FIGURE 11. Citi perps reaching their first call date in 2023

Ticker	Original Coupon (%)	Current Coupon (%)	Extended?	Amt. Out ($mn)	Par	First Call Date	Reset Spread (bp)
C	5.95	8.87	Yes	1,500	1,000	1/30/2023	406.8
C	6.875	6.875	No	1,495	25	11/15/2023	413.0
C	5.35	5.35	Yes	1,250	1,000	5/15/2023	346.6
C	7.125	7.125	No	950	25	9/30/2023	404.0
C	5.9	9.09	Yes	750	1,000	2/15/2023	423.0

The C 5.35s are first callable on May 15, 2023, with 30 days' prior notice. C has not issued a call notice.
Source: Bloomberg, Barclays Research

Energy - Good structures turning good, again - Harry Mateer

In early 2022, we noted (*When Bad Structures Turn Good*, April 7, 2022) that quickly rising front-end rates, relatively anchored senior spreads, and floaters or soon-to-be-floaters trading at a discount (providing negative rates duration) meant that "bad" hybrid structures with near-term, low back-end resets could actually outperform. In general, that proved to be the case, with some securities also benefiting from investors' pricing in a higher call probability as the Fed raised rates more quickly than originally expected.

Since our last quarterly report on corporate hybrids, senior spreads have widened, moving reset/senior ratios lower and increasing extension risk across the group. As discussed above, we generally view reset-to-senior spread ratios outside of a 1.5-1.9x band (governed by relative costs of capital) as indicative of lower (above 1.9x) and higher (below 1.5x) extension risk, with the median midstream figure currently at 1.7x. However, this is somewhat misleading given that some hybrids, such as many of those issued by TC Energy (TRPCN) and Enbridge (ENBCN), include structural nuances that make redemption at the first call more likely.

With US rates futures currently pricing an end to Fed rate hikes in June 2023 and Barclays Economics estimating negative GDP growth for several quarters later this year, we think that investors could re-attach value to better hybrid/perpetual structures, namely resets with higher back ends and those that benchmark off the constant maturity five-year (CMT).

Within the Energy Transfer (ET) complex, several perps have moved to trading at a spread ratio of more than 2.0x to senior bonds, a level that we consider attractive and at the wides (on a ratio basis) of the past year. Within the group, **we recommend buying the ET 6.5% series H perps**, with a 2.3x reset-to-senior ratio, a CMT+569bp back end, and a 9.8% yield to perp (+330bp spread pickup to senior, or a 2.1x ratio). Against these, **we recommend selling the ET 6.625% series B perps**, which have a 1.4x reset-to-senior ratio and a L+415bp back end.

With respect to ET's floating-rate perps, our view is that the partnership has capacity to redeem some hybrids without violating S&P's criteria for equity credit on outstandings, although we expect near-term redemption activity to be focused on $25 par perps that have higher resets (see *S&P Update on Hybrids Could Open Redemption Door a Bit Wider*, March 7, 2023) rather than the $1,000 pars.

Since the beginning of the year, TC Energy's hybrids have been notable laggards, versus both the overall midstream cohort and its closest comp, Enbridge. We view this as warranted in light of TRPCN's weaker credit metrics and ratings pressure, with negative outlooks at Moody's and S&P on the company's high-BBB senior ratings. However, the underperformance has been entirely driven by widening senior spreads, with the spread differential between hybrids and senior relatively unchanged since the beginning of the year.

With a two-notch ratings differential between senior and hybrid ratings at TRPCN, we see risk that TC Energy's hybrid ratings could move to high yield if the senior ratings fall to mid-BBB. On that basis, we would expect the subordination premium for TRPCN's hybrids to widen rather than stay constant. Although TRPCN is working on asset sales to accelerate its leverage improvement, we think there is execution risk due to the magnitude of its plan; TC Energy has guided for at least C$5bn of divestitures, and we estimate that it needs at least C$10bn to meaningfully improve its leverage. See *Ratings Pressure Happens Gradually, Then Suddenly* (March 22, 2023).

Given our view that the loss of equity capital treatment at S&P after the first call date is likely to motivate TRPCN to call its hybrids, we recommend reducing exposure to hybrids with longer-dated calls that are further away from a potential par redemption. **We recommend selling the TRPCN 5.6% 2082s**, with just a 213bp spread pickup over senior and a first call date in 2031. **For investors who are concerned about being underexposed into a potentially successful asset sale program, we recommend pairing the 5.6% 2082s against TC Energy's senior 5.1% 2049s, to isolate the subordination premium part of the trade.**

FIGURE 12. Midstream hybrid/perp pricing matrix

								Hybrid/Senior Spread Ratio (x)		Hybrid - Senior Spread (bp)	
Ticker	Coupon (%)	Structure	Hybrid Next Call Date	Price ($)	Reset/30y Snr Z-Spd Ratio (x)	Hybrid YTC%	Hybrid YTM %	To Call	To Maturity	To Call	To Maturity
BPL	9.29	Jr. Sub	5/22/2023	85.75	0.8	224.4	10.8	NM	1.07	NM	37
ENBCN	6.00	Jr. Sub	1/15/2027	93.50	1.6	8.0	7.2	3.1	1.76	300	183
ENBCN	5.50	Jr. Sub	7/15/2027	89.00	1.4	8.7	7.0	3.6	1.69	369	164
ENBCN	6.25	Jr. Sub	3/1/2028	90.75	1.5	8.6	7.3	3.7	1.78	373	187
ENBCN	5.75	Jr. Sub	4/15/2030	91.00	3.0	7.4	8.3	2.6	2.09	250	262
ENBCN	7.38	Jr. Sub	10/15/2027	90.75	2.1	10.0	8.2	4.6	2.05	504	251
ENBCN	7.63	Jr. Sub	10/15/2032	91.00	2.5	9.1	8.7	3.2	2.21	394	290
ENLK	8.98	Preferred	5/22/2023	85.00	NA	234.9	11.0	NM	1.52	NM	197
EPD	7.74	Jr. Sub	5/22/2023	86.00	NA	215.7	9.4	NM	1.90	NM	193
EPD	7.86	Jr. Sub	5/22/2023	94.00	NA	90.3	8.8	NM	1.70	NM	150
EPD	5.25	Jr. Sub	8/16/2027	86.50	1.4	9.1	6.8	5.7	1.72	NM	154
EPD	5.38	Jr. Sub	2/15/2028	81.50	1.2	10.4	6.8	5.5	1.73	NM	156
ET	8.89	Preferred	5/8/2023	90.00	NA	290.5	10.3	NM	1.69	NM	210
ET	6.75	Preferred	5/15/2025	88.00	2.1	13.6	9.5	7.3	1.98	NM	300
ET	6.50	Preferred	11/15/2026	87.00	2.3	11.0	9.8	4.7	2.07	NM	327
ET	6.63	Preferred	2/15/2028	77.00	1.4	13.2	9.2	5.9	1.99	NM	302
ET	7.13	Preferred	5/15/2030	84.00	2.2	10.4	9.7	3.8	2.04	517	318
PAA	8.97	Preferred	5/22/2023	88.50	NA	177.9	10.6	NM	1.59	NM	200
TRPCN	5.63	Jr. Sub	5/20/2025	93.75	1.4	9.0	6.9	4.5	1.60	374	148
TRPCN	5.88	Jr. Sub	8/15/2026	94.50	1.9	7.8	7.8	3.8	1.92	297	227
TRPCN	5.30	Jr. Sub	3/15/2027	86.75	1.3	9.4	7.0	4.0	1.63	437	155
TRPCN	5.50	Jr. Sub	9/15/2029	84.50	1.8	8.7	7.8	3.0	2.00	354	247
TRPCN	5.60	Jr. Sub	12/7/2031	84.00	2.2	8.2	8.0	2.6	1.87	302	215
Median				88.25	1.7	10.0	8.3	3.8	1.78	371	200
Median, with floaters					1.4						

Source: Bloomberg, Barclays Research

Autos and Aerospace & Defense - Andrew Keches

FIGURE 13. Hybrid valuations

									Hybrid/Senior Ratio (x)		Hybrid-Senior Spread (bp)	
Ticker	Coupon (%)	Type	Next Call	Reset (bp)	Reset Index	Price ($)	Hybrid YTC%	Hybrid YTM %	To Call	To Maturity	To Call	To Maturity
A&D												
GE	8.20	Preferred	Current	333	US0003M	100.00	—	8.6	—	1.7	—	146
TXT	6.60	Jr. Sub	Current	174	US0003M	75.00	—	9.9	—	2.8	—	292
Autos												
GM	5.75	Preferred	9/30/2027	360	US0003M	83.00	10.7	7.8	3.6	1.4	505	125
GM	6.50	Preferred	9/30/2028	344	US0003M	85.00	10.2	7.7	3.1	1.4	444	119
GM	5.70	Preferred	9/30/2030	500	H15T5Y	86.00	8.3	8.6	1.9	1.5	232	167
Other Industrial												
BNSF	6.61	Jr. Sub	1/15/2026	235	US0003M	95.50	8.5	6.1	6.2	1.6	375	99
SWK	4.00	Jr. Sub	3/15/2025	266	H15T5Y	75.00	20.5	8.2	19.4	1.7	1,536	187
Median						**85.00**	**10.2**	**8.2**	**3.6**	**1.6**	**444**	**146**

Pricing of hybrid/preferred and senior securities reflects bid-side levels.
Source: Barclays Research

Within aerospace & defense, General Electric and Textron are the only corporates with hybrid/preferred bonds outstanding, and both have already reset and are floating. Although the TXT hybrids lost equity credit last year, we see little incentive for the company to call them at this point given the low reset spread, though they do screen as fairly attractive relative to the TXT 2031s at almost three times the spread. On the other hand, **we recommend buying the GE preferreds,** which are likely to be retired in the next 12 months, in our view. At L+333bp, the preferreds carry a 8.6% dividend, or 10.1% on a tax-adjusted basis when compared with senior notes, making them GE's largest and most expensive debt security outstanding. The company retired about half of the tranche earlier this year, but equity credit was preserved at the agencies because of the nature of the GE Healthcare transaction. However, our model suggests that GE has an ability to maintain BBB+ credit ratings after spinning its Power/Renewable business in early 2024, making the equity credit less valuable (for background, see our update from 1Q). With significant cash inflows in the next 12 months (proceeds from GE Healthcare + AerCap), we see a high likelihood that the remaining balance will be retired around the time of spin. Although already trading at par, we view the preferreds as an attractive one-year (or less) carry trade.

Within autos, the hybrid universe is limited to General Motors Financial (GMF), which has three preferreds outstanding. Among these, the 5.7% preferreds offer the best structure. They reset against a constant Treasury index and carry a high reset spread (500bp), making a call highly likely, in our view. That said, the market is ascribing a premium to the 5.7s relative to the GMF 5.75s and 6.5s, which reference LIbor/SOFR and reset at lower spreads (344-360bp). The 5.7% preferred still offer attractive yield pickup over comparable GM/GMF 2030 notes (approximating first call) and GM's long end; however, the spread ratios are on the lower end of the broader hybrid landscape. Moreover, investors are unlikely to gravitate toward junior subordinated paper in the current auto environment, especially with the reset/call still seven years away.

Telecom, Media, and Technology - Sandeep Gupta

Trade idea - Buy PARA 2062s, as equity treatment falls away on call date

We recommend that investors buy PARA 2062s, as we believe the notes are likely to be called in 2027, as equity treatment will go away on the call date and the senior notes will become a more attractive financing option. The current 2027 senior notes trade at a spread of 175bp, compared with the reset, which would be 400bp over the 5y Treasury. S&P considers the effective maturity of the 2062s to be 2047 because the interest rate structure has step-ups in the fixed component, implying that the notes will lose their equity credit in 2027 (20 years before the effective maturity). At a price of $84.46, the current yield to call is 11.37%. PARA 6.25 2057s also become callable in 2027; however, the S&P equity credit will remain until 2037. We expect the company to value the equity credit and not call these notes.

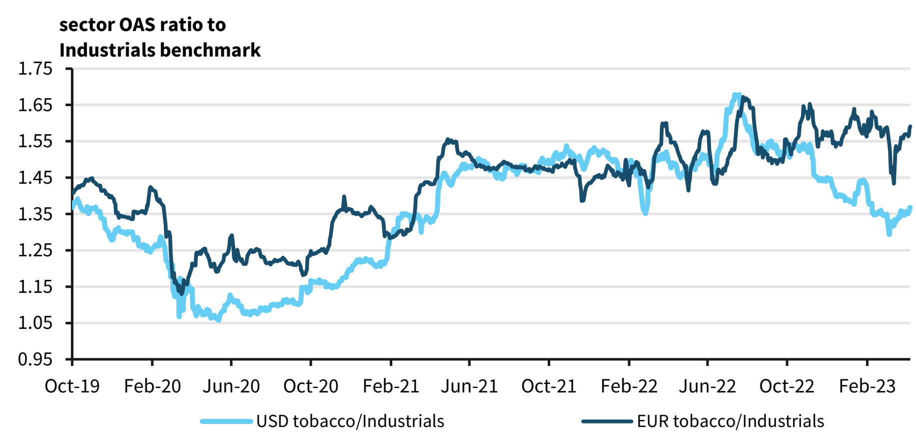
Recent performance

Over the past three months, PARA senior 2050s have performed in line with the 2062s, while the 2057s are almost 200bp wider. This decreased the 2062s' hybrid/senior ratio from 2.5x to 2.4x over the same period.

Tobacco - Priya Ohri-Gupta

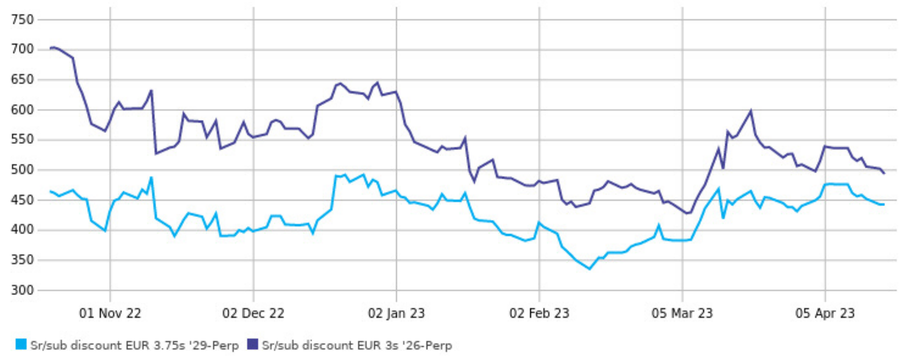
As highlighted recently in HG Tobacco: Too much defense, not enough ESG; Lower to UW, we recommend that investors look for opportunities to rotate exposure in the tobacco sector to EUR. In this vein, we view the BATSLN hybrids as an attractive way to pick up spread within the sector, particularly since we have an Overweight rating on BATSLN. The BATSLN hybrids (EUR3.0 2026 perps and EUR3.75 2029 perps) offer compelling pickup both compared with similar-tenor EUR senior unsecureds (Figure 15) and relative to USD bonds on a hedged basis (Figure 16), with a EUR pickup of up to 500bp and a USD pickup of up to 630bp.

FIGURE 14. **Given divergence in valuations within tobacco, we recommend rotating from USD to EUR**



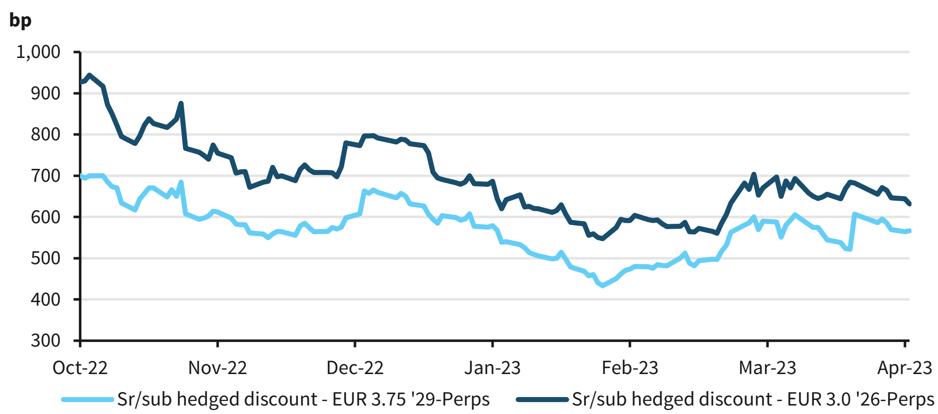
USD inclusive of 144A.
Source: Bloomberg, Barclays Research

FIGURE 15. **BATSLN sub-senior relationship versus similar-tenor EUR bonds**



Open in Barclays Live Chart
Source: **Credit** - Barclays Trading, IHS Markit

FIGURE 16. **BATSLN sub-senior relationship on a hedged/swapped basis compared with similar-tenor USD bonds**



Source: Bloomberg, Barclays Research

While the credit ratings agencies typically account for these securities as 50-50 debt-equity, in accordance with IFRS standards, BATS classifies them as full equity on its balance sheet. Because of their subordinated nature, hybrid notes can come with a two-notch lower ratings differential – in the case of BATS, the hybrids are rated Ba1/BBB-/BB+; that said, with Fitch recently revising its outlook on the credit to Positive, we think that a future upgrade would push the rating on these notes up as well, such that they would have two investment grade ratings potentially within the next 12 months.

That said, while the instruments initially receive 50% equity credit from the rating agencies, there is a strong incentive to call and/or replace hybrids at the first call date, as not doing so would cause the instruments to be fully treated as debt by S&P, and the coupon would also reset higher. The first call date for the EUR3 2026 perp is September 2026, and for the EUR3.75 2029 perp, it is June 2029. There is also typically reputational risk associated with a non-call event.

In such a non-call event, the loss of equity consideration from the agencies would essentially make the securities expensive senior debt. At the call date, the coupon on the NC5.25s would reset to 337.2bp, with the NC8s resetting to 395.2bp + EUSA5 at first call. Currently, the EUSA5 is at 324bp, implying that if they were to reset now, the coupons would jump to the mid-6% to low-7% range. Comparatively, the credit's USD intermediates are yielding in the high-5%/low-6% area and the 8y EUR bonds are in the mid-5% range.

Analyst(s) Certification(s):
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Materially Mentioned Issuers/Bonds
BAT CAPITAL CORP, Overweight, A/CD/D/J/K/L/M/N

Representative Bond: BATSLN 3.557 08/15/27 (USD 92.85, 19-Apr-2023)

BRITISH AMERICAN TOBACCO PLC, A/CD/CE/D/J/K/L/M/N

BATSLN 3 3/4 PERP (EUR 74.38, 19-Apr-2023)

BATSLN 3 PERP (EUR 81.50, 19-Apr-2023)

CENTERPOINT ENERGY INC, CD/CE/D/J/K/L/M

CNP 6 1/8 PERP (USD 94.75, 19-Apr-2023)

CITIGROUP INC, A/CD/CE/D/E/GE/I/J/K/L/M/N

C 5 PERP (USD 94.13, 19-Apr-2023)

CITIZENS FINANCIAL GROUP INC, A/CD/CE/D/E/I/J/K/L/M/N

CFG 5.65 PERP (USD 90.00, 19-Apr-2023)

COREBRIDGE FINANCIAL INC, A/CD/CE/D/E/J/K/L/M/N

CRBG 6 7/8 12/15/52 (USD 89.91, 19-Apr-2023)

EDISON INTERNATIONAL, A/CD/CE/D/E/J/K/L/M

EIX 5 PERP (USD 84.50, 19-Apr-2023)

EIX 8 1/8 06/15/53 (USD 102.70, 19-Apr-2023)

EMERA INC, CD/J

EMACN 6 3/4 06/15/2076 (USD 94.00, 19-Apr-2023)

ENERGY TRANSFER LP, A/CD/CE/D/J/L

ET 6 1/2 PERP (USD 87.88, 19-Apr-2023)

ET 6 5/8 PERP (USD 77.13, 19-Apr-2023)

GENERAL ELECTRIC CO, CD/CE/D/E/J/K/L/M/N

GE FLOAT PERP (USD 100.00, 19-Apr-2023)

NISOURCE INC, A/CD/CE/D/E/FA/J/K/L/M

NI 5.65 PERP (USD 93.50, 19-Apr-2023)

PARAMOUNT GLOBAL, CD/CE/J

PARA 6 3/8 03/30/62 (USD 84.75, 19-Apr-2023)

TRANSCANADA PIPELINES LTD, A/CD/D/E/J/K/L/M/R

TRPCN 5.1 03/15/49 (USD 92.05, 19-Apr-2023)

TRANSCANADA TRUST, CD/J

TRPCN 5.6 03/07/2082 (USD 85.25, 19-Apr-2023)

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For sectors rated against the Bloomberg U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Pan-European High Yield Finance Index or the Bloomberg EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to exceed the six-month total return of the relevant index.

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For sectors rated against the Bloomberg U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Pan-European High Yield Finance Index or the Bloomberg EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be in line with the six-month total return of the relevant index.

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For sectors rated against the Bloomberg U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Pan-European High Yield Finance Index or the Bloomberg EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be less than the six-month total return of the relevant index.

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Overweight (OW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to exceed the six-month expected excess return of the relevant sector.

Market Weight (MW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be in line with the six-month expected excess return of the relevant sector.

Underweight (UW): The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be less than the six-month expected excess return of the relevant sector.

Rating Suspended (RS): The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

Coverage Suspended (CS): Coverage of this issuer has been temporarily suspended.

Not Covered (NC): Barclays' fundamental credit research team does not provide formal, continuous coverage of this issuer and has not assigned a rating to the issuer or its debt securities. Any analysis, opinion or trade recommendation provided on a Not Covered issuer or its debt securities is valid only as of the publication date of this report and there should be no expectation that additional reports relating to the Not Covered issuer or its debt securities will be published thereafter.

For all High Yield issuers (excluding those covered in EEMEA or Latin America), the credit rating system is based on the analyst's view of the expected total returns over a six-month period of the rated debt security relative to the expected total return of the relevant sector, as specified on the report.

Overweight (OW): The analyst expects the six-month total return of the debt security subject to this rating to exceed the six-month expected total return of the relevant sector.

Market Weight (MW): The analyst expects the six-month total return of the debt security subject to this rating to be in line with the six-month expected total return of the relevant sector.

Underweight (UW): The analyst expects the six-month total return of the rated debt security subject to this rating to be less than the six-month expected total return of the relevant sector.

Rating Suspended (RS): The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

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Where a recommendation is made at the issuer level, it does not apply to any sanctioned securities, where trading in such securities would be prohibited under applicable law, including sanctions laws and regulations.

*In EEMEA and Latin America (and in certain other limited instances in other regions), analysts may occasionally rate issuers that are not part of the Bloomberg U.S. Credit Index, the Bloomberg Pan-European Credit Index, the Bloomberg EM Asia USD High Grade Credit Index or Bloomberg EM USD Corporate and Quasi Sovereign Index. In such cases the rating will reflect the analyst's view of the expected excess return over a six-month period of the issuer's corporate debt securities relative to the expected excess return of the relevant sector, as specified on the report.

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49% have been assigned Market Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 67% of issuers with this rating category are investment banking clients of the Firm; 84% of the issuers with this rating have received financial services from the Firm.

24% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 63% of issuers with this rating category are investment banking clients of the Firm; 81% of the issuers with this rating have received financial services from the Firm.

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48% have been assigned Market Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 50% of bonds with this rating category are investment banking clients of the Firm; 70% of the issuers with this rating have received financial services from the Firm.

20% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 37% of bonds with this rating category are investment banking clients of the Firm; 61% of the issuers with this rating have received financial services from the Firm.

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The analyst expects the six-month excess return of the country's index eligible bonds to exceed the six-month excess return of the Bloomberg EM USD Sovereign Index.

Market Weight (MW):
The analyst expects the six-month excess return of the country's index eligible bonds to be in line with the six-month excess return of the Bloomberg EM USD Sovereign Index.

Underweight (UW):
The analyst expects the six-month excess return of the country's index eligible bonds to be less than the six-month excess return of the Bloomberg EM USD Sovereign Index.

Rating Suspended (RS):
The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity.

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38% have been assigned Market Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 15% of issuers with this rating category are investment banking clients of the Firm; 85% of the issuers with this rating have received financial services from the Firm.

21% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 14% of issuers with this rating category are investment banking clients of the Firm; 71% of the issuers with this rating have received financial services from the Firm.

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May 3, 2023 | 18:26 ET~

BMO Capital Markets

IN Fact

NiSource

NI-NYSE ⑮	Rating	Price: May-3	Target	Total Rtn
	Outperform	$28.12	$31.00	14%

Utilities, Power & Renewables

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Less Is More – Quiet Set of Updates

Bottom Line:

NiSource reported a small beat for 1Q23 earnings with operating EPS of $0.77 compared to BMO and street estimates of $0.75/$0.76 respectively. **Management reaffirmed their 2023 non-GAAP diluted net operating earnings per share (NOEPS) guidance of $1.54-$1.60 (BMO/Consensus at $1.54/$1.56) with a midpoint of $1.57.** The company also reaffirmed its 2023-2027 capital program totaling ~$15B, which drives an 8-10% rate base growth and underpins the annual NOEPS growth of 6-8% through 2027. **We reiterate our Outperform rating and $31 target price.**

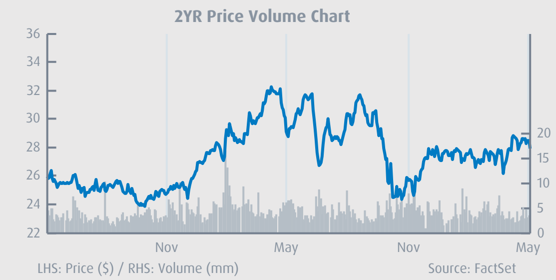
Key Points

On the electric side, the NIPSCO Electric rate case continues to expect a final order in August. Recently on May 1, NIPSCO and the settling parties filed their proposed order with the IURC.

For the NIPSCO minority interest sale, management noted that there are no changes and that it remains on track to close in 2023. Additionally, management reaffirmed their 14-16% FFO/Debt range with metrics at the top end of the range after the company executes the NIPSCO minority interest sale. Management also reiterated that it does not see any equity needs until 2025 and that any equity needs beyond 2025 would be done via an ATM program. **We view the balance sheet strength represented by the ~300bps cushion above the downgrade threshold expected to be generated in the near term as a significant positive differentiator to peers in the current environment**.

On the call, management was asked about their interest in M&A given current market activity. **In response, management noted they do not comment on market rumors and are primarily focused on deploying $15B in their current plan that drives organic growth. Accordingly, it is clear that the organic plan remains the priority and any inorganic growth would require an incredibly high hurdle rate.** That being said, management did remark they would welcome assets with a price tag in the vicinity of ~1x rate base.

We view the lack of material updates as a positive for NiSource in the current environment. **Furthermore, with macroeconomic uncertainty and a lack of conviction remaining, we believe investors will continue to favor de-risked names in the near term with visibility and confidence in the execution of both its capital and financing plan will be the keys to continued re-rating potential for the stock over the next 12-18 months**. **We reiterate our Outperform rating.**



Company Data			in $
Dividend	$1.00	Shares O/S (mm)	412.5
Yield	3.6%	Market Cap (mm)	$11,600
P/BV	1.6x	Net Debt (mm)	$9,336

BMO Estimates				in $
(FY-Dec.)	2022A	2023E	2024E	2025E
EPS	$1.47	$1.54	$1.67	$1.78
DPS	$0.94	$1.00	$1.06	$1.12
EBIT	$1,276	$1,410	$1,606	$1,770
EBITDA	$2,067	$2,255	$2,519	$2,752
Consensus Estimates				
	2022A	2023E	2024E	2025E
EPS		$1.55	$1.67	$1.79
Valuation				
	2022A	2023E	2024E	2025E
P/E	19.1x	18.3x	16.8x	15.8x
Div. Yield (%)	3.3%	3.5%	3.8%	4.0%
QTR. EPS	Q1	Q2	Q3	Q4
2022A	$0.75	$0.12	$0.10	$0.50
2023E	$0.77a	$0.13	$0.12	$0.52
2024E	$0.87	$0.14	$0.13	$0.53
2025E	$0.93	$0.15	$0.13	$0.56

Our Thesis

After the analyst day, we believe NI has meaningfully derisked the story that promises investors above-average EPS and rate base growth in favorable regulatory jurisdictions with what will be, upon the completion of the NIPSCO minority stake sale, one of the stronger balance sheets in the sector.

For disclosure statements, including the Analyst Certification, please refer to page(s) 7 to 10.

BMO Capital Markets

NiSource - Block Summary Model

Income Statement	2022A	2023E	2024E	2025E
Electric Operations	456	515	640	700
Gas Distribution	751	854	926	1,030
Coporate & Other	1	1	(1)	(1)
Consolidated EBIT	1,276	1,410	1,606	1,770
Depreciation & Amortization	791	845	914	982
EBITDA	2,067	2,255	2,519	2,752
Interest Expense	396	491	431	502
Income Tax	158	155	199	214
Income from continuing operations	666	706	819	885
Weighted Average Shares Outstanding	452	458	491	497
Diluted Operating EPS	$1.47	$1.54	$1.67	$1.78
Dividends per Share	$0.94	$1.00	$1.06	$1.12
Cash Flow Statement	**2022A**	**2023E**	**2024E**	**2025E**
Operating Cash Flow	1,493	1,568	1,762	1,922
Investing Cash Flow	(2,600)	(3,000)	(950)	(3,300)
Financing Cash Flow	1,058	1,428	(871)	1,269
Net Change in Cash Flow	(49)	(4)	(59)	(109)
EOP Cash on Balance Sheet	46	42	(17)	(126)
Common stock (net)	348	40	903	240
Net debt issued/(repaid)	1,190	1,900	(1,200)	1,640
Dividends paid	(425)	(457)	(518)	(556)
Balance Sheet	**2022A**	**2023E**	**2024E**	**2025E**
Common Equity	6,842	7,134	8,349	8,928
Preferred Equity	1,547	1,547	1,547	1,547
Total Debt	10,991	12,891	11,691	13,331
Enterprise Value	$23,570	$25,520	$25,270	$27,264
Common equity %	35.3%	33.1%	38.7%	37.5%
Preferred equity %	8.0%	7.2%	7.2%	6.5%
Total Debt %	56.7%	59.8%	54.2%	56.0%
Book Value per Share	$18.56	$18.94	$20.17	$21.09

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

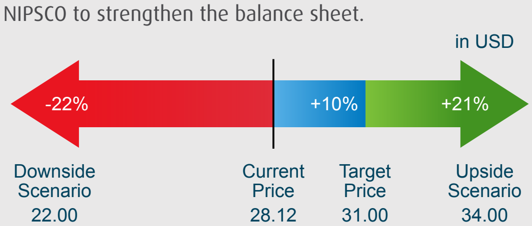
Our target price is the product of a P/E-based sum of the parts. We utilize a regulated-group average multiple using 2025E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook.

Upside Scenario $34.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile, as well as the material improvement in the balance sheet with the successful execution of the minority interest sale in NIPSCO.

Downside Scenario $22.00

Our downside scenario reflects a tightening monetary policy, a deceleration of the company's rate base growth and failure to execute on the sale of a minority interest in NIPSCO to strengthen the balance sheet.



Key Catalysts

Successful execution of both its upcoming NIPSCO Electric rate case as well as sale of a minority interest in its NIPSCO subsidiary by mid-year 2023.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

BMO Top 15 List

BMO Top 15 List Member

Income Stock

NI-NYSE Research

Glossary

Company Models

Less Is More – Quiet Set of Updates – Focus Remains on NIPSCO Sale and Electric Rate Case

Bottom Line: We view the lack of material updates as a positive for NiSource in the current environment. The company continues to make steady progress on its NIPSCO minority interest (MI) sale as well as the Electric rate case, which supports its long-term growth plan as well as a strong balance sheet. As seen by its YTD outperformance vs its peers, we believe NI has benefited from its de-risked story and expected balance sheet strength over the forecast period. **Furthermore, with macroeconomic uncertainty and a lack of conviction remaining, we believe investors will continue to favor de-risked names in the near term with visibility and confidence in the execution of both its capital and financing plan will be the keys to continued re-rating potential for the stock over the next 12-18 months. We reiterate our Outperform rating and $31 target price.**

NiSource reported a small beat for 1Q23 earnings with operating EPS of $0.77 compared to BMO and street estimates of $0.75/$0.76 respectively. Gas distribution earnings were $73mm higher year over year as net operating revenues were ~$83mm higher, mainly due to new rates resulting from base rate cases in Ohio, Pennsylvania, Indiana, Virginia, and Maryland and regulatory capital programs/trackers in Ohio, Kentucky, and Virginia. Net operating expenses were ~$4mm higher due primarily to higher outside service costs and uncollectible accounts. On the Electric side, operating earnings were $16mm lower as net operating revenues were ~$4mm lower, primarily due to lower weather-normalized customer usage and net operating expenses were ~$7mm higher primarily due to outside service expense related to generation maintenance. **Management reaffirmed their 2023 non-GAAP diluted net operating earnings per share (NOEPS) guidance of $1.54-$1.60 (BMO/Consensus at $1.54/$1.56) with a midpoint of $1.57.** The company also reaffirmed its 2023-2027 capital program totaling ~$15B that drives 8-10% rate base growth and underpins annual NOEPS growth of 6-8% through 2027.

On the electric side, the NIPSCO Electric rate case continues to expect a final order in August. Recently on May 1, NIPSCO and the settling parties filed their proposed order with the IURC, and while there is a possibility of reply briefs in the interim, an order from the commission is expected to be the next significant event in the August time frame. On the renewable generation investments, all of the projects remain on track with the only change being the Fairbanks Solar Project estimated in-service time was refined from 2024-2025 timeframe to 2Q25. Additionally, the company filed a motion to stay the proceeding on the FMCA Trackers for the recovery of costs related to the closure of Michigan City Generating Station's CCR ash ponds and R.M. Schahfer Generating Station's multi-cell unit, pending the outcome of the electric rate case settlement agreement.

On the gas distribution side, the only pending gas rate case is at Columbia Gas of Virginia and the company expects the final order in 2Q23. **Outside of the final order in the NIPSCO electric rate case, we view the regulatory calendar as largely de-risked in the near term**. Additionally, management noted that in 2022, commodity costs represented ~45% of an average residential customer total bill, on the gas side. With natural gas prices declining almost 50%, this significantly reduces the average customer bill, which should provide additional bill headroom to support the company's capital programs.

On the NIPSCO minority interest sale, management noted that there are no changes and that it remains on track to close in 2023. Additionally, management reaffirmed their 14-16% FFO/Debt range with metrics at the top end of the range after the company executes the NIPSCO minority interest sale. Management also reiterated that it does not see any equity needs until 2025 and that any equity needs beyond 2025 would be done via an ATM program with the goal of sustaining FFO/Debt in the 14-16% range. **We view the balance sheet strength represented by the ~300bps cushion above the downgrade threshold expected to be generated in the near term as a significant positive differentiator to peers in the current environment**.

Also, on the call, management was asked about their interest in M&A given current market activity. **In response, management noted that they do not comment on market rumors and are primarily focused on deploying $15B in the company's current plan that drives organic growth**. **Accordingly, it is clear that the organic plan remains the priority and any inorganic growth would require an incredibly high hurdle rate. That being said, management did remark they would welcome assets with a price tag in the vicinity of ~1x rate base.**

Recently legislative activity in Indiana advanced (HB 1420) and became law, which expanded the ROFR rights for incumbent transmission owners. We believe that this could provide the company with another upside capex opportunity to its 2028-2032 capital plan.

We maintain our Outperform rating and $31 target price given the de-risked regulatory environment, 6-8% EPS growth rate, and the balance sheet strength. Our 2023-2025 estimates remain unchanged at $1.54, $1.67, and $1.78, respectively.

Exhibit 1: NiSource Inc. - Model Summary

NI Model Summary	2020A	2021A	2022A	2023E	2024E	2025E
EPS By Segment						
Electric Operations	$0.65	$0.65	$0.76	$0.83	$0.86	$0.93
Gas Distribution	$1.15	$1.09	$1.17	$1.32	$1.30	$1.45
Corporate & Other	($0.48)	($0.37)	($0.45)	($0.60)	($0.48)	($0.60)
Consolidated E.P.S.	**$1.32**	**$1.37**	**$1.47**	**$1.54**	**$1.67**	**$1.78**
Dividend per share	**$0.84**	**$0.88**	**$0.94**	**$1.00**	**$1.06**	**$1.12**
Payout Ratio total	63.6%	64.3%	63.8%	64.7%	63.3%	62.9%
Dividend Yield	2.9%	3.2%	3.4%	3.6%	3.8%	4.1%
Valuation Metrics						
Price to Earnings	22.2x	20.2x	18.7x	17.9x	16.5x	15.5x
Price to Book Value	1.7x	1.5x	1.5x	1.5x	1.4x	1.3x
Funding Sources						
Cash Flow from Operations	$1,681	$1,255	$1,493	$1,568	$1,762	$1,922
Total Debt Financings	$2,974	$0	$1,000	$1,900	($1,200)	$2,700
Total Equity Financings	$0	$0	$348	$40	$903	$240
Credit Metrics						
Total Debt/Capitalization	60%	56%	57%	60%	54%	56%
FFO/Total Debt	13%	15%	13.6%	12.2%	15.1%	14.4%
Regulated Operations Performance - Realized ROE						
NIPSCO Electric ROE	10.4%	11.2%	13.1%	12.8%	12.6%	12.1%
Columbia Gas of Ohio ROE	9.0%	9.3%	9.5%	9.7%	9.5%	9.7%
Columbia Gas of Pennsylvania ROE	9.0%	9.3%	9.6%	9.7%	9.5%	9.7%
NIPSCO Gas ROE	9.0%	9.1%	9.7%	9.8%	9.6%	9.8%
Columbia Gas of Virginia ROE	9.0%	9.6%	9.5%	9.6%	9.5%	9.7%
Columbia Gas of Kentucky ROE	8.9%	8.1%	8.5%	8.7%	8.6%	8.9%
Columbia Gas of Maryland ROE	9.1%	9.8%	9.5%	9.6%	9.4%	9.7%

Source: BMO Capital Markets, Company Filings

Exhibit 2: NiSource Inc. - Key Assumptions

Key Model Assumptions	2020A	2021A	2022A	2023E	2024E	2025E	21-25
Total Capital Expenditures by Segment							
Electric Operations	$423	$483	$1,100	$1,000	$1,400	$1,400	**$4,900**
Gas Distribution	$1,267	$1,296	$1,500	$2,000	$1,800	$1,900	**$7,200**
Consolidated Capital Expenditures	**$1,690**	**$1,780**	**$2,600**	**$3,000**	**$3,200**	**$3,300**	**$12,100**
YE Rate Base Estimates							
NIPSCO Electric	$4,794	$4,898	$5,649	$6,273	$7,268	$8,227	*10.9%*
Columbia Gas of Ohio	$3,412	$3,937	$4,369	$4,991	$5,517	$6,064	*9.0%*
Columbia Gas of Pennsylvania	$2,069	$2,419	$2,685	$3,067	$3,391	$3,728	*9.0%*
NIPSCO Gas	$1,824	$1,991	$2,212	$2,531	$2,801	$3,081	*9.1%*
Columbia Gas of Massachusetts	$1,207	$0	$0	$0	$0	$0	
Columbia Gas of Virginia	$867	$1,086	$1,205	$1,376	$1,521	$1,671	*9.0%*
Columbia Gas of Kentucky	$371	$422	$463	$522	$572	$624	*8.2%*
Columbia Gas of Maryland	$150	$197	$219	$250	$277	$305	*9.1%*
Total Rate Base	**$14,693**	**$14,950**	**$16,800**	**$19,010**	**$21,347**	**$23,699**	***9.7%***

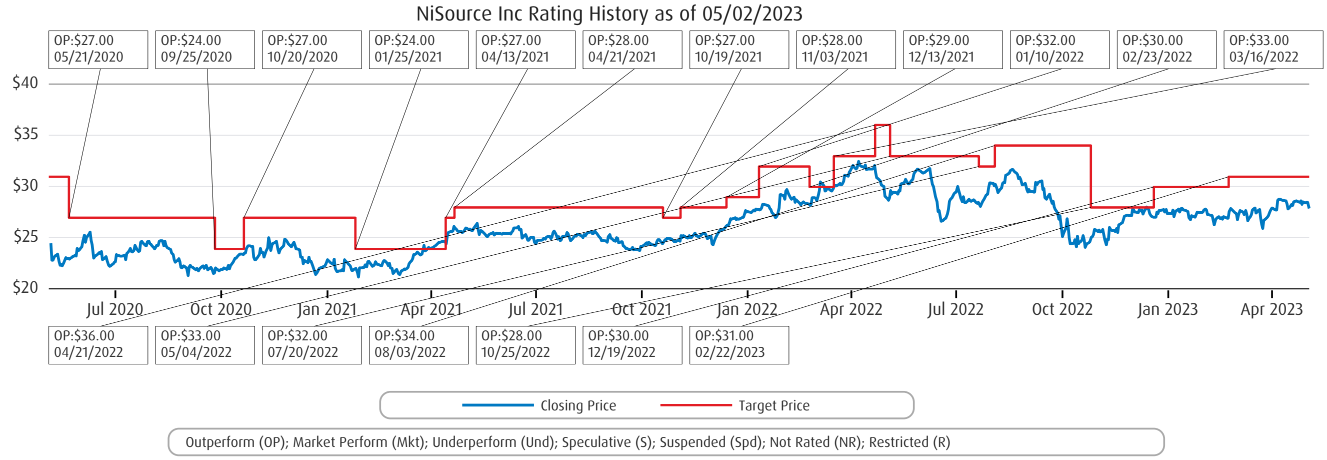
Source: BMO Capital Markets, Company Filings

Exhibit 3: NiSource Inc. - SOTP Valuation

							BMO Low Case		BMO Base Case		BMO High Case	
Regulated, Corporate & Other	Valuation Metric	2025E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)
Electric Operations	EPS	$0.93	Electric	16.0x	+5.0%	16.8x	13.5x	$13	16.8x	$16	18.8x	$17
Gas Distribution	EPS	$1.45	Natural Gas	16.3x	+7.5%	17.5x	13.8x	$20	17.5x	$25	19.5x	$28
Corporate & Other	EPS	($0.60)	Blend	17.2x	+0.0%	17.2x	17.2x	($10)	17.2x	($10)	19.2x	($11)
Utility & Parent Value		**$1.78**					12.5x	**$22**	17.2x	**$31**	19.2x	**$34**
Total NiSource Inc.								**$22**		**$31**		**$34**
Upside/(Downside)								(21%)		9%		22%
Current Yield								4%		4%		4%
Total Return								**(17%)**		**13%**		**25%**

Source: BMO Capital Markets, Company Filings

NiSource Inc Rating History as of 05/02/2023



Source: FactSet, BMO Capital Markets

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Methodology and Risks to Target Price/Valuation for NiSource Inc (NI-NYSE)

Methodology: Our target price is the product of a P/E-based sum-of-the-parts (SOTP) analysis of the company's primary regulated operating companies. We utilize a regulated-group average multiple based on 2025E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

Distribution of Ratings (May 02, 2023)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	47.2 %	17.7 %	50.6 %	53.4 %	60.5 %	57.7%
Hold	Market Perform	49.9 %	15.5 %	46.8 %	44.7 %	38.0 %	37.5%
Sell	Underperform	2.9 %	14.3 %	2.5 %	1.7 %	1.0 %	4.8%

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(S) = Speculative investment;
Spd = Suspended - Coverage and rating suspended until coverage is reinstated;
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(April 2013 - October 2016)
http://researchglobal.bmocapitalmarkets.com/documents/2013/rating_key_2013_to_2016.pdf

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June 20, 2023 | 20:18 ET~

BMO Capital Markets

IN Fact

NiSource

NI-NYSE 15	Rating	Price: Jun-20	Target ↓	Total Rtn
	Outperform	$27.22	$30.00	14%

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Checking Another Box – Modestly Better-Than-Expected MI Interest Sale

Bottom Line:

We see today's NIPSCO minority-interest sale to Blackstone as one of the key derisking events supporting our Outperform rating. At a 1% discount to peers, we continue to recommend NI as a core holding in the sector as it checks the three primary attributes we believe investors place a premium on: 1) strong balance sheet (200 b/p of cushion); 2) predictable regulatory environment with minimal rate case risk; and 3) increasing emphasis on GARP/relative valuation given the widening dispersion in the group which has led to a shrinking investable universe.

Key Points

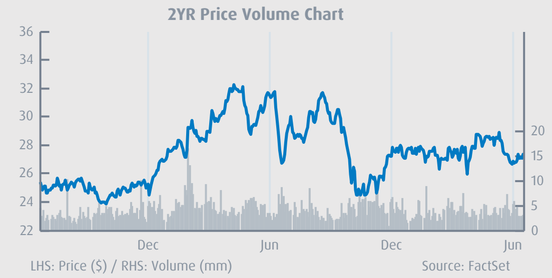
NiSource announced it has entered into a definitive agreement to sell a 19.9% MI in NIPSCO to Blackstone Infrastructure Partners for $2.15bn. Per the agreement, Blackstone has also committed to funding a pro rata share of NIPSCO's ongoing capital requirements commensurate with its 19.9% interest into perpetuity. This is supported by a $250mm equity commitment letter which is expected to be utilized over 3 years (2024-2026) and brings the total funding commitment to $2.4bn through NI's five-year capital plan. To maintain its 19.9% ownership stake, Blackstone has the option to satisfy its funding requirements through direct contributions and/or by forgoing cashflow distributions from NIPSCO.

Using our YE2022, Blackstone's $2.15b of initial proceeds implies an EV/Rate base multiple of 1.85x, which was in line/slightly above our 1.75x assumption (~$2bn proceeds). **Despite some investors' fear of a lower multiple due to rising interest rates over the past year, we believe NIPSCO's attractive rate-base growth of 13-14%, constructive regulatory environment, and strong credit profile drove the modestly better-than-expected premium transaction multiples.**

Although we do not expect any changes to the company's forward outlook with management clearly placing its emphasis on execution and predictability, we see several potential drivers that could provide upside or cushion to its current outlook: 1) Blackstone's perpetual equity commitment/improving consolidated cash flow outlook, which could potentially reduce its ongoing maintenance ATM needs in 2025+; 2) conservative regulatory planning assumptions; and 3) modest financing efficiencies including the redemption of its $500mm Perpetual B's (~7.6%/non-tax deductible coupon if not called at call date) and lack of upside collar on the YE2023 settlement of its equity purchase contracts ($24.51 floor).

Although we see some bias to the upside, our 2023-2025 estimates remain unchanged at $1.54, $1.67, and $1.78, respectively. **Our target price moves to $30 as we MTM our peer group multiples.**

Key Changes	
Target	$30.00↓ $31.00



Company Data			in $
Dividend	$1.00	Shares O/S (mm)	413.1
Yield	3.7%	Market Cap (mm)	$11,243
P/BV	1.6x	Net Debt (mm)	$9,336

BMO Estimates (FY-Dec.)	2022A	2023E	2024E	2025E
EPS	$1.47	$1.54	$1.67	$1.78
DPS	$0.94	$1.00	$1.06	$1.12
EBIT	$1,276	$1,410	$1,606	$1,770
EBITDA	$2,067	$2,255	$2,519	$2,752

Consensus Estimates	2022A	2023E	2024E	2025E
EPS		$1.57	$1.68	$1.80

Valuation	2022A	2023E	2024E	2025E
P/E	18.5x	17.7x	16.3x	15.3x
Div. Yield (%)	3.5%	3.7%	3.9%	4.1%

QTR. EPS	Q1	Q2	Q3	Q4
2022A	$0.75	$0.12	$0.10	$0.50
2023E	$0.77a	$0.13	$0.12	$0.52
2024E	$0.87	$0.14	$0.13	$0.53
2025E	$0.93	$0.15	$0.13	$0.56

Our Thesis

After the analyst day, we believe NI has meaningfully derisked the story that promises investors above-average EPS and rate base growth in favorable regulatory jurisdictions with what will be, upon the completion of the NIPSCO minority stake sale, one of the stronger balance sheets in the sector.

For disclosure statements, including the Analyst Certification, please refer to page(s) 7 to 10.

BMO Capital Markets

NiSource - Block Summary Model

Income Statement	2022A	2023E	2024E	2025E
Electric Operations	456	515	640	700
Gas Distribution	751	854	926	1,030
Coporate & Other	1	1	(1)	(1)
Consolidated EBIT	1,276	1,410	1,606	1,770
Depreciation & Amortization	791	845	914	982
EBITDA	2,067	2,255	2,519	2,752
Interest Expense	396	491	431	502
Income Tax	158	155	199	214
Income from continuing operations	666	706	819	885
Weighted Average Shares Outstanding	452	458	491	497
Diluted Operating EPS	$1.47	$1.54	$1.67	$1.78
Dividends per Share	$0.94	$1.00	$1.06	$1.12
Cash Flow Statement	**2022A**	**2023E**	**2024E**	**2025E**
Operating Cash Flow	1,493	1,568	1,762	1,922
Investing Cash Flow	(2,600)	(3,000)	(950)	(3,300)
Financing Cash Flow	1,058	1,428	(871)	1,269
Net Change in Cash Flow	(49)	(4)	(59)	(109)
EOP Cash on Balance Sheet	46	42	(17)	(126)
Common stock (net)	348	40	903	240
Net debt issued/(repaid)	1,190	1,900	(1,200)	1,640
Dividends paid	(425)	(457)	(518)	(556)
Balance Sheet	**2022A**	**2023E**	**2024E**	**2025E**
Common Equity	6,842	7,134	8,349	8,928
Preferred Equity	1,547	1,547	1,547	1,547
Total Debt	10,991	12,891	11,691	13,331
Enterprise Value	$23,570	$25,520	$25,270	$27,264
Common equity %	35.3%	33.1%	38.7%	37.5%
Preferred equity %	8.0%	7.2%	7.2%	6.5%
Total Debt %	56.7%	59.8%	54.2%	56.0%
Book Value per Share	$18.56	$18.94	$20.17	$21.09

Source: BMO Capital Markets, Company Reports

Scenarios

Valuation

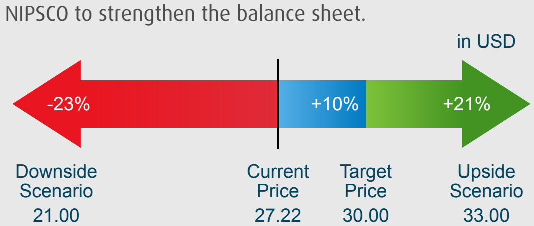
Our target price is the product of a P/E-based sum of the parts. We utilize a regulated-group average multiple using 2025E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook.

Upside Scenario $33.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile, as well as the material improvement in the balance sheet with the successful execution of the minority interest sale in NIPSCO.

Downside Scenario $21.00

Our downside scenario reflects a tightening monetary policy, a deceleration of the company's rate base growth and failure to execute on the sale of a minority interest in NIPSCO to strengthen the balance sheet.



Key Catalysts

Successful execution of both its upcoming NIPSCO Electric rate case as well as sale of a minority interest in its NIPSCO subsidiary by mid-year 2023.

Company Description

NiSource, Inc. is a regulated utility holding company, serving approximately 3.5 million natural gas customers and 500,000 electric customers across seven states. Through its Columbia Gas and NIPSCO brands, it provides natural gas, electricity, and other products and services. The company was founded in 1987 and is headquartered in Merrillville, Indiana.

BMO Top 15 List

BMO Top 15 List Member

Income Stock

NI-NYSE Research

Glossary

Company Models

Checking Another Box – Modestly Better-Than-Expected MI Interest Sale

Bottom Line: We see today's NIPSCO minority-interest sale to Blackstone as one of the key de-risking events supporting our Outperform rating. We continue to recommend NI as a core holding in the sector as it checks the three primary attributes we believe investors are placing a premium on (currently and longer-term): 1) strong balance sheets with cushion to their metrics; 2) predictable regulatory environment with minimal or diversified rate case risk; and 3) increasing emphasis on attractive relative valuation given the widening dispersion in the group which has led to a shrinking investable universe.

With the January approval of the company's Ohio rate settlement and pending August order in its NIPSCO rate case, we see today's announcement as adding significant visibility to the company's financing plan and balance sheet improvement. Moreover, although we do not expect any significant changes to the company's forward outlook with management clearly placing its emphasis on execution and predictability, in conjunction with today's announcement, we see several potential drivers that could add upside or at least cushion to its current outlook including: 1) Blackstone's perpetual equity commitment and improving consolidated cash flow outlook which could potentially reduce its ongoing maintenance ATM needs in 2025+; 2) conservative regulatory planning assumptions; and 3) modest financing efficiencies including the redemption of its $500 million perpetual Bs (~7.6%/non-tax deductible coupon if not called at call date) and lack of upside collar on the YE2023 settlement of its equity purchase contracts ($24.51 floor). **Management reaffirmed its 2023 non-GAAP diluted net operating earnings per share (NOEPS) guidance of $1.54-1.60 (BMO/Consensus at $1.54/$1.57) with a midpoint of $1.57.** The company also reaffirmed its 2023-2027 capital program totaling ~$15 billion that drives 8-10% rate base growth and underpins annual NOEPS growth of 6-8% through 2027.

We reiterate our Outperform rating and would continue to be buyers of the stock as we see today's further derisking as adding to the visibility and cushion to the of the company's financial outlook, which should drive multiple expansion. At a 1% discount to the group, we find NI shares to be one of the most attractive names in our coverage universe given its 7% EPS growth, strong balance sheet, constructive regulatory environment, and minimal and diversified regulatory activity. Although we see some bias to the upside, our 2023-2025 estimates remain unchanged at $1.54, $1.67, and $1.78, respectively. **Our target price moves to $30 as we MTM our peer group multiples used in our SOTP valuation framework.**

Checking Another Derisking Box on the Long-Term Strategy

NiSource announced today that it has entered into a definitive agreement to sell a minority interest (19.9%) in NIPSCO to Blackstone Infrastructure Partners for $2.15 billion. Per the agreement, Blackstone has also made the commitment to fund a pro rata share of NIPSCO's ongoing capital requirements commensurate with its 19.9% interest into perpetuity. This is supported by a $250 million equity commitment letter which is expected to be utilized over a three-year period (2024-2026) and brings the total funding commitment to $2,400mm through NI's five-year capital plan. To maintain its 19.9% ownership stake, Blackstone has option satisfy its funding requirements through direct contributions and/or by forgoing cashflow distributions from NIPSCO.

The transaction implies and equity value of $10.8b and enterprise value of $14.3 billion for 100% of NIPSCO. Using YE2022, Blackstone's $2.15 billion of initial proceeds implies an EV/Rate base multiple of 1.85x, which was in line/slightly above our 1.75x assumption. The company estimates using TTM adj. net income of $333 million, the transaction implies ~32.5x P/E and directionally in line with the ~29x P/E we see using our 2023 forecast net income. **Despite some investors fear of a lower multiple due to rising interest rates over the last year, we believe NIPSCO's attractive rate base growth of 13-14%, constructive regulatory environment and strong credit profile drove the modestly better-than-expected premium transaction multiples.**

The transaction is expected to close by year-end 2023, subject to customary closing conditions, including receiving FERC approvals and clearances. While the transaction does not need IURC approval, the company discussed the transaction with IURC prior to today's announcement. We see limited risk in terms of the FERC approval based on prior precedent with other minority interest sales.

Balance Sheet/Credit Metrics: Management reaffirmed its 14-16% FFO/Debt range with metrics reaching the higher end of the range at YE2023 and moderating towards the midpoint of the target range over the longer term. Management also reiterated that it does not see the need for any additional equity at least until 2025 and that any maintenance equity requirements would be done via a its ATM program ($200-300mm) with the goal of sustaining the healthy cushion above its 13% downgrade threshold (200 b/p at the midpoint). The company also met with all three rating agencies prior to the announcement and while no updated credit comments have been issued, we believe the transaction is likely in-line to modestly better than the plan the company had originally communicated. We would expect both NiSource's/NIPSCO's Stable credit ratings to be affirmed at both Moody's (Baa2/Baa1) and S&P (BBB+/BBB).

NIPSCO Settlement Still on Track for August Final Order

On the NIPSCO Electric rate case, the company continues to expect a final order from the commission in August with rates going into effect in September. **We view this as the last remaining event that completes the de-risking of the story over the next 12-18 months.**

Exhibit 1: NiSource Inc. - Model Summary

NI Model Summary	2020A	2021A	2022A	2023E	2024E	2025E
EPS By Segment						
Electric Operations	$0.65	$0.65	$0.76	$0.83	$0.86	$0.93
Gas Distribution	$1.15	$1.09	$1.17	$1.32	$1.30	$1.45
Corporate & Other	($0.48)	($0.37)	($0.45)	($0.60)	($0.48)	($0.60)
Consolidated E.P.S.	**$1.32**	**$1.37**	**$1.47**	**$1.54**	**$1.67**	**$1.78**
Dividend per share	**$0.84**	**$0.88**	**$0.94**	**$1.00**	**$1.06**	**$1.12**
Payout Ratio total	63.6%	64.3%	63.8%	64.7%	63.3%	62.9%
Dividend Yield	2.9%	3.2%	3.4%	3.6%	3.8%	4.1%
Valuation Metrics						
Price to Earnings	22.2x	20.2x	18.7x	17.9x	16.5x	15.5x
Price to Book Value	1.7x	1.5x	1.5x	1.5x	1.4x	1.3x
Funding Sources						
Cash Flow from Operations	$1,681	$1,255	$1,493	$1,568	$1,762	$1,922
Total Debt Financings	$2,974	$0	$1,000	$1,900	($1,200)	$2,700
Total Equity Financings	$0	$0	$348	$40	$903	$240
Credit Metrics						
Total Debt/Capitalization	60%	56%	57%	60%	54%	56%
FFO/Total Debt	13%	15%	13.6%	12.2%	15.1%	14.4%
Regulated Operations Performance - Realized ROE						
NIPSCO Electric ROE	10.4%	11.2%	13.1%	12.8%	12.6%	12.1%
Columbia Gas of Ohio ROE	9.0%	9.3%	9.5%	9.7%	9.5%	9.7%
Columbia Gas of Pennsylvania ROE	9.0%	9.3%	9.6%	9.7%	9.5%	9.7%
NIPSCO Gas ROE	9.0%	9.1%	9.7%	9.8%	9.6%	9.8%
Columbia Gas of Virginia ROE	9.0%	9.6%	9.5%	9.6%	9.5%	9.7%
Columbia Gas of Kentucky ROE	8.9%	8.1%	8.5%	8.7%	8.6%	8.9%
Columbia Gas of Maryland ROE	9.1%	9.8%	9.5%	9.6%	9.4%	9.7%

Source: BMO Capital Markets, Company Filings

Exhibit 2: NiSource Inc. - Key Assumptions

Key Model Assumptions	2020A	2021A	2022A	2023E	2024E	2025E	21-25
Total Capital Expenditures by Segment							
Electric Operations	$423	$483	$1,100	$1,000	$1,400	$1,400	**$4,900**
Gas Distribution	$1,267	$1,296	$1,500	$2,000	$1,800	$1,900	**$7,200**
Consolidated Capital Expenditures	**$1,690**	**$1,780**	**$2,600**	**$3,000**	**$3,200**	**$3,300**	**$12,100**
YE Rate Base Estimates							
NIPSCO Electric	$4,794	$4,898	$5,649	$6,273	$7,268	$8,227	*10.9%*
Columbia Gas of Ohio	$3,412	$3,937	$4,369	$4,991	$5,517	$6,064	*9.0%*
Columbia Gas of Pennsylvania	$2,069	$2,419	$2,685	$3,067	$3,391	$3,728	*9.0%*
NIPSCO Gas	$1,824	$1,991	$2,212	$2,531	$2,801	$3,081	*9.1%*
Columbia Gas of Massachusetts	$1,207	$0	$0	$0	$0	$0	
Columbia Gas of Virginia	$867	$1,086	$1,205	$1,376	$1,521	$1,671	*9.0%*
Columbia Gas of Kentucky	$371	$422	$463	$522	$572	$624	*8.2%*
Columbia Gas of Maryland	$150	$197	$219	$250	$277	$305	*9.1%*
Total Rate Base	**$14,693**	**$14,950**	**$16,800**	**$19,010**	**$21,347**	**$23,699**	***9.7%***

Source: BMO Capital Markets, Company Filings

Exhibit 3: NiSource Inc. - SOTP Valuation

							BMO Low Case		BMO Base Case		BMO High Case	
Regulated, Corporate & Other	Valuation Metric	2025E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)
Electric Operations	EPS	$0.93	Electric	15.4x	+7.5%	16.6x	12.9x	$12	16.6x	$15	18.6x	$17
Gas Distribution	EPS	$1.45	Natural Gas	15.6x	+7.5%	16.8x	13.1x	$19	16.8x	$24	18.8x	$27
Corporate & Other	EPS	($0.60)	Blend	16.7x	+0.0%	16.7x	16.7x	($10)	16.7x	($10)	18.7x	($11)
Utility & Parent Value		**$1.78**					11.8x	**$21**	16.7x	**$30**	18.7x	**$33**
Total NiSource Inc.								**$21**		**$30**		**$33**
Upside/(Downside)								(23%)		9%		22%
Current Yield								4%		4%		4%
Total Return								**(19%)**		**13%**		**26%**

Source: BMO Capital Markets, Company Filings

April 20, 2023 | 10:32 ET~

BMO Capital Markets

IN Fact

NiSource

NI-NYSE	Rating	Price: Apr-19	Target	Total Rtn
	Outperform	$28.55	$31.00	12%

Utilities, Power & Renewables

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Legal Entity: BMO Capital Markets Corp.

Revising 1Q23 Estimate With Preview Walk

Bottom Line:

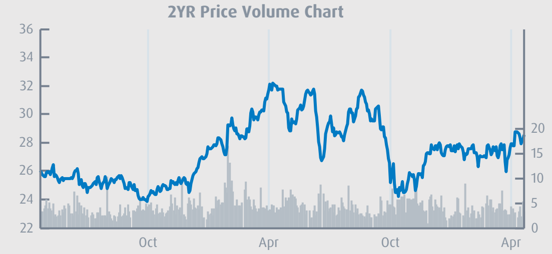
We are lowering our 1Q23 EPS estimate to $0.75 post our 1Q23 preview. Our 2023 quarterly estimates now reflect a more normalized quarterly pattern than previously assumed in our model. On the call, we expect management to reaffirm its 2023 outlook of $1.54-1.60 (Consensus/BMO at $1.55/$1.54, respectively) and reiterate its LT growth rate of 6-8%, and the 14-16% FFO/debt ratio. **We maintain our Outperform rating and our $31 price target.**

Key Points

We are updating our estimate for NI's 1Q23 earnings given the difference in our preview walk and our current quarterly EPS estimate for NI in 2023. As such, despite significantly milder weather y/y, we see a relatively flat y/y comparison as not only does the company report its operating earnings on a weather-normalized basis, but rate relief (+10c) offset the higher y/y interest rate impact (5c), non-service cost for pension (2c), D&A/opex (2c) and modest dilution. Although NI does not include the impact from weather in its operating earnings (only on a GAAP basis), the impact shows up primarily in its cash flow statement. We note that relative to the ~13.5% FFO/debt metric at YE22 and its 13% downgrade threshold, each $10mm of weather-related impact lowers its FFO/debt by ~10 bps. Based on our best estimates, 1Q23's impact could be ~$30mm or 30 bps, all things held equal. However, given its pending MI sale at NIPSCO, we do not see this early-2023 impact as a concern. **In Exhibit 1 (page 3), we detail the drivers of our EPS walk to $0.75. This compares to our previous estimate of $0.94 which was likely pulling up consensus estimate of $0.81.**

In terms of updates, we do not expect any change in messaging related to the NIPSCO minority stake sale. The company still anticipates an announcement in mid-2023 and a transaction close by the end of 2023. On the regulatory side, the company is expecting an order in August in the NIPSCO electric case. We are also watching legislative activity in Indiana (HB 1420), which could expand the ROFR rights for incumbent transmission owners and provide the company with another upside capex opportunity to its 2028-2032 capital plan. The bill has passed in the House and awaits a vote in the Senate.

2YR Price Volume Chart



LHS: Price ($) / RHS: Volume (mm) Source: FactSet

Company Data			in $
Dividend	$1.00	Shares O/S (mm)	412.5
Yield	3.5%	Market Cap (mm)	$11,777
P/BV	1.7x	Net Debt (mm)	$9,336

BMO Estimates (FY-Dec.) in $	2021A	2022A	2023E	2024E
EPS	$1.37	$1.47	$1.54	$1.67
DPS	$0.88	$0.94	$1.00	$1.06
EBIT	$1,104	$1,276	$1,410	$1,606
EBITDA	$1,852	$2,067	$2,255	$2,519

Consensus Estimates	2021A	2022A	2023E	2024E
EPS			$1.55	$1.67

Valuation	2021A	2022A	2023E	2024E
P/E	20.8x	19.4x	18.5x	17.1x
Div. Yield (%)	3.1%	3.3%	3.5%	3.7%

QTR. EPS	Q1	Q2	Q3	Q4
2021A	$0.73	$0.13	$0.11	$0.39
2022A	$0.75	$0.12	$0.10	$0.50
2023E	$0.75	$0.13	$0.12	$0.54
2024E	$0.87	$0.14	$0.13	$0.53

Our Thesis

After the analyst day we believe NI has meaningfully derisked the story that promises investors above-average EPS and rate base growth in favorable regulatory jurisdictions with what will be, upon the completion of the NIPSCO minority stake sale, one of the stronger balance sheets in the sector.

Key Changes		
	Estimates	Q1 / 23E
	EPS	$0.75
	Previous	*$0.94*

For disclosure statements, including the Analyst Certification, please refer to page(s) 6 to 9.

BMO Capital Markets

New Scenarios

NiSource - Block Summary Model

Income Statement	2021A	2022A	2023E	2024E
Electric Operations	387	456	515	640
Gas Distribution	674	751	854	926
Coporate & Other	1	1	1	(1)
Consolidated EBIT	1,104	1,276	1,410	1,606
Depreciation & Amortization	748	791	845	914
EBITDA	1,852	2,067	2,255	2,519
Interest Expense	341	396	491	431
Income Tax	132	158	155	199
Income from continuing operations	571	666	706	819
Weighted Average Shares Outstanding	417	452	458	491
Diluted Operating EPS	$1.37	$1.47	$1.54	$1.67
Dividends per Share	$0.88	$0.94	$1.00	$1.06
Cash Flow Statement	**2021A**	**2022A**	**2023E**	**2024E**
Operating Cash Flow	1,255	1,493	1,568	1,762
Investing Cash Flow	(2,205)	(2,600)	(3,000)	(950)
Financing Cash Flow	635	1,058	1,428	(871)
Net Change in Cash Flow	(315)	(49)	(4)	(59)
EOP Cash on Balance Sheet	95	46	42	(17)
Common stock (net)	0	348	40	903
Net debt issued/(repaid)	31	1,190	1,900	(1,200)
Dividends paid	(367)	(425)	(457)	(518)
Balance Sheet	**2021A**	**2022A**	**2023E**	**2024E**
Common Equity	6,253	6,842	7,134	8,349
Preferred Equity	1,547	1,547	1,547	1,547
Total Debt	9,802	10,991	12,891	11,691
Enterprise Value	$21,940	$23,570	$25,520	$25,270
Common equity %	35.5%	35.3%	33.1%	38.7%
Preferred equity %	8.8%	8.0%	7.2%	7.2%
Total Debt %	55.7%	56.7%	59.8%	54.2%
Book Value per Share	$18.70	$18.56	$18.94	$20.17

Source: BMO Capital Markets, Company Reports

Valuation

Our target price is the product of a P/E-based sum of the parts. We utilize a regulated-group average multiple using 2025E EPS as base valuation and then make specific adjustments to reflect our current view of the fundamental outlook.

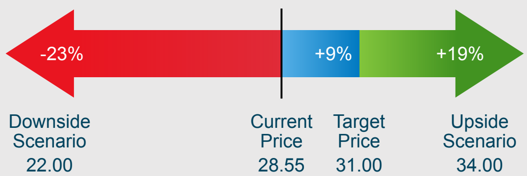
Upside Scenario $34.00

Our upside scenario reflects continued multiple expansion associated with the company's premium and above-average earnings and dividend growth profile, as well as the material improvement in the balance sheet with the successful execution of the minority interest sale in NIPSCO.

Downside Scenario $22.00

Our downside scenario reflects a tightening monetary policy, a deceleration of the company's rate base growth and failure to execute on the sale of a minority interest in NIPSCO to strengthen the balance sheet.

in USD



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Successful execution of both its upcoming NIPSCO Electric rate case as well as sale of a minority interest in its NIPSCO subsidiary by mid-year 2023.

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NI-NYSE Research

Glossary

Company Models

Exhibit 1: NiSource 1Q23 Earnings Walk

1Q22 Operating Earnings	**$0.75**
Beginning Net Income	$329
Rate Relief/Riders	$45
Flat O&M	$0
Higher D&A	($10)
Other Income - AFUDC, net of higher pension expense	($8)
Non-Controling Interest - Renewable Tax Equity	($21)
Other & Share Dilution	($2)
1Q23E Operating Net Income	**$334**
1Q23 Diluted Shares	447
1Q23E Operating Earnings	**$0.75**

Source: BMO Capital Markets, Company Filings

Exhibit 2: NiSource Summary Model

NI Model Summary	2020A	2021A	2022A	2023E	2024E	2025E
EPS By Segment						
Electric Operations	$0.65	$0.65	$0.76	$0.83	$0.86	$0.93
Gas Distribution	$1.15	$1.09	$1.17	$1.32	$1.30	$1.45
Corporate & Other	($0.48)	($0.37)	($0.45)	($0.60)	($0.48)	($0.60)
Consolidated E.P.S.	**$1.32**	**$1.37**	**$1.47**	**$1.54**	**$1.67**	**$1.78**
Dividend per share	**$0.84**	**$0.88**	**$0.94**	**$1.00**	**$1.06**	**$1.12**
Payout Ratio total	63.6%	64.3%	63.8%	64.7%	63.3%	62.9%
Dividend Yield	2.9%	3.2%	3.4%	3.6%	3.8%	4.1%
Valuation Metrics						
Price to Earnings	22.2x	20.2x	18.7x	17.9x	16.5x	15.5x
Price to Book Value	1.7x	1.5x	1.5x	1.5x	1.4x	1.3x
Funding Sources						
Cash Flow from Operations	$1,681	$1,255	$1,493	$1,568	$1,762	$1,922
Total Debt Financings	$2,974	$0	$1,000	$1,900	($1,200)	$2,700
Total Equity Financings	$0	$0	$348	$40	$903	$240
Credit Metrics						
Total Debt/Capitalization	60%	56%	57%	60%	54%	56%
FFO/Total Debt	13%	15%	13.6%	12.2%	15.1%	14.4%
Regulated Operations Performance - Realized ROE						
NIPSCO Electric ROE	10.4%	11.2%	13.1%	12.8%	12.6%	12.1%
Columbia Gas of Ohio ROE	9.0%	9.3%	9.5%	9.7%	9.5%	9.7%
Columbia Gas of Pennsylvania ROE	9.0%	9.3%	9.6%	9.7%	9.5%	9.7%
NIPSCO Gas ROE	9.0%	9.1%	9.7%	9.8%	9.6%	9.8%
Columbia Gas of Virginia ROE	9.0%	9.6%	9.5%	9.6%	9.5%	9.7%
Columbia Gas of Kentucky ROE	8.9%	8.1%	8.5%	8.7%	8.6%	8.9%
Columbia Gas of Maryland ROE	9.1%	9.8%	9.5%	9.6%	9.4%	9.7%

Source: BMO Capital Markets, Company Filings

Exhibit 3: NiSource Model Assumptions

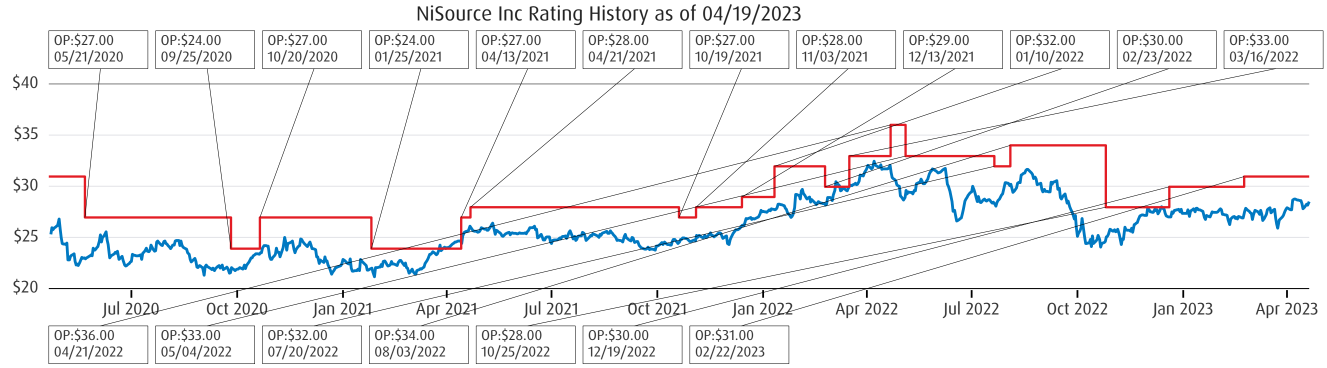
Key Model Assumptions	2020A	2021A	2022A	2023E	2024E	2025E
Total Capital Expenditures by Segment						
Electric Operations	$423	$483	$1,100	$1,000	$1,400	$1,400
Gas Distribution	$1,267	$1,296	$1,500	$2,000	$1,800	$1,900
Consolidated Capital Expenditures	**$1,690**	**$1,780**	**$2,600**	**$3,000**	**$3,200**	**$3,300**
YE Rate Base Estimates						
NIPSCO Electric	$4,794	$4,898	$5,649	$6,273	$7,268	$8,227
Columbia Gas of Ohio	$3,412	$3,937	$4,369	$4,991	$5,517	$6,064
Columbia Gas of Pennsylvania	$2,069	$2,419	$2,685	$3,067	$3,391	$3,728
NIPSCO Gas	$1,824	$1,991	$2,212	$2,531	$2,801	$3,081
Columbia Gas of Massachusetts	$1,207	$0	$0	$0	$0	$0
Columbia Gas of Virginia	$867	$1,086	$1,205	$1,376	$1,521	$1,671
Columbia Gas of Kentucky	$371	$422	$463	$522	$572	$624
Columbia Gas of Maryland	$150	$197	$219	$250	$277	$305
Total Rate Base	**$14,693**	**$14,950**	**$16,800**	**$19,010**	**$21,347**	**$23,699**

Source: BMO Capital Markets, Company Filings

Exhibit 4: NiSource SOTP Valuation

							BMO Low Case		BMO Base Case		BMO High Case	
Regulated, Corporate & Other	Valuation Metric	2025E EPS	Sector Comp	Sector Multiple	Prem/ (Discount)	Base Multiple	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)	P/E Multiple	Implied Value ($ MM)
Electric Operations	EPS	$0.93	Electric	16.2x	+5.0%	17.0x	13.7x	$13	17.0x	$16	19.0x	$18
Gas Distribution	EPS	$1.45	Natural Gas	16.3x	+7.5%	17.5x	13.8x	$20	17.5x	$25	19.5x	$28
Corporate & Other	EPS	($0.60)	Blend	17.3x	+0.0%	17.3x	17.3x	($10)	17.3x	($10)	19.3x	($12)
Utility & Parent Value		**$1.78**					12.6x	**$22**	17.3x	**$31**	19.3x	**$34**
Total NiSource Inc.								**$22**		**$31**		**$34**
Upside/(Downside)								(22%)		8%		21%
Current Yield								3%		3%		3%
Total Return								**(18%)**		**12%**		**24%**

Source: BMO Capital Markets, Company Filings



Source: FactSet, BMO Capital Markets

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Methodology and Risks to Target Price/Valuation for NiSource Inc (NI-NYSE)

Methodology: Our target price is the product of a P/E-based sum-of-the-parts (SOTP) analysis of the company's primary regulated operating companies. We utilize a regulated-group average multiple based on 2025E EPS as our initial basis for valuation and then make adjustments specific to each jurisdiction to reflect our current view of the fundamental outlook.

Risks: NI's regulated profile exposes the company to business risk including but not limited to federal and state regulatory risk, federal and state political risk, environmental policy, interest rate risk, access to capital markets, construction risk, changes in customer demand trends, changes in customer affordability, extreme weather, natural disaster, and equipment failure.

Distribution of Ratings (April 19, 2023)

Rating category	BMO rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	StarMine Universe~
Buy	Outperform	47.8 %	17.9 %	50.6 %	53.6 %	59.4 %	57.7%
Hold	Market Perform	49.3 %	16.1 %	46.9 %	44.4 %	38.6 %	37.5%
Sell	Underperform	2.9 %	14.3 %	2.5 %	1.8 %	1.4 %	4.8%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

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~ As of April 1, 2019.

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(S) = Speculative investment;
Spd = Suspended - Coverage and rating suspended until coverage is reinstated;
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(April 2013 - October 2016)
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US Utilities & IPPs

Let's Make a Deal: AGA Full Download. Consolidation, Inflation, & Credit

Industry Overview

24 May 2023

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Consolidation remains absolutely front and center

We leave the Florida American Gas Association (AGA) Financial Conference with more questions than when we came in. The next handful of months could bring the largest wave of utility transaction we have seen in years, based on the feedback from the conference. This is counterintuitive as higher interest rates and generally reduced credit quality across the sector would seemingly reduce the ability to execute. There was a clear bifurcation of parties open to buying and those who would not. Companies that expressed an openness to potential inorganic growth included Duke Energy (DUK), UGI Corp (UGI), Spire (SR), Unitil (UTL) and Avangrid (AGR). In contrast, natural gas focused Atmos Energy (ATO), Black Hills (BKH), and NiSoure (NI), OneGas (OGS) downplayed interest in buying for a variety of factors.

Mild weather & higher costs a recipe for challenges

Another key theme was the degree to which higher operating expenses (O&M) are stubbornly persistent with some natural gas companies seeing 5%+ cost increases as they serve growth while staffing up. If inflation was supposed to be a theme pressuring FY22 and bleeding into FY23, we see clear affirmation that YoY pressures will manifest in 2024 again. The very mild weather to start 2023 in the Eastern US has raises risk of FY23 estimate revisions and erodes latitude for 2024. We see greater risk to smaller cap companies with less scale. We continue to prefer larger-cap, defensive utilities

PTC monetization with transferability a key new angle

We see a multitude of companies evaluating strategies now that PTCs can be monetized directly (even for legacy renewable projects) still generating tax credits from renewables such as wind. Moody's appears to provide wide latitude in including these financing transactions in funds from operations (FFO). In contrast, S&P has taken a definitive view that these are not operating cash flows. The bifurcation between Moody's and S&P could be meaningful for impacted companies. Less reliance on tax equity will be positive for many with NiSource (NI) highlighting a potential +$500Mn rate base opportunity in the ~2025 timeframe. On balance reiterate our Buy rating given positive trends.

What are the best meetings of the conference?

Positive meetings included Xcel Energy (XEL), Northwestern Corp (NWE), Atmos Energy (ATO), CenterPoint Energy (CNP), NiSource (NI), and Sempra (SRE). CNP could raise 2023 capex, financed with a non-core divestiture, on the back of a successful Texas distribution legislation (DCRF). Assuming an uneventful rate case, CNP has latitude to increase its EPS profile to ~8%. SRE management was as confident as ever on CA prospects and there is a real possibility of incremental capex, potentially as soon as the 4Q22 earnings call. Controversial meetings included Southwest Gas (SWX) and UGI Corp (UGI). For SWX, positive long-term ROE statements were juxtaposed against near-term cost pressures and a DPS cut ahead. Expect volatility but increasingly positive setup. For UGI, the challenges for AmeriGas have sapped investor excitement about a consolidated company that trades at a ~10x P/E.

Please see the full report for the full set of conference takeaways.

Glossary
AGA: American Gas Association
LDC: Local distribution company
FFO: Funds from operations
O&M: Operations and maintenance
PTC: Production tax credit
ROE: Return on equity
PJM: PJM Interconnection LLC

Contents

Key Macro Points to Note

- **Repairs tax:** since updated guidance was issued from the IRS in early April we note a growing focus on updating repairs tax deductions across guidance for many companies. While a few companies indicated uncertainty still as to their deduction policies relative to the new guideline (WTRG, SRE) many companies overall noted they thought on their initial understandings their deduction strategies were consistent with the updated list of activities that qualified. Stay tuned: while this is unlikely to have any true-up effect with the IRS considering safe harbor this could yet reduce ability to over-earn in some jurisdictions.

- **Undergrounding the distribution grid:** We note companies in both Iowa (LNT) and Michigan (CMS/DTE) discussed their efforts in undergrounding the distribution grid to improve outage times. We stress that this is among the first times we perceive a real focus to shift the grid – we note other regional peers such as WEC do not have a meaningful focus (yet) on this angle. We appreciate the need to upgrade grids to accommodate expanded EV penetration over time and as such gradual shift towards undergrounded wires as these upgrades are made. Stay tuned for others to opine on this front. Capital crowding on priorities remains the key worry here.

- **O&M inflation yes – but no one is 'concerned' (yet) on guidance:** Cannot ignore the drumbeat of concerns and fingerpointing across the sector as expectations of where O&M was going to settle for the year heads yet higher. While not an issue *yet* – further weather pressures could yet expose guidance by later this year. Companies with confidence & upside bias in their outlook will stand out. See CNP's positive bias on capex for '23 as likely received uniquely positively later this year.

- **Acquisitions galore.** The focus at the conference was among the most pronounced in recent memory on deal making. We stress expectations have yet to fully reset lower on just where gas LDC transactions could print, but we assume a step-function lower following rally in rates in recent months. On balance, expect less of a sizable premium: we attribute recent gas utility strength to twin M&A trends as well as reduced overall gas prices.

- **RNG pullback?** Less clarity and pullback in market prices has reduced enthusiasm for Renewable Natural Gas (RNG) strategies. A year ago at the AGA conference a number of companies were buzzing about their expansion strategies. Today, market RINS prices have retreated and execution challenges leave some cautious on execution. Finally, uncertainty as to the fate of whether so-called e-RINS will qualify for the EPA program leaves developers unsure as to whether they should install gas equipment to 'clean up' gas to insert in the pipeline network or leave intact existing sour gas (less/unprocessed) to power generation. Term price for RNG prices has increased markedly trending towards high teens per MMbtu despite pullback in D3. EPA appears to have iced the concept for now despite earlier enthusiasm for a dramatically expanded scope of the program to include e-RINS & qualification for EVs to receive benefits from this program.

Alliant (LNT) The tax man comes

We met with CEO John Larsen, CFO Robert Durian, and Director of IR Susan Gille.

Framing the tax credit opportunity post-IRA

Discussions with LNT mgmt touched on potential updates to the company's capital plan expected with the November update, as is customary. While mgmt has articulated equity needs in 2023, there is the possibility that future needs will be reduced via monetization of production tax credits (PTCs) following passage of the Inflation Reduction Act (IRA). PTCs generated starting in 2023 are expected to be eligible for monetization under the act, including those from the 1.2 GW of wind that LNT currently operates. The coming solar buildout in both Iowa and Wisconsin will add 1.5 GW – mgmt estimates potential incremental cash flows from monetizing all of the associated credits at $350m annually. Questions about impact on the financing plan yet to be resolved include 1) credit rating agency treatment for funds from operations (FFO) purposes, 2) proceeds from the sale of the second stake in West Riverside, and 3) higher equity layer requested in the Wisconsin rate case. Mgmt indicated it expects some visibility into these factors by the time of the November refresh.

Resiliency in focus as lines move under ground

Undergrounding remains a nascent opportunity for both the Iowa and Wisconsin utilities with a long runway yet to be completed – with an estimated 25% of LNT's distribution lines currently underground vs. a long-term goal of 80%. The current pace is 1.5-2.0% per annum (approx. 600 miles) with mgmt reporting that crew efficiency and ability to execute continues to improve with ongoing rollout of the initiative. Cost advantages are particularly robust for three-phase distribution lines, both in the initial install and lifetime maintenance. The limiting factor on accelerating the buildout continues to be bill impacts, though this remains a nascent area that mgmt may opt to scale up following the current solar build initiative in both jurisdictions, particularly given well-documented reliability advantages of undergrounding.

Iowa solar push continues on both fronts

LNT continues to push ahead in Iowa on its Duane Arnold and Creston/Weaver solar & battery storage efforts. Duane Arnold had previously received approval for advance ratemaking without an ROE incentive, but LNT recently filed for rehearing on the ROE incentive portion. While new members of the Iowa Utility Board (IUB) may not want to overrule a decision made by the previous iteration, mgmt indicated a note of cautious optimism given the enhanced evidence filed and support for the project. The outcome of the Creston & Weaver court proceeding is less clear given the judicial process with a July hearing scheduled – note the initial finding of an incomplete record makes this comparably riskier than Duane Arnold. Nonetheless, mgmt expressed confidence in the content of their respective cases for both projects and potential for yet more favorable outcomes given broad-based support for solar generation in the state.

2023 not de-risked, but built-in savings to come in 2H

With Q1's results putting may utilities on the back foot with respect to weather-driven load impacts, LNT sees a degree of built-in savings in its O&M program in the back half of the year. Lower contributions to the charitable foundation, overhead from operating the Lansing plant, and consultant fees are all embedded in the plan to reduce costs in 2023. While we do expect LNT to rely on some 'flex' provisions, we note the company's plan relies largely on execution rather than outright short-term cuts in order to hit EPS numbers. Q3 weather impacts remain by far the largest unknown given seasonality.

Ameren (AEE) All Illinois, all day

We met with Ameren CEO Marty Lyons, CFO Michael Moehn, Ameren Illinois Chairman and President Lenny Singh, Senior Vice President, Regulatory Affairs and Financial Services Teresa Shaw, Director of Investor Relations Andrew Kirk, and Manager of Investor Relations and Corporate Modeling Megan McPhail.

Management did an effective jump in talking down concerns on ROEs and disarming what could have been among the most cautious updates from the company in a while. Still investors read into comments around backfilling lost capex in Illinois cautiously. On balance, we think we are near the 'low mark' in rate case risk and could see some recovery from here.

Illinois testimony – downplaying the earnings impact

Ameren mgmt acknowledged that the staff ROE recommendation at Ameren IL's multi year rate plan (MYRP) proceeding for the electric utility came in below expectations with an initial 8.9% recommendation well below the company's 10.5% ask and 9.89% recommendation in the Ameren IL gas rate case. While the lower capex and rate base recommendation from staff appears concerning, mgmt was more constructive in this regard framing it as 1) a normal part of the back and forth with staff when discussing projects several years out in the forecast and 2) the size of the rate base delta (cumulatively $700m over the term of the MYRP) as modest in relation to the $20B five-year capital plan. *While acknowledging that staff testimony is a cautious starting point, mgmt indicated confidence in 1) achieving its long-run 6-8% EPS CAGR target and 2) shifting capex if needed across the enterprise.*

Reconciling staff views vs. legislation

IL's Climate and Equitable Jobs Act (CEJA) mandates among other provisions that electric utilities receive a determined ROE for the duration of the MYRP. Mgmt noted that the staff rec opens with an 8.9% level in year 1 subject to a formula-like adjustment in future years, and likewise would reflect 9.7% when marked to market for the latest actuals. The issue of Other Postemployment Benefits (OPEB) treatment will also likely need to be reconciled as staff recommended excluding the balance from rate base (roughly $100m) while the treatment under performance-based ratemaking (PBR) would call for inclusion of this item in rate base. Given the relatively small impact from OPEB we could see this as being considered a 'give' in subsequent talks with interveners and staff. We note as well that mgmt was constructive on prospects for reaching an acceptable point on the equity layer, with the 50% vs. 54% proposals from staff and Ameren respectively setting up a natural middle ground.

IL Gas: Constructive starting point

The IL Gas rate case is proceeding on a very similar time frame, with staff testimony coming in recently – data points suggest a much narrower bid-ask with staff than the electric utility, with staff recommending an ROE of 9.89%, 50% equity, and $129m base rate increase vs. the company's $160m. Gas utility dynamics are different from electric in that there is no MYRP on the gas side, thus rate case filings will likely occur at a somewhat regular cadence going forward.

MO regulatory wins: constructive, but in the rearview

Ameren achieved solid regulatory wins via settlement of the Missouri Electric rate case and commission approval of two solar projects. While the Huck Finn project was relatively uncontroversial given its need with respect to renewable energy standards, the Boomtown facility required slightly more back and forth with staff and the commission, with staff ultimately not wanting to opine on a relatively novel approach – note the commission ultimately approved 4-0. The latter project is instructive in our view of Ameren's ability to deliver on its regulated agenda. While we do not make a direct read-across to Illinois as they are distinct jurisdictions with unique regulatory structures and dynamics, Ameren has a strong track record of working constructively with its regulators. Expect intense focus on the Illinois processes in the back half of the year as Missouri is now relatively de-risked.

Atmos Energy (ATO) Victim of own success

It was another constructive meeting with Atmos, our first back in person with the senior management team in years. We suspect it was many others as well – and to that end we thought they made a notably positive impression.

Our meeting focused on what makes Atmos different from many of its peers, and most importantly, the company reaffirmed that it is not interested in third-party acquisitions. The company believes that over time its track record of positive execution will be reflected in its share price and is focusing on the areas within its control. We maintain our Buy rating on shares of ATO, which remain undervalued relative to natural gas peers due to the company's strong growth prospects and consistent historical profile.

"It's not as easy as it looks"

Overall, the senior management described the company's outlook as intact, with the business outlook on track. Atmos believes that its consistent operating and financial execution is often taken for granted relative to peers – effectively a view that it has become a "victim of their own success." The company is highly focused on serving customers at affordable rates and does not see the East and West Coast discussions regarding a shorter duration for natural gas infrastructure as pervasive in its service territories. As evidence, Atmos pointed to the large number of customer fuel choice bills that have been enacted. There are currently 24 states with all fuels legislation enacted and a couple proposals pending in the current state sessions.

Colorado and Virginia the two states without fuel choice

The two states that Atmos operates in without all fuels legislation are Colorado and Virginia. Atmos will support its existing gas system in Colorado in its clean heat plan, pointing to strong customer demand for natural gas and economics versus an alternative. In a scenario with additional electrification, the natural gas consumption on a system would remain elevated as the overall system shifted toward an overnight/ early morning peak when less renewable electric generation is available. In Virginia, there are only ~25,000 customers, with a concentration among large industrial and government/military consumers.

Relatively quiet legislatives session(s), even in Texas

We and investors have been closely watching the legislative sessions to start 2023. We have been tracking Texas, which is Atmos' largest jurisdiction. Overall, the company does not expect major changes from this pending Texas legislative session, which concludes at the end of May. The proposed and advanced legislation relate more to the electric sector for transmission & distribution as well as power generation. Cryptocurrency mining and electric vehicle registration have also been topical areas of the natural gas local distribution companies, not related to Atmos.

In December, Texas Governor Abbott and the Railroad Commission requested investigations into Atmos, which has been a lingering risk area. Management is taking the process seriously and did not appear concerned, but this is still an area of uncertainty.

Fight to control costs more challenging with growth

While Atmos has not been immune to the macroeconomics factors of higher operating and financing costs, management attributed its success to constructive jurisdictions that understand the requirements when building a reliable gas delivery system. Atmos believes that costs could continue to exhibit pronounced inflation due to growth, which is not slowing off elevated levels. For example, in Mid-Texas, the line locates have increased to 1.4Mn from 1.1Mn. This has been attributed to a variety of factors, including new construction, fiber expansions, and renewables projects.

Singing the same story on M&A

Atmos reaffirmed that it is focused on its strong organic growth plan and is not interested in acquisitions, despite the large number of assets reportedly for sale. This was an expected answer but still favorable to hear given the volume of disparate assets that could transact at seemingly more attractive valuations than five years ago.

Storms "lessons learned" as continuing to evolve

Management described the operating differences between Winter Storm Uri's extended freezing weather and Winter Storm Elliott's sharp decline in temperatures. The company is evaluating the areas where the system could have performed better during Winter Storm Elliott and is implementing prospective improvements, as any prudent operator would do. There was elevated media and political attention to the winter storms, and it remains to be seen whether there could be lingering financial impacts, although we do not expect anything material.

Repairs tax reforms have been closely watched for years

On the new formalized repairs tax guidance, Atmos does not expect a material impact. The company has been tracking the progress and engaging for numerous years, following closely given the importance. The company is still reviewing the ~100 pages of guidance but overall did not seem concerned about any prospective impacts.

Management has been closely watching and working with parties on the new repairs tax guidelines, with changes already being implemented. This was one of the strongest statements from a company under coverage and highlights the "best-in-class" approach to multiple facets of the business.

See our 4 May 2023 report, US Utilities & IPPs: PowerPoints: ATO Guide up.

Avangrid (AGR) PNM & following M&A in focus

Our management meeting with Avangrid was a lightning round, touching on just a few of the pivotal topics pending for the company. Avangrid plans to host an Analyst Day after it receives clarity on a litany of regulatory items, including the New York, Maine, and Connecticut rate cases as well as the pending PNM Resources (PNM) merger and large construction projects such as New England Clean Energy Connect (NECEC). Although there are puzzle pieces that need additional clarity, management emphasized the strides it believes it has made in regulatory outreach and the quantum of organic networks opportunities, which are multiple sizes as large as the PNM purchase price. We maintain our Underperform rating on shares of AGR, where we see substantial uncertainty into the prospective earnings profile and below-average growth rate based on large projects. The interest in prospective regulated acquisitions is a risk area as well.

We see upside in New York on any eventual settlement and shifting sentiment on the state as the single most constructive backdrop to shares. We still see a net cautious backdrop as the loss of PNM could force a rebasing/revision to '24+ EPS guidance (even if '23 itself isn't technically at risk per mgmt's statements). On balance, maintain our Underperform given more negatives than positives to EPS outlook.

Regulation wait-and-see

Management believes that it has presented a strong case in New York and believes that it is better positioned than in recent years due to its proactive stakeholder outreach before filing the rate case. Parties have publicly disclosed that they are having settlement discussions in New York, and management described these as "very advanced conversations." Avangrid stated that recovering cash flow and improving its New York credit metrics will be a priority after only a ~2% cash increase in the last rate case during Covid. Management was pleased that the New York Commission/Department Staff recognized the importance of credit quality in its public testimony. Although rate case uncertainty is relatively high, management pointed to $2Bn+ Climate Leadership and Community Protection Act (CLCPA) transmission in 2025-2030 as an example of unique visibility. Avangrid is engaging with stakeholders on ways in which it can have cash cost recovery for some of the long-term projects.

Investors have focused on Connecticut regulation recently for Avangrid and its peer Eversource (ES), but Avangrid management was quick to remind investors that it views the pending rate case as relating to less than 10% of its rate base. The company is waiting for a draft decision and is not in settlement discussions due to the late stage of the process. We did not discuss the Maine rate case, but the parties had the latest settlement conference last week.

Following the progress and favorable datapoints for Consolidated Edison's (ED) rate case joint proposal (i.e., settlement), we have been cautiously optimistic that Avangrid can receive a constructive outcome in its case. The magnitude of the cash increase leads to additional uncertainty, so we will be watching closely.

NECEC construction under evaluation

Consistent with the earnings call, Avangrid stated that it is evaluating the restart of construction on the transmission project after legal successes. The revised ~$1.4Bn capex projection, up from ~$1.2Bn and ~$950Mn originally, will likely pressure economics, in our view. The company redescribed the public contract structure where earnings decline upon commercial operations date (COD) after higher allowance for funds used during construction (AFUDC) stop accruing and cash recovery begins.

This remains a high-profile project, although we see de minimis earnings contribution upon COD; however, the project would have negative net income if construction is not successful. The latest cost estimate was described as reflecting the latest macroeconomic environment, but we believe that could be further increased with a very tight labor and construction market. Watch for updates here – where admittedly cost increases and need for contract renegotiation remain front-and-center.

We believe the project is likely to happen but the economics post COD remain the key point of ambiguity. On this point, watch for discussion with Massachusetts yet again on reactions to contract negotiations following a 'change in law' exemption. Given our muted expectations we admit this is a potential upside on balance.

M&A - PNM... can it still happen?

Much of the meeting focused on the prospects of M&A based on the latest developments for the pending PNM Resources (PNM) merger in New Mexico but more broadly. First, Avangrid management stated that it remains committed to the PNM acquisition and is pleased that there is now a concrete date for a judicial path forward. The current route was described as the "cleanest" to address elevated procedural focus from stakeholders. Avangrid management stated that the most important next step will be for the respective Boards of Avangrid and PNM Resources to work on an extension of the merger process ahead of the July 20th termination date.

M&A ... and beyond PNM

Overall, Avangrid remains interested in future acquisitions regardless of what happens to the pending PNM transaction. If the PNM transaction is not completed, it appears that Avangrid would look at potential inorganic acquisitions sooner, as it stated a preference to not pursue multiple utility acquisitions at one time.

Smaller gas LDC divestments remain a priority such as Berkshire Gas in Massachusetts in an effort to prune the portfolio too. This should not be under-stated amidst the wider efforts to sell down renewable assets too.

With respect to the $2Bn of potential strategy asset sales, Avangrid clarified that these will be reviewed separately from the PNM process. This was described as very consistent with Iberdrola's ongoing financial planning methodology. Priorities that management considers when evaluating asset sales are (1) the relative net present value (NPV) of the asset under Avangrid versus third-party ownership; (2) consistency of the asset with its networks and renewables focus; and (3) geography of assets, among other factors. Here, we believe that some of the smaller natural gas local distribution companies and/or joint ventures could be candidates within the scope of the plan, which is not in the company's base case long-term outlook. There are some asset sales embedded in the long-term outlook, including a portion of the Kitty Hawk offshore lease and select renewable partnership transactions.

Avangrid described the third-party interest as still high following the IRA, despite the increase in assets available for sale on the market.

Credit metrics depend on PNM outcome

Avangrid did not go into specifics regarding its credit targets but described a desire to have some level of cushion above the 14% FFO/Debt current Moody's downgrade trigger over time. Management highlighted that Moody's stated a -100bp favorable potential lowering of the funds from operations (FFO)/debt target to 13% with PNM due to a higher mix of regulated earnings.

The delta in the credit rating requirement without PNM is an underappreciated nuance from our investor conversations that could lead to management pursuing additional assets sales.

Offshore wind evaluating domestic content

The Vineyard Wind project will not qualify for the new IRA +10pp incentive for using domestic content (DC). Vineyard Wind is set to have its first monopile installed in May, the most visible sign to date of construction progress. Park City and Commonwealth Wind are evaluating the DC benefit but stated that the higher incentive was not large enough to make the Commonwealth power purchase agreement (PPA) viable with the

Massachusetts counterparties. The DC benefits are offset by higher costs and additional supply-chain challenges. AGR expects to rebid its project into the anticipated January 2024 Massachusetts procurement, which has additional flexibility on reflecting future project cost changes.

We had not expected that Vineyard Wind would qualify for domestic content, as it is in such an advanced stage. Other offshore wind developers have described domestic content as a positive driver, so we had expected that Avangrid would have been more bullish on the prospects for its subsequent projects.

See our 26 April 2023 report, Avangrid: 1Q23 underwhelms but mgmt reaffirms FY23 guide. Regulatory outcomes key.

Avista Corp: New CFO, same focus

Our first meeting with new CFO after the formal promotion as expected represented a continuation in our long-standing series of meetings. We do not look for any change in strategy or approach to the company, perhaps with some small tweaks on the margin. Key takeaways from our meeting were: (1) the customer bill impact related to Climate Commitment Act [CCA] remains largely unknown. The customer bill impact relies on Department of Ecology's allowances granted to AVA, which is yet to be finalized. (2) management's core focus is securing good regulatory outcomes in Washington, Idaho and Oregon, specifically Washington given the multi-year rate case framework. (3) no major change in priorities or philosophy from the new CFO who has worked at Avista for nearly 20 years. We will be closely watching the next Washington rate case which will set the stage for ability to improve earned returns and grow EPS closer to rate base. Maintain Underperform on shares of AVA which trade at a premium valuation to our view of the fundamentals.

New CFO looking to continue the well plowed path

Avista has a new CFO Kevin Christie who is focused on continuing where his predecessor left-off: delivering good regulatory outcomes as the company works towards earning its allowed return on equity. The 1Q23 call introduced loose quarterly earnings guidance cadence and the company is evaluating whether it will continue the practice at all. While disclosures may be adjusted slightly, the core strategy including plans to invest in corporate venture projects is not expected to change.

CCA bills & financial implications entirely unknown still

The Climate Commitment Act (CCA) effectively establishes a cap-and-trade program in Washington. Under the program, Washington will hold quarterly auctions of carbon allowances with each allowance representing a metric ton of CO2. These allowances will be sold to carbon emitters with the revenue from sales allocated to state greenhouse gas reduction projects. Critically, utilities will receive allowances at no cost, per the state legislature. The utilities can have the Department of Ecology sell their 'free' allowances and the revenues generated from these sales will benefit ratepayers. The program applies to those businesses emitted more than 25k metric tons of CO2 per year. AVA qualifies for the program. AVA has yet to quantify the customer or financial impact related to the CCA program. Management cited it remains very difficult to determine the gas bill impact from the legislation. A key factor influencing the bill impact is the level of 'free' allowances the utility will receive and flow back to customers. "Low income" customers will not be impacted directly by the CCA legislation at least initially, but the affordability metrics have not been finalized. Management does not currently expect permanent cash flow drag from CCA although there could be timing between CCA payment and customer recovery in rates.

We believe this is one of the more important aspects of the investment outlook for all Washington utilities that is underappreciated by investors today: prices are already at $60/t+ and poised to climb further following discussions with participants in this novel carbon market (given its ambitious targets vs overall emission increases of late). Washington has some of the more ambitious decarbonization objectives which could have an outsized impact on customer utility bills in the 2020s.

Washington multi-year rate case the next reg. milestone

Management plans to file a multi-year rate case in Washington with the (relatively) new legislation in place. The duration of the rate case filing is still to be determined in the two-to-four-year range. If the utility is underearning by a large amount between rate cases AVA is allowed to file for better rate recovery with the 'circuit breaker' feature. Avista has made progress on revenue visibility and areas for further regulatory mechanism adjustment could be around the power cost sharing (ERM) and pension, the latter of which was a notable drag of late – a theme for many in the industry.

Quiet regulatory success in Oregon & Idaho visibility

Avista was able to reach a relatively fast cost of capital settlement in Oregon with a +10bp higher allowed ROE. Management pointed to a recent Idaho settlement for a peer utility with a similar 9.5% allowed ROE. Although Oregon and Idaho are smaller and historically relatively less contentious, these are favorable datapoints.

Lumen: No news is no news

Management is a wait-and-see-mode on its biotechnology investment in Lumen with clinical trial updates not expected until late 2024. The company will continue to mark-to-market the investment quarterly but major updates

Black Hills Corp (BKH) Execution, Without Distractions

Our meeting with management was constructive with the team expressing confidence in its credit metric improvement trajectory and described the overall strategic plan progressing well. Management did not fully close the door on further acquisitions, but this did not sound like an area that the company would meaningfully explore. We maintain Underperform on shares of BKH despite the more favorable meeting as we look for more consistent earnings execution and achievement of credit metrics to restore confidence.

Colorado stakeholder engagement remains a priority

Much of the meeting was focused on the Colorado backdrop which has been topical after the legislation session and with the new rate case filed recently. Black Hills is still engaging with stakeholders on the potential natural gas commodity risk sharing mechanism as well as ways to reduce volatility. Management indicated that it is too early in the process to have a view on reforms but is looking at mechanisms in other states to assess the potential parameters that Colorado could pursue. The changes to some smaller expenses recovery parameters such as lobbying was described as not material. The company's top focus remains operating reliability followed by affordability and believes that it can continue to balance the needs of all stakeholders. Lower commodity costs are in the best interest of all parties and BKH said that everything is on the table at this point. Examples included hedging improvements/expansions and physical gas storage investments.

Overall management did not appear overly worried about the financial impact of Colorado legislation but emphasized it is still very early days. The increased uncertainty is unfortunate and adds to risk in periods of extreme volatility, but we do not view the enacted Colorado legislation as having a material impact on our view of BKH or other Colorado utilities.

The Colorado natural gas rate case was filed shortly after the legislation advanced, and the timing was unrelated to the legislation. In the proceeding, BKH is requesting a ~33% revenue requirement increase that is complicated due to proposal to align rates across different customer geographies. Specifically, the consolidation of the gas cost recovery rate is part of the company's objective of moving towards more consistency.

M&A: Neither a buyer nor a seller

In the past, Black Hills has described itself as a platform for consolidation due to its scalable platform, but the company has not emphasized those attributes of late. Management reiterated that they are very focused on strengthening the balance sheet metrics which was a factor in why the company had pursued the potential minority stake (sub-20%) sale process in 2H22. While BKH did see interest in its assets from a variety of parties, it did not see the valuations that it saw in the market earlier in 2022 and found the conditions associated with the transaction is not adequately compensating for the additional complexity. BKH sold a small unregulated asset in 1Q23 but indicated that it is not pursuing any other unregulated assets at this time.

Progressing on the rate case front at a measured pace

Black Hills is currently targeting approximately three rate cases per year and has now announced Colorado and Wyoming Gas in recent weeks. If the historical cadence and managing messaging holds, this implies another rate case filing is being developed. Management has consistently said that it wants to vet potential filings with regulators and key stakeholders in the respective jurisdictions before disclosing the details to the broader public and investment community. This is a prudent approach. We will be closely watching for the next application as management looks to recovery higher operating and financing costs experienced over the past year-plus.

Historical earned ROEs will be a large governor of which jurisdictions are pursued for rate cases. Some utilities have had more sizeable deltas that have been eroded from macroeconomic pressures.

Credit metrics oscillate between agencies but improving

The 12% 2022 FFO/Debt disclosed with 4Q22 earnings is Black Hill's GAAP-derived calculation which does not necessarily align with Moody's/Fitch Ratings/S&P credit rating methodologies. BKH continues to target 14-15% FFO/Debt and believes that it is on track and potentially ahead of plan to achieve its internal and credit rating agency metrics. The cold winter drove higher volumetric sales and led to a faster than anticipated pace of improvement. The treatment of ~$260Mn regulatory assets is a ~5pp delta between agencies which is a driver between the relatively large spread. The $140-$160Mn at-the-market (ATM) equity in the near-term financing plan is designed purely by management to get back to BBB+ metrics, a level at which the company is comfortable.

1Q23 earnings improvement in the FFO/Debt QoQ along with favorable commentary was the biggest takeaway from earnings from the company. Progress on restoring the balance sheet is one of the most important areas that we and investors we talk to are focused on.

Generation upside opportunities could come with 3Q23

Black Hills recapped its incremental generation capital opportunities which management believes could potentially be formalized with the 3Q23 earnings call. The Colorado 400MW generation request for proposal (RFP) is expected to be initiated in the middle of 2023. The regulated utility can pursue up to 50% ownership if deemed reasonable, a broadly undefined standard. The mix of resource types has not yet been determined and the best technology choices will be balanced based upon levelized cost of energy (LCOE), reliability, and other related parameters. A Colorado Commission order is expected in 1Q24, but management said that it could be able to provide a capital plan update on the third quarter earnings call based upon the current schedule.

Separately there is a South Dakota 100MW build-own-transfer (BOT) process for mid-2026 commercial operations with a 10MW battery addition. This also represents upside to the plan.

Management is still evaluating small modular reactor (SMR) nuclear technology which was described as promising but not even an intermediate-term solution given the lack of commercial progress to date. The company is also reviewing carbon capture, which was described as very expensive, consistent with its exploratory regulatory filing in Wyoming. The next statutory update filing for Wyoming is due in March 2024.

Incremental generation capital is an area of upside and would likely come with 25-30% incremental equity financing to preserve credit quality. Still, this represents net upside to the plan if the utility can present a case that its ownership is reasonable versus third party ownership.

Centerpoint Energy: Even More Robust...

We met with the whole team including newly joined CFO Chris Foster. We saw the meeting as among the most offensive across our utility coverage and still offered upside against a robust set of expectations. Mgmt prospects for rolling forward their 8% EPS growth in '25 continues to progress nicely as the single most important metrics investors are watching (despite offering an already heathy long-term 6-8% EPS).

Legislation is key to the story: poised for resolution imminently

Management suggested it could yet increase capex modestly upon successful passage of the new DCRF mechanism in the Texas legislature this year. We anticipate such a move would allow the company to file for a further, subsequent DCRF filing with the PUCT for recovery this Fall (in lieu of its rate case – which would be delayed to 1Q24 on the electric side). Meanwhile its gas case remains contemplated for this Summer.

A more meaningful step-up in capex remains possible in '25 with mgmt having repeatedly flagged a further $3Bn of upside opportunities lingering.

We perceive authorized equity ratio upside for its gas utility

With a 54% authorized ratebase for its gas utility in Texas, we see upside in its forthcoming rate case up to 60% - consistent with peer utilities in the state including ATO. Watch this as a best nuance in coming months – and follows earlier expectations for a higher equity ratio to be enabled via legislation this session (this does not appear likely at this point). On balance, this should have an annualized effect for '25. We estimate this is worth ~1.5c.

Expansion of emergency generation lingers too

While unlikely to be passed in the current legislative session, we note a more meaningful expansion of emergency generation backstop at its Houston Electric utility appears a potentially further meaningful (and unexpected) angle for many. We note the existing 10-year emergency gen program will begin recoveries this Fall and should boost cash recovery metrics later in the year ($700 Mn over 6-years).

Rate case activity will pick up later this year – not overly concerned

We see a potentially heightened period of investor anxiety as the page turns to 2024 with twin major rate cases for its Electric & Gas businesses in Houston/Texas. We stress latest discussions continue to suggest substantive derisking in the backdrop for both cases. We continue to believe that an equity ratio increase (at least up to 43.75% from 42.5%) remains an entirely conceivably outcome in the electric case despite Oncor having recently concluded its case without any such uplift. See the fears resulting from the last rate case cycle in Texas as likely sizably alleviated through the next cycle.

Elsewhere it will file its latest Minnesota gas case in November and then its latest Indiana electric case this December. The totality of all these cases remains the linchpin behind rolling forward its commitment of 8% EPS growth in '23/24 over to '25. We see growing reason to believe this should be achievable.

O&M: still firmly holding the line, despite peer pressures

Despite outsized O&M pressures from its two peer gas utilities in 2022, we see CNP as quite confident in its ability to hold the line at a flat budget. Both ATO and OGS have signaled outsized (high single digit) inflation in their current year guidance; by contrast CNP has indicated even without its inflation mitigation measures costs would only be organically increasing at a 2-3% clip. We flag the success in cost mgmt as a key differentiator for CNP vs peers.

CMS Energy (CMS) Looking for summer

We met with CMS Energy (CMS) Chief Executive Officer (CEO) Garrick Rochow and Chief Financial Officer (CFO) Reiji Hayes during AGA. CMS reiterated confidence in its ability to achieve FY23 guidance targets, with increased confidence to the high end of the range, despite 1Q23 headwinds. Management emphasized that its FY23 guidance includes contingency for summer weather and storms – meaning that FY23 guidance is achievable even if summer conditions deviate from "normal." Further, CMS characterized the Michigan regulatory construct as strong despite the latest less predictable developments, including a less favorable Staff proposal in Consumer Energy's gas rate case and elevated stakeholder scrutiny post the February ice storms. CMS is confident in its ability to settle its electric and gas rate cases in Michigan. We maintain our Buy rating on shares of CMS given the above-average earnings growth outlook, which is supported by the strong Michigan regulatory backdrop despite recent regulatory noise.

Latest convertible transaction and tender accretive to FY23 earnings

CMS' recent $700Mn, 3.375% convertible senior notes due 2028 and subsequent cash tender offer for up to $150Mn of Consumers Energy notes contribute to FY23 corporate-level cost-saving initiatives that offset 1Q23 earnings headwinds. The convert represented a pull-forward of 2024 financing needs. A portion of convert proceeds were used to cash tender operating company bonds trading below par. We await 2Q23 earnings for quantification of FY23 earnings uplift related to the financing transactions. Cost accretion from the financing transaction as well as CMS tax planning initiatives should offset the 1Q23 earnings headwind from weather and storms.

MI regulatory backdrop constructive, management confident on 2023 rate case outcomes

Management remains confident about the MI regulatory construct and continues to target settlement across gas and electric rate cases. Consumers recently submitted rebuttal testimony in its outstanding Consumers Gas rate case. The testimony revised Consumer Gas' revenue deficiency to $175Mn from the $212Mn initially requested. Management characterized the Michigan Public Service Commission (MPSC) Staff's proposal, which stipulates the $89Mn revenue increase as "strong." Yet, CMS doubled down on its gas sales forecast – the higher Staff gas sales forecast was a driver of the lower Staff revenue proposal (for details, see our 8 May 2023 report: US Utilities & IPPs: Michigan: We still see LT value despite NT regulatory noise. Reit. Buy on CMS & DTE). CMS implemented a sales forecasting methodology consistent with MPSC order from over a decade ago, and management remains encouraged that the MPSC will side with CMS' sales forecast, consistent with historical precedent. We look to June 1st investor meetings with the MPSC for further insight into MPSC's position on key utility issues.

MISO capacity auction supports long-term earnings trajectory, despite YoY decline

The latest MISO capacity auction results printed 2023-2024 capacity prices down significantly from 2022-2023 levels. While it is difficult to compare the results on a year-over-year basis given MISO's pivot to seasonal capacity pricing, the MISO 2023-2024 capacity auction yielded $2/MW-Day to $15/MW-Day capacity prices (depending on the season) versus $236.66/MW-Day capacity prices in 2022-2023. CMS has exposure to capacity prices via its Dearborn Industrial Generation (DIG) operating asset. The lower 2023-2024 capacity prices are unlikely to impact the near-term earnings trajectory given that CMS has contracted majority (~80%) of its near-term capacity exposure. However, if capacity prices continue to decline in future MISO auctions, this may lower 2025+ earnings trajectory at DIG. We currently embed ~$4-5/MW-day (average) capacity prices 2025+ in our CMS earnings estimates. Management expects that despite the lower YoY capacity auction print, the longer-dated transition from renewables and out of coal will support higher capacity prices prospectively. Further, CMS emphasized that its 6-8% EPS CAGR is intact regardless of potentially lower out-year MISO capacity prices.

We see reason for MISO capacity prices to rise between both the shift towards a sloped demand curve to reduce future volatility as well as expanded accreditation criteria which could well reduce capacity qualification for a variety of assets – looking specifically at their performance during the most acute events. On balance, prices likely recovering from here but not back to the all-time peaks from before. Still anticipate robust long-term capacity pricing.

2024 Integrated Resources Plan (IRP): More owned solar, stand-alone storage

CMS is expected to file its next IRP in 2024. While it remains early stages, we expect the next IRP to increase owned solar and stand-alone storage targets. The previous CMS IRP pre-dated IRA tax credits. We expect the incorporation of IRA credits in the plan to result in greater utility-owned solar deployment targets (~50-60% owned solar target currently). Further, we may see further ramp in stand-alone energy storage investment. The upcoming IRP is critical to informing the long-term earnings and growth outlook for the utility.

DTE Energy (DTE) Reliability wags the dog

We met with CEO Jerry Norcia, CFO David Ruud, and President of DTE Gas Joi Harris during AGA. Key takeaways were: (1) The response / mitigation plan to 2023 earnings headwinds (rate case, weather, storms) is progressing better than expected. The 2023 electric rate case decision is fundamental to FY24 EPS. (2) DTE has seen strong stakeholder participation in Integrated Resource Plan (IRP) proceedings to date. 'Controversial' areas of the IRP include timing of Monroe coal plant retirements and treatment of undepreciated balance of Monroe coal plants. (3) Michigan Public Service Commission (MPSC) is likely to paint a more positive picture of MI regulatory backdrop for investors in upcoming June 1st investor meetings. Management maintains strong alignment between DTE and MPSC as DTE plays critical role in MI infrastructure and electrification goals. We maintain Buy on DTE with shares trading at a discount to the group despite above-average investment and earnings growth outlook.

Coal retirement, undepreciated balance key issues in IRP

Management highlights strong stakeholder participation in ongoing IRP discussions supports IRP settlement prospects. Key areas of pushback include timing of Monroe coal plant retirements. DTE's IRP currently contemplates two units of Monroe retiring in 2028 with the other two units retiring in 2035. Stakeholders argue that DTE should fully retire Monroe as early as 2030. Further, treatment of undepreciated coal plant balances is an area of stakeholder contention, specifically whether undepreciated balances should earn debt or equity return. The accounting treatment of ~$700Mn undepreciated Monroe coal plant balances pose material financial implications for DTE relative to other IRP considerations. We note that Consumers Energy and Indiana-Michigan Power IRPs stipulate 9% return on undepreciated coal balances. This suggests a strong precedent for equity-like recovery. Lastly, management highlights that of its 3,200MW solar deployment targets, only 900MW is attributable IRP solar investments while the other 2,400MW represents voluntary renewables. Of the 2,400 MW voluntary renewables, 2,300 MW are already subscribed. DTE is ahead of schedule for subscribing voluntary renewables and continues to see significant demand in this end market. Voluntary renewables program offers contingency to the IRP solar targets pending approval. Management aims to settle the IRP by mid-July.

Regulatory construct supports MI investment goals

DTE reaffirmed its commitment to spend $22Bn capex over the next 5-years. The company believes regulatory and political goals in Michigan – including electrification, EV penetration and manufacturing load growth – supports DTE's 5-year capex plan. Overall, management signaled infrastructure investment goals in MI support MPSC and utility alignment and continues to view favorable MI regulatory construct despite recent noise. The MPSC's recent decision approving 700 MW of DTE's renewable program is the latest positive regulatory datapoint for the company. We look to June 1st MPSC meetings and intervenor testimony in DTE's electric rate case expected June 13th to further gauge the regulatory backdrop in Michigan. However, we are similarly confident in a favorable MI construct.

Resiliency efforts focus on tree-trimming, automation & (longer-term) undergrounding

Management emphasized that severe storms are Michigan's new reality, and double-downed on the near-term criticality of resiliency investments. DTE is focused on advancing its tree-trimming program and ramping grid automation to strengthen grid resiliency. Automation reduces storm duration approx. 70-80%. While DTE requires five years to complete its automation investment initiatives, automation will drive ratable year-over-year improvements to system resiliency through 2028. DTE is five years into its seven-year tree trimming initiative. Management emphasized that tree trimming initiatives mitigated customer outages during the February ice storm – only 16% of customers lost power within the 24 hours of the ice storm versus ~30-40% customer outages within first 24 hours of a severe 2017 storm. Management attributes improved outages to tree trimming initiatives. Longer-term, DTE will look to ramp undergrounding investment. Currently, approx. 1/3 of DTE's grid is underground while another 1/3 represents higher-voltage wires with stronger poles. The last 1/3 (~15-16k miles) represents old, above-ground wires. This portion of the system is unlikely to support electrification and EV trends long-term. DTE aims to underground as much as possible, although this investment opportunity is likely longer dated.

Duke Energy (DUK) Balancing credit

We met with CFO Brian Savoy, SVP & Head of Natural Gas Sasha Weintraub, and VP of Investor Relations Abby Motsinger. Reactions to the meeting were among the most cautious of AGA large-cap attendees given emerging risk of a modest-sized acquisition: fears linger this would effectively be an over-equitized transaction. Care to indicate balance sheet strength otherwise will remain essential.

90-10 mix feels right, but will evaluate smaller deals

With the pending transaction to monetize the commercial renewables business, DUK mgmt expects to be a mostly regulated business model on a go-forward basis with an approximate mix of 90-10 electric to gas. While there is some (modest) flex on that balance, mgmt indicated there is no desire to significantly expand its natural gas mix (ie to 70-30 electric). Several other parameters will dictate whether the company would consider a transaction for regulated assets including 1) preference for a jurisdiction that DUK already operates in and which has a constructive regulatory framework, 2) credit-accretive asset, 3) balanced financing mix including ~50% equity, and 4) additional operational benefits / synergies. While the parameters initially would appear to limit the scope of transactions, we perceive DUK intends to be disciplined with its approach to any potential transactions in order to remain opportunistic.

Balance sheet implications are top of mind

Mgmt reiterated that the company's existing base capital plan does not contemplate M&A, though a potential transaction would likely require a mix of funding. Unlike the Piedmont gas acquisition, which was principally debt-funded, expect a more balanced mix in the event of a transaction, likely incorporating 50-50 debt and equity. Mgmt indicated that for the deal to be credit accretive based on this type of mix would be a gating item to a potential transaction. Regulatory considerations have been top of mind for utility strategic acquisitions with recent transactions being derailed altogether (Kentucky Power) or otherwise substantially extended (New Mexico). DUK mgmt noted that it would expect to have a compelling case in front of regulators in a jurisdiction where the company already operates, centered around customer benefits and potential for operational improvements.

Resource plan updates to focus on reliability needs

DUK expects to file the next iteration of its integrated resource plans (IRPs) in both North Carolina and South Carolina this calendar year. While decarbonization remains a key theme of the overall mgmt transition, mgmt stressed the need to balance additional considerations of 1) transmission constraints limiting the number of MWs of renewables that can be added and 2) the need to account for higher assumed winter peaks. The parameters as outlined suggest additional need for further generation – either traditional dispatchable or large-scale battery storage. The setup is for potential long-term capital plan upside in the *next* iteration of multi-year rate plans in DUK's Carolinas footprint.

Fuel and renewables sale to provide 50-75 bps uplift

Improving balance sheet metrics based on fuel recovery have been a theme across the sector. In addition to recovery of the "big" balances at DUK's Florida and North Carolina utilities, the pending sale of the commercial renewables business is expected to provide an uplift of 50-75 bps by ear-end 2023 on a run rate basis toward the company's 14% consolidated target. Potential upside on funds from operations (FFO) to debt could still materialize in the form of a credit accretive transaction as discussed above, as well as a better than expected cash flow outcome from the ongoing North Carolina cases – recall that Duke Energy Progress (DEP) achieved a partial settlement, suggesting a degree of regulatory certainty. DUK expects its fleet to qualify for nuclear production tax credits (PTCs) under recent legislation, but federal guidance is yet to be published including key prevailing wage guidelines – mgmt noted a high degree of confidence in the latter point.

Consolidated Edison (ED): JP, all the time

We met with ED CEO Tim Cawley, CFO Robert Hoglund, Treasurer Yukari Saegusa, and Director of IR Jan Childress.

CECONY settlement approval timing still uncertain

The Con Edison Company of New York (CECONY) announced a joint proposal (JP) for a settlement of its electric and gas rate cases with interveners and staff in February 2023 – while this is later than in previous years, the time frame is not significantly stretched, with new rates in effect January 1 retroactively assuming commission approval. Data points suggest that the length of time without a commission approval of the JP is due to elevated workload at the commission – Con Ed's smaller Orange & Rockland utility reached its own JP in November 2022, with approval coming at the commission's April 2023 agenda meeting. Management indicated that there has not been an active back and forth or numerous data requests since announcing the JP – in our view, this suggests that the delay is more likely to be a workflow issue at the commission. Investors are increasingly sensitive to commissions modifying settlements that are presented in recent months, with the WEC electric rate case in December being a prominent recent example of a premium jurisdiction catching investors by surprise.

Steam case – talks ongoing, ROE should trend higher

Given the status of the Steam rate case (settlement talks remain ongoing), incremental updates on expectations were limited. Management continues to stress the need to add a decoupling mechanism in order to incentivize the utility to invest in decarbonization while supporting lower consumption by customers. Absent full decoupling, weather normalization would help to take some of the seasonal volatility out of the business. It remains uncertain how likely these items would be to receive support in a potential settlement, though we note that initial staff testimony opposed decoupling.

Large projects outside of latest rate case

ED management has been outlining the incremental opportunity from large development projects outside of its current rate case. Previously announced projects, including Reliable Clean City (RCC) at $780m and Brooklyn hub ($800m), remain part of the existing capital and financing plan, along with the yet-to-be filed Queens planned substation (Gateway), which the company initially estimates at $1.1B. While projects outside of the approved rate plan introduce a degree of incremental risk, the system improvements are aligned with the city's and state's broader decarbonization goal and climate priorities, which we expect to be long-term supportive. We expect incremental announcements of state-directed investments supporting electric vehicle infrastructure under the New Efficiency New York (NENY) program – recall that ED had previously received $300m in investment awards supporting make-ready investments in electric vehicle charging infrastructure.

Expect equity layer to stay at 48%

Under the (yet-to-be-approved) joint proposal, CECONY received a 9.25% ROE with a 50 bps band before customer sharing. The approved equity layer can be flexed up to 50%, though this would only be to the utility's advantage in the event that the earned ROE can sustainably be at or above the 50 bps threshold. Management indicated that staying above the 50 bps band for a sustained period is not the baseline expectation and correspondingly that the equity layer will not be flexed up.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Electric Utilities & IPPs: Power Points: 1Q Earnings Train: ED Beat, BKH Credit, IDA Equity, HASI, AY Ests	Julien Dumoulin-Smith	05 May 2023
North American Utilities & IPPs: Power Points: VST-ENGH Feedback, ED Clean Energy Hub, NI Indiana, DUK Refresh	Julien Dumoulin-Smith	21 April 2023
Consolidated Edison: Regulatory risks lifted with latest settlement, but outcome priced in	Julien Dumoulin-Smith	21 February 2023

Dominion Energy (D) Wordsmithing the business review

Key takeaways are (1) the impression that Dominion could like to have slightly more than 100bp of FFO/Debt contingency over time above the downgrade threshold; (2) the company targets earning at the allowed return level in Virginia prospectively; and (3) We maintain Underperform on shares with downside to Consensus adjusted EPS forecast and a significant degree of financial & regulatory uncertainty that warrants a discounted valuation today versus utility peers.

Business review progresses: Holistic analysis

Dominion management emphasized that it did not have updates to its business review and is still evaluating the best path forward to achieve its objectives. The company is still fairly definitive on its plans to host an investor day by September 30t hand provide the investment community as much information as possible. The company is evaluating potential asset sales vs equity/equity-linked securities and the preference appears to be heavier on asset sales based upon where the stock trades. The company emphasized that the analysis is not as simple as comparing the implied P/E on an asset sale versus where the stock trades because there are qualitative and quantitative factors to consider. Dominion did note that there are dis-synergies associated with larger core state regulated utility sales that would need to be (and would be) incorporated into the analyses. The company acknowledged again that it has been a challenging time for shareholders, but it is hopeful it can emerge from the business review process positioned to deliver future growth with its good assets & good people.

Equity-linked securities are also under evaluation but appear less likely due to the limited equity credit (25-50%) that would not support as meaningful of leverage reduction. Overall the company is trying to minimize but not necessarily eliminate the common equity needs. The core businesses are the state regulated utilities and the unregulated businesses are not the core assets. These include the Millstone nuclear plant, Cove Point LNG export facility, contracted renewables, and renewable natural gas investments.

Credit metric targets is a key investor debate

The company is still evaluating what the financing picture looks like for the post business review emerged company but is open to modest at-the-market (ATM) equity to finance growth. Management believes there is a tremendous opportunity to deploy capital and success on reliability driven investments will require a 'really good/strong balance sheet'. The final FFO/Debt credit targets have not been publicly communicated yet but management has provided examples of negative historical items to provide a sense of magnitude: ~70bp for fuel cost deferral, ~25-30bp for regional greenhouse gas initiative (RGGI) customer relief, and ~35bp first triennial review settlement.

We currently assume a 15% prospective FFO/Debt level in our estimates and continue to believe this is a fair assumption but potentially slightly on the low side of what management ultimately targets. With more regulated utilities making higher credit metrics (~17%) a feature deserving a premium valuation, we will be watching with intrigue of where the company ultimately opts to target. 14.5-15.5% or 15-16% could ultimately be the sweet spot.

Dividend change still off the table

The guiding principle that the $2.67 annualized dividend per share will not change is intact. The company reiterated that it is targeting mid-60% payout ratio and it could take time to achieve to the extent that the post business review emerged company has a lower earnings per share.

Many investors we speak to have advocated for more flexibility in the dividend decision. Dominion has remained steadfast that it will not lower the dividend per share as part of this business review.

Virginia engagement remains strong

Dominion characterized its Virginia regulatory and legislative relationships as strong and pointed to the enactment of legislation in 2022 as a success. While the company acknowledged noise in the process, the chief objective of a healthy utility with regulatory certainty has largely been achieved. The meaningful customer bill relief sets the stage for a hopefully less contentious rate review that is anticipated to be less controversial given some of the new 'guardrails' on key parameters. Despite the legislative process, Dominion described its engagement with the Virginia Commission Staff as reasonable, productive, and professional. Prospectively Dominion stated that its objective is to earn at or very close to the allowed rate of return.

Between organic sales growth and cost control, Dominion could be in a position to exceed its plan, but we believe a planning assumption (consistent with our estimates) around the allowed return is prudent before we have more experience in the new regulatory regime.

Essential Utilities: Repairing the repairs

Our management meeting was dominated by discussion of (1) new repairs tax guidelines; (2) the outlook for potential Pennsylvania (PA) natural gas earnings in the late 2023 rate case; (3) the balance sheet trajectory; and (4) the prospects of water acquisitions. Our investor conversations have focused on the equity overhang most acutely followed by the PA regulatory certainty with the forthcoming rate case. We maintain Neutral on shares with the segment trading at discounts to peers that appear approximately appropriate due to the lower visibility into earnings growth today.

Repairs tax reforms: 'Not a night & day difference'

Essential Utilities' Peoples Natural Gas utility has one of the larger benefits from repairs tax in our coverage universe from our review of regulatory and financial filings. Repairs taxes are far from new, and the water utility has been utilizing the flowthrough tax accounting since 2011. The new Internal Revenue Service (IRS) guidelines have been an area of industry speculation for over the five years. WTRG is still evaluating the new guidelines to see how it compares to their current policies and at a high level, management did not expect a material impact while emphasizing it was still relatively early in its review. Essential stated that it has been conservative in its policies, so it did not see wide deviations between the guidelines and its accounting. Although the new IRS parameters are specific to natural gas, management expects to align its water policies with the natural gas accounting. The company believes it will be able to provide more clarity with its next earnings call.

Repairs tax was described as approximately representing ~$50Mn for water and $45-50Mn for natural gas annually. The water business has reserves in place that could be unwound. Prior to Essential Utilities' acquisition of the PA natural gas business, repairs tax was not being elected so there is less historical within even a broadly interpreted scope. In the water rate case, there is a ~$160Mn annual capex of repairs eligible spending with the benefits flowing back to customers.

There is increased uncertainty with the new IRS represents a degree of overhang although our initial review of the IRS parameters and company engagement do not appear to be a regime change that would be unexpected for companies. Repairs tax has been a contributor to the delta between the earned and allowed return on equity which was a feature of the acquisition and related agreement to file a rate case. As a result, management would have expected and planned for the 2023 rate case within their EPS trajectory which extends through 2025.

Capital needs predictable - except PFAS

Management remains comfortable with its natural gas spending and did not anticipate any material changes to the volume of annual pipeline replacement. The capital opportunities historically and prospectively are driven by physical/operating constraints which supports ~25 miles per year. After the rate case, the Pennsylvania earnings profile should more closely align with rate base growth prospectively.

In the water business, the capital was similarly described as a fairly predictable $500-600Mn annually with incremental needs as the business grows from inorganic acquisitions. Essential Utilities has developed its initial estimate of Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS) capital and operating expense requirements which are still being refined. Before providing public disclosures, management wants to evaluate if there are opportunities for funding from the Federal government and industrial parties.

Comments are due in mid-June to the Environmental Protection Agency (EPA) which should be the next datapoint of insights into potential higher spending. Management was quick to emphasize that whatever spending estimate is provided for PFAS would not be entirely incremental to its base plan. The company will seek to manage affordability and look for ways to remove other spending from the plan for treatment and related areas. Net, there will still be additional spending required.

High revolver costs & regulatory needs point to equity issuance sooner rather than later

Essential currently has ~$600Mn short-term debt on the revolver which appears to be a primary driver for why management plans to issue the $500Mn equity in the 2023 plan sooner rather than later. The company is still evaluating the mix of security types, methodology (block and/or at-the-market [ATM]), and timing. The current credit metrics are depressed below the 12% FFO/Debt downgrade threshold and have been for at least the past two years. Essential Utilities expects to improve to above 13% FFO/Debt pro-forma for the $500Mn equity issuance and assuming increased cash collection from customers in the Pennsylvania rate case. Besides credit rating agency considerations, there is a need to realign the Pennsylvania natural gas and water capital structures ahead of the 2023 and 2024 rate cases.

Water acquisitions come in fits & starts but still upside

Management described a holding pattern for the DELCORA acquisition and reaffirmed that the odds of financially closing in 2023 appear low based on the regulatory datapoints. Beyond DELCORA, management remains optimistic that it can continue its cadence of smaller water roll-ups but has not given up on more sizeable deals. There has not been a change to management's view that another natural gas acquisition is unlikely.

Investors have perpetually focused on the public valuations for natural gas and water utility pure-play peers, but we did not get the impression that further simplification is a management priority.

MDU Resources (MDU) Cutting a path to the big spin ahead

We met with CEO Dave Goodin, CFO Jason Vollmer, and Director of Investor Relations Brent Miller. Maintain Underperform on MDU given negative total return implied by our valuation.

Juggling several processes as Knife River prepares to spin

MDU's tax-free spin of materials subsidiary Knife River will take effect at the end of the month, with when-issued trading of both the spin and 'RemainCo' tickers effective on May 25. Last week's Investor Day addressed the question of margin improvement, targeting 15% EBITDA margins by 2025 under a new strategy that accelerates ongoing initiatives beyond passing through price increases. We continue to expect Knife River to trade at an EBITDA multiple in the mid-high single-digit range, already largely reflected in the price of the consolidated MDU.

Construction Services Group (CSG) firing on all cylinders

The other substantial data point to be completed in coming weeks is the outcome of the strategic review of the CSG business. Mgmt has not indicated whether one outcome is preferred vs. another – we note that tax consequences are likely to be a meaningful input as basis is in part impacted by historical bolt-on acquisitions. The scale of the business is another key consideration as a standalone CSG would likely be one of the smaller pure-play public peers in the contracting services business. Fundamentals of the segment have continuously remained strong – mgmt noted strength in customer activity and backlog growth in traditional areas of strength including high tech manufacturing, hospitality, and retail distribution centers.

Electric demand set to rise, can rate base follow?

We continue to see rate base growth at a 'pure play' remainco as the key metric to watch for re-rating potential, which remains highly dependent on the outcome of the CSG process. Mgmt noted one particularly strong data point for electric utility fundamentals in the form of a large bilateral interruptible contract with a data services offtaker which is expected to ramp to total demand of 180 MW vs an existing load of 660 MW. While the announced customer is contracting under an interruptible supply agreement and thus MDU does not have to add rate base investment to accommodate higher peaks, the selection of MDU's territory for a sizeable data center offtaker is an important affirmation and potential indicator of future rate base growth. Note that at present MDU does not see rate base growth needs in order to meet growth of data center or other customers. The ability of mgmt to affirm/address long-run rate base growth is expected to take on greater importance as MDU pivots to a pure play model. With affordability as a percentage of wallet share consistently scoring among the best across our coverage, we look for additional data points suggesting acceleration.

MGE Energy (MGEE) Incrementalism here

We met with CFO and Treasurer Jared Bushek and Director of IR Ken Frasetto. We maintain Underperform on shares due to relative valuation considerations.

Capex still skewed toward renewable generation

MGEE recently refreshed its long-term capital plan, targeting over $1B in investment over the 5 years ending 2027. As has been the pattern in recent years, the current renewables buildout accounts for a substantial part of capex over the coming five years, with an incremental contribution from the purchase of a stake in West Riverside. Previously announced renewables projects where MGEE is a 10-33% partner with larger utility peers are accounted for in the current WI rate case, which has forward test years covering 2024 and 2025. Years 2026 and 2027 include white space capex, though we expect that this includes projects with partial line of sight and early-stage development.

Gas utility incrementalism, de-carbonization opportunity

Large-scale infrastructure investment is less of a theme for the gas utility. Management notes that long-term planning and proactive investments have reduced the incidence of leak-prone pipe; thus MGEE's system does not have the same need to replace aging infrastructure as other large urban systems. We expect capital investments to continue to focus on core customer growth and maintenance capex priorities. MGEE Gas has rolled out a renewable natural gas (RNG) tariff program for customers to opt in to, but given pricing tied to the Renewable Identification Numbers (RINS) program, this is likely to remain a small program for less price-elastic customers. A more ambitious target of reaching net zero at the gas utility is expected to accelerate the use of offset programs by its target date of 2035 – for the current 5-year capital plan, we continue to see the balance as weighted toward investment in the electric side of the regulated utility business.

Rate case ask is modest versus 2021-22

Management framed its current electric and gas rate case requests as relatively low risk given the size and tenor of the request. MGEE's requested 9.8% ROE is unchanged and in line with recent outcomes. We see the request for a higher equity layer as somewhat risky given the already-elevated level, though note that equity layer is one area where the commission has shown flexibility to the upside of late. Base rate requests of 3-4% for electric and gas screen favorably versus MGEE's increases in recent years, which were driven partially by the elevated cost of fuel including natural gas. Overall, we see MGEE's rate case as generally low risk and likely to deliver a key data point for the commission's latest views, including some of the first on-record statements from the latest commissioner, who was not part of the bench for the WEC settlement modification.

The mantra remains stick to our knitting

MGEE management was adamant that the company sees continued success and a long runway of opportunity in its stated strategy of focusing on regulated investments in its existing WI service territory. We perceive very little appetite for M&A despite a stock that would be considered valuable currency, either with respect to regulated rate base or unregulated infrastructure investments. MGEE tends to limit the scope of its communication with investors (no earnings call, EPS guidance), though given the persistence of its premium to the peer group, there is little incentive to change the strategy at present.

See our 17 March 2023 report, MGE Energy: Smallest WI utility has strong start in '23, still expensive; Reiterate Underperform.

New Jersey Resources (NJR) Solar is core

We met with New Jersey Resources (NJR) CEO Stephen Westhoven and CFO Roberto Bel. Management emphasized strong visibility to 7-9% EPS CAGR given organic growth at Storage and Transportation (S&T), more normalized earnings at Energy Services due to Asset Management Agreements (AMA), New Jersey Natural Gas (NJNG) rate case in 2024, rate base-like return on solar projects, and long-term contracts at Leaf River. Management characterized earnings as volatile in the near term (i.e., above the high end of the 7-9% guidance range) due in part to AMA. AMA revenue recognition is somewhat "lumpy." However, AMA furthers the company's plan to de-risk Energy Service and strengthens the balance sheet overall. The company did not comment on any incremental M&A plans. We maintain our Underperform rating on NJR, with shares trading at an unfavorable risk/reward skew.

Committed to solar asset ownership and continued solar development

Management doubled down on the benefits of solar asset ownership, specifically given the ability to generate strong cash flow and return on capital. Management targets high-single-digit unlevered returns on solar projects. Project returns are assessed on a project-by-project basis. In other words, individual solar projects must offer strong stand-alone returns for NJR to progress with project development. The company continues to see value from solar ownership and did not detail expectations for solar asset sales, unlike many other utilities pursing renewable M&A. IRA credits are incremental to NJR's earnings outlook.

New Jersey Governor Executive Order, Future of Gas are favorable to NJR

NJR characterized the New Jersey Future of Gas proceedings and the Governor's recent Clean Energy Executive Order as favorable to NJR long term. Despite NJ political goals to transition away from natural gas, NJR believes that its current natural gas infrastructure will enable the energy transition. The Governor's order specifically carves out decarbonized fuel and prioritizes supporting jobs in the pipeline industry. Thus, NJR sees its New Jersey pipelines as a crucial element of NJ's long-term decarbonization plans given the ability to blend in hydrogen or renewable natural gas (RNG). However, the timeline on when NJR can capitalize on these opportunities remains undefined and likely far out.

Organic expansion opportunities across S&T business

Management highlighted potential for the fourth cavern at its Leaf River salt cabin storage facility in Mississippi. While the company has yet to announce a deal to expand the facility, the latest uptick in liquified natural gas (LNG) development activity and focus on reliability in the Southeast supports additional storage capacity. Further, management emphasized organic expansion opportunities at the Adelphia Gateway pipeline. Strong demand remains for pipeline capacity given its location within the refining-heavy Philadelphia region. Organic expansion may be palatable from a permitting perspective, with brownfield expansion and/or small laterals to incremental customers easier to certify. The pipeline is currently fully subscribed.

See our 2 February 2023 report, US Electric Utilities & IPPs: PowerPoints: CMS/UGI/NJR beats, EXC ComEd, PCG US1, Offshore Wind & DUK.

Northwest Natural (NWN) Where policy and practicality on decarbonization meet

We met with CEO David Anderson, CFO Frank Burkhartsmeyer, and SVP Strategy & Business Development & President of NW Natural Water Justin Palfreyman. NWN emphasized that 4-6% EPS growth rate does not assume additional RNG projects or water acquisitions beyond what the company has already announced. Incremental (or unannounced) M&A and/or RNG development opportunities represent upside to the current earnings trajectory. Nevertheless, management expects consolidation will continue across gas and water operations. NWN remains open to both buying and selling utility assets if in the best interest of shareholders. We monitor incremental M&A announcements, although we expect the overall NWN business mix will diversify away from natural gas as RNG and water investment ramps overtime. Maintain Neutral on NWN with shares trading in-line with fair value.

RNG an undefined, 'clean slate' growth opportunity

NWN only recently launched its competitive renewable natural gas (RNG) business at its NW Natural Renewables subsidiary. NWN has committed $50Mn to develop two RNG projects, one of which is approaching commercial operations date (COD) while the other facility is expected to reach COD summer 2023. The RNG business remains early stages and the magnitude of potential incremental earnings or capex upside is undefined. Yet, management double-downed on targets to grow the competitive RNG business, citing that the latest RNG projects are not intended to be 'one-off' efforts. Management highlights that the credit backing of NWN supports its competitive advantage in RNG development - offtakers i.e. utilities prefer contracting with credit worthy counterparties. NW Natural Renewables aims to contract a majority of RNG offtake with long-term contracts. This stands-out relative to peers that leave greater uncontracted exposure to sell RNG into Renewable Identification Numbers (RIN) or Low Carbon Fuel Standards (LCFS) markets. However, NWN may increase RIN/LCFS 'spot' exposure slightly as the business scales and risk profile moderates. NWN expects strong RNG demand from utility counterparties although management confirmed commercial counterparties may likely drive RNG growth longer-term. NW Natural Renewables targets double digit unlevered returns for RNG projects. Partnerships were described as a tool to facilitate development of larger-scale RNG projects.

NWN to diversify business, increase Water business mix

'Tuck-in' acquisitions of small, private water companies remains a core component of NW Natural Water business strategy. NWN targets single digit unlevered returns (i.e. 'rate base like' returns) on water acquisitions. NWN has invested almost $300Mn in water M&A and follow-on capex to-date which could scale to ~$500Mn in time. Management implied objectives to increase the percent business mix attributable to water longer-term. NW Natural Water recently acquired water and wastewater service companies in western Oregon. These acquisitions diversify NW Natural Water business and expand total addressable market of the water business overall by broadening business exposure to the O&M contract services market.

IRP process shows difference ways to invest in decarbonization

The Oregon 2022 natural gas integrated resource plan (IRP) process has been very topical and an area of investor focus after the Oregon Public Utility Commission (PUC) Staff provided comments and recommendations. The Staff in part advocated for what it viewed as less expensive emission reduction compliance solutions. While also within the parameters of Senate Bill 98, the Staff also noted that to date the RNG projects have been out of state. NWN management described intervenor testimony as part of the process and in part representing a difference of opinions in compliance strategies. This did not sound like a total surprise to management given the novel legislation. Management is hopeful that it can achieve lower cost carbon reduction solutions as well as additional in-state resources as well, indicating strong alignment.

NorthWestern Corp (NWE) Dare to Dream

Our meeting was constructive with management describing themselves as among the most bullish on the jurisdiction in nearly twenty years. Our client conversations have shown little receptivity towards shares based on the historical view that NWE has unfavorable regulation and limited growth. These were indeed true in the past and we remain positive on shares because we see and opportunity for the company to see renewed interest. We maintain Buy on shares of NWE due to the discounted valuation and improving backdrop.

Regulatory engagement and strategy starting to bear fruit

Management attributed its recent regulatory progress to the engagement with the Commissioners, Montana Commission Staff, and other stakeholders that was followed-up with strong witness testimony explaining the need for rate relief. Aside from the actual rate case, the underpinning of an improving regulatory climate were further enhanced in December 2022 (winter peak) and January 2023 (Colstrip ownership increase). There had been some uncertainty among parties in the state regarding Northwestern's intention for Colstrip but the agreement to purchase more reaffirmed what management has been advocating for over multiple years.

In December, Northwestern was importing over 40% of its electricity needs from outside the state and was paying up to $900/MWh for purchased power. This was the latest datapoint of the merits of building new ownership that the company believes is further validation of its plans to build new generation. This is also in-line with the Montana's Commission efforts to explore resource adequacy as well. From a financial perspective, the Colstrip acquisition should reduce downside from the power cost adjustment mechanism and overall provide more stability for customers as well.

Our base case is that the multi-party settlement is approved without material modification. While the higher market power prices had an unfavorable impact on customers and shareholders in late 2022, this has further validated management's strategy.

Yellowstone construction set to resume sooner rather than later

Northwestern remained cautiously optimistic that it could resume construction soon as it works with its construction partner to remobilize at the site. It does appear that there could be a small delay to the commercial operations date (COD) but not overly significant. If the rate case settlement is approved, there will be less regulatory lag with cost deferral but the company has been clear that another rate case will be necessary to get cash recovery of the new power plant. It remains possible that 2024 is the test year for the subsequent rate case although there will be multiple variables into that equation still to be finalized.

The swift enactment of legislation is perhaps the strongest datapoint of how far engagement with stakeholders has come.

Growth rate parameters coming into focus

The rate case could conclude in late July or early August which may align with the 2Q23 earnings call. After a final order in the rate case is issued, we expect Northwestern to issue 2023 guidance and provide a long-term rate base/EPS CAGR using 2022 as a base. Currently NWE has a legacy 3-6% EPS and 4-5% rate base growth rate, both of which we anticipate are rebased. We see upside to Consensus for FY23+ EPS even before factoring in incremental transmission & distribution capital that we believe is increasingly probable. As our estimates confirm, the prospective will be somewhat lumpy due to rate case timing, not dissimilar to other peers with less tracked capital spending. The constraints on spending are customer affordability and the balance sheet where management wants to target a 14%+ FFO/Debt.

Management described its transmission system as nearing the edge of its capacity and requiring significant spending increases to support customer growth, power flows, and new generation. This is consistent with renewable developer datapoints which have pointed toward Montana transmission being a constraint.

Prospectively we expect Northwestern to double-down on electric transmission and distribution spending which is lower construction and regulatory risk. Not only does transmission have less regulatory lag from earnings/cash perspective, it expands regulatory diversity on the margin. From management's perspective it is not purely a financial conversation: transmission investments are a critical reliability necessity which is the top focus in the state today. Another areas of upside capital spending is fire mitigation, consistent with regional peers but to a far lesser degree than in California.

The timing of the long-term guidance refresh may not align with the 2Q23 earnings call and may not come until 3Q22 ahead of the Edison Electric Institute (EEI) Financial Conference. Regardless of if the update comes in July or October, we believe that the growth update will surpass relatively low investor expectations.

Earned ROEs set to improve, the question is: how much?

In 2022 NWE had ~200bp of regulatory lag with only a partial year of interim rate case relief. The company has internal targets to improve the rate of underearning and has noted historical ability to earn within ~50bp of its allowed return of return in years with more favorable conditions. While an accelerated rate of distribution and generation spending could bring additional regulatory lag, we would expect this gap could decline below 100bp over time.

Between a higher rate base trajectory, refocus on wires investments, and earned ROE improvement, there is newfound visibility into earnings for the first time in multiple years.

OneGas (OGS) More rate cases to come

Our meeting with OGS management reemphasized the steady nature of the operations, regulatory strategy, and financial approach. Overall, it appears that the business is operating on plan, with no major positive or negative deviations from the last long-term guidance refresh. We maintain our Neutral rating on shares of OGS, which trade approximately at fair value.

Regulatory activity in normal course

The Oklahoma performance-based rate change (PBRC) that Oklahoma filed in March was described as a top priority for management. Under the construct, OGS makes interim filings between rate cases and the March filing requested a +$28Mn annual rate increase, which is up significantly YoY. Other Texas filings that management is working to diligently implement are the +$12Mn Central-Gulf and +$7Mn West-North Gas Reliability Infrastructure Program (GRIP) filings, although these are more routine processes.

We look for rate cases to kick up in 2024 and 2025 following the completion of a full estimated year with elevated costs in 2023. We see timelines as broadly on track to file substantive cases in ~2024. We see abating of fuel costs as helpful to the backdrop for these cases. Regardless, we perceive an improving backdrop, particularly in Oklahoma with the naming of Kim David as Vice Chair of the OCC.

We expect O&M inflation levels to remain a key focus, however, with the company seeing elevated costs on re-staffing post Covid as well as driven by outsized growth. We remain a bit cautious on risk of further inflationary pressures upwards for OGS given its compounding growth plants through the period, while O&M is slated to moderate materially in the near term. We watch this dynamic carefully. Ultimately, it could just result in accelerated rate case activity, but ongoing lag could be outsized versus our EPS.

Another gas pure-play not interested in M&A

OGS management described the strong successes that it has had in steadily growing the company via organic capital investments with its favorable jurisdictions. Given the interest rate backdrop with higher financing costs, management is even less interested in paying a premium to acquire others' assets. The company has more than doubled since its spin-off and is investing $650-675Mn annually on low-risk capital, which the company stated is like adding a modest-sized acquisition every three years. OGS does not believe that it is lacking in scale or has a need to execute a large inorganic transaction. Finally, OGS stated that its simple financing approach without back leverage is more transparent.

Cash taxes should be volatile but not related to repairs tax

Cash taxer payer status has oscillated around Covid losses and securitization proceeds but largely net out. In response to the volatility, management has started providing enhanced quarterly disclosures to aid investors but does not see this as a material driver of performance. Like our conversation with peer Atmos Energy (ATO), OneGas management did not expect any material change to its financial profile from potential repairs tax reforms. Overall, this did not appear to be a focus area for management.

Robust costs that are front end weighted

OGS has had been focused on in-sourcing some spending areas, such as line locations, to become more efficient and improve its internal capabilities. Management is now paying for a training school, as it has an objective to further increase its employee base of talent. Operating and maintenance costs are still increasing at a high-single-digit rate, but the company is hopeful that inflation will moderate over time back towards a more normal level. Consistent with the prior message, cost increases are higher in the five-year plan, so more robust increases above the 6% CAGR embedded in the annual plan.

The higher costs are dampened by continued strong new customer connections, which more than offsets the small annual declines in residential customer usage. Customer growth is the strongest in Texas (+1.6%), multiples higher than in Kansas (+0.3%), which blends toward ~1%, with Oklahoma still solid (+1.2%).

Compensation tied to leak reductions, aligning all stakeholders

Management highlighted its new short-term compensation program, which is tied to emissions. OGS has a -55% 2005-2035 scope one emissions objective from its distribution pipelines leaks, which the company has almost achieved today, with -48% as of year-end 2022.This will require a 50-60bp annual reduction, which the company expects to achieve with its ~100-mile unprotected bare steel and ~30-mile protected bare steel replacement programs.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & IPPs: Power Point: PEG Beat, LNT Solar, SO Vogtle, LNG, AEP WV, OGS EPS, FTS M&A	Julien Dumoulin-Smith	02 May 2023
US Utilities & IPPs: PowerPoints: WEC beat, AQN activist, FE/CMS, HE, LNT, EXC, power, & OGS	Julien Dumoulin-Smith	01 May 2023

PSEG Corp (PEG) Steady as she goes

Another constructive management meeting with the team laser-focused on affordable rates for customers, supporting economic activity & jobs, and promoting reliability. The latest regulatory settlement and advocacy for reliability are consistent with PEG's operating and investment thesis. We maintain Buy on shares of PEG which continue to offer visible growth with consistent execution and below-average regulatory risk.

Energy efficiency settlement and regulatory overview

Public Service Electric and Gas Company (PSEG) recently filed a stipulation with the New Jersey Board of Public Utilities (BPU) for an extension of its Clean Energy Future Energy Efficiency (EE) program to capture the short nine-month period September 30, 2023-June 30, 2024. The interim period is designed to align with the New Jersey-wide program July-June term which will commence July 1, 2024. Key parties to the stipulation include the BPU Staff, New Jersey Division of Rate Counsel, EE-focused groups, and large energy users. The extension provides $280Mn investment plus 10% administrative costs. BPU Docket No. GO18101112 and EO18101113.

Although small dollars and a limited scope proceeding, this is another constructive datapoint. This sets the stage for the forthcoming general rate case where PEG has a very strong track record of reaching constructive settlements, like this EE filing. Our base case is that PEG can settle the next rate case at some point in the process.

PEG along with the industry are waiting for Internal Revenue Service (IRS) guidance on the nuclear production tax credit (PTC) guidelines, specifically the 'benchmark' that will be used when calculating the PTC level. PEG has been engaged with the IRS and provided its views as well as feedback regarding what a reasonable framework should look like.

Again, it is favorable to see that PEG is viewed as a thought leader by the government as a large well, run nuclear operator. It remains to be seen when the IRS issues its draft guidelines which will likely lead to companies including PEG to continue a fairly ratable hedging program, to the extent that market prices are attractive.

NJ and regional electrification mgmt's key focus

Management continues to meet with PJM Interconnection (PJM) regarding regional reliability, specifically the load forecast. PEG believes that increasing electrification trends, specifically electric vehicle adoption, is an area where the PJM forecast may not be fully reflecting the customer and policy trends. PEG is starting to see electric vehicle adoption tick-up and believes that regional utilities need to be proactive in supporting the growth. While the path of adoption is uncertain, PEG believes that it should be proactive in building the supporting infrastructure to prevent being behind the 'hockey stick' curve.

We will be closely watching PJM's interim and annual load forecast refreshes to see if there is a noticeable increase in PSEG and New Jersey demand from the last refresh. External validation of electrification demand would support stakeholder engagements regarding a need for more electric infrastructure on distribution & transmission.

Public Service Electric and Gas Company and PSEG Power LLC were co-authors to a May 17th letter to PJM "Stakeholder Efforts to Undermine PJM's Capacity Performance Framework". Other coauthors are Vistra (VST), PPL Electric Utilities (PPL subsidiary), Avangrid Renewables (AGR subsidiary), NextEra Energy Resources (NEE subsidiary), Exelon (EXC), Constellation Energy Generation (CEG), and Calpine Energy Services (CPN - Private). PEG and the parties request that PJM not file for a proposed capacity performance penalty reduction for a variety of reasons, including the potential for negative reliability impacts. The coauthors write " There is simply no justification for submitting Proposed Penalty Reductions that PJM staff has publicly opposed."

It is notable to us that the letter is signed by both PEG's regulated and unregulated affiliates. Other transmission & distribution companies like PEG and PPL writing the request show the importance of the matter to a variety of parties.

Repairs tax is a small opportunity

PEG has been analyzing and tracking the new repairs tax guidance for some time and overall does not expect a material impact. If anything, management described this is an opportunity to deliver additional customer savings.

Latest example of management working to keep its rates affordable and preserve wallet share.

Sempra (SRE) From coast to coast and back to California

Following our AGA meeting with Sempra (SRE), we are even more confident in the company's ability to earn at the top-end of the long-term guidance range. Management conveyed a confident tone on outstanding California General Rate Case (GRC) proceedings. The TX Distribution Cost Recovery Factor (DCRF) bill (SB1015) appears more than likely to pass. We believe this bill would reduce underearning in TX and incentivize incremental Oncor (SRE TX subsidiary) distribution capex. Management highlighted successful DCRF bill passage is contemplated in FY24 capex and earnings guidance range, and we believe the bill would support earnings growth skewed to the high-end of the guidance range. Maintain Buy on shares of SRE given the above-average long-term growth profile backstopped by unique exposure to LNG development projects and favorable TX utility tailwinds.

CA natural gas outlook is ‘improving’

Natural gas prices spiked across the Western US in early 2023 due to El Paso pipeline outages and low hydroelectric electricity imports from the Northwest. These events increased customer bills and resulted in elevated scrutiny of CA gas utilities including SoCalGas. Management maintains that SoCalGas did not cause the winter gas issue and gas price spikes impacted the entire Western US. Management does not believe the gas issue will have material read-throughs to 2024 GRC outcome as many stakeholders recognize the winter 2023 event as an anomaly. Rather, the natural gas shortages and price spikes caused by a complication at a single pipeline reflect the need for greater investment in CA gas infrastructure. Management perceives CA's tone on natural gas is improving and CA will support incremental natural gas investment. SRE highlights successful developments across the natural gas business: California Geologic Energy Management Division (CalGEM) may increase Aliso Canyon allowed storage capacity following the 2017 well failure. SoCalGas energy storage and hydrogen investments are aligned with state policy objectives. Lastly, SoCalGas is focused on driving cost efficiencies by absorbing interest rate pressures, implementing new technologies and increasing automation.

Management believes in constructive GRC outcome

Management continues to view likelihood for reasonable GRC outcomes. Intervenor testimony to-date has not deviated from usual areas of intervenor pushback including SG&A forecasts and wildfire spending. Hearings are expected in June and full briefings in August. The 2019 GRC decision supports a constructive precedent for the 2024 electric and gas GRC decisions.

Extension of Cameron 2 FEED not entirely cautionary

Inflationary pressures including cost pressures and longer equipment lead times prompted management to announce (potentially) prolonged timelines for Cameron Phase 2 Front End Engineering Design (FEED) process. Management double-downed that the LNG development industry overall continues to face inflationary challenges, and the issue is unlikely specific to Sempra Infrastructure Partners (SIP - SRE subsidiary). A prolonged FEED process should buy time for further negotiations with project suppliers. This ensures SIP would capitalize on more favorable project terms, i.e. lowering project costs and potentially expediting COD timeframe. While Final Investment Decision (FID) is critical to advancing development projects, timely COD remains SIP's ultimate project execution benchmark.

Southern Co (SO) Powering up Vogtle

We met with CEO Chris Womack, CFO Dan Tucker, VP of IR and Treasurer Scott Gammill, and Investor Relations Manager Ashley Black.

Vogtle prudency approaching as Unit 3 ramps up

Incremental Vogtle updates were positive, indicating that Unit 3 is on track to be commissioned. After a several-day outage the reactor is up to 75%+ based on the latest Nuclear Regulatory Commission (NRC) data. The company expects to bring it up to 90% before initiating a final round of testing and a forced trip, before once again powering up mid-month. Mgmt indicated that things are on track for a timely commissioning.

Prudency review likely to coincide with Unit 4 load (July)

The Georgia commission will undertake a review of Vogtle capital prudency spending, expected to commence around the time that fuel load begins at Unit 4 which mgmt is targeting around July. The standard of prudence appears to be an achievable bar to clear, but the additional layer of reasonableness may keep the total approved recovery capped at the $7.3B figure previously articulated. Incremental costs such as those incurred to respond to the Covid pandemic appear to be prudent at face value, but layering on additional customer rate increases on top of the estimated +8% associated with both Units 3 and 4 will likely given the commission reason to not approve additional costs.

Election timeline still unclear, most expect 2024

Among the other most-discussed intermediate term considerations for Georgia Power is the Georgia Public Service Commission election(s), the timing of which remains uncertain given the current legal challenge which remains pending before the court of appeals. We note that expectations appear to be shifting to the election potentially being pushed in to 2024, which would result in the Vogtle prudency hearing likely being heard by the existing bench of commissioners

Rate increases layered in for Vogtle, fuel, and new rates

The Georgia Power three-year fuel recovery plan will add a +12% rate increase for recovery of the deferred balance. Additional rate increases that are known and set to go in effect by 2024 include net increases of ~4% associated with each of Vogtle Unit 3 and Unit 4, as well as base rates from the latest GA Power rate case which accounts for an incremental +12%. Mgmt frames the increases as largely out of its control, in particular fuel which is subject to market forces – average customer rates are around average for the US Southeast and still below the national average. Timing of the extended recovery of the deferred fuel balance will likely coincide with the *next* Georgia Power rate case where the fuel roll off should provide bill headroom for updated rates.

Southern Power $3B upside, balanced opportunity set

Mgmt reaffirmed that the $3B upside previously flagged at the unregulated Southern Power segment remains outside of the formal capital plan, and while the company is confident in achieving its long-run 5-7% EPS aspirations *with* the upside, the range is still intact excluding the $3B. IRA benefits for renewables and battery storage have helped to even out the playing field across these generation types. Unlike the unregulated platforms recently monetized by peers including ED and DUK, mgmt remains comfortable with its risk and return profile (utility-like) with discrete projects contracted on a bilateral basis, in contrast to its peers who operated substantial devco models. Regarding the coming Georgia renewables solicitation, look for Southern Power to potentially submit its own projects, though the preferred method would be through rate base at Georgia Power.

Southwest Gas (SWX): ROEs > rate base

Our meeting was constructive, principally around an evolving and improving backdrop regarding a plan for earned ROEs to improve. We see the confluence of potential cost programs from consultants in place and improved processes helping to streamline performance in 2024. Meanwhile, we see prospects of filing rate cases on an accelerated basis versus the historical timeline of waiting 12 months for a full new test year to drive a rate case likely by the end of October, if not broadly in 4Q. In parallel, we look for a rate case by the end of 3Q in Nevada. We look for cost programs backfill here too.

We do see still see risks to the outlook. Challenges on the spin include lumpiness of the Centuri business (spin) as well as clear ongoing and outsized inflationary pressures in 20223 (and likely persisting into 2024 without rate relief). We see management firmly walking back from the prior 8% earned ROE guidance for 2023 as indicative of just how much pressure remains in the 2023 outlook on the O&M front. We stress that inflation remains a persistent theme across the conference with companies, and SWX remains clearly exposed.

On balance, we remain Neutral, but see an improving narrative ahead. The technical dividend cut ahead (even if premised off 2024 or 2025 EPS) as well as further equity raise likely at Centuri to fund debt paydown remain a clear further overhang on shares (20% stake sell-down remains targeted and likely, in our view, given desires to improve credit).

Recovery of deferred fuel balances remains a key input to resolving the outstanding balance sheet trajectory to 14% FFO/debt by 2024. We expect weaker credit quality and a protracted timeline to recovery to remain an overhang, but much of the stock will trade in the interim on improving prospects in Arizona under the new Arizona Corporation Commission (ACC) in place and prospects for improving one of the widest under-earning gaps in the space.

Rate case remains essential to turn around

While much of the attention has been on the shareholder-driven theme of strategic review and Centuri spin, we continue to see the backdrop on shares as firmly around the regulatory process to turn around SWX. We remain fixated on prospects for an improving rate case backdrop. We watch how Tucson and, even more critically, the Pinnacle West cases are resolved for clues. On balance, we are more constructive on prospects for addressing the extent of under-recovery. Management did not endorse any higher earned ROE outlook beyond the former 8%+ level that was articulated for the long term last year. This simply has not been renewed.

New outlook and new CAGR, but what is the baseline?

We look for an updated utility outlook incorporating the latest inputs as soon as late 2023 or early 2024, when the Centuri spin is effectuated. We see the ability to articulate hopefully a more precise turnaround, if not outright better outlook with the bigger utility plan update, as hopefully offsetting the technical dividend-per-share (DPS) cut poised to happen. We see an updated earnings CAGR as potentially rebased off 2022 or 2023 with a lower starting point than previously contemplated, enabling an EPS CAGR driven more by improving ROE than necessarily rate base growth. We expect equity discussion to prove a subtle message that is key to look for in this spin-out discussion, as there remains clear incremental need to address the balance sheet: the question is how and to what extent.

Spire Inc (SR) Searching for a new star

We met with Executive VP and COO Steve Lindsey, VP-Treasurer and CFO of Gas Utilities Adam Woodard, Managing Director of Investor Relations Scott Dudley, and Alabama Gas President Joe Hampton.

Transition: “Strong” internal candidate

The incremental update on management succession is that a strong and well-qualified internal candidate has been identified. The company's board has not given an exact timeline for fully resolving its search process, but we expect an announcement to align with the transition of the outgoing CEO (ahead of year-end).

Business mix remains biased toward regulated

Mgmt indicated a general level of satisfaction with the business mix at present with an approximately 90-10 split in favor of regulated natural gas assets. While technically not regulated, the storage business is characterized as generally low risk as well given long tenor of average contracts. Spire's marketing business has provided a balance of late, in particular in Q1 where volatility helped on the marketing side, but mild weather impacted utility results. Reduced equity needs are another benefit of the cash flow positive marketing business – in summary while mgmt acknowledged some potential for volatility in the non-regulated ‘tail’ of the company, on balance we did not perceive a strong desire to materially alter the existing business mix.

Non-organic opportunities worth looking at

With the history of the company as one characterized by growth via acquisition, mgmt acknowledged that while they do not feel a sense of urgency to do a transaction, deals are evaluated on an ongoing basis. In addition to financial metrics, SR places heavy emphasis on strategic and cultural integration. Policy and regulatory considerations are key as well – we see a distinct bias toward jurisdictions that have indicated directly or via signaling that natural gas bans are not a risk in the near to intermediate term.

Credit metrics should improve from Q1 low

Recovery of SR's funds from operations (FFO) to debt metric is under way after reaching a low during Q1 on elevated gas pricing. Consolidate metrics averaged 15-16% in the two years before storm Uri, with mgmt expecting to return to this level from around 13% today – the current target is by year-end 2024. One adjustment worth noting is S&P which imputes Asset Retirement Obligations (AROs) into the debt calculation, an adjustment that can cause metrics to move by 100 bps or more in the AL utility in particular. Constructive developments of late including removing the negative outlook from the Missouri utility. The holdco currently has total debt of under $600m which mgmt views as close to the ‘normal’ level and indicative of typical fluctuations in working capital.

Regulatory outlook in MO and elsewhere

The overall tone of commentary on existing regulatory schemes was relatively constructive, with mgmt seeing the last two MO regulatory outcomes as positive. We note that this tracks with feedback we have heard from regulatory-focused stakeholders in the state of Missouri who indicated that Spire's rate case issues should be considered relatively discrete. While Missouri is known as a state where certain utilities consistently do better in terms of regulatory outcomes than others, we note that the overall tenor of commentary and regulatory outcomes has trended constructive of late, including for Spire. Expect the recent rate increase to be an upside driver in Spire's next annual EPS guidance as well given the full-year impact.

UGI Corp: Balancing AmeriGas refinancing

The management meeting focus on the volume of potential natural gas assets available for sale in the marketplace, next steps in the AmeriGas business improvement process, and international renewable feedstock investment opportunities. The ability to return to sustained growth while also lowering segment/non-utility leverage will be the key to restoring investor confidence in the outlook. We maintain Underperform on shares of UGI which appear relatively expensive despite the discounted relative P/E multiple. The above-average debt balance at AmeriGas (APU) and mix of unregulated assets informs our view of a materially lower consolidated valuation than regulated utility pure-play peers.

Natural gas acquisitions are an opportunistic focus

Management stated that it is focused on growing its natural gas footprint, both at the regulated utilities and in the midstream businesses. The West Virginia Mountaineer acquisition ~18 months ago has met the company's expectations and it sees opportunities for continued favorable regulatory evolution. The Mountaineer purchase was described as ~1.4x EV/rate base multiple, a lower price than other transactions at the time. If an attractive utility acquisition in a favorable jurisdiction arose, management would consider the potential. UGI does not want to use equity to finance any additional utility acquisition so would look at financing options such as partnerships, debt at other segments, by flexing up consolidated leverage, and by using organic cash flow generation between announcement & transaction close.

Similarly, management stated that it would be acquirers of midstream businesses if (1) the right assets; (2) the right geography; and (3) the right valuation/price.

UGI generally has a solid regulatory track record and further utility acquisitions at reasonable valuations would be positive. There is high financing uncertainty but even an EPS dilution transaction that reshapes the business mix could help reposition the company for more visible, sustained success over the long-term.

International customers more willing to pay for low carbon

The additional conservation efforts encouraged by the European governments had a clear impact in the winter of 2022-2023 but management believes that the degree of conservation could be more difficult to sustain if there is a normal cold winter. The company is focused on expanding it renewable dimethyl ether (RDE) offerings with potential plans for significant capital investments at a double-digit unlevered IRR. UGI is still evaluating the price of the blend to customers but has seen a customer willingness to pay for the lower carbon attributes.

Before material capital investments are made for uncontracted assets, we look for further details proving out the consumer demand on a smaller scale first. While a promising opportunity, the high capital costs could make this a longer dated opportunity or require sizable partnerships in our view.

What needs to happen for AmeriGas' recovery?

Despite the recent challenges with customer service, inflation, and financing costs, management continues to believe that the future for AmeriGas is brighter. The strategy is 'back to basics' with billing customers accurately, having on-time deliveries, and providing leading customer service. Management believes that this focus on customers will help to reduce churn and lead to stronger future performance. The most significant driver of the declining adjusted EBITDA profile 2020-2022 was higher employee compensation and benefits as there has been more competition for drivers. The challenges in staffing up the business had the unfortunate impact of leading to lower than desired customer service. Overall management believes that it is past the worst of challenges and is set up to have a full contingent of drivers for winter 2023-2024.

AmeriGas cost of debt has increased

AmeriGas completed a $500Mn 2028 senior note offering at 9.375% which is expected to be used to repay the $675Mn 5.625% 2024 AmeriGas senior notes, along with a $150Mn cash contribution from the parent company UGI Corp.

Fitch Ratings placed AmeriGas Partners LP and AmeriGas Finance Corp entities on negative outlook while placing a BB- credit rating on the new debt. Fitch attributed the negative shift to the leverage and interest coverage ratios with a favorable offset from the UGI Corp equity contribution & cure. Fitch expects AmeriGas adjusted EBITDA to recovery in FY24 to ~$507Mn FY22 levels vs $430Mn 3/31/23 TTM.

The actual cost of debt has increased. UGI recently reduced its FY23 adjusted EPS to $2.75-$2.90 from $2.85-$3.15 and higher financing costs were not cited as a driver at the time.

Until Corp (UTL) Open to scaling up if the puzzle pieces fit well

We met with CEO, Thomas Meissner, Chief Administrative Officer, Robert Hevert, and CFO, Daniel Hurstak during the AGA conference. Key takeaways include: (1) Return to dividend growth in-line with EPS growth. Earnings growth has outpaced dividend growth as management spent the last ~10 years resetting the payout ratio to ~55%-65% target versus 70-80%+ pre-2017. UTL achieved its targeted payout ratio in 2022 (~59%) and is now targeting dividend growth at pace with 5-7% EPS growth. (2) Electric mix likely to increase. Gas represents ~2/3 of UTL's overall rate base and earnings mix. However, incremental solar development and robust electric grid investment opportunities likely increases electric business mix prospectively. (3) Gas M&A is a possibility in certain jurisdictions. Management would assess M&A in 'gas friendly' Northeast jurisdictions. We maintain Underperform on UTL with shares trading at an unbalanced risk/reward skew.

UTL is open to gas M&A ... in the right jurisdictions

UTL management detailed it would assess M&A opportunity. However, the decision to pursue M&A is contingent on price and accretion to overall business profile. Acquisitions would need to complement UTL's current portfolio. For example, UTL is unlikely to pursue M&A in jurisdictions outside its current Northeast utility base. Further, UTL would likely only consider gas M&A opportunities in 'favorable' natural gas jurisdictions i.e. Maine and New Hampshire. Management believes its Massachusetts natural gas infrastructure serves a critical role in facilitating state decarbonization plans and UTL continues to capitalize from synergies between its MA electric and gas business. However, it is less clear the utility would expand its Massachusetts gas portfolio via M&A given the state's political and regulatory construct related to natural gas.

Incremental NH solar development is upside to capex plan

Management highlights incremental solar development beyond the current Kingston project remains a key area of upside to current rate base and capex plans. The lot size of the Kingston solar projects enables up to ~5MW incremental onsite capacity. Management highlighted potential to pair energy storage systems with the Kingston solar farm. UTL did not include energy storage in its initial Kingston solar filing for regulatory approval to avoid complicating the filing. UTL is confident in its ability to continue to ramp utility-owned solar development in New Hampshire through leveraging learnings from Kingston Solar regulatory and development process.

ME rate case: forward looking test year reduces lag

Northern Utilities (UTL subsidiary) recently filed a gas rate case in Maine. Management cites strong relationships with key Maine stakeholders. Northern Utilities proposes to move to forward test year ended January 31, 2025 which mgmt expects will reduce regulatory lag if approved. The utility is encouraged by latest settlement progress across Maine electric utility peers.

Voluntary 'green' tariffs an option to integrate RNG

UTL highlighted potential to offer renewable natural gas via customer supply agreements. RNG unlikely represents an incremental investment opportunity. Rather, management would offer voluntary 'green' tariffs to customers in exchange for delivering renewable natural gas. The opportunity remains early-stages although management expects customer demand and state policies will support voluntary green tariff opportunities.

WEC Energy (WEC) Not melting under weather pressure

We met with Executive Chairman Gale Klappa, WEC CEO Scott Lauber, CFO Xia Liu, and Director of Investor Relations Beth Straka.

Illinois Gas settlement window likely in Oct-Nov

WEC mgmt framed the recent staff and intervener testimony in the People's Gas and North Shore Gas rate cases as constructive, with a relatively narrow bid-ask spread on ROE and total revenue requirement as compared to other cases (and particularly when compared to electric rate cases currently under way in Illinois). Staff also expressed support for ongoing investment in pipe replacement – while previously this had been recovered under an expiring rider, initial testimony supported ongoing investment in the effort. WEC's replacement of aging pipes in the city of Chicago in particular has been the target of negative headlines in recent months, but we note that staff support is an important affirmation of the core need for the program. One area where parties remain somewhat far apart is equity layer with WEC requesting 54% while staff recommended actual equity, which was just below 51% - with the other items aligning relatively constructively, we see this as one area that WEC could conceivably forego in a settlement. Typically settlement discussions take place after the administrative law judge issues a proposal, which is expected around the Oct-Nov timeframe.

Reiterate confidence in 2023 outlook, earnings shaping

Following a cut to its initial Q1 guidance range driven by historically mild weather, mgmt reiterated its confidence in the existing guidance range of $4.58-4.62. Specific drivers are impacting the shaping of EPS this year and with a weighting toward the second half. Mgmt pointed to $52m of earnings sharing expense that was borne partially in Q3 and largely in Q4 of last year, along with some O&M pull forward, and a charitable contribution in the single digit millions of dollars. All told mgmt estimates the absence of these items to drive a 15-18c structural improvement, along with a revision to the O&M increase forecasted from 3-5% to 2-3%, a delta that provides another 4-6c of EPS upside. These items serve to offset 12c of weather drag in Q1 and otherwise build contingency into the year's results.

Undergrounding a small but growing priority

With grid reliability playing an increasingly prominent role in regulators' evaluations of utility performance, WEC noted that its current plan includes $700m over 10 years for undergrounding efforts. While this screens as a relatively modest amount, mgmt expects the total allocated to undergrounding to grow over time given positive results in terms of reliability. Note that while this was framed as a growing bucket in the overall capital plan over time, we do not perceive it as additive to rate base or EPS growth, rather added investment in undergrounding would likely displace other spending. Nonetheless we like the operational de-risking likely to materialize.

Economic development re-accelerates with new anchor

Another trend across utility names has been the addition of substantial load growth via discrete projects with data center customers. MDU highlighted its deal with an off-taker for 180 MW of interruptible supply, which represents a roughly 1/3 increase to its entire electric load. WEC expects to add Microsoft as a customer at the Foxconn industrial park in WI where the ultimate demand may eventually reach 1000 MW. In contrast to the MDU deal, Microsoft is expected to be a firm purchaser which would require additions to the supporting transmission & distribution infrastructure – while mgmt did not offer estimates on the potential size of the capex opportunity, directionally the data point and addition of a strong counterparty is a positive trend. Groundbreaking on the site is expected later this year with staged commissioning potentially as soon as 2025.

Xcel Energy (XEL) Execution stands outs

We met with CFO Brian Van Abel, Treasurer / VP of Investor Relations Paul Johnson, and Assistant Treasurer Patty Martin. We maintain our view that XEL is among the best Buys across our utility coverage: key low-risk, defensive equity with more ahead.

New Mexico settlement contested; financial issues settled

Southwestern Public Service (SPS) announced a contested settlement of its electric rate case late last week. Financial items are largely resolved, with an ROE of 9.5%, up from the current 9.35%, with the main unresolved item around operations at the Tolk coal-fired plant. The forward test year included in the settlement is a particular constructive outcome and should help to offset the expected loss of sales from wholesale customers – we note that in prior years the earned ROE gap has been relatively modest, though the forward test year should be earnings positive and help offset to loss of load.

CO rate case testimony does not preclude a settlement

Staff testimony in the electric rate case came in relatively low at 9.02% – while optically low and below the level currently approved, we note that this is generally consistent with the historical pattern for CO staff. In our meetings, management expressed a willingness to continue to engage with parties and did not preclude the possibility of a settlement despite the relatively low starting point. We expect a rebuttal filing to come relatively soon, with the procedural schedule targeting a mid-June settlement conference.

Legislation introduces smoothing, performance incentives

The gas utility legislation recently passed in Colorado is directly aimed at smoothing the volatility of price increases and aligning procurement via a performance incentive mechanism (PIMS). We expect a proposal for fuel recovery smoothing to come in November – the basic mechanics will result in longer recovery times of above-average spikes in fuel price to mitigate bill shocks of the type seen last winter. At a high level, we see the introduction of additional filings as risky given the potential for additional regulatory/recovery complexity, though over time a smoothed and less volatile track of bill impacts stemming from fuel increases would likely accrue to customers. While the PIMS proceeding is in process, we expect a relatively narrow band, with positive and negative adjustments roughly symmetrical.

Several renewable procurements under way

Requests for proposal (RFPs) for renewable generation assets remain in progress for XEL utilities in MN, CO, and NM. We expect partial visibility into these around the typical November refresh cadence. MN appears the furthest along with 350 megawatts (MW) of solicitations out of an original target of 900 MW filed and XEL proposing to own 250 MW of the submitted projects. The remaining 550 MW will be part of a subsequent RFP, and thus we do not expect visibility here until 2024. CO procurements are also proceeding relatively quickly, with a proposed portfolio expected to be filed in August – management cited levelized cost estimates of $22/kilowatt hour (KWh) for wind and $33 for solar, indicating that winning projects would likely come in at sub-$20 and sub-$30, respectively. On balance, we expect the November refresh to include a combination of high-visibility processes (MN and CO) along with an updated view on upside from renewable procurements (currently $2-4B).

Unclear if minimums will ease on premium balance sheet

XEL maintains a strong balance sheet, with key funds from operations (FFO) metrics in excess of 17% on an adjusted basis, compared to the Moody's minimum of 16%. Moody's requirement of 25% or less parent to total debt remains the other guardrail – while this appears overly conservative given XEL's strong cash flow profile, we do not see an obvious reason that it would be relaxed in the near future. We note, however, that comparable utilities are increasingly positioning themselves as "premium balance sheet" names.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Utilities & Clean Tech: PowerPoints: FTCI Positive, HE Bank, Inflation, UGI, XEL/BKH Colorado, & Power	Julien Dumoulin-Smith	10 May 2023
US Utilities & IPPs: PowerPoints: POR CFO, AEP settlement denial, LNT Iowa, XEL Colorado, & SO	Julien Dumoulin-Smith	28 April 2023
US Utilities & IPPs: PowerPoints: SO Vogtle, XEL Beat, NEE Feedback, DUK Settle, VST Nuclear, & CEG	Julien Dumoulin-Smith	27 April 2023
Xcel Energy Inc: Q1 EPS preview: Looking ahead to MN de-risk; reiterate Buy	Julien Dumoulin-Smith	05 April 2023

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

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
LNT	LNT US	Alliant Energy Corp	US$ 52.44	A-2-7
AEE	AEE US	Ameren Corp	US$ 82.71	A-1-7
ATO	ATO US	Atmos Energy	US$ 116.4	A-1-7
AGR	AGR US	Avangrid	US$ 38.42	A-3-7
AVA	AVA US	Avista Corp	US$ 42.61	B-3-7
BKH	BKH US	Black Hills	US$ 62.51	B-3-7
CMS	CMS US	CMS Energy	US$ 58.63	B-1-7
ED	ED US	Consolidated Edison	US$ 93.88	A-2-7
D	D US	Dominion Energy	US$ 52.29	B-3-7
DTE	DTE US	DTE Energy	US$ 109.16	A-1-7
DUK	DUK US	Duke Energy	US$ 90.75	A-1-7
WTRG	WTRG US	Essential Utilities	US$ 40.72	B-2-7
MDU	MDU US	MDU Resources	US$ 29.66	B-3-7
MGEE	MGEE US	MGE Energy	US$ 75.09	A-3-7
NJR	NJR US	New Jersey Resources	US$ 49.46	B-3-7
NWN	NWN US	Northwest Natural	US$ 45.04	B-2-7
NWE	NWE US	NorthWestern Corp	US$ 57.67	B-1-7
OGS	OGS US	ONE Gas, Inc.	US$ 81.64	B-2-7
PNM	PNM US	PNM Resources Inc.	US$ 45.75	B-1-7
SO	SO US	Southern Company	US$ 71.15	A-3-7
SWX	SWX US	Southwest Gas	US$ 58.06	B-2-8
SR	SR US	Spire	US$ 68.03	B-3-7
UGI	UGI US	UGI Corp.	US$ 28.23	B-3-7
UTL	UTL US	Unitil Corp	US$ 55.35	B-3-7
WEC	WEC US	WEC Energy Group Inc	US$ 88.86	A-1-7
XEL	XEL US	Xcel Energy	US$ 65.59	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Alliant Energy Corporation (LNT)

Our $58 PO is based on a sum of the parts analysis employing relative premium and discounts to the large cap regulated peer multiple of 16.4x 2025E P/E. We note that electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply an in line P/E premium on IPL as we see the rate case overhang being resolved. We apply a 1.0x P/E premium on Wisconsin Power & Light Company reflecting 1) low risk investment nature of the state, 2) above average ROEs, 3) higher than average growth runway for investments, and 4) potential risks around solar deployment in both WI and IA. At ATC, we reflect a 4.0 x P/E premium on LNT's 16% share in the transmission company. Growth expectations for this segment are high, paired with above average ROEs that we believe face less downward pressure vs. regulated state distribution ROEs. We apply an in line multiple at the parent to account for the blend of numerous businesses some which benefit from long term stable PPAs via intercompany generation. Risks to our Price Objective are: 1) rate case outcomes, 2) further equity dilution beyond our estimates, 3) interest rate fluctuations, 4) natural disasters, and 5) inflation and ability to earn the allowed rate of return.

Ameren Corporation (AEE)
Our $99 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2025E ratebase weighted peer multiple of 16.4x for electric and 16.6x for gas. We apply a 2.0x premium to peers at AEE Missouri to account for the improving prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable - but lack of decoupling. We apply a 2.0x premium to peers at AEE Illinois to account for decoupling on the distribution business which aids in earnings predictability. At Ameren Transmission, we apply a 4.0x premium to peers to reflect the FERC ROEs and robust growth outlook. At the Parent, we assume 2.0x multiple premium reflecting average of the subs and given the healthy debt metrics with FFO/Debt at 17%+. Electric peer P/E multiple is grossed up for a year to 2023 by 5% to reflect capital appreciation across the sector.

The risks to our price objective are the utilities earning their allowed returns or worse, a significant change in 30-year U.S. Treasury bond yields, and adverse regulatory outcomes that could impact mgmt's ability to earn its allowed return.

Atmos Energy Corporation (ATO)
Our $120 PO is based on our 2025E sum-of-the-parts (SOTP) analysis, based on the gas LDC peer group multiple of 14.3x.
Our gas peer P/E multiple is grossed up to reflect the group's 5% CAGR (2021-26E) to reflect capital appreciation across the sector. We then apply a 3x premium across jurisdictions to reflect the high-quality nature of the assets given a sustainable runway for capex/EPS underpinned by constructive regulatory mechanisms and jurisdictions.
For the Pipeline & Storage segment we apply a 9.2x EV/EBITDA multiple as a base to our '25E EBITDA. We then apply a 2.0x premium to the assets given their fully regulated nature and unique ability for APT to benefit from the spread differentials.
Upside risks: 1) improving regulatory relationships, 2) decrease in interest rates, 3) incremental capital spending, 4) constructive rate case outcomes, 5) less equity needs.
Downside risks: 1) deteriorating regulatory relationship, 2) increase in interest rates, 3) less or deferred capital spending, 4) poor rate case outcomes, 5) more equity needs.

Avangrid (AGR)
Our $34 PO is based on an 2025E sum of the parts analysis. The core utilities are valued on by applying discounts to the base sector P/E of 16.0x/16.3x for electric/gas due to below average growth and regulatory jurisdictions. We apply an in-line multiple to the PNM Resources assets with the transaction pending. Both electric and gas peer P/Es are grossed up +5% to reflect capital appreciation across the sector. The renewables are valued at approximately 10x EV/EBITDA, consistent with peers while offshore wind is valued using discounted cash flows at a 12% discount rate. Future potential value creation from the renewable development 'DevCo' is provided as well. Lastly parent/HoldCo financing negatives are ascribed.

Up/downside risks to achievement of the PO and estimates are 1) earned ROEs at the utilities, 2) utility capital expenditure forecasts, 3) regulatory/political/legislative outcomes, particularly regarding the pending acquisition of PNM Resources, 4) equity needs, 5) offshore wind construction, 6) Iberdrola owns over 80% of AGR common stock, limiting float and presenting a potential for governance conflicts, despite the BoD being majority unaffiliated with Iberdrola. 7) natural disasters, 8) commodity and interest rate fluctuations, and 9) management changes.

Avista (AVA)
Our $39 PO is based on our 2025E sum-of-the-parts (SOTP) analysis, based on the electric group multiple of 16.6x for electric and 17.0x for gas. Both electric and gas peer P/E multiples are grossed to reflect the group's 5% CAGR to reflect capital appreciation across the sector. We then use a blended electric and gas multiple of approximately 80% and 20%, respectively, for AVA's WA and ID jurisdictions given the composition of its

rate base. We apply a -2x discounts to WA, ID, and OR to capture below average-growth, inconsistent execution, and regulatory uncertainty. We apply the gas multiple to its OR jurisdiction as it is entirely comprised of natural gas distribution assets. We apply an electric multiple to its Alaska subsidiary, AEL&P, as it is a vertically integrated electric utility. The Corporate & Other segment is valued with (1) a utility P/E multiple on the HoldCo expenses, (2) fully offset by the disclosed fair market value of other assets & investments.

Risks to achievement of the price objective are changes in: 1) regulatory, political, and legislative, 2) interest rates and commodities, 3) wildfires and natural disasters, 4) phase-out of natural gas, 5) capital expenditures, 6) debt and equity needs, 7) credit ratings, 8) clinical trials, and 9) other investments.

Black Hills Corporation (BKH)

Our $60 per share valuation is based on a sum-of-the-parts analysis. We apply the latest peer average electric (16.0x) and natural gas (17.0x) 2025E P/E multiples. We gross-up +5% the base multiples across the coverage universe to reflect capital appreciation in the sector. We apply a -2x discount for below average EPS and dividend growth prospectively. Coal Mine: We apply an 2x peer EV/EBITDA multiple, which is in line with other PRB coal producers. Based on our view of the strength/maintainability of different coal plant output contracts, we apply a premium multiple to that portion of the mine. IPP Assets: We use the recent sale price and '23 EV/EBITDA multiple for Pueblo Airport and Wygen I assets, respectively. Parent Expense, Debt, and Eliminations: We apply an average regulatory P/E multiple to this segments income. This captures some Interco revenues that are double counted as well as parent SG&A drag and debt.

Downside risks: inability to earn the authorized rate of return, unfavorable regulatory outcomes, reductions in capital expenditures forecasts, higher operating and financing costs, lower sales volumes, unfavorable political and legislative changes, higher interest rates, and natural disasters.

Upside risks: ability to earn above the authorized rate of return, favorable regulatory outcomes, higher capex deployment, lower operating and financing costs, higher sales volumes, favorable political and legislative changes, decrease in interest rates.

CenterPoint Energy (CNP)

Our CenterPoint Energy PO is $35 using a 2025E sum-of-the-parts methodology. We apply the 16.7x electric and 17.3x gas base multiples. The base multiples are grossed-up +5% to reflect sector capital appreciation, a consistent approach across the coverage universe. We apply a 15% (2.6x) premium due to above-average growth and constructive jurisdictions.

Risks to achievement of the Price Objective are changes in 1) legislative, regulatory, and political outcomes, 2) capital expenditure forecasts and deployments, 3) earned return on equity, 4) asset sales, 5) capital markets access, costs, and needs, 6) interest rates, 7) weather and natural disasters, 8) management changes, and 9) inflation.

CMS Energy (CMS)

Our PO of $67 is based on a SotP relying on 2025E forward P/E multiples for the utility business and a 2025E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 2.0x prem to the average 2025E regulated multiple P/E of 16.6x for the electric segment and of 16.7x for the gas segment, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as continued favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range.

Both electric and gas peer P/E multiples are grossed up +5% to reflect capital appreciation across the sector.

For CMS' merchant business we apply a 4x EV/EBITDA multiple, in line with current market value of CMS' power plants. We value Dearborn Industrial Generation (DIG) on a DCF basis through 2030 given the plant is no longer expected to be sold to Consumers.

Downside risks are: 1) earned ROEs declining which reduce CMS utility earnings 2) execution risk on capex and cost cutting which would primarily affect the utility earnings, 3) negatives changes to market energy prices which could affect the DIG plant's ability to re-contract at the assumed prices.

Consolidated Edison (ED)
Our $96 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples 16.4x/16.7x for electric/gas respectively with an in-line multiple for Electric, Steam, & Gas to reflect a combination of historically challenging regulation but above-peer growth and de-risked profile. Both electric and gas peer 2025 P/E multiples are grossed up by 5% to reflect capital appreciation across the sector.
For noncore segments we apply a -2x discount to Con Edison Electric Transmission (CET) and a -6x discount to the Wholesale Energy business given elevated risk profiles.
For the Mountain Valley Pipeline stake we apply a 5x EBITDA multiple to our 2024 EPS estimate reflecting elevated risk.
Upside/Downside risks to achievement of the Price Objective and Rating are 1) earned regulatory returns, 2) capital expenditures, 3) regulatory/political/legislative changes, 4) interest rates, 5) natural disasters, 6) execution on unregulated projects, 7) Covid, 8) ability to complete the Mountain Valley Pipeline, and 9) raw materials costs and supply-chain delivery timelines.

Dominion Energy (D)
We value Dominion Energy at $52 using a 2025E sum-of-the-parts analysis. For the utilities we apply the comparable electric (16.4x) and gas (16.7x) peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply -1.5x discount for base Virginia (-9%). We apply discount adjustments to lower value utility sources in South Carolina (NND) and Utah (Wexpro) as well as the South Carolina bill credits.

Contracted assets are valued at: 13x EV/EBITDA Cove Point, 5x Millstone (13% FCF Yield), and 5x for renewables. For remaining debt beyond that allocated to state utilities, we include a 50% weight towards a straight netting of leverage, with the remaining 50% using a P/E multiple on associated interest expense, in line with the methodology employed for diversified utilities with relatively higher levers of leverage. We lastly include prospective interest rate exposure that is not impacting near-term estimates due to hedges.

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

DTE Energy (DTE)
We value DTE Energy at $135 using a sum-of-the-parts (SOTP) approach. We value the utility segment on a 2025E forward P/E multiple basis and the non-utility segment on a 2024E forward EV/EBITDA multiple basis. For the utility segment we apply a 2x premium to both our regulated electric and gas utility peer multiples (of 16.6x and 16.7x, respectively). Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We value the DTE Vantage segment on a multiple

of 2025 EPS - the grossed-up electric multiple of 17.3x to account for the renewable natural gas (RNG) business. We assign an equity value of zero to the Equity Trading segment given potential for earnings volatility and opacity of the segment. We also reduce the equity value for estimated unallocated parent debt by applying a 17.5x multiple to both the interest expense and corporate overhead expenses at the parent. Risks are: regulatory/political/legislative actions, realized returns from the unregulated Vantage segment, changes in equity needs, load growth/class mix, equity needs, weather/natural disasters, and interest rate fluctuations.

Duke Energy (DUK)
Our $110 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2025E P/E multiples. We apply a 3x multiple premium to Duke's operations in FL and 2x in IN to reflect more favorable regulatory environments (and potential generation opps in IN). We apply a 2x multiple to the Carolinas given upside to spending in improving regulatory construct combined with latest IRP & wider legislative reforms into 2023.

We value the other regulated electric utilities at 16.3x and the gas utilities at peer group multiples of 16.1x 2025E P/E, respectively. Both electric and gas peer P/E multiples are grossed up by 5% for the groups CAGR to reflect capital appreciation across the sector. The commercial midstream, and transmission are valued on a 2025E EV/EBITDA basis. We use 8.0x multiples for midstream and 9.0x for transmission segments. We subtract out the impact of commercial debt, and add back for the renewable debt.

Upside risks: constructive rate case results, higher capital expenditure additions vs our assumptions, lower interest rates.

Downside risks: poor rate case results, operating errors, and negative changes in the regulatory environment, Macro risks: Increases in interest rates and decreases in equity market valuations.

Essential Utilities (WTRG)
Our Price Objective is based on a 2025 P/E sum-of-the-parts methodology. The base natural gas (16.8x) and water (24.4x) 2025 P/Es are used and grossed up +5% and +7%, respectively, to reflect capital appreciation opportunities across the subsectors. The water utilities are valued at a -2x P/E discount for below average growth. The natural gas utilities are valued at a -1x P/E due to regulatory uncertainty and historically earnings above allowed levels. The parent & other costs are valued at a blended water/natural gas multiple.

Positive and negative risks to achievement of the Price Objective are: 1) regulatory, legislative, judicial, and political outcomes, 2) ability to close pending and future acquisitions, 3) repairs tax guidance, 4) weather, natural disasters, and gas accidents, 5) change in interest/discount rates and pension returns, 6) ability to control costs and earn the allowed rate of return, 7) water contamination and standards, 8) bad debts and macroeconomics factors,

MDU Resources Group, Inc. (MDU)
Our $29 PO is derived from SOTP. At the regulated electric and gas utilities, we use a P/E approach on our 2025 estimates and use peer multiples of 16.1x for electric and 16.4x for gas, respectively with a -1.0x discount for each reflecting the latest management capex guidance, we then gross this multiple by +5% to account for sectorwide EPS growth to derive a 12-month forward PO.

We value the Construction Materials business using a '24 EV/EBITDA estimate, applying a multiple of 8.8x based on an average of several publicly-traded peers in the cement, asphalt, and aggregates business. We apply a -2.0x discount to reflect margins lower vs.

peers.

We value the Construction Services business using a '24 EV/EBITDA estimate, applying a multiple of 9.4x based on an average of several publicly-traded specialty construction services peers. We also apply a -1.0x valuation discount reflecting the high level of competition in the space.

We value the Pipeline business using a '24 EV/EBITDA est., applying a multiple of 9.1x based on an average of several publicly-traded midstream peers. We also apply a -1.0x valuation discount reflecting uncertainty about growth at projects including North Bakken. We net out total parent drag and back out remaining non-regulated debt.

Upside risks are higher utility capex, improving margins at the construction business, and infrastructure stimulus.
Downside risks are a macro downturn pressuring construction margins, and rate case outcomes.

MGE Energy (MGEE)
Our $72 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group 2025E multiples (15.8x/16.1x for electric/gas respectively) with a 3.0x premium on WI regulated gas and electric to reflect the constructive regulatory mechanism, and a 4.0x premium on Transmission assets. We note that both electric and gas peer P/E multiples are grossed up for a year to 2023 by 5% to reflect capital appreciation across the sector. We apply +3.0x utility premiums to the non-regulated Elm Road and West Campus assets as these are leased under long-term contractual arrangements. Downside risks: MGEE, like all utility stocks, is sensitive to changes in the market level of interest rates. Utilities historically underperform if bond yields rise, and outperform when they fall. Further downside risks are the inability to secure further renewable rate base investments, adverse regulatory outcomes, a deteriorating regulatory environment, or adverse weather leading to less consumption of electricity and gas. Upside risks are acceleration of renewable gen investment, legacy coal asset early retirement, and enactment of further pro-renewable state policies.

New Jersey Resources Corp (NJR)
Our $45 PO is off our 2024E SOTP, based on gas peers of 16.9x. For non-reg biz, we apply a 10.0x multiple. For Midstream, we capitalize EBITDA at a base multiple of 9.4x but add a 1x discount to the business as we see less growth potential than the peer set. For CEV, we value CEV PowerCo for existing assets and DevCo assets to be deployed separately. We separately value DevCo assets to be deployed for '21 through '25 at NPV of unlevered FCF including upfront system install cost and ITC value for new deployment. We also value SREC balance that CEV has yet to monetize. We apply a 5.5% unlevered discount rate to project level CFs in-line with our discount rate for resi solar service providers. We incl. three additional years of DevCo NPV ('26-'29) with terminal value based on post-ITC step-down trough volumes/economics in '29 and utilize a 4x terminal value. We also attribute a 75% weighting for the full value of DevCo NPV for '24+. We assume 75% based on a likelihood of some action on ITCs. For parent, we apply a 50/50 weighting for holdco debt/interest expense for re-capitalization purposes.

Upside risks: Constructive regulatory outcomes, decrease in interest rates, incremental capex opportunities, extension of subsidies and further renewables acceleration

Downside risks: Poor regulatory outcomes, increase in interest rates, and lower capex.

Northwest Natural Holdings (NWN)
Our $51 PO is based on our 2025E sum-of-the-parts (SOTP) analysis, based on the gas LDC peer group 2025E P/E multiple of 17.1x applied to WA and OR natural gas distribution and regulated storage assets. We gross up the gas LDC multiple by 5% to

reflect capital appreciation across the group. We use a -1x discount for Oregon and Washington to capture the below-average growth and align with the valuations of peer utilities.
For NWN's gas storage (unregulated), appliance, and asset management business, we apply an 8x EV/EBITDA multiple, in line with comparable asset class, and net out debt. We apply a water utility peer P/E multiple of 27.9x to NWN's water earnings, similarly grossed-up +5%. Finally, we net out corporate & other drag (largely SG&A) using a weighted average multiple of 18.0x on 2025.

Positive and negative risks to the Price Objective are changes in: 1) regulatory, legislative, or judicial rulings, 2) weather and natural disasters, 3) regulated capital expenditures and rate base forecasts, 4) equity and debt needs, 5) inflation and operating costs, 6) execution on renewables and water strategy, 7) commodity prices, and 8) customer growth.

NorthWestern Corporation (NWE)
Our $64 price objective is based 2025E price/earnings (P/E) methodology. We apply the electric utility sector P/E of 16.27 as a base then gross-up +5% to reflect capital appreciation across the sector. We apply a -1x discount to reflect historically challenged regulation, below-average rate base (4-5%) / EPS (3-6%) growth, and inflationary concerns.

Risks to our price objective are changes in 1) regulatory, political, and legislative outcomes, 2) ability to recover costs and earn the regulatory allowed return on equity [ROE], 3) differences in future equity needs, 4) capital expenditure forecasts, 5) commodity and interest rates, 6) natural disasters and wildfires, and 7) management changes.

ONE Gas, Inc. (OGS)
We use a sum-of-the-parts analysis to calculate our $80 price objective for OGS, applying a FY25E Gas LDC peer multiple of 16.0x (grossed up by 5% to reflect capital appreciation across the space). We use a 1x premium to the group for TX to reflect the constructive regulation and growth trends. We apply in-line multiples for Kansas and Oklahoma.

Upside and downside risks are: 1) political, regulatory, and legislative changes, 2) capital expenditures, 3) inflation and operating costs, 4) commodity prices, 5) pandemics, natural disasters, and weather, 6) policy changes for natural gas investments.

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

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

Public Service Enterprise Group (PEG)
Our $71 PO is derived from our 2025 sum of the parts valuation. For the regulated utilities we utilize the electric (16.7x) and gas (17.0x) 2025E sector P/E multiples, which we then gross-up by 5% to reflect capital appreciation across the sector. We apply an in-

line group multiple to PSE&G Utility given the utility's below-average growth forecast, which is offset by our view that New Jersey remains a favorable jurisdiction, with PSE&G Utility offering low-risk transmission & distribution (T&D) profile.

Positive or negative risks to achievement of the price objective are 1) regulatory/political/legislative outcomes, 2) changes in capital expenditures relative to forecasts, 3) nuclear incidents and natural disasters, 4) equity and capital markets needs, cost and timing adjustments for offshore wind developments, 5) ability to earn the regulated rate of return, 6) inflation, 7) interest rates, and 8) pension returns.

Sempra Energy (SRE)
Our $173 PO is based on a sum of the parts valuation of 2025E earnings. The US utilities are valued using the electric (16.5x) and gas (16.7x) average P/E that we grossed-up +5% to account for sector growth. We apply a -2x discounted valuation to the California gas utility (SoCal Gas) for concerns about long-term use of natural gas. We apply a -1x discounted valuation to the California electric utility (SDG&E) to reflect the wildfire risk exposure. We apply a +2x premium to the TX utility (Oncor) for above average growth and high visibility into rider recovery. The Infrastructure segment (SIP) is valued at 11x EV/EBITDA, an implied premium to the Mexican market (5.5x) and select premium US midstream comparable (Williams and TC Energy at approximately 9-10x) on EV/EBITDA due to its long duration contracted cash flows. The parent drag is treated on a balanced blend of P/E and HoldCo debt and cash netting.

Risks to achievement to our Price Objective are: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) LNG development, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

Southern Company (SO)
Our $64 PO is derived from a sum-of-the-parts analysis (SOTP). We use a P/E valuation approach on 2025 estimates and use peer multiples of 16.3x for electric and 16.2x for gas, respectively (with dis/prem applied per asset depending on growth/risk): we then gross up these multiples by +5% to account for sector wide EPS growth to derive a 12-month forward PO. We subtract 50% of the 2025 parent interest expense multiple by an electric P/E peer multiple to reflect parent leverage supporting the utilities. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting.

Upside/downside risks to achievement of the PO are: 1) Vogtle construction timing and costs, 2) regulatory, political, and legislative changes, 3) ability to earn the allowed rate of return, 4) changes to the capital expenditure forecast, 5) nuclear incidents, weather, and natural disasters, 6) rate of customer and sales growth, 7) O&M trends, 8) interest rates, 9) environmental policies and regulations, 10) M&A, and 11) interest rates.

Southwest Gas Holdings (SWX)
Our $62 PO is based on our 2024E/2025E Sum-of-the-parts (SOTP) analysis. We apply a 16.2x our 25E peer Gas LDC utility P/E to the utility EPS across the company's three major jurisdictions, which include Arizona, Nevada and California. We gross this peer multiple up by 5% to reflect capital appreciation across the sector.

For the regulated assets, we apply a -2x discount to reflect below average jurisdiction and lack of consistent execution. For the infrastructure services segment, we apply 8.9x FY24E EV/EBITDA multiple (based on peer consensus multiples), which is a 1.0x discount to the business' closest industrial comps due again to a history of missing guidance. Lastly, for parent debt in the Corp & Other segment, we net out 50/50 weighting for re-capitalization and add back 50% of parent interest expense using the same P/E multiple as the regulated utilities.

Upside/downside risks to achieving the Price Objective are 1) M&A, 2) activist shareholders, 3) infrastructure services performance, 4) construction margins, 5) regulatory outcomes, 6) ability to earn regulatory rates of return, 7) capital markets access, 8) rating agency actions, 9) regulatory, legislative, or judicial outcomes.

Spire (SR)
Our $66 PO for SR is based on a sum-of-the-parts analysis. Consistently across our coverage universe we apply the peer gas 2025 P/E multiple (16.8x) as a starting point and 'gross-up' by five percent to account for growth across the sector. We include a 3x discount for Missouri given a less-constructive regulatory environment and an in-line multiple for Mississippi/Gulf and AL assets given their location and de-risked nature. For the midstream assets, we use a base 9.5x EV/EBITDA multiple with a 4x discount for storage given uncertainty, and a 2x discount for marketing due to volatility. We weight STL pipeline as 75% in our valuation given uncertainty with the pipe's future.

Upside risks: 1) favorable regulatory and/or legislative outcomes, 2) lower interest rates, 3) ability to earn the regulatory allowed rate of return, 4) lower equity needs, 5) higher capital expenditures, 6) Favorable FERC ruling on STL pipeline commercial operations, and 7) favorable unregulated performance.

Downside risks:
1) adverse regulatory and/or legislative outcomes, 2) higher interest rates, 3) inability to earn the regulatory allowed rate of return, 4) higher equity needs, 5) lower capital expenditures, 6) unfavorable ruling from FERC on STL pipeline commercial operations, and 7) natural disaster

UGI Corp. (UGI)
Our $32 PO is derived from our SOTP analysis. We mark-to-market (MtM) our UGI Utilities segment to 2025E peer P/E multiples of 16.7x for gas &16.4x for electric. For U.S. & international LPG, we apply an 8.8x EBITDA base multiple in-line with propane comps & apply a -3x discount to UGI International based on a challenged energy environment in Europe. We apply a -3x discount to AmeriGas based on challenges to customer retention & a slow return to the M&A market. We apply an 8.8x EV/EBITDA multiple to the midstream segment with premiums based on the asset. For the renewables business, we take the NPV of future cash flows, which implies a 7.2x FY25E EV/EBITDA multiple. For parent debt in the Corp & Other segment we net out 50/50 weighting for recapitalization & add back 50% of parent interest expense.

Upside risks: favorable weather, improving propane logistics efficiencies domestically or in Europe, increased conversion rates or faster new home construction within PA, and favorable currency exchange rates. Macroeconomic concerns are declining interest rates, lack of volatility and declining natural gas prices, and a general economic upturn.

Downside risks: unfavorable weather, propane logistics issues and shortages domestically or in Europe, reduced conversion rates or slower new home construction within PA, and unfavorable currency exchange rates. Macroeconomic concerns are rising interest rates, volatile and rising natural gas prices, and a general economic slowdown.

Unitil Corporation (UTL)
We value UTL at a $48 PO based on a 2025e forward P/E basis using a utility group multiple of 14.5x for electric and 15.1x for gas. Both electric and gas peer P/E multiples are grossed up for a year to 2025 by 5% each to reflect capital appreciation across the sector.
Risks to our price objective on the upside are capex updates around MA gas pipeline replacement, regulatory asks around ROEs, and M&A. On the downside, risks are interest rate risk which could reduce the appetite for M&A, regulatory challenges.

WEC Energy Group Inc (WEC)
Our $103 PO is based on 2025E SoTP, with a large cap electric group multiple of 16.2x and gas regulated multiple of 15.8x. Electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector. We apply a 3.0x premium to WEC's WI electric & gas subs for surety in earnings growth for the next two years following the Commission's recent settlement. We ascribe a 4x premium vs. the group at ATC to account for steady earnings growth as well as above avg Federal ROE's. We give Power the Future (PTF) a 3.0x P/E premium as the ROE is set indefinitely on historical and new investments. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. We value Energy Infrastructure on a net present value basis using a WACC of 5.6%, in line with other renewable assets. We net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest exp. Risks to our PO are positive or negative changes in: 1) earned regulatory returns, 2) capital expenditures, 3) regulatory/political/legislative changes, 4) interest rates, 5) natural disasters, and 6) execution on unregulated projects.

Xcel Energy Inc (XEL)
Our PO is $74. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary. We use 2025E forward P/E multiple of 16.0x to derive a value for the different business segments, including the parent segment. Electric peer P/E multiple is grossed up for a year to reflect capital appreciation across the sector. We apply a 4x premium to XEL subsidiaries in MN and NM, and 3x in CO and WI as both utilities present solid or improving regulatory treatment with tangible investment upside. We see this multiple as appropriate as the company has growth opportunities, resolving regulatory drag and resolving uncertainty around rate cases. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage.

Risks to achievement of the Price Objective are interest rate changes, regulatory risk, such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, inability to deploy capital at guided levels, adverse legislation, execution delays, and weather/natural disasters.

Analyst Certification

We, Julien Dumoulin-Smith, Dariusz Lozny, CFA and Paul Zimbardo, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith

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Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	86	60.99%	Buy	68	79.07%
Hold	31	21.99%	Hold	23	74.19%
Sell	24	17.02%	Sell	14	58.33%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	78	50.65%	Buy	53	67.95%
Hold	40	25.97%	Hold	28	70.00%
Sell	36	23.38%	Sell	24	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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US Utilities & IPPs

PowerPoints: EXC beat, ES/Orsted, WEC IL, FE/CMS, AVA miss, NI, NWE, AMRC, & VST

Industry Overview

EXC: 1Q23 EPS beat on lower O&M drag, Corp. 'Other'

Exelon (EXC) reported $0.70 1Q23 EPS above $0.63 BofA and $0.66 Street. The delta versus BofA was +2c at Baltimore Gas and Electric (BGE) related to flat year-over-year operations and maintenance (O&M) expense, +3c at Pepco Holdings (PHI) from lower-than-expected weather and O&M drag and +4c at Corporate from +2c uplift related to Corporate 'Other'. This was offset by -1c lower distribution rates at both Commonwealth Edison (ComEd) and Philadelphia Electric Company (PECO). We reiterate than O&M management and mitigation remains a key outperformance opportunity especially at PECO where the existing plan has less robust growth between cases. EXC reaffirmed $2.30-$2.42 FY23 adjusted operating earnings guidance in-line with $2.38 BofAe / $2.36 Street. On the earnings call management sounded very comfortable in its ability to offset the ~$0.05 weather headwinds and deliver at or above the full year 2023 guidance midpoint. As expected, EXC maintained 6-8% '21-'25 EPS CAGR and 6-8% 2022-2026 EPS CAGR with expectation to be at midpoint or better.

EXC reiterated 13-14% FFO to Debt and CFO (Pre-WC) to Debt range 2023-2026. The company executed 80% of its debt financing needs in 1Q23 including $2,500Mn Corp and expects remaining $425Mn equity issued by 2025, in-line with previous guidance. We await regulatory updates across EXC's pending rate cases primarily its multi-year plan (MYP) filings in IL where intervenor direct testimony is expected in May. The Nicor datapoint on page 2 is a constructive ROE datapoint. We expect the resolution of its regulatory efforts primarily in IL and across jurisdictions with multi-year plans will de-risk the utility outlook, lending to share outperformance. *Maintain Buy on EXC which trades at an overly discounted valuation despite strong long-term investment outlook.*

ES: Orsted's earnings call focused on US offshore wind

Orsted hosted its 1Q23 earnings call this morning where the question & answer session was nearly unanimously focused on the United States assets and outlook. Orsted is the joint venture partner with Eversource Energy (ES) for its offshore wind projects and has worked with Public Service Enterprise Group (PEG). Orsted is evaluating whether any of its US projects would qualify for the energy community investment tax credit (ITC) incremental incentives but did not definitively affirm this opportunity. Orsted declined to provide project level disclosures and reiterated that the Northeast and Mid-Atlantic are below their return targets but have a path to create value on a 'life cycle basis' which assumes that the company can retain the domestic content requirement incentive tax credits. Orsted is hopeful that New Jersey will be open to sharing tax credits with the developments and the company is having discussions with other states. Orsted described its New York bid as compliant with the new parameters of the IRA. The Rhode Island bid was characterized as creating value as the company attempts to avoid the 'race to the bottom' on pricing. As a result, Orsted expects awarded prices to increase in the United States.

03 May 2023

Equity
United States
Utilities

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O&M: operations and maintenance
IRA: Inflation Reduction Act

PO Change:
VST: $29 from $30

ES/Orsted: ES offshore strategy review the focus (Cont)

When asked about minority interest asset sales, Orsted management said there was good interest, and they are confident that they can realize gains from these transactions consistent with prior levels. Orsted reiterated that if it does not see value creation from projects, the company 'will do something' and is open to incurring project specific break costs and walking away from projects. See our peers' note on Orsted in detail.

Orsted's earnings call did not provide new major insights into the economics or outlook for the Eversource joint venture. The reliance on favorable Internal Revenue Service (IRS) and state negotiations for tax credits to create value for the projects remains a risk We remain cautious on unregulated US offshore wind (ie not built under a rate base model) where returns have significantly compressed. Maintain Underperform on Eversource (ES) and Avangrid (AGR) which trade at premiums to our view of the fundamentals. We will be closely watching for Eversource's offshore wind strategic review update with 1Q23 earnings.

EXC/WEC/SO: Illnois Staff posts cost of capital

The Illinois Commerce Commission (ICC) Staff posted a cost of capital recommendation in the ongoing Nicor rate case. The Staff recommends 9.89% allowed ROE and a 50.0% equity ratio which compares with 10.35% ROE and 54.5% request. On a comparable basis, assuming the equity ratio remains constant at 54% would imply a 9.1% ROE. This is notable because Exelon (EXC) has a current authorized cap structure of ~49.5%, which would imply a higher ROE rec of around 9.9%. Exelon has proposed a modest increase in ROE to ~51.2%. This remains a closely watched set of proceedings as the ICC has several new members and is in the middle of several rate cases including multiyear rate plans (MYRP) for the electrics and new rate reviews for the gas utilities ahead of the sunsetting of the infrastructure rider at the end of 2023. We view this as particularly relevant for IL utilities including EXC, WEC which has testimony set to come out May 9, and AEE which has electric testimony set to be published May 5.

WEC: ICC poses questions to Peoples in ongoing gas case

The Illinois Commerce Commission (ICC) posed questions to People Gas (WEC Energy [WEC] subsidiary) in an April 17th filing within Peoples Gas ongoing natural gas rate case (Docket 23-0069). The questions included the following:

- How would the proposed rate increase and rate design affect residential customers ($/month), particularly those already having difficulty paying bills or staying connected?

- How have Federal electrification priorities, electrification initiatives like Illinois' 220 ILCS 5/8- 103B(b-27), and the general trend toward electrification been considered in scaling or targeting proposed main replacement investments?

Recall Peoples natural gas rate case requested +$407Mn rate increase (details here: PowerPoints: WEC Illinois 10 January 2023). While the rate case is not projected to increase customer bills given declines in forward natural gas prices, Peoples' proposal has received elevated pushback from IL stakeholders following given the 2022 uptick in natural gas prices which elevated customer bill pressures and Illinois environmental goals which target a shift away from natural gas and thus limited incremental natural gas infrastructure investment. We view the ICC questions as unusual this early in the rate case litigation process. Perceived ICC pushback to natural gas bill pressures and incremental gas infrastructure investment is cautionary for the outlook of Peoples gas rate case outcome. *We closely monitor ICC positioning in the outstanding IL gas rate cases as well as IL electric rate cases especially following recent ICC turnover. Maintain Buy on shares of WEC with shares trading at an attractive risk/reward skew despite regulatory risk.*

WEC Energy Group Inc: Regulatory execution critical in coming months as gas pressure builds 03 May 2023

FE/CMS: Convertible notes priced

FirstEnergy (FE) announced pricing of $1.3Bn, 4% convertible senior notes due 2026. The company expects $1.28Bn net proceeds on $1.3bn issuance after deducting discounts and commissions and offering expenses payable by the Company. The 4% cost of debt represents +40bps spread to US 5-Yr Treasuries and approx. -15bps discount to US 2-Yr Treasury. The conversion rate for the notes will initially be 21.3620 shares common stock per $1,000 principal amount of convertible notes, implying ~$46.81 conversion price per share of common stock or 20% premium over last reported FE share price. FE has cited plans to use a portion of proceeds to voluntarily contribute to its qualified pension plan. FirstEnergy 1Q23 10Q cites +8% return on assets (ROA) related to the pension plan, subject to market conditions. We estimate this creates 4% return spread (8% ROA versus 4% cost of debt). Assuming $1,280Mn net proceeds, this implies +$51Mn pre-tax earnings accretion ($1,280 * 4%) and +$38Mn post-tax earnings accretion, or approximate +7c EPS accretion. **This is a 'high-case' scenario as it remains unclear what portion of FE's ~$1.3Bn convertible offering will be used to fund the pension plan.** (Details here: PowerPoints: FE/CMS Debt 01 May 2023) *Maintain Underperform on shares of FE as we continue to see above-average earnings risk which is underappreciated by Street. Earnings accretion related to the latest convertible note transaction may offset some EPS drag although represents lower quality pension income.*

CMS Energy (CMS) priced $700Mn, 3.375% Convertible Senior Notes due 2028, upsized versus previous offering of $650Mn principal amount of convertible notes. The company expects $688.4Mn net proceeds after deducting discounts, commissions and estimated offering expenses payable by the Company. The note will mature May 1, 2028 and bear interest at a fixed rate of 3.375%. This represents ~24bp discount to the US 5-Yr Treasury. The conversion rate for the notes will initially be 13.5194 shares common stock per $1,000 principal amount of convertible notes, implying ~$73.97 conversion price per share of common stock or 20% premium over last reported CMS share price. CMS has cited opportunistic financing driving FY23 earnings growth as a offset to weak 1Q23 weather and severe storms. *Maintain Buy on CMS with shares trading at discount to fair value despite above-average near-term and long-term earnings profile intact.*

AVA: Wide 1Q23 miss but reaffirm FY23

Avista Corp (AVA) reported $0.73 EPS a wide miss vs $1.19 BofA/$1.16 Consensus. Natural gas utility margin was -$0.11 vs +$0.10 BofA while electric utility margin was +$0.06 vs +$0.23 BofA. Income tax was also a -$0.09 driver vs BofA expectation of neutral. Interest expense and other businesses were each also -$0.02 vs BofAe. In 1Q23 Avista had investment losses compared with investment gains in 1Q22. Despite the large 1Q23 miss, Avista reaffirmed $2.27-$2.47 guidance vs $2.30 BofA and $2.34 Consensus. The segment contributions were unchanged but Avista introduced new quarterly cadence disclosures with 50% of FY23 EPS expected in 4Q23 and 10% in 3Q23. This compares with a 3Q22 small loss. $475Mn annual capex 2023-2025 was unchanged. Avista announced that its CFO Mark Thies is retiring, replaced by Kevin Christie. Thies is one of the longest serving CFOs and one of only two CFOs in our coverage universe who have been in their role since the 2008 financial crisis.

As of 3/31/23 there was $231Mn revolver borrowings outstanding at 5.8% on the $400Mn facility, favorably down from $313Mn at 5.3% as of 12/31/22. Avista issued $30Mn of common stock during the quarter (0.7Mn shares) with Board authority to issue an incremental 1.6Mn. Avista expects issuing an incremental $90Mn for the balance of 2023 with the $120Mn FY23 target unchanged. After the $250Mn long-term debt issuance in 1Q23 (up from $200Mn original plan), AVA does not anticipate further long-term debt issuances in 2023. The Colstrip litigation and arbitration have been stayed to June 16, 2023.

Avista is in the process of determining if it will need to procure additional carbon allowances under the Washington Climate Commitment Act (CCA). Avista estimates that it would have had an additional $5.9Mn cost if it was required to purchase additional allowances. Management did not record the expense because it does not view them as probable given the uncertainty regarding the applicability to electric wholesale operations. Avista ultimately expects to recover any associated costs through its ratemaking.

The wide 1Q23 miss is a disappointing update and the CFO retirement casts additional uncertainty on the long-term outlook. We maintain Underperform on shares of Avista which are expensive relative to our fundamental view.

NI: 1Q23 in line with expectations, LT guidance reaffirmed

NiSource (NI) reported 1Q23 adj. NOEPS (net operating EPS) of $0.77 vs. our estimate of $0.78 and Consensus of $0.76. Adjusted results include a $0.06 net positive impact from weather normalization. NI also reaffirmed 2023 NOEPS guidance of $1.54-1.60 as well as the long-term NOEPS growth guidance of 6-8% through 2027. NI ended the quarter with total debt of $11.6Bn (up from $11.3Bn las quarter) with long term debt at $10.3Bn (up from $9.6Bn last quarter) and a weighted average interest rate of 3.83% (up from $3.72 last quarter). The long term FFO (funds from operations)/debt target of 14-166% was also reaffirmed. With the successful achievement of a rate case settlement at subsidiary NIPSCO (Northern Indiana Public Service Company) in March and a final order expected in August, NI noted the minority interest sale of the subsidiary remains on track for 2023. Lastly, NI continues to target $15Bn in cumulative investments through 2027, further supported the long-term growth outlook.

We reiterate Buy on shares with an attractive valuation and favorable de-risking of its regulatory plan. Investors have focused on the multiple reports of natural gas local distribution (LDC) sales for peer utilities and whether there are any implications for NiSource. Overall remain constructive with renewables on time, and sale ahead to derisk financing plan.

In Indiana House Bill 1420 regarding utility transmission right of first refusal (ROFR) has passed the State legislature and was signed by Governor Holcomb. Industrial users called for the Governor to veto the bill which they described as anti-consumer.

NWE: Montana acts on key legislation

We provide legislative recaps on key bills we are tracking. The following bills passed both legislative chambers: Florida SB250 (natural emergencies & related liability), Montana SB208/SB228 (prohibition on energy choice bans), Montana HB971 (environmental policy), Montana SB176 (committee membership)

The swift drafting and passage of Montana HB971 is favorable for Northwestern Corp (NWE). We maintain Buy on shares of NWE where we see a favorable valuation and among the best rate-of-change opportunities. NorthWestern Corporation: 1Q23 light vs Street on tax but core was strong: Reiterate Buy. Legislature watch. 28 April 2023

AMRC/EIX: Storage project timeline extended further

Southern California Edison's (SCE, subsidiary of Edison International [EIX]) 537.5MW (megawatt) battery storage project was further delayed on force majeure claims by construction contractor Ameresco (AMRC - Buy) citing weather-related damage. As a result, the damaged portion of the project, which represents 225MW, is expected to be delayed beyond early-summer 2023 when the remaining capacity is expected to placed in service (per AMRC). The original agreement, signed in October 21, contemplated a completion date of Aug. 1, 2022 and included consideration for EPC (engineering, construction and procurement) and O&M (operations and maintenance) services of $892Mn. AMRC has already made force majeure claims once under the agreement citing supply delays. EIX and AMRC are still working to determine the extent of the latest delay. Meaningful delays could have implications for summer peak reliability needs, depending on weather and load. For AMRC, an inability to reach an extension agreement could result in liquidated damages payable to EIX as high as $89Mn based on prior disclosures as well as a loss of cost recovery related to schedule changes. *Maintain Buy on AMRC as we remain constructive on long-term prospects for the Company's biogas project pipeline and an accelerating end market EPC demand. The California storage disclosure is a setback but still relatively small in the context of the company. The possibility of reputational damage among investors and potential counterparties for this high-profile projects is the more important dynamic to watch. Our Underperform rating on Edison International is unrelated to the battery project but rather the below-average growth prospects. See details here:* Edison International: Significant updates pushed to 2Q, EPS risk remains w/ growth concentrated 2026+ 03 May 2023

VST: Feedback on our preview; reframing SotP to illustrate equity value

In our calls with investors, the focus remains on two key elements of the Vistra (VST - Buy) story: 1.) potential for further M&A activity, and 2.) valuation. On the former, we do not believe the Energy Harbor (ENGH - Not covered) acquisition precludes additional M&A in the near-to-medium term. Further, under the right terms, we believe acquisitions in the nuclear and/or renewables space could be viewed favorable by investors. Regarding valuation, the critical debate centers on just how much equity to attribute to Vistra Vision vs. Tradition. While in our preview we illustrated the two segments on an enterprise value basis using an SotP (sum-of-the-parts), below we reframe our valuation to better capture the equity values embedded in our analysis. Additionally, we deduct the 15% minority interest in Vistra Vision. Our reframed SotP implies a 6.7x EV/EBITDA multiple to Vistra Vision (vs. 6.0x previously) as we believe this better reflects the underlying value of the assets after layering in net debt of $3.4Bn and estimated minority interest of ~$2.0Bn. For Vistra Tradition, our implied EV/EBITDA multiple is unchanged at 3.9x. Net, our analysis implies ~$11Bn of equity value at Vistra Vision and ~$(2)Bn to Vistra Tradition. Further clarity and disclosures on the outlook for Tradition could be an opportunity of upside. Our PO moves to $29 from $30. We maintain our Buy rating given what we view is an attractive valuation profile (levered FCF of ~30%) and compelling shareholder return story (we model $2.8Bn in repurchases through 2025).

Exhibit 1: VST SotP
We arrive at a $29 PO

Vistra Sum-of-the-Parts Analysis (2025E)	Adj. EBITDA	Maintenance Capex	FCF	EV/FCF	EV/EBITDA (implied)	Total EV	Value per Share
Nuclear (Comanche Peak)	323	(69)	254	*8.0x*	*6.3x*	2,031	7.00
Nuclear (Energy Harbor)	938	(196)	742	*8.0x*	*6.3x*	5,935	21.00
Renewables and Storage	416	(75)	341	*10.0x*	*8.2x*	3,405	12.00
Retail	771	(38)	733	*7.0x*	*6.7x*	5,134	18.00
Total Vistra Vision	$2,447	($378)	$2,070	*8.0x*	*6.7x*	$16,504	$58.00
Less: Net Debt & Other Adjustments						(3,430)	(12.00)
Less: Minority Interest						(1,961)	(7.00)
Total Vistra Vision Equity Value						$11,113	39.00
Gas Generation	1,808	(123)	1,684	*5.5x*	*5.1x*	9,264	32.00
Coal Generation	739	(30)	709	*1.0x*	*1.0x*	709	2.00
Total Vistra Tradition	$2,547	($153)	$2,393	*4.2x*	*3.9x*	$9,973	$35.00
Less: Net Debt & Other Adjustments						(11,975)	(42.00)
Total Vistra Tradition Equity Value						($2,001)	(7.00)
Hedges	(500)	0	(500)	*1.0x*	*1.0x*	(500)	(2.00)
Corporate	(50)	0	(50)	*6.0x*	*6.0x*	(300)	(1.00)
Total Vistra Enterprise Value	$4,444	($531)	$3,913	*6.6x*	*5.8x*	$25,678	$90.00
Total Vistra Equity Value						$8,312	$29.00
Share count (Projected - YE25)							286
Dividend Yield - 2023E							3%
Total Potential Return							22.7%

Source: Company filings, Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 2: Primary stocks mentioned in this report
Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
EXC	EXC US	Exelon Corp	US$ 42.57	B-1-7
ES	ES US	Eversource Energy	US$ 76.44	B-3-7
AGR	AGR US	Avangrid	US$ 39.71	A-3-7
WEC	WEC US	WEC Energy Group Inc	US$ 95.25	A-1-7
FE	FE US	FirstEnergy	US$ 38.75	B-3-7
CMS	CMS US	CMS Energy	US$ 61.49	A-1-7
AVA	AVA US	Avista Corp	US$ 43.63	B-3-7
NI	NI US	NiSource Inc	US$ 27.91	B-1-7
NWE	NWE US	NorthWestern Corp	US$ 58.22	B-1-7
AMRC	AMRC US	Ameresco	US$ 44.87	C-1-9
EIX	EIX US	Edison Intl	US$ 73.28	B-3-7
VST	VST US	Vistra Energy	US$ 23.11	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Ameresco (AMRC)

Our $59 price objective is based on a 2025E sum-of-the-parts (SOTP) methodology, with EBITDA multiples for each business segment driven by peer group valuations.

We value the Projects segment at a 5% discount relative to sustainable infrastructure Engineering & Construction (to adjust for Tetra Tech's implied water premium). We apply an average 7.4x EBITDA multiple for the Energy Assets business, with 12.2x multiple for solar and storage, 1x prem to peers. We apply 8.2x multiple for LFG, relative to the group of renewable gas peers.

Within the Energy Assets biz, we value RNG on a discounted cash flow (DCF) methodology with a 10.24% discount rate and apply an 8x exit multiple to the post-2032E terminal FCFE.

For the O&M business, we apply a multiple in line with the Projects segment, given related businesses. For the Other segment, we apply a multiple in line with the Energy Assets business.

Risks are CEO tenure, construction delays, revenue concentration, as c.75% of revenues from from federal, state and local government entities, government contract risk, regulatory risks, merchant exposure, and interest rates.

Avangrid (AGR)

Our $34 PO is based on an 2025E sum of the parts analysis. The core utilities are valued on by applying discounts to the base sector P/E of 16.0x/16.3x for electric/gas due to below average growth and regulatory jurisdictions. We apply an in-line multiple to the PNM Resources assets with the transaction pending. Both electric and gas peer P/Es are grossed up +5% to reflect capital appreciation across the sector. The renewables are valued at approximately 10x EV/EBITDA, consistent with peers while offshore wind is valued using discounted cash flows at a 12% discount rate. Future potential value creation from the renewable development 'DevCo' is provided as well. Lastly parent/HoldCo financing negatives are ascribed.

Up/downside risks to achievement of the PO and estimates are 1) earned ROEs at the utilities, 2) utility capital expenditure forecasts, 3) regulatory/political/legislative outcomes, particularly regarding the pending acquisition of PNM Resources, 4) equity needs, 5) offshore wind construction, 6) Iberdrola owns over 80% of AGR common stock, limiting float and presenting a potential for governance conflicts, despite the BoD being majority unaffiliated with Iberdrola. 7) natural disasters, 8) commodity and interest rate fluctuations, and 9) management changes.

Avista (AVA)
Our $39 PO is based on our 2025E sum-of-the-parts (SOTP) analysis, based on the electric group multiple of 16.6x for electric and 17.0x for gas. Both electric and gas peer P/E multiples are grossed to reflect the group's 5% CAGR to reflect capital appreciation across the sector. We then use a blended electric and gas multiple of approximately 80% and 20%, respectively, for AVA's WA and ID jurisdictions given the composition of its rate base. We apply a -2x discounts to WA, ID, and OR to capture below average-growth, inconsistent execution, and regulatory uncertainty. We apply the gas multiple to its OR jurisdiction as it is entirely comprised of natural gas distribution assets. We apply an electric multiple to its Alaska subsidiary, AEL&P, as it is a vertically integrated electric utility. The Corporate & Other segment is valued with (1) a utility P/E multiple on the HoldCo expenses, (2) fully offset by the disclosed fair market value of other assets & investments.

Risks to achievement of the price objective are changes in: 1) regulatory, political, and legislative, 2) interest rates and commodities, 3) wildfires and natural disasters, 4) phase-out of natural gas, 5) capital expenditures, 6) debt and equity needs, 7) credit ratings, 8) clinical trials, and 9) other investments.

CMS Energy (CMS)
Our PO of $68 is based on a SotP relying on 2025E forward P/E multiples for the utility business and a 2025E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 2.0x prem to the average 2025E regulated multiple P/E of 16.6x for the electric segment and of 17.0x for the gas segment, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as continued favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range.

Both electric and gas peer P/E multiples are grossed up +5% to reflect capital appreciation across the sector.

For CMS' merchant business we apply a 4x EV/EBITDA multiple, in line with current market value of CMS' power plants. We value Dearborn Industrial Generation (DIG) on a DCF basis through 2030 given the plant is no longer expected to be sold to Consumers.

Downside risks are: 1) earned ROEs declining which reduce CMS utility earnings 2) execution risk on capex and cost cutting which would primarily affect the utility earnings, 3) negatives changes to market energy prices which could affect the DIG plant's ability to re-contract at the assumed prices.

Edison International (EIX)
Our $59 PO is based on sum of the parts analysis with a peer 16.5x 2024 P/E grossed-up 5% for group growth. A -3x P/E discount is applied to the CPUC, as well as the Parent/Other segment, and -1x P/E discount to FERC jurisdictional utilities. The discount reflects below-average growth and regulatory considerations, albeit FERC risk profile is less challenging than the CPUC. The negative wildfire adjustments are netted-out to reflect a probabilistic approach to the risk of shareholder funded wildfires and the

ongoing contribution to the CA fund on an NPV basis.

Positive and negative risks are changes in: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Edison Energy returns, 7) ability to deploy capital, 8) environmental, social, & governance [ESG] profile, and 9) wildfire liabilities for shareholders.

Eversource Energy (ES)
Our sum of the parts based price objective of $78 uses P/E multiples on 2025E earnings. The valuation is based on a 2025 sum of the parts analysis. We apply the 2025 average peer P/Es of 16.4x electric, 16.4x natural gas, and 24.8x water. For Connecticut electric & gas utilities, we value at -3x discount to 16.4x base multiple to reflect historical and prospective earnings risks. Connecticut water is valued in-line with natural gas. The other utilities are valued at a peer average multiple. Parent net loss per share is valued at an average electric utility multiple.

Upside and downside risks to our Price Objective are 1) regulatory/political/legislative changes, 2) capital expenditures forecasts, 3) ability to earn the regulatory allowed ROE, 4) offshore wind development, 5) natural disasters & storms, 6) operational performance and gas incidents, 7) integration of historical and prospective M&A, 8) pension plan performance, and 9) equity issuances.

Exelon (EXC)
Our $47 PO is based on an sum of the parts valuation. Our base electric peer 2025 P/E multiple of 16.3x is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply an in-line multiple across EXC utilities ComEd, PECO, BGE, PHI with above-average growth prospects and below average risks counterbalanced but non-linear growth and inconsistent execution.

Risks to achievement of the rating and price objective include: 1) Adverse regulatory, political, and legislative outcomes, 2) inability to deploy the guided capital expenditures, 3) equity needs that differ from guidance, 4) storms and other natural disasters, 5) inability to control operating costs, 6) changes in effective tax and interest rates, and 7) changes in credit rating agency metric requirements.

FirstEnergy (FE)
The $39 Price Objective is based on a sum-of-the-parts valuation. Our multiples are driven by relative P/E premiums/discounts to the 16.7x 2025E regulated peer multiple. Peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector, a consistent approach across our coverage universe. We apply -2x discount to reflect rate review risk, below average risk, and pension exposure. We subtract out the holding company debt given the above-average leverage

Upside and downside risks to the Price Objective are: 1) regulatory/political/legislative outcomes, 2) ability to earn the allowed ROEs and/or other changes in regulatory earnings, 3) weather and natural disasters, 4) investigation revelations, 5) equity needs versus forecasts, 6) capital expenditures, 7) pension plan returns, discount rate changes, and interest/service costs associated with the plan, 8) economic conditions & interest rates, and 9) taxes.

NiSource Inc (NI)
Our $32 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2025 forward P/E multiples that are marked-to-market to the latest peer utility multiples of 16.4x for gas and 16.4x for electric. Consistent across our coverage universe, the base electric & gas peer P/E multiples are grossed up by +5% to reflect capital appreciation across the sector. We utilize a +1x premium for NIPSCO

Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

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

NorthWestern Corporation (NWE)
Our $64 price objective is based 2025E price/earnings (P/E) methodology. We apply the electric utility sector P/E of 16.27 as a base then gross-up +5% to reflect capital appreciation across the sector. We apply a -1x discount to reflect historically challenged regulation, below-average rate base (4-5%) / EPS (3-6%) growth, and inflationary concerns.

Risks to our price objective are changes in 1) regulatory, political, and legislative outcomes, 2) ability to recover costs and earn the regulatory allowed return on equity [ROE], 3) differences in future equity needs, 4) capital expenditure forecasts, 5) commodity and interest rates, 6) natural disasters and wildfires, and 7) management changes.

Vistra Energy (VST)
Our $30 price objective is based on a 2025E SOTP valuation. For Vistra Vision, we arrive at a 6.0x blended EV/EBITDA. We apply a 6.5x EV/FCF multiple to nuclear, which we believe fairly represents the risk/reward profile of the assets. For Renewables and Storage, we apply a 10x EV/FCF multiple given the accelerating nature of the end markets. For Retail, we apply a 6.5x EV/FCF multiple, consistent with peers. For Vistra Tradition, we arrive at a 3.9x blended EV/EBITDA multiple. We apply a 5.5x EV/FCF multiple to Gas Generation given favorable spark spreads and end market demand dynamics and a 1.0x EV/FCF multiple to Coal Generation which we believe appropriately captures the limited long-term value of the assets.

Positive and negative risks: 1) changes to regulatory, political, or legislative standards, 2) wholesale power, natural gas, & capacity prices, 3) competitive & regulatory change to retail businesses, principally in Texas, 4) operational performance, 5) development of new renewables and storage assets, 6) natural disasters, 7) interest rates, 8) nuclear fuel access/cost, and 10) retail market attrition.

WEC Energy Group Inc (WEC;A-1-7;$95.25)
Our $103 PO is based on 2025E SoTP, with a large cap electric group multiple of 16.2x and gas regulated multiple of 15.8x. Electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector. We apply a 3.0x premium to WEC's WI electric & gas subs for surety in earnings growth for the next two years following the Commission's recent settlement. We ascribe a 4x premium vs. the group at ATC to account for steady earnings growth as well as above avg Federal ROE's. We give Power the Future (PTF) a 3.0x P/E premium as the ROE is set indefinitely on historical and new investments. We ascribe an in line multiple for the parent accounting for the interest expense which finances overall utility operations. We value Energy Infrastructure on a net present value basis using a WACC of 5.6%, in line with other renewable assets. We net out 50% of HoldCo debt from equity valuation and adjust to add back the parent drag on interest exp. Risks to our PO are positive or negative changes in: 1) earned regulatory returns, 2) capital expenditures, 3) regulatory/political/legislative changes, 4) interest rates, 5) natural disasters, and 6) execution on unregulated projects.

Analyst Certification

We, Julien Dumoulin-Smith and Paul Zimbardo, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Utilities and Alt Energy Coverage Cluster

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

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Alternative Energy Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	11	64.71%	Buy	10	90.91%
Hold	4	23.53%	Hold	2	50.00%
Sell	2	11.76%	Sell	2	100.00%

Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	86	60.99%	Buy	68	79.07%
Hold	31	21.99%	Hold	23	74.19%
Sell	24	17.02%	Sell	14	58.33%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	78	50.65%	Buy	53	67.95%
Hold	40	25.97%	Hold	28	70.00%
Sell	36	23.38%	Sell	24	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	**Total return expectation (within 12-month period of date of initial rating)**	**Ratings dispersion guidelines for coverage cluster**[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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From: Dumoulin-Smith, Julien - RSCH AMRS
To: Weisenburger \ Michael \ V
Subject: BofA Utilities: Jan/Feb Weather: Mild winter reduces gas supply risks, but EPS the tradeoff. - United States
Date: Friday, March 10, 2023 4:48:48 PM
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aid19882.png
aid21139.png

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BofA SECURITIES

US Utilities & IPPs

Jan/Feb Weather: Mild winter reduces gas supply risks, but EPS the tradeoff.

Industry Overview
Equity | 10 March 2023

Key takeaways

- Warmest Jan/Feb in years likely to weigh on 1Q23 earnings as 25 of 47 electric, 24 of 43 gas utes see >5% decrease in HDDs
- Mild weather exacerbates '23 EPS headwinds as fav '22 weather reverses. An issue for utes w/ little latitude in FY23 guidance
- Jan (-12% HDDs) likely embedded in 4Q updates but Feb (-8%) also weak. Gas LDCs relying on winter gas sales challenged for 23

FULL REPORT

Warmer winter exacerbates 2023 earnings risks

We update our weather analysis for January and February Heating Degree Days (HDDs) by region and utility to assess how electric and gas load has trended year-to-date. Utilities generally benefitted from weather in 2022. We previously highlighted increased risk that earnings growth stagnates if weather normalizes in 2023 as '22 weather benefit would reverse out of 2023 EPS (see 4Q weather analysis here: US Utilities & IPPs: 4Q Weather Report: Cold snap implies yet another quarter of weather benefit 10 January 2023). **This risk is materializing**. The EIA cites that January and February may be close to the warmest on record for the period going back to 1895, and NOAA HDD data supports a much milder start to

2023. Average HDDs across US states decreased by **14%** in the first two months of 2023 vs 2022, **-9%** vs trailing 10-year average and by **10%** vs trailing 20-year average. This implies EPS drag across many utilities relative to 4Q21 *and* utility guidance targets as weather-related load reverses YoY. As a result, utilities may need to further cut costs in an inflationary backdrop to mitigate earnings impacts from declining load and support 2023 earnings guidance. Accelerating O&M and financing costs already create a difficult backdrop for 2023 earnings growth, and less favorable weather versus average may further weigh on growth versus guidance expectations. While utilities likely embedded weak January weather in guidance updates during 4Q earnings, average February HDDs across the US was **-8%** vs 10-year average, signaling further downward earnings pressure relative to expectations. Southeast (**Duke Energy [DUK], Emera [EMA] and Southern [SO])** and Midwest (**First Energy [FE], NiSource [NI], DTE Energy [DTE] / CMS Energy [CMS]**) electric utilities saw the most significant decrease in HDDs YTD. By contrast, California and Arizona saw **>25%** increase in HDDs versus 2022 and 10-year average. AZ utilities **Pinnacle West (PNW)** and **Fortis (FTS)** are poised to benefit, although CA utilities are decoupled and therefore do not benefit from higher weather-related load. All said, we estimate **33** of **47** electric utilities saw HDDs **decrease** in Jan/Feb relative to 'normal', implying challenged '23 earnings set-up vs guidance & Consensus.

Gas LDCs as mild weather implies a tough 2023 set-up

Milder Jan/Feb weather comes as welcome reprieve for majority decoupled Northeast and California gas utilities given gas supply constraints and elevated natural gas prices that augmented affordability and reliability risks into 2023. While **Eversource (ES)** and **Avangrid (AGR)** did not benefit from 2022 weather-related gas demand growth, mild Jan/Feb weather mitigated winter '23 gas supply concerns across their Northeast jurisdictions and, unlike peers, these utilities will not see earnings drag from lower gas demand due to revenue decoupling. However, we see an increasingly cautious outlook for dedicated gas LDCs (i.e. companies without electric operations): **Spire (SR), Atmos (ATO) and UGI Corp (UGI).** *See unique risks to UGI between weaker European weather trends & US on unregulated propane volume*. Additionally, it is more difficult for dedicated gas LDCs to 'cut' O&M to offset weaker weather given less 'flexible' costs. For example, electric IOUs can flex tree trimming, while gas LDC O&M costs are more fixed. *Overall, milder weather YTD foreshadows a difficult EPS outlook for gas LDCs without decoupling.*

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Read the research report for complete information including important disclosures and analyst certification(s).

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North American Utilities & IPPs

Power Points: VST-ENGH Feedback, ED Clean Energy Hub, NI Indiana, DUK Refresh

Price Objective Change

21 April 2023

Equity
North America
Utilities & IPPs

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FERC: Federal Energy Regulatory Commission
NIPSCO: Northern Indiana Public Service Company
CECONY: Consolidated Edison Company of New York

PO Change:
DUK: to $112 from $111

VST: FERC filing for ENGH transaction. Investor Feedback

Energy Harbor (ENGH - Not Covered) and Vistra Corp (VST) filed a Section 203 request at the Federal Energy Regulatory Commission (FERC) for the previously disclosed merger between the companies (EC23-74). Energy Harbor will be part of the new Vistra Vision subsidiary with a 15% minority ownership by financial investments. The cross-ownership of Nuveen Asset Management and Vistra Vision and Talen Energy Supply (TLN - Private) was disclosed where Nuveen is expected to own 11-16% voting right in Talen. Parties requested approval by July 17, 2023. The filing confirms that the Pleasants coal plant will not be affiliated with Vistra.

We reiterate Buy on shares of Vistra which have given back the relative outperformance vs the S&P 500 since the Energy Harbor acquisition, despite an improvement in wholesale power since early March. Despite the attractive valuation profile, we still hear hesitation from our investor conversations as capital allocation questions linger. Specifically, we believe that additional M&A is a still-viable scenario and believe management would consider various options (including equity) for funding. Potential areas could include further nuclear, retail, and/or renewable deals closely. The increasingly likely probability of the Texas Performance Credit Mechanism (PCM) would be a positive as the backup generation 'Berkshire Hathaway' plan appears to have faced growing opposition.

ED: Clean Energy Hub approved by NY state

The New York State Public Service Commission (PSC) approved Consolidated Edison Company of New York, Inc.'s (CECONY) petition for construction of a transmission substation in northwest Brooklyn. ED projects ~$810Mn capex for the project which has been reframed of late to focus on its need for addressing local electric reliability needs in Brooklyn and Queens. The PSC press release also refers to the hub's ability to support up to 1,500 megawatts (MW) of new clean-energy resources including offshore wind. We do not view the Clean Energy Hub approval as additive to ED's capital plans as the company has already included it in their latest multi-year projections. *Maintain Neutral on ED given valuation and limited upside as capital plans, share buyback, and other drivers are well known and largely priced in at this point.*

NI: FERC filing for NIPSCO reorganization

NiSource (NI) subsidiary Northern Indiana Public Service Company, LLC. filed a Section 203 request at FERC to approve an internal reorganization (EC-23-75). NI states that there will be no change in the ultimate ownership of NIPSCO because of the proposed internal reorganization. The stated rationale is "to improve the flexibility of the intercompany corporate ownership structure." The proposal would create a NIPSCO Holdings I LLC and NIPSCO Holdings II LLC as intermediate entities between NiSource Inc. and Northern Indiana Public Service Company, LLC. *NiSource management publicly disclosed plans to divest a minority stake in NIPSCO at its Analyst Day and this enhanced structure flexibility could be a component. We look for further updates and insight with upcoming earnings. We reiterate Buy with an attractive valuation and lower risk outlook.*

See the full report for more on Duke 1Q preview.

DUK: Fine tuning our EPS estimate for Q1

We modify our Duke Energy (DUK) Q1 EPS walk as detailed below. The main change for Q1 is reducing the amount of storm cost normalization from 2022 – this had previously been a +13c driver and is now +7c, in line with the level of drag seen last year. As a result, our Q1 EPS estimate moves down to $1.26 from $1.30 previously as we expect some other incremental shifts that will provide a partial offset. For the full year we still see DUK delivering EPS of $5.58, at the lower end of the $5.55-5.75 range provided by mgmt. as Q1 weather is set to start the company off (and many other utilities) on a relatively challenged footing.

Exhibit 1: Duke Energy Adjusted EPS Walk
Tweaking our Q1 estimate lower to $1.26, Street $1.30

DUK 2023 EPS Walk	EPS	Q1	Q2	Q3	Q4
Starting: 2022 EPS	5.27	1.28	1.16	1.78	1.06
Normalizing '22 weather	-0.10	0.03	-0.10	-0.03	0.00
Normalizing '22 storm expense	0.07	0.07	0.00	0.00	0.00
Weather - 2023	-0.17	-0.17	0.00	0.00	0.00
Load growth +50 bps across all classes	0.08	0.02	0.02	0.02	0.02
Rate increases					
Duke Energy Progress North Carolina	0.17		0.03	0.09	0.05
Duke Energy North Carolina (filing in Q1)	0.03			0.02	0.01
Duke Energy South Carolina	0.02		0.01	0.00	0.01
Duke Energy Florida multi-year plan	0.09	0.02	0.02	0.03	0.02
Duke Energy Florida SPP rider	0.04	0.01	0.01	0.01	0.01
Duke Ohio electric	0.03	0.00	0.01	0.01	0.01
Duke Ohio gas rate case	0.01	0.00	0.01	0.00	0.01
Duke Kentucky electric	0.02	0.00	0.00	0.01	0.01
Distribution riders	0.10	0.03	0.03	0.03	0.03
Gas LDC	0.04	0.01	0.00	0.00	0.03
O&M $300m initiative	0.30	0.08	0.08	0.08	0.08
D&A	-0.16	-0.04	-0.04	-0.04	-0.04
AFUDC equity	0.04	0.01	0.01	0.01	0.01
Interest expense	-0.35	-0.09	-0.09	-0.09	-0.09
Parent de-levering from renewables sale	0.04	0.00	0.00	0.00	0.04
Other	0.00	0.00	0.00	0.00	0.00
Share count dilution	0.00	0.00	0.00	0.00	0.00
2023 Adjusted EPS	**5.58**	**1.26**	**1.14**	**1.94**	**1.24**
Guidance	**5.55-5.75**				
Street consensus	**5.63**	**1.30**	**1.18**	**1.90**	**1.28**

Source: Company Filings, Bloomberg, & BofA Global Research

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We tweak our valuation modestly on mark to market of the latest peer multiples. PO moves to $112 from $111. We apply electric/gas multiples of 16.5x/16.3x vs. 16.4x/16.7x previously. Reiterate Buy based on the double-digit total return implied by our valuation.

Exhibit 2: Duke Energy Valuation (DUK) Sum of the Parts Valuation
PO to $112, Reiterate Buy

Duke Energy Sum of the Parts Valuation
2025E
All figures in $Mn except per share

	Metric	P/E Multiple					Equity Value		
	2025 EPS	Low	Peer	Prem/ Discount	Base	High	Low	Base	High
Group Peer Multiple - Electric	-	-	16.5x	-	-	-	-	-	-
Group EPS '19-'23 CAGR - Electric	-	-	5.00%	-	-	-	-	-	-
	-	-		-	-	-	-	-	-
Electric Utilities			17.3x						
Duke Energy Carolinas	$2.50	18.3x		**2.0x**	19.3x	20.3x	$45.82	$48.32	$50.82
Duke Energy Progress/Carolinas	$1.60	18.3x		**2.0x**	19.3x	20.3x	$29.39	$31.00	$32.60
Duke Energy Florida	$1.37	19.3x		**3.0x**	20.3x	21.3x	$26.39	$27.76	$29.12
Duke Energy Indiana	$0.59	18.3x		**2.0x**	19.3x	20.3x	$10.89	$11.49	$12.08
Duke Energy Ohio/Kentucky	$0.38	16.3x		**0.0x**	17.3x	18.3x	$6.21	$6.59	$6.97
Total Electric Utility Value	**$6.44**						$118.71	$125.15	$131.60

Exhibit 2: Duke Energy Valuation (DUK) Sum of the Parts Valuation
PO to $112, Reiterate Buy

Duke Energy Sum of the Parts Valuation									
Group Peer Multiple - Gas			**16.3x**						
Group EPS '18-'22 CAGR - Gas			**5.00%**						
Gas Utilities	2025 EPS		**17.1x**						
Duke Energy Piedmont	$0.63	17.1x		**1.0x**	18.1x	19.1x	$10.75	$11.37	$12.00
Duke Energy Ohio/Kentucky Gas	$0.18	16.1x		**0.0x**	17.1x	18.1x	$2.93	$3.11	$3.30
Total Gas Utility Value	**$0.81**						$13.68	$14.49	$15.30
Commercial Segment	2025 EBITDA								
Remaining Midstream assets	$102	7.0x	**8.0x**	**0.0x**	8.0x	9.0x	712	813	915
Transmission Segment	$6	8.0x	**9.0x**	**0.0x**	9.0x	10.0x	49	55	61
Segment Net Debt	-$1,913						-1,913	-1,913	-1,913
Add back Renewable Debt	$1,302						1,302	1,302	1,302
Renewables Segment NPV @ 8% Discount	$0						0	0	0
New Renewables NPV	$0						0	0	0
Net Infrastructure Equity							149	257	364
Net Infrastructure Equity Per Share							$0.20	$0.33	$0.50
Parent	2025 EPS								
NMC (Saudi Chemical JV)	$0.07	10.3x		**-6.0x**	11.3x	12.3x	$0.72	$0.79	$0.86
50% Weighting: Parent Debt Interest Expense	-$0.95	20.1x		**0.0x**	19.1x	18.1x	-$9.58	-$9.10	-$8.62
50% Weighting: Parent Debt	-$30,916						-$20.08	-$20.08	-$20.08
Total Equity Value							-$28.93	-$28.38	-$27.84
Shares Outstanding								770	
Total Equity Value							**$104.00**	**$112.00**	**$120.00**
NTM Dividend Yield								4.3%	
Total Potetnial Return								**18.6%**	

Source: Company Filings, Bloomberg, & BofA Global Research

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Exhibit 3: Primary stocks mentioned in this report
Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
VST	VST US	Vistra Energy	US$ 23.78	B-1-7
ED	ED US	Consolidated Edison	US$ 98.66	A-2-7
NI	NI US	NiSource Inc	US$ 28.59	B-1-7
DUK	DUK US	Duke Energy	US$ 98.22	A-1-7

Source: BofA Global Research

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Price objective basis & risk

Consolidated Edison (ED)

Our $96 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples 16.4x/16.7x for electric/gas respectively with an in-line multiple for Electric, Steam, & Gas to reflect a combination of historically challenging regulation but above-peer growth and de-risked profile. Both electric and gas peer 2025 P/E multiples are grossed up by 5% to reflect capital appreciation across the sector.
For noncore segments we apply a -2x discount to Con Edison Electric Transmission (CET) and a -6x discount to the Wholesale Energy business given elevated risk profiles.
For the Mountain Valley Pipeline stake we apply a 5x EBITDA multiple to our 2024 EPS estimate reflecting elevated risk.
Upside/Downside risks to achievement of the Price Objective and Rating are 1) earned regulatory returns, 2) capital expenditures, 3) regulatory/political/legislative changes, 4) interest rates, 5) natural disasters, 6) execution on unregulated projects, 7) Covid, 8) ability to complete the Mountain Valley Pipeline, and 9) raw materials costs and supply-chain delivery timelines.

Duke Energy (DUK)

Our $112 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2025E P/E multiples. We apply a 3x multiple premium to Duke's operations in FL and 2x in IN to reflect more favorable regulatory environments (and potential generation opps in IN). We apply a 2x multiple to the Carolinas given upside to spending in improving regulatory construct combined with latest IRP & wider legislative reforms into 2023.

We value the other regulated electric utilities at 16.5x and the gas utilities at peer group multiples of 16.3x 2025E P/E, respectively. Both electric and gas peer P/E multiples are grossed up by 5% for the groups CAGR to reflect capital appreciation across the sector. The commercial midstream, and transmission are valued on a 2025E EV/EBITDA basis. We use 8.0x multiples for midstream and 9.0x for transmission segments. We subtract out the impact of commercial debt, and add back for the renewable debt. Upside risks: constructive rate case results, higher capital expenditure additions vs our assumptions, lower interest rates. Downside risks: poor rate case results, operating errors, and negative changes in the regulatory environment, Macro risks: Increases in interest rates and decreases in equity market valuations.

NiSource Inc (NI)

Our $32 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2025 forward P/E multiples that are marked-to-market to the latest peer utility multiples of 16.4x for gas and 16.4x for electric. Consistent across our coverage universe, the base electric & gas peer P/E multiples are grossed up by +5% to reflect capital appreciation across the sector. We utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

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

Vistra Energy (VST)

Our $29 price objective is based on a 2025E SOTP valuation. We assign a discount/premium to the peer group EV/FCF multiple of 7.0x: We include the full $300mn of margin-enhancing initiatives as well as $200mn optimization benefits and the $290mn of synergies related to the DYN acquisition. We capitalize our estimated income tax for the combined entity to reflect the higher tax burden than peers, and we include a $50mn NPV of TRA payments. We reflect Vistra Zero accretion at 12x EV/EBITDA, with '26 FCF discounted at 12% back to '23. We also reflect $500mn of ERCOT securitization proceeds (implied in net debt balance). We include impact from future bill credits from Uri storm & NPV of ERCOT uplifts. For the pending announced Energy Harbor deal, we apply a peer multiple of 7.0x EV/FCF, consistent with our target multiple for legacy VST nuclear and retail. We also layer in Energy Harbor Synergies at a 2.0x discount to the peer multiple (consistent with our approach for DYN) and an in-line multiple for margin offsets (consistent with our prior approach for offsets).

Positive and negative risks: 1) changes to regulatory, political, or legislative standards, 2) wholesale power, natural gas, & capacity prices, 3) competitive & regulatory change to retail businesses, principally in Texas, 4) operational performance, 5) development of new renewables and storage assets, 6) natural disasters, 7) interest rates, 8) nuclear fuel access/cost, and 10) retail market attrition.

Analyst Certification

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
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith

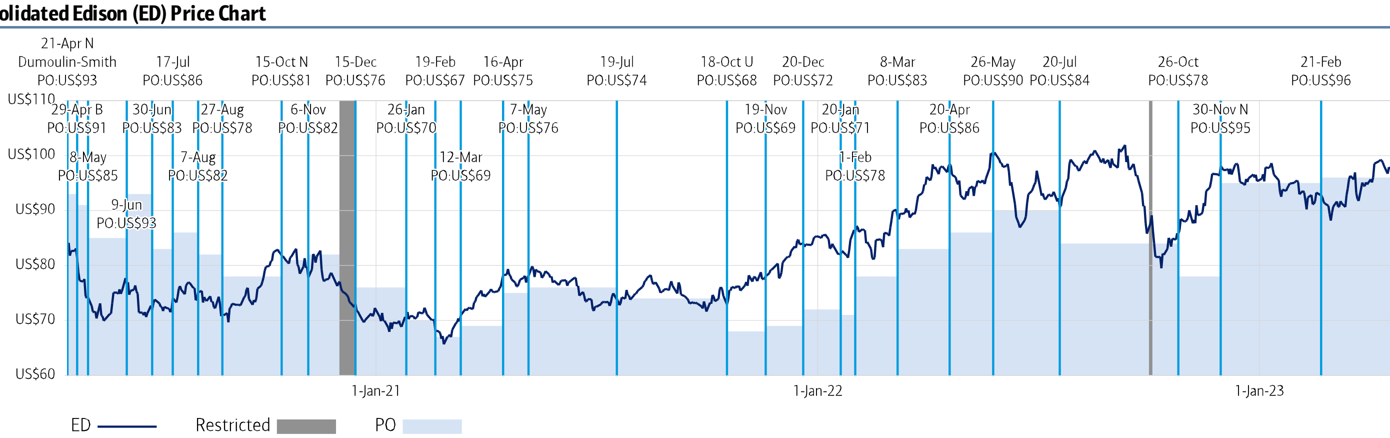
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Consolidated Edison (ED) Price Chart



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

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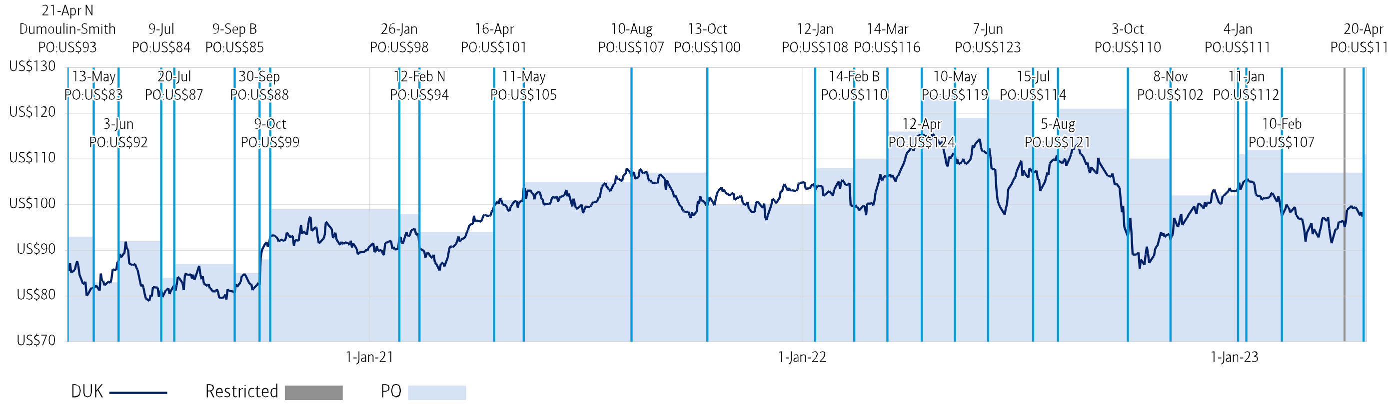
Duke Energy (DUK) Price Chart



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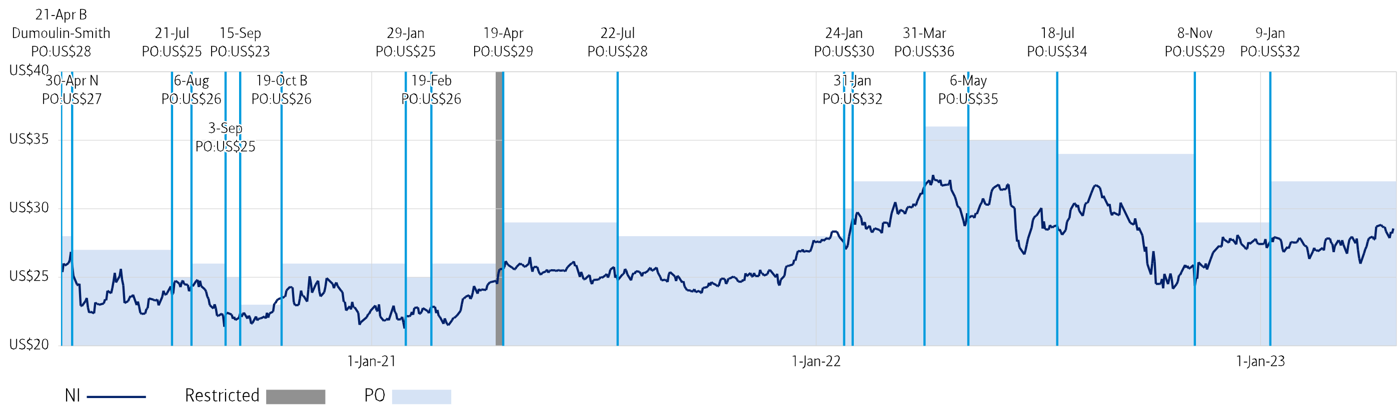
NiSource Inc (NI) Price Chart



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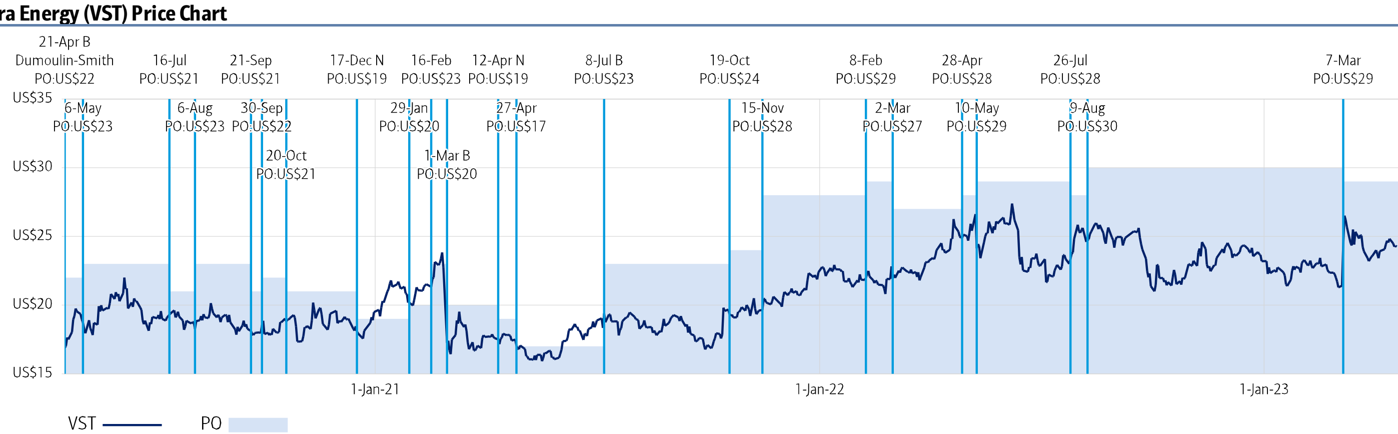
Vistra Energy (VST) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	86	60.99%	Buy	68	79.07%
Hold	31	21.99%	Hold	23	74.19%
Sell	24	17.02%	Sell	14	58.33%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	78	50.65%	Buy	53	67.95%
Hold	40	25.97%	Hold	28	70.00%
Sell	36	23.38%	Sell	24	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

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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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ESGMeter is a proprietary metric based on quantitative analysis and fundamental analyst inputs that reflects our assessment of a company's Environmental, Social and Governance-related attributes. The ESGMeter is intended to indicate a company's likelihood of experiencing stronger financial stability (higher return on equity and lower earnings and price volatility) over the next three years relative to peer group. There are three ESGMeter levels - Low, Medium, and High - which indicate whether a company has attributes most likely to translate into superior financial stability (in the case of a High level) or weaker financial stability (in the case of a Low level) over the next three years relative to its peer group. A Medium level suggests that a company exhibits ESG characteristics that are likely associated with financial stability results in line with its peer group over the next three years. Full details of our methodology, financial stability definition and disclaimers are available at BofA ESGMeter methodology. ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of the BofA Global Research fundamental equity analyst's investment rating, volatility risk rating, income rating or price objective for that company.

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US Utilities & IPPs

PowerPoints: NIPSCO sale, SO Vogtle, AES, PNM/AGR merger, VST nuclear

Industry Overview

20 June 2023

Equity
United States
Utilities

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NI: stake sale better than expected; key derisking: Buy

NiSource (NI) announced the sale of a 19.9% stake in its subsidiary, Northern Indiana Public Service Co (NIPSCO), to Blackstone. Under the deal terms, Blackstone would acquire a 19.9% noncontrolling stake in NIPSCO for $2.15B in cash and an additional $250m of equity commitments (at the NIPSCO level) to fund ongoing capex over 3 years. We view the print as very positive. Future ATM needs are unchanged (we watch nuances here for ~$0.25Bn/year in 2025+) for now despite future opco investment, keeping its 19.9% stake intact over time. The deal would imply an equity value of $10.8B and an EV of $14.3B at 100%, per the deal announcement. Disclosed multiples are 32.5x trailing EPS and solid 1.85x EV / 2022 year-end rate base of $7.7B. The transaction would take out equity needs in 2023, which we previously estimated at $2B, so deal valuation is slightly better than anticipated. Management reiterated that it expects to keep financial targets unchanged, including growth in NOEPS of 6-8% and cash flow metrics of 14-16% FFO to net debt. Additional equity is not expected until 2025, when management expects to utilize its ATM. Management reaffirmed 2023 EPS guidance of $1.54-1.60. The deal is subject to normal closing conditions, including FERC approval, which management stated is expected by year-end. We maintain our Buy rating; this removes the clearest impediment to shares, affirms balance sheet, in our view.

SO: Vogtle Unit 3 in-service delayed until July

After market close on Friday, June 16, Southern Co (SO) issued an 8-k that disclosed that in-servicing of Unit 3 of Vogtle has been delayed until July from its previous target of June. The delay is attributed to degradation of the hydrogen seals on the generation during final stages at the 100% level. SO is in the process of replacing the seals and expects to return to 100% testing once the replacements are in place. The target timing for returning to 100% level of testing is the end of the month, with two tests remaining to be done after replacement of the seals. Output at Unit 3 dropped to 0% on June 7 and recovered to 32% for several days and was reported as zero from June 12 through 18. SO's 8-k did not specify a date in July when in-servicing is expected to take place and did not include incremental updates on Unit 4. The update is a clear negative, in our view, though ultimately a minor delay, as SO had previously been targeting in servicing the unit by the end of June. We expect weakness in shares as investors digest the news and evaluate the likelihood for additional delays after SO had been one of the better-performing large cap utility stocks thus far year to date. We maintain our Underperform rating given valuation.

AES: New Board member a positive twist

AES announced that Gerard Anderson was elected to the company's Board of Directors, effective July 17. Investors may remember Mr. Anderson from his time as Executive Chairman and CEO of DTE Energy (DTE) and as chairman of EEI. We view the appointment of Mr. Anderson to the Board as a positive considering his extensive experience in the utility space, especially as AES seeks to rapidly grow its own utility businesses over the next several years. We maintain our Buy rating on AES given attractive risk/reward, though note that cautious data points have begun to emerge as head of the renewables business recently resigned and AES acquired 2GW of backlog from a competitor.

Please see details on PNM/AGR merger, PNW staff, VST Comanche.

ATM: at the market program

EEI: Electric Edison Institute

EV: enterprise value

FERC: Federal Energy Regulatory Commission

FFO: funds from operations

GW: gigawatts

NOEPS: non-operating EPS

opco: operating company

NI: Deal suggests just under 24x on 2025 EPS

The disclosed equity in the NIPSCO sale implies just under 24x on our forecast 2025 earnings – see table below. We note that the management team gave 32.5x on a trailing 12-month basis as the deal multiple, which is based on $333m of adjusted net income for the period ending March 31. We previously had a placeholder assumption of $2B in deal proceeds, which would be a 22x 2025 EPS multiple, or 7% below the deal that was announced. We see this as positive for NI directly but also supporting utility valuations for opco level sales overall as a trend. We expect that this could very well still prove a "high water mark" across the year on contemplated sales. On balance, we could see a modest positive to others seeking to sell.

Exhibit 1: Implied EPS multiple
Our $2B assumed about 7% lower 2025 multiple

	2022E	2023E	2024E	2025E	2026E	2027E
Deal price – equity		2150				
BofAe						
Earnings (NIPSCO)	258	296	435	457	521	534
Implied P/E multiple	41.9	36.4	24.8	23.6	20.7	20.2

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Management indicated that it expects to "turn on" the ATM issuance at a clip of approximately $250m per annum beginning around 2025 – we note that this is equity at the corporate level, and the additional $250mm equity commitment from Blackstone as part of the deal and additional contributions thereafter required to maintain its 19.9% stake would be incremental.

PNM/AGR: Merger agreement extended to December 31

PNM Resources (PNM) and Avangrid (AGR) mutually agreed to an amendment and extension of their merger agreement through December 31, 2023. Under the amended agreement, AGR and PNM may mutually agree to extend the "end date" to March 31, 2024. The merger agreement was previously extended through July 20, 2023 on April 12. However, the New Mexico Supreme Court (NMSC) recently denied AGR's, PNM's, and New Mexico Public Regulatory Commission's (NMPRC) request to remand the merger appeal case to the NMPRC and scheduled oral hearings for a merger appeal case on September 12, 2023. This implied need for further extension of the merger agreement, as the previous agreement stipulated that the merger may be terminated if closing of the merger does not occur by July 20.

The merger extension update is a slight disappointment given that the amended agreement does not include a "go-shop" period or higher AGR bid for PNM shares versus $50.30/share currently, per our latest PNM deep-dive report: PNM Resources Inc.: Refreshing our view on PNM standalone: Attractive story warrants higher premium 12 June 2023. However, the extension is not a surprise. We monitor key stakeholder positioning at NMSC oral hearings in September. We expect PNM/AGR merger uncertainty to remain until year-end 2023 given the prolonged merger timeline. The merger agreement extension suggests company expectations for potential year-end 2023 or 1Q24 merger resolution. We maintain our Buy rating on shares of PNM given our view that share upside potential remains across all scenarios, including that the existing AGR/PNM merger materializes as is – i.e., without a higher AGR bid or potential third-party bid for PNM shares.

VST: Comanche Peak Unit 1 briefly shut down

A feed water pump issue (non-nuclear related) caused Unit 1 of Vistra's (VST) Comanche Peak nuclear generation facility to automatically shut down over the weekend. According to ERCOT (Electric Reliability Council of Texas) public data, the 1,205 MW (megawatt) unit was reported offline beginning Friday, June 16, at 6:32 p.m. and returned to service Sunday, June 18, at 10:00 a.m. This exposes VST to some potential commercial impacts given elevated prices during the heat wave. The impact is likely modest but emphasizes focus on the need to keep reinvestment in plants to ensure availability. As of this writing, NRC (Nuclear Regulatory Commission) data shows the unit as operating at 78% capacity. We are encouraged by the rapid response by VST to return the unit to operations in a timely manner. With the pending acquisition of Energy Harbor, VST's nuclear fleet is ever more relevant to earnings and valuation. We maintain our Buy rating on VST given attractive risk-adjusted free cash flow yield and growing "green" generation portfolio.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Alternative Energy: Through Silicon, and Beyond: Recapping our latest Solar Technologies Conference	Julien Dumoulin-Smith	20 June 2023
US Alternative Energy: Who Owns What? 3/31/23 HF & LO Trends. Clean Energy Crowding Analysis	Julien Dumoulin-Smith	20 June 2023
Evergy, Inc: Latest resource plans out more focus on reliability, renewables pushed back	Julien Dumoulin-Smith	20 June 2023

Exhibit 2: Primary stocks mentioned in this report
Prices and ratings or primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AES	AES US	AES Corp	US$ 21.34	B-1-7
NI	NI US	NiSource Inc	US$ 27.38	B-1-7
PNM	PNM US	PNM Resources Inc.	US$ 46.16	B-1-7
SO	SO US	Southern Company	US$ 71.76	A-3-7
VST	VST US	Vistra Energy	US$ 25.06	B-1-7

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

AES (AES)

Our price objective is $24 and is based on a sum of the parts analysis applying a blended valuation approach which is the summation of: 1) EV/EBITDA approach for US Renewable Generation using an 10.0x 2025E base for US peer 2.) NPV approach for DevCo using a 15% discount on 5.5GW+ of annual renewables beyond '23 given market dynamics, 3.) EV/EBITDA approach for Legacy Southland (US), 4.) NPV for Warrior Run (US) 5.) P/E approach for US Utilities using a 16.3x 2025E base for US peers plus a premium/discount, 6.) EV/EBITDA approach for LATAM non-public subsidiaries using a 7.0x 2025E base for peers plus a premium/discount, 7.) Mark-to-market value of publicly listed LATAM subsidiaries, 8.) Asia Generation is marked to carrying value while the Asian LNG import facility is valued on EPS accretion relative to total build cost, and 9.) EV/EBITDA 2025E multiple for Europe generation (except Jordan, which we mark to sales price). We also credit the company with its investment in Uplight and Fluence.

Risks are: 1) regulatory, legislative, and political changes, 2) international currencies devaluing against the US dollar, 3) changes in value of Fluence (FLNC) subsidiary stock, 4) overall inability to execute on the renewables plan, 5) ability to control costs, 6) financing needs, and 7) tax policies.

NiSource Inc (NI)

Our $32 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2025 forward P/E multiples that are marked-to-market to the latest peer utility multiples of 16.4x for gas and 16.4x for electric. Consistent across our coverage universe, the base electric & gas peer P/E multiples are grossed up by +5% to reflect capital appreciation across the sector. We utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

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

PNM Resources Inc. (PNM)
We value PNM Resources at $51 based on a 2025E sum of the parts valuation methodology utilizing P/E multiples for each business segment. We apply the electric utility average 15.8x 2025E which we grossed up for +5% reflect capital appreciation across the sector. This is a consistent approach for the coverage universe. We apply a +1.0x P/E premium to shares to reflect the visibility into growth and potential upside to the outlook. The regulatory and legislative outlooks have improved in both New Mexico and improved

Risks to the achievement of our price objective and estimates are changes in: 1) regulatory, political, judicial, and legislative outcomes, 2) operating and financing costs, 3) interest rates and asset returns, 4) pending M&A activity, 6) natural disasters and weather, 8) commodity prices, 9) capital expenditures, 10) credit rating agency actions.

Southern Company (SO)
Our $67 PO is derived from a sum-of-the-parts analysis (SOTP). We use a P/E valuation approach on 2025 estimates and use peer multiples of 15.5x for electric and 16.0x for gas, respectively (with dis/prem applied per asset depending on growth/risk): we then gross up these multiples by +5% to account for sector wide EPS growth to derive a 12-month forward PO. We subtract 50% of the 2025 parent interest expense multiple by an electric P/E peer multiple to reflect parent leverage supporting the utilities. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting.

Upside/downside risks to achievement of the PO are: 1) Vogtle construction timing and costs, 2) regulatory, political, and legislative changes, 3) ability to earn the allowed rate of return, 4) changes to the capital expenditure forecast, 5) nuclear incidents, weather, and natural disasters, 6) rate of customer and sales growth, 7) O&M trends, 8) interest rates, 9) environmental policies and regulations, 10) M&A, and 11) interest rates.

Vistra Energy (VST)
Our $30 price objective is based on a 2025E SOTP valuation. For Vistra Vision, we arrive at a 6.0x blended EV/EBITDA. We apply a 6.5x EV/FCF multiple to nuclear, which we believe fairly represents the risk/reward profile of the assets. For Renewables and Storage, we apply a 10x EV/FCF multiple given the accelerating nature of the end markets. For Retail, we apply a 6.5x EV/FCF multiple, consistent with peers. For Vistra Tradition, we arrive at a 3.9x blended EV/EBITDA multiple. We apply a 5.5x EV/FCF multiple to Gas Generation given favorable spark spreads and end market demand dynamics and a 1.0x EV/FCF multiple to Coal Generation which we believe appropriately captures the limited long-term value of the assets.

Downside risks to our PO are: 1) changes to regulatory, political, or legislative standards, 2) wholesale power, natural gas, & capacity prices, 3) competitive & regulatory change to retail businesses, principally in Texas, 4) operational performance, 5) development of new renewables and storage assets, 6) natural disasters, 7) interest rates, 8) nuclear fuel access/cost, and 10) retail market attrition.

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Utilities and Alt Energy Coverage Cluster

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

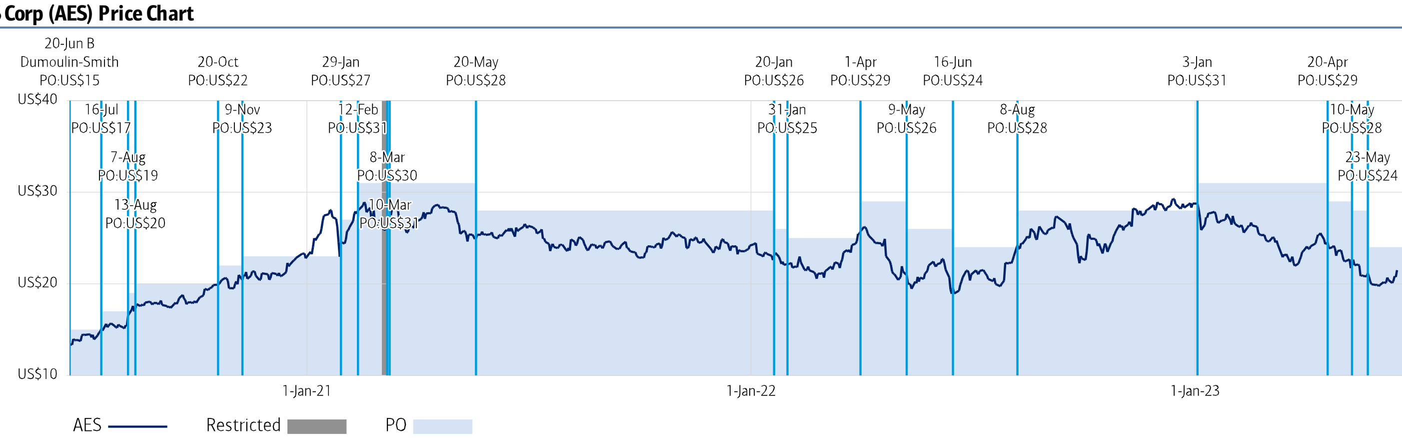
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

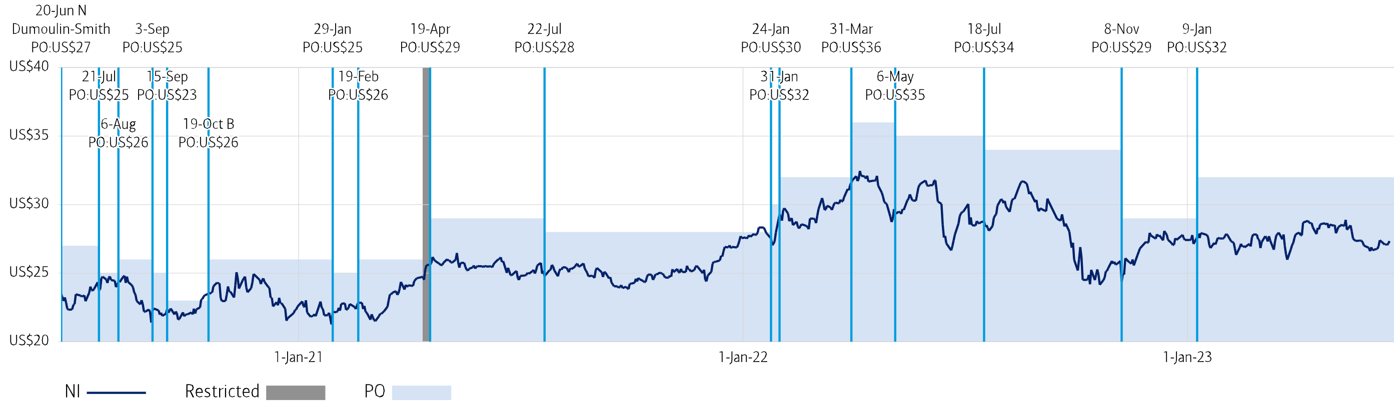
AES Corp (AES) Price Chart



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

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

NiSource Inc (NI) Price Chart



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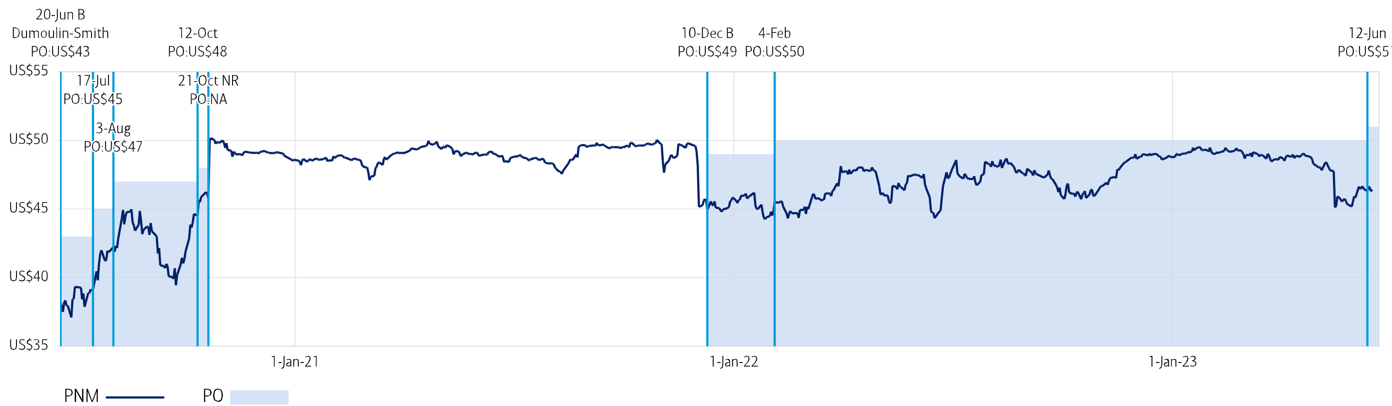
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey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

PNM Resources Inc. (PNM) Price Chart



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

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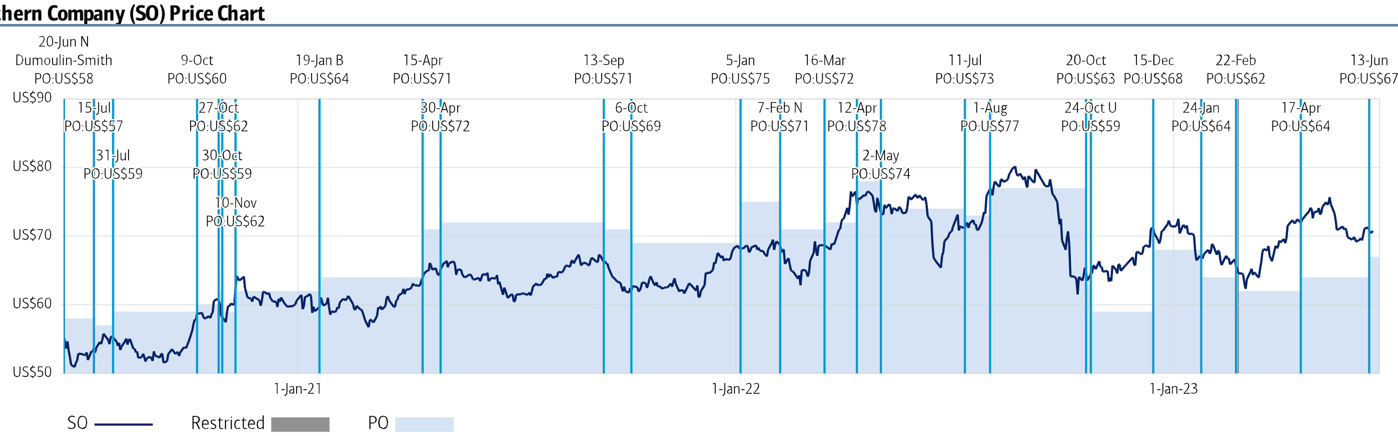
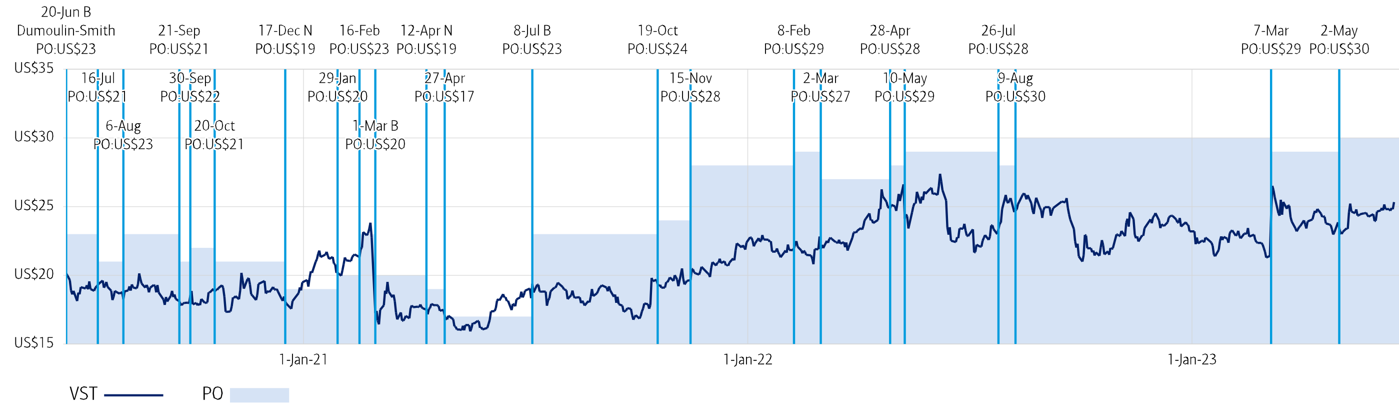
Southern Company (SO) Price Chart



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.

Vistra Energy (VST) Price Chart



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

Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	86	60.99%	Buy	68	79.07%
Hold	31	21.99%	Hold	23	74.19%
Sell	24	17.02%	Sell	14	58.33%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	78	50.65%	Buy	53	67.95%
Hold	40	25.97%	Hold	28	70.00%
Sell	36	23.38%	Sell	24	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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US Utilities & IPPs

Who Owns What? Growing divide between hedge funds and long onlys as utilities lag

Industry Overview

29 June 2023 Corrected

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Crowding dynamics remain the critical factor to watch

We provide our latest quarterly analysis of 13-F ownership data in our "Who owns what?" series in which we compile crowding data by examining a broad group of ~45 investment funds, including 21 hedge funds (HFs) and 25 "long-only" (LO) funds. Utilities underperformed the S&P 500 -11% in 1Q23 and have further slumped an incremental -10% in 2Q23. The relative weakness was a factor for us recently shifting to a more constructive orientation on the sector: US Electric Utilities & IPPs: We Think There's a Defensive Angle to be Had Here.... Utilities Looking Cheaper 07 June 2023. Overall hedge fund crowding decreased during the quarter in sharp contrast to long only investors increasing exposure and concentration overall. This creates a cleaner setup overall.

Crowded names are NI, PPL, DTE/CMS vs AGR, ED, & DUK

The most crowded hedge fund names are NiSource (NI), PPL Corp (PPL), and DTE Energy (DTE)/CMS Energy (CMS). Among long-onlys, the highest concentration is in CenterPoint (CNP), Entergy Corp (ETR), WEC Energy (WEC), and Ameren (AEE). The least popular regulated utilities for investors remain Avangrid (AGR), Consolidated Edison (ED), and Duke Energy (DUK). Among these, we see opportunity in Duke Energy. We acknowledge a challenged near-term setup ahead of potential Carolinas M&A, but that appears to be more than priced in after -4% recent relative underperformance.

Where do investor types differ? CNP, ETR, WEC, & AEP

The largest relative ownership deltas between long-onlys and hedge funds are for long-onlys' greater preference for CenterPoint, Entergy, WEC Energy, and American Electric Power (AEP). Among these, CenterPoint is the single best-owned name among long-onlys and has mixed hedge funds support. We believe that CNP can re-rate further with upside to capex and EPS estimates increasingly visible – reiterate Buy. See the full extent of recent Texas legislation as yet to be fully appreciated and disclosed.

What evolved the most QoQ? EVRG, LNT, & WEC

Among hedge funds, Evergy (EVRG) had the most significant QoQ decline in median ownership while Alliant Energy (LNT) had the largest increase. Dominion Energy (D) and CMS Energy also had notable declines in hedge fund ownership. CenterPoint had a notable increase in hedge fund median ownership as well but buying was more significant for long-onlys. WEC Energy had the most significant increase in long only ownership QoQ, while Duke Energy had the least relative long only buying during the period.

Wisdom of the crowds – we tend to agree here

In general, our ratings align with many names with more concentrated ownership including Buy-rated NiSource, PPL, CenterPoint, and CMS. We continue to highlight Duke as one of the better non-consensus long opportunities. See our latest thoughts here: Advancing toward a fully regulated vision following commercial renewables sale 6/13/23.

Tickers
AEE: Ameren
AEP: American Electric Power
AGR: Avangrid
CMS: CMS Energy
CNP: CenterPoint Energy
D: Dominion
DUK: Duke Energy
DTE: DTE Energy
ED: Consolidated Edison
ETR: Entergy Corp
EVRG: Evergy
LNT: Alliant Energy
NI: NiSource
PPL: PPL Corp
WEC: WEC Energy

46 large investors analyzed

We examine 13-F ownership disclosures for a broad group of 46 representative investment funds. This includes 21 hedge funds (up from 17 previously) and 25 funds with typically longer-term investment horizons ("long only" – up from 23 previously). We believe that this sample captures a diverse group of investor styles and approaches to investing.

Exhibit 1: Investment funds included in our data analysis
We analyze the public holdings of a variety of hedge funds and long onlys

Hedge Funds	Long Only Investors
Adage Capital Management Lp	Amp Capital Investors Ltd.
Alliancebernstein Lp	Capital Research & Management Co. (Global Investors)
Balyasny Asset Management Lp	Columbia Management Investment Advisers Llc
Citadel Advisors Llc	Duff & Phelps Investment Management Co.
Coann Capital Llc	Fidelity Management & Research Co. Llc
Cohen & Steers Capital Management, Inc.	First Trust Advisors Lp
Covalis Capital Llp	Franklin Advisers, Inc.
D. E. Shaw & Co. Lp	Invesco Capital Management Llc
Exoduspoint Capital Management Lp	Jennison Associates Llc
Hite Hedge Asset Management Llc	Jpmorgan Investment Management, Inc.
Holocene Advisors, Lp	Kayne Anderson Capital Advisors Lp
Jane Street Capital Llc	Loomis, Sayles & Co. Lp
Millennium Management Llc	Lord, Abbett & Co. Llc
Point72 Asset Management Lp	Magellan Asset Management Ltd.
Pointstate Capital Lp	Maple-Brown Abbott Ltd.
Schonfeld Strategic Advisors Llc	Mondrian Investment Partners Ltd.
Southpoint Capital Advisors Lp	Neuberger Berman Investment Advisers Llc
Verition Fund Management Llc	Norges Bank Investment Management
W.H. Reaves & Co., Inc.	Nuveen Asset Management Llc
Walleye Capital Llc	Pictet Asset Management Sa
Zimmer Partners Lp	T. Rowe Price Associates, Inc. (Investment Management)
	Tiaa-Cref Investment Management Llc
	Van Eck Associates Corp.
	Voya Investment Management Co. Llc
	Wellington Management Co. Llp

Source: BofA Global Research

BofA GLOBAL RESEARCH

See below for other reports on ownership and crowding dynamics

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Alternative Energy: Who Owns What? 12/31/22 HF & LO Trends. Clean Energy Crowding Analysis	Julien Dumoulin-Smith	27 March 2023
US Utilities & IPPs: Who owns what? Assessing yet another risk factor, crowding, into challenging '23	Julien Dumoulin-Smith	22 March 2023
US Electric Utilities & IPPs: Half time: Who owns what? HF/LO 6/30/22 ownership & crowding trends	Julien Dumoulin-Smith	06 September 2022
US Electric Utilities & IPPs: Who Owns What? The Post-Ukraine HF/LO Ownership Shift (3/31/22 13-F Filing Data)	Julien Dumoulin-Smith	20 May 2022
US Electric Utilities & IPPs: Who Owns What? Analyzing YE21 HF/LO Trading Patterns. Watching Macro Matters	Julien Dumoulin-Smith	28 February 2022
US Electric Utilities & IPPs: Who Owns What? #2: Long-Term Trends, ESG Ownership, and Top 10 Holders	Julien Dumoulin-Smith	02 September 2021
US Electric Utilities & IPPs: Who Owns What? What is Crowded? Analyzing HF/LO Trading Patterns	Julien Dumoulin-Smith	25 August 2021

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

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

We caution against overreliance on any one source of crowding when assessing a position, but this information can help, particularly around sizing when constructing a portfolio. PCG remains owned by many HFs but remains a small position for many.

Exhibit 2: Hedge Fund and Long Only 3/31/23
Breakdown of median and concentration of utility ownership for hedge funds and long only investors

		Hedge Funds 3/31/2023			'Long Only' 3/31/2023		
		Median - All	Median - Owned	Concentration	Median - All	Median - Owned	Concentration
Diversified Utilities							
Avangrid	AGR	0.000%	0.006%	9	0.003%	0.013%	15
NextEra Energy	NEE	0.004%	0.010%	16	0.195%	0.307%	22
Sempra Energy	SRE	0.031%	0.076%	14	0.241%	0.311%	22
Regulated Premium							
Ameren	AEE	0.006%	0.099%	11	0.216%	0.563%	18
CenterPoint Energy	CNP	0.036%	0.225%	12	0.425%	0.488%	20
Alliant Energy	LNT	0.052%	0.135%	16	0.133%	0.362%	18
CMS Energy	CMS	0.091%	0.111%	19	0.119%	0.679%	20
Consolidated Edison	ED	0.001%	0.020%	12	0.044%	0.092%	18
WEC Energy	WEC	0.000%	0.040%	9	0.282%	0.503%	17
Xcel Energy	XEL	0.024%	0.038%	16	0.199%	0.259%	20
Regulated Value							
American Electric Power	AEP	0.005%	0.050%	13	0.232%	0.260%	21
Dominion Energy	D	0.005%	0.015%	14	0.199%	0.218%	21
DTE Energy	DTE	0.137%	0.201%	17	0.124%	0.387%	19
Duke Energy	DUK	0.015%	0.036%	16	0.071%	0.129%	20
Edison International	EIX	0.000%	0.033%	11	0.134%	0.249%	19
Eversource Energy	ES	0.017%	0.030%	16	0.101%	0.125%	21
Entergy	ETR	0.026%	0.096%	17	0.346%	0.385%	22
Evergy	EVRG	0.013%	0.030%	16	0.104%	0.400%	18
Exelon	EXC	0.035%	0.124%	15	0.117%	0.273%	19
FirstEnergy	FE	0.030%	0.048%	17	0.070%	0.183%	18
NiSource	NI	0.189%	0.340%	16	0.146%	0.243%	20
PG&E Corporation	PCG	0.034%	0.057%	18	0.137%	0.570%	19
Public Service Enterprise Group	PEG	0.017%	0.101%	13	0.135%	0.320%	20
Pinnacle West	PNW	0.008%	0.170%	12	0.066%	0.233%	18
PPL Corp	PPL	0.139%	0.375%	17	0.066%	0.082%	20
Southern Energy	SO	0.003%	0.020%	12	0.138%	0.228%	20

Source: Company Filings, FactSet, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Among the regulated premiums Consolidated Edison (ED) is the least owned by long-only investors as well as having the one of the lowest concentrations. ED is also generally under-owned by hedge funds across the spectrum. Avangrid continues to be the single least owned utility across all investor types and metrics. *We maintain Neutral on shares of ED which has an approximately balanced risk/reward. We maintain Underperform on shares of AGR which trades at a premium to our view of the fundamentals.*

Exhibit 3: 3/31/23 QoQ Changes for Hedge Funds
LNT had the largest increase in overall median concentration among HFs

		Median - All	Median - Owned	Concentration
Alliant Energy	LNT	0.040%	0.049%	1
Sempra Energy	SRE	0.029%	0.062%	2
Entergy	ETR	0.019%	-0.025%	3
CenterPoint Energy	CNP	0.011%	0.176%	-
Eversource Energy	ES	0.010%	-0.029%	3
Duke Energy	DUK	0.005%	-0.002%	2
American Electric Power	AEP	0.004%	0.034%	2
NextEra Energy	NEE	0.004%	-0.008%	4
Edison International	EIX	0.000%	0.027%	3
Avangrid	AGR	0.000%	-0.005%	-
Consolidated Edison	ED	-0.002%	-0.072%	1
Southern Energy	SO	-0.003%	-0.016%	(2)
WEC Energy	WEC	-0.003%	0.018%	(1)
Public Service Enterprise	PEG	-0.013%	0.026%	-
Xcel Energy	XEL	-0.015%	-0.019%	2
Pinnacle West	PNW	-0.015%	0.119%	(1)
Ameren	AEE	-0.021%	-0.007%	(2)
PG&E Corporation	PCG	-0.034%	-0.045%	3
NiSource	NI	-0.035%	-0.007%	(1)
PPL Corp	PPL	-0.036%	0.083%	-
FirstEnergy	FE	-0.047%	-0.112%	2
Exelon	EXC	-0.050%	0.032%	(2)
DTE Energy	DTE	-0.054%	-0.077%	(1)
Dominion Energy	D	-0.070%	-0.061%	(3)
CMS Energy	CMS	-0.071%	-0.066%	2
Evergy	EVRG	-0.129%	-0.169%	-

Source: Company Filings, FactSet, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Exhibit 4: 3/31/23 QoQ Changes for Long-Onlys
CNP had the largest median overall increase

	Median - All	Median - Owned	Concentration
CNP	0.312%	-0.092%	3
WEC	0.246%	0.048%	2
ETR	0.174%	0.033%	2
AEE	0.107%	0.077%	2
SO	0.086%	0.079%	3
EIX	0.086%	0.100%	3
SRE	0.079%	0.073%	3
D	0.066%	0.034%	2
CMS	0.050%	0.197%	3
DTE	0.050%	0.034%	3
EXC	0.047%	-0.061%	4
PNW	0.047%	0.164%	4
PPL	0.042%	0.015%	3
PCG	0.042%	0.326%	3
NEE	0.042%	0.132%	4
EVRG	0.039%	0.213%	2
FE	0.036%	-0.046%	3
ED	0.027%	0.018%	4
PEG	0.021%	0.178%	3
NI	0.021%	-0.065%	4
XEL	0.020%	0.000%	2
AEP	0.017%	0.015%	2
ES	0.014%	-0.011%	3
LNT	0.003%	-0.007%	2
AGR	0.002%	0.001%	3
DUK	0.002%	0.039%	1

Source: Company Filings, FactSet, Bloomberg, & BofA Global Research

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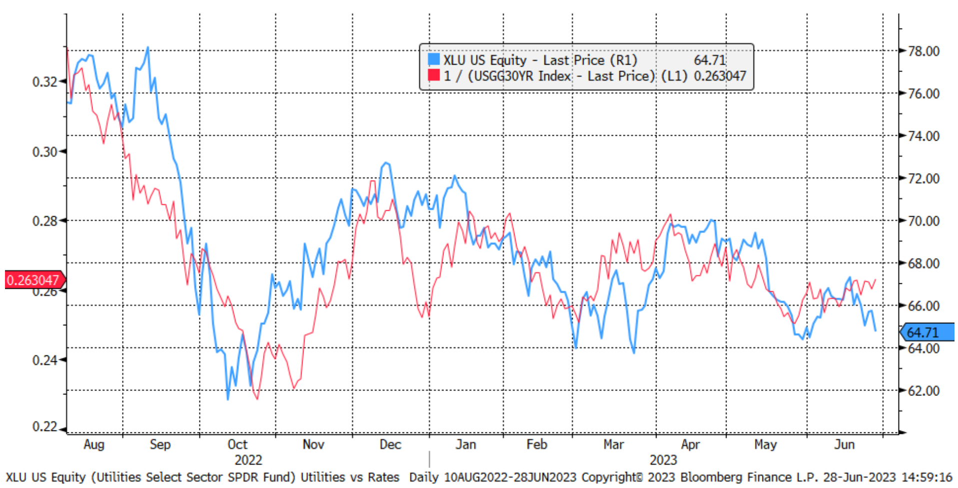
Below we show the US utility equity performance relative to interest rates where the relationship has started to break down.

Exhibit 5: Utilities Equities (Blue) vs US 30Yr Treasury Inverse [Rates Proxy]
US Utilities have moved in-line with long-term US Government utilities from Aug 2022 to mid-June 2023



Source: Bloomberg

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Exhibit 6: Primary stocks mentioned in this report
Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
DUK	DUK US	Duke Energy	US$ 90.52	A-1-7
CNP	CNP US	CenterPoint Energy	US$ 29.21	B-1-7
NI	NI US	NiSource Inc	US$ 27.44	B-1-7
CMS	CMS US	CMS Energy	US$ 59.64	B-1-7
ED	ED US	Consolidated Edison	US$ 91.98	A-2-7
AGR	AGR US	Avangrid	US$ 38.08	A-3-7

Source: BofA Global Research

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Price objective basis & risk

Avangrid (AGR)

Our $35 PO is based on a sum of the parts analysis. The core utilities are valued on by applying discounts to the base sector P/E of 15.7x/15.8x for electric/gas due to below average growth and regulatory jurisdictions. Both electric and gas peer P/Es are grossed up +5% to reflect capital appreciation across the sector. The renewables are valued at approximately 10x EV/EBITDA, consistent with peers while offshore wind is valued using discounted cash flows at a 12% discount rate. Future potential value creation from the renewable development 'DevCo' is provided as well. Lastly parent/HoldCo financing negatives are ascribed.

Up/downside risks to achievement of the PO and estimates are 1) earned ROEs at the utilities, 2) utility capital expenditure forecasts, 3) regulatory/political/legislative outcomes, particularly regarding the pending acquisition of PNM Resources, 4) equity needs, 5) offshore wind construction, 6) Iberdrola owns over 80% of AGR common stock, limiting float and presenting a potential for governance conflicts, despite the BoD being majority unaffiliated with Iberdrola. 7) natural disasters, 8) commodity and interest rate fluctuations, and 9) management changes.

CenterPoint Energy (CNP)

Our CenterPoint Energy PO is $35 using a 2025E sum-of-the-parts methodology. We apply the 16.7x electric and 17.3x gas base multiples. The base multiples are grossed-up +5% to reflect sector capital appreciation, a consistent approach across the coverage universe. We apply a 15% (2.6x) premium due to above-average growth and constructive jurisdictions.

Risks to achievement of the Price Objective are changes in 1) legislative, regulatory, and political outcomes, 2) capital expenditure forecasts and deployments, 3) earned return on equity, 4) asset sales, 5) capital markets access, costs, and needs, 6) interest rates, 7) weather and natural disasters, 8) management changes, and 9) inflation.

CMS Energy (CMS)

Our PO of $67 is based on a SotP relying on 2025E forward P/E multiples for the utility business and a 2025E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 2.0x prem to the average 2025E regulated multiple P/E of 16.6x for the electric segment and of 16.7x for the gas segment, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as continued favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range.

Both electric and gas peer P/E multiples are grossed up +5% to reflect capital appreciation across the sector.

For CMS' merchant business we apply a 4x EV/EBITDA multiple, in line with current market value of CMS' power plants. We value Dearborn Industrial Generation (DIG) on a DCF basis through 2030 given the plant is no longer expected to be sold to Consumers.

Downside risks are: 1) earned ROEs declining which reduce CMS utility earnings 2) execution risk on capex and cost cutting which would primarily affect the utility earnings, 3) negatives changes to market energy prices which could affect the DIG plant's ability to re-contract at the assumed prices.

Consolidated Edison (ED)
Our $92 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples 15.6x/15.0x for electric/gas respectively with an in-line multiple for Electric, Steam, & Gas to reflect a combination of historically challenging regulation but above-peer growth and de-risked profile. Both electric and gas peer 2025 P/E multiples are grossed up by 5% to reflect capital appreciation across the sector.

For noncore segments we apply an in line valuation to Con Edison Electric Transmission (CET) given potential for earnings growth and attractive regulatory characteristics. For the Mountain Valley Pipeline stake we apply a 10x EBITDA multiple to our 2024 EPS estimate reflecting recent positive legal and legislative developments.

Upside/Downside risks to achievement of the Price Objective and Rating are 1) earned regulatory returns, 2) capital expenditures, 3) regulatory/political/legislative changes, 4) interest rates, 5) natural disasters, 6) execution on unregulated projects. Downside risk lack of approval or modification of the JP by the New York state commission.

Duke Energy (DUK)
Our $104 PO is derived from a sum-of-the-parts valuation. We value the Electric and Gas utilities using peer 2025E P/E multiples. We apply a 2x multiple premium to Duke's operations in FL and 2x in IN to reflect more favorable regulatory environments (and potential generation opps in IN). We apply a 1x multiple to the Carolinas given upside to spending in improving regulatory construct combined with latest IRP & wider legislative reforms into 2023.

We value the other regulated electric utilities at 15.5x and the gas utilities at peer group multiples of 16.0x 2025E P/E, respectively. Both electric and gas peer P/E multiples are grossed up by 5% for the groups CAGR to reflect capital appreciation across the sector. The commercial midstream, and transmission are valued on a 2025E EV/EBITDA basis. We use 8.0x multiples for midstream and 9.0x for transmission segments. We subtract out the impact of commercial debt, and add back for the renewable debt.

Upside risks: constructive rate case results, higher capital expenditure additions vs our assumptions, lower interest rates.

Downside risks: poor rate case results, operating errors, and negative changes in the regulatory environment, Macro risks: Increases in interest rates and decreases in equity market valuations.

NiSource Inc (NI)
Our $31 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2025 forward P/E multiples that are marked-to-market to the latest peer utility multiples of 15.7x for gas and 15.5x for electric. Consistent across our coverage universe, the base electric & gas peer P/E multiples are grossed up by +5% to reflect capital appreciation across the sector. We utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

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

Analyst Certification

We, Julien Dumoulin-Smith and Paul Zimbardo, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA
UNDERPERFORM				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
RSTR				
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Energy Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	86	60.99%	Buy	68	79.07%
Hold	31	21.99%	Hold	23	74.19%
Sell	24	17.02%	Sell	14	58.33%

Equity Investment Rating Distribution: Utilities Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	78	50.65%	Buy	53	67.95%
Hold	40	25.97%	Hold	28	70.00%
Sell	36	23.38%	Sell	24	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

R1 Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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

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Citi Research
ACTION

03 May 2023 13:50:43 ET | 12 pages

NiSource Inc (NI.N)

Slight Beat, NIPSCO Sale Timeline Guidance Unchanged

CITI'S TAKE

Ni modestly beat on EPS, reaffirmed NIPSCO sale and generation buildout timeline, and should modestly benefit from new Indiana law on T&D.

Q1 — Nisource's $0.77 beat consensus's $0.75/Citi's $0.73, driven by new gas rates and weather decoupling mechanism, offset by higher D&A, interest expense, & taxes.

NIPSCO Sale – Timeline Unchanged? — NI talked to a broad range of qualified buyers. They do not anticipate any approval process with the IURC but will engage with the commission by filing after an agreement is reached. The company reiterated the current timeline for the transaction (YE 2023 transaction), but choppy deal markets and lots of assets on the market increases deal execution risk, in our opinion.

Indiana ROFR Bill Signage, Transmission Projects — Under HB1420 (just signed by the Governor), NIPSCO and other incumbent Indiana utilities have the right to build, own and operate transmission projects in their current service territory without going through competitive bidding. This bill gives Nisource more footing to participate in MISO's transmission plan, earliest in service date in 2028 -- tranche 1 outlined 18 projects with $10B cost, and tranche 2 targeted approval in 1H24. Nisource will work with MISO to quantify the capex. Beyond HB1420, SB9 and HB1007 may modestly impact the Company's outlook given impact for generation outside of IRPs and future rates (although doesn't impact our current estimates).

Future of Gas: As the 9th circuit decision in California makes it harder to ban gas hookups, NiSource has laws on the books in 3 of 6 jurisdictions that prevent local governments to ban gas hookups, so the impact is limited for NiSource.

Program Apollo: $40M-$60M Recurring Savings — Management is working on recurring lean program to cut $40-60M/yr in O&M. The current CIO is focused on $1B investment in IT to cut costs in planning, execution, and customer service.

Renewable Projects on Track — Dunns Bridge I Solar and Crossroads Solar are still targeting Q2 COD. Calvary Solar and Dunns Bridge II Solar have started construction, and Crossroads 2 Wind is targeting 2023 COD.

Convert Financing? — Nisource could consider doing a convert with *cash* premium paid in the future (if necessary), in our view, to lower interest expense modestly. In investor dialogue, NI is on a short list of utilities investors focused on this.

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2022A	0.75A	0.12A	0.10A	0.50A	1.47A	1.47A	1.70A
2023E	**0.77A**	**0.22E**	**0.28E**	**0.31E**	**1.58E**	**1.55E**	**1.54E**
Previous	0.73E	0.22E	0.28E	0.31E	1.54E	na	na
2024E	**0.75E**	**0.26E**	**0.32E**	**0.36E**	**1.69E**	**1.67E**	**1.65E**
Previous	0.76E	0.25E	0.32E	0.36E	1.69E	na	na
2025E	**na**	**na**	**na**	**na**	**1.80E**	**1.79E**	**1.77E**
Previous	na	na	na	na	1.80E	na	na

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

Click here for Visible Alpha consensus data

Neutral	
Price (02 May 23 16:00)	US$27.91
Target price	US$30.00
Expected share price return	7.5%
Expected dividend yield	3.6%
Expected total return	11.1%
Market Cap	US$11,526M

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

Ryan Levine AC

Xinru Yin

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

We adjusted our estimates modestly to reflect Q1 results, and cost cutting initiative.

NI.N: Fiscal year end 31-Dec | **Price: US$27.91; TP: US$30.00; Market Cap: US$11,526m; Recomm: Neutral**

Profit & Loss (US$m)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Sales revenue	4,900	5,851	5,410	5,420	5,677
Cost of sales	-2,141	-2,931	-2,417	-2,206	-2,313
Gross profit	2,759	2,919	2,993	3,214	3,365
Gross Margin (%)	56.3	49.9	55.3	59.3	59.3
EBITDA (Adj)	**1,755**	**2,087**	**2,178**	**2,411**	**2,647**
EBITDA Margin (Adj) (%)	35.8	35.7	40.3	44.5	46.6
Depreciation	-748	-821	-816	-898	-1,000
Amortisation	0	0	0	0	0
EBIT (Adj)	**1,007**	**1,266**	**1,362**	**1,514**	**1,648**
EBIT Margin (Adj) (%)	20.6	21.6	25.2	27.9	29.0
Net interest	-341	-362	-469	-540	-610
Associates	0	0	0	0	0
Non-Op/Except/Other Adj	37	65	32	47	47
Pre-tax profit	**703**	**969**	**925**	**1,020**	**1,084**
Tax	-118	-165	-183	-203	-216
Extraord./Min.Int./Pref.div.	-55	-55	-55	-55	-55
Reported net profit	**530**	**749**	**687**	**762**	**813**
Net Margin (%)	10.8	12.8	12.7	14.1	14.3
Core NPAT	560	649	710	762	813
Per share data	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Reported EPS ($)	1.30	1.69	1.53	1.69	1.80
Core EPS ($)	1.37	1.47	1.58	1.69	1.80
DPS ($)	0.89	0.94	1.02	1.09	1.15
CFPS ($)	2.97	3.21	3.11	3.61	3.97
FCFPS ($)	-1.53	-1.76	-3.90	-2.50	-3.24
BVPS ($)	14.55	15.61	15.85	16.54	17.31
Wtd avg ord shares (m)	409	433	439	441	441
Wtd avg diluted shares (m)	409	443	448	450	451
Growth rates	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Sales revenue (%)	4.8	19.4	-7.5	0.2	4.8
EBIT (Adj) (%)	61.3	25.7	7.6	11.1	8.8
Core NPAT (%)	10.1	15.8	9.5	7.3	6.7
Core EPS (%)	3.7	6.9	8.1	6.8	6.5
Balance Sheet (US$m)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Cash & cash equiv.	95	75	148	148	148
Accounts receivables	826	1,042	766	813	851
Inventory	499	752	567	598	623
Net fixed & other tangibles	20,491	22,442	24,783	26,635	28,886
Goodwill & intangibles	1,486	1,486	1,486	1,486	1,486
Financial & other assets	761	939	819	841	858
Total assets	**24,157**	**26,737**	**28,570**	**30,521**	**32,852**
Accounts payable	698	900	407	411	412
Short-term debt	618	1,792	2,833	3,894	5,322
Long-term debt	9,183	9,524	10,940	11,540	12,140
Provisions & other liab	6,385	6,620	6,305	6,309	6,311
Total liabilities	**16,884**	**18,835**	**20,484**	**22,154**	**24,184**
Shareholders' equity	7,273	7,902	8,086	8,367	8,668
Minority interests	0	0	0	0	0
Total equity	**7,273**	**7,902**	**8,086**	**8,367**	**8,668**
Net debt (Adj)	**9,707**	**11,240**	**13,624**	**15,286**	**17,313**
Net debt to equity (Adj) (%)	133.5	142.2	168.5	182.7	199.7

Valuation ratios	**2021**	**2022**	**2023E**	**2024E**	**2025E**
PE (x)	20.4	19.0	17.6	16.5	15.5
PB (x)	1.9	1.8	1.8	1.7	1.6
EV/EBITDA (x)	14.1	12.4	12.7	12.3	11.9
FCF yield (%)	-5.5	-6.3	-14.0	-9.0	-11.6
Dividend yield (%)	3.2	3.4	3.7	3.9	4.1
Payout ratio (%)	65	64	65	64	64
ROE (%)	9.9	12.4	10.6	11.3	11.5
Cashflow (US$m)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
EBITDA	1,755	2,087	2,178	2,411	2,647
Working capital	-260	-285	-237	-90	-78
Other	-281	-380	-544	-697	-780
Operating cashflow	**1,214**	**1,422**	**1,397**	**1,625**	**1,790**
Capex	-1,838	-2,203	-3,145	-2,750	-3,250
Net acq/disposals	0	0	0	0	0
Other	-367	-367	-171	0	0
Investing cashflow	**-2,205**	**-2,570**	**-3,315**	**-2,750**	**-3,250**
Dividends paid	-345	-382	-450	-489	-520
Financing cashflow	**1,011**	**1,196**	**2,061**	**1,213**	**1,548**
Net change in cash	**21**	**48**	**142**	**88**	**88**
Free cashflow to s/holders	**-624**	**-781**	**-1,748**	**-1,125**	**-1,460**

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

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NiSource Inc

Company description

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

Investment strategy

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

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $32. We value regulated assets at a multiple of 1.5x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $32 and $29, respectively.

Risks

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

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Appendix A-1

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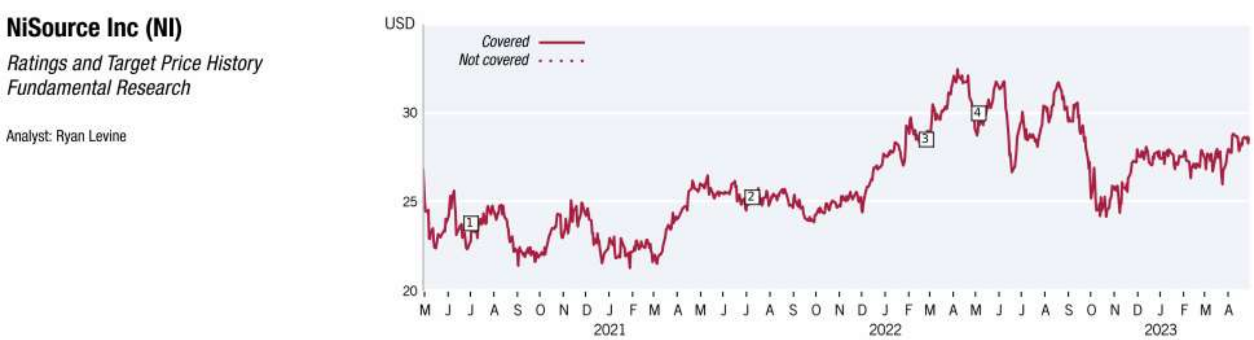

	Date	Rating	Target Price	Closing Price
1	01-Jul-20 14:08:34	2	*24.00	23.46
2	08-Jul-21 15:00:03	2	*27.00	24.95
3	23-Feb-22 23:34:02	2	*28.00	28.21
4	04-May-22 17:57:28	2	*30.00	29.67

*Indicates Change

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From:	Levine, Ryan (Citi)
To:	Weisenburger \ Michael \ V
Subject:	US Gas Utes: New Federal Court Decision - A Win for Gas Utilities, Implication for PCG Ahead of Senate Testimony Today
Date:	Tuesday, April 18, 2023 10:50:18 AM
Attachments:	dcm_citiLogo.png Umy25ct7GIGC4MDIVknTJorzQPVEqcD4v8z3tqB8NO7%2FO4nlH3UV1V0jtlytwrrg o5quhBAOUC2PSN4Ei9JzdGeYVnIU6PLmDsg2wuqXbNRcSLKcHZpuP5QSB%2F9p6fpa r9mu%2Fl%2FUgkaR%2BReDABhlLeo8LWzQsTBdsfDpCZlLR04QiWdnC%2BlBiDaR77TXycC95w%2BOaR4%2BQ5c%3D citivelocitylogo.png

F L A S H | US Gas Pipelines & Distribution Utilities

New Federal Court Decision - A Win for the Gas Utility Market, Mixed Implication for PCG Ahead of CA Senate Testimony Today

CITI'S TAKE

Berkeley Restaurant Association legal decision released yesterday is a win for the natural gas community, in our view, and should help the valuation for gas utilities when a ban on new gas hookup in a progressive/liberal city such as Berkeley has been unsuccessful in implementing its policy. The decision has broader implications for future cases about gas hookup in other parts of the US given a federal court.

News: In a court case in Berkeley, California, the federal appeals court is the first to weigh in on bans against new natural gas hookups. Link to the 9th Circuit Decision (April 17). This decision indicated that the Energy Policy and Conservation Act preempts the Berkeley ordinance which prevents cities from banning gas hookups since the federal policy was created. The Act expressly preempts state and local regulation concerning the energy use for many gas appliances. Instead of directly banning these appliances in new buildings, Berkeley took a more circuitous route to the same result, so the court decided against the Berkeley Restaurant Association. The Court also noted that there were some conflicting decisions on similar cases, which leaves more issues to be decided in the future.

Industry Implications: The implication of this decision, in our view, is the anti-gas movement will likely slow. We would expect future litigation on this front but this decision creates precedent. This outcome is positive for gas utilities such as Atmos (ATO), Sempra (SRE), NiSource (NI), and CenterPoint (CNP) given their business mix. It is more negative for the electric utility / decarbonization movement. The decision more directly relates to PG&E (PCG) and the company filed information in connection with the case (see 9th Circuit Decision).

PCG Implications: From a PCG perspective, they own both gas and electric utility assets so the outcome may have less impact. In practice, a near-term shift from electric hookup to gas hookup in their service territory actually may be positive, in our view, for the stock. In January, during our field trip to California, almost every expert we met with was focused on the slow pace of electric hookups for PCG (US Diversified Utilities – Top Takes from Annual Ca. Utility & Energy Field Trip—CA Energy Transition Evolving). Since then, there has been a political and company management response due to the problems it created for the community. PCG management on the earnings call, announced a new “play” to their management playbook, and we would expect them to provide additional details at the upcoming analyst day. In Sacramento, there has been a Senate bill to address this issue (https://leginfo.legislature.ca.gov/faces/billAnalysisClient.xhtml?bill_id=202320240SB83#). In addition, there is a hearing today at noon EST (9am PST) to dive deeper in this issue with the energy, utilities, and communication committee. The company may disclose additional details about PCG’s operational progress, and the opportunity for distributed generation and storage in their service territory. Longer term, we believe a shift from electric to gas is negative for rate base spending for PCG.

Ping us for the dial-in if interested.

Read Full Report

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Atmos Energy Corp

(ATO.N; US$114.1; 2; 17 Apr 23; 16:00)

Valuation

We average our valuation methodologies to derive a $125 target price. (1) Our NAV value is a multiple of 1.6x of rate base for utilities. These values are partially offset by the company's net debt. (2) Our DDM values the company's forecasted cash flows discounted by a WACC/CAPM based discount rate. We calculate a hypothetical dividend, based on regulated capital growth, authorized returns and cost of equity to arrive at our DDM valuation. (3) Our P/E analysis indicates multiples of 20x for the company's distribution and transmission businesses. For our EV/EBITDA analysis, we use multiples of 12x for the company's distribution and transmission businesses.

Risks

The key risks to our investment thesis on ATO are (1) Capital Investment Recovery – ATO, relying on future rates, spends capital to maintain and expand pipeline and utility systems. A politicized commission could delay or put at risk this recovery; (2) Customer Growth – An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably; (3) Capital Markets – ATO is a relatively small utility in terms of market cap and trading volumes, impacting ATO's ability to access capital markets while this type of liquidity may make it difficult for institutional investors to trade in and out of the stock; (4) Derivatives Markets – Volatile markets and dislocated hedges might cause losses on earnings or make ATO occur liability. If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve or exceed our target price.

CenterPoint Energy Inc

(CNP.N; US$30.64; 2; 17 Apr 23; 16:00)

Valuation

We take an average of multiple valuation methodologies to derive our $31 price target. We value regulated assets at a multiple of rate base (2.0x for gas based on the recent LDC transaction price and 1.7x electric utilities). We use the latest public trading prices for the publicly listed securities. Our DDM values the company at $29. Our P/E and EV/EBITDA multiples are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 19x earnings for the company's utility. For our EV/EBITDA analysis, we use multiples of 12.5x EBITDA for the company's electric utility assets. Our P/E and EV/EBITDA analyses yield values of $28 and $32, respectively.

Risks

The key risks to our investment thesis are: (1) Oil and gas production outlook. (2) TX and MN Regulatory Environments: The PUCT or MPUC could reduce delivery rates below what we consider to be a reasonable rate of return. (3) Capital Investment Recovery: CNP, relying on future rates, spends capital to maintain and expand utility systems. A politicized commission could delay or put at risk this recovery. (4) Customer Growth: An unexpected increase or decrease in population could affect earnings substantially, either favorably or unfavorably. (5) Commodity Prices: Equity earnings derived from Enable are highly sensitive to changes in NGL and natural gas prices. (6) Energy Services Exposure: Our estimates are dependent on the future NYMEX costs. Any substantial changes in gas costs could materially impact results, especially if CNP continues to acquire other energy services business in the future. (6) Changes in Interest Rates: Any future upwards or downwards interest rate movement could affect valuation substantially, either favorably or unfavorably. If the impact on the company from any of the following factors proves to be greater or less than we anticipate, the company could fail to achieve/exceed our target price.

NiSource Inc

(NI.N; US$28.3; 2; 17 Apr 23; 16:00)

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $32. We value regulated assets at a multiple of 1.5x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $32 and $29, respectively.

Risks

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

PG&E Corp

(PCG.N; US$16.86; 1H; 17 Apr 23; 16:00)

Valuation

Our valuation considered 2024 industry average P/E multiple to PCG's 2024 earnings and then adjusts the valuation lower to account for our assumptions of a future wildfire liability, smaller than peer dividend, and growth prospects. This results in a price target of $19 per share.

Risks

We rate PCG High Risk given the potential for future wildfires even though AB1054 does provide some level of protection.
Regulatory risk – Failure to obtain fair recovery for capital expenditures or increases in operating costs could negatively affect PG&E's earnings and equity value.
Outstanding legal disputes.
Victims Trust second sale could impact the trading price of PCG.
Future political & regulatory impact from prior accident and investigations which carry a risk not only in financial penalties and fines, but more importantly, potentially damaging the standing of the company, in front of the CPUC and stakeholders.
Potential M&A – PCG could be acquired or merged with another utility.
If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our target price. However, should they be less than anticipated, the stock could trade above our target price.

Sempra Energy

(SRE.N; US$154.98; 2; 17 Apr 23; 16:00)

Valuation

We average four multiple valuation methodologies to derive our adjusted $171 target price. Our SOTP yields a value of $167. We apply an appropriate valuation metric for each asset in the SOTP approach that varies between P/E, EBITDA multiple, and trading value, based on the business we are valuing. These values are partially offset by the company's net debt and preferred shares. Our DDM values the company at $179. Our P/E and EV/EBITDA multiples are based on analyses of current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we apply multiples to 2023 earnings at the utility and infrastructure segments. Our P/E analysis yields a value of $165. For our EV/EBITDA analysis, we apply multiples to 2023 utility and pipeline EBITDA. Our EV/EBITDA analysis yields a value of $174.

Risks

The key risks to our investment thesis are as follows. (1) The utilities are subject to regulation from federal, state, and local authorities which may impose rulings adverse to Sempra's interests. (2) Uncertainty in the contracting of capacity on expansions at the company's LNG facilities may negatively impact earnings in the coming years, along with changes in the regulatory outlook towards exporting gas. (3) Sempra is exposed to currency issues in Mexico and earnings could be impacted with significant volatility in the value of the Mexican Peso. (4) Ability to access debt or equity markets at a reasonable cost in the future could materially impact growth in the future. (5) Cameron construction delays could further reduce earnings outlook over the next few years. In addition, we view the following risks: 6) Mexico Administration changes the course of energy reform to IEnova's detriment, 7) the City of San Diego and CPUC move forward with community choice aggregation and SDG&E is unable to recover stranded costs, and 8) a fire hits SDG&E and/or there is an unfavorable resolution to the wildfire cases (legislature, courts, CPUC, executive branch). If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving/exceeding our target price.

Citi Research

VIEWPOINT

30 May 2023 17:00:00 ET | 14 pages

US Diversified Utilities

Utilities Still Most Crowded Sector into Potential Recession

Ryan Levine AC

Xinru Yin

CITI'S TAKE

Investor conversations with generalists over the last month of marketing point to the utility/power space becoming very crowded. Citi's quant analysis supports this takeaway as the industry remains the most crowded sector. Due to fundamentals, we have started to become more bullish, but these crowding scores add some worry. DTE, CNP, PPL, NI, and SRE rank as some of the most crowded, while PEG, PCG, and EIX are gaining popularity. Meanwhile NRG, AGR, and SWX remain out of favor.

Largest Increases in Crowding Scores — GNE, NWE, and UGI have some of the biggest increases in crowding scores since the end of Q1 2023. BIPC, BIP, PEG, POR, EIX and PCG also saw relatively large increases. GNE, AWK, PCG, PNW, and POR have some of the biggest increases in crowding scores since the end of Q4 2022. The gas names benefited from an improving regulatory environment (link) and lower commodity prices. The California stocks also benefited from decoupling, improving regulatory environment, and operational execution.

Largest Decreases in Crowding Scores — Stocks that saw some of the largest decreases in crowding scores since the end of Q1 2023 include UTL, PNM, AMPS, PNW, CMS, and ES. SJW, BEPC, PNM, NFG, BKH, and ES saw some of the largest decreases in crowding scores since the end of Q3 2022. There has been a growing concern around the challenging M&A market which has hurt sentiment around PNM, ES, and others. In addition, declining power prices and utility have decreased the outlook for AMPS, and others.

Most Crowded Stocks — DTE is the most crowded name in the space, followed by CNP (the most crowded in Jan and Mar), PPL, NI, SRE, and BIP. We continue to like DTE but remain concerned about the upcoming rate case for CNP. The outlook for NiSource continues to improve while Sempra continues to execute and capitalize on changing gas price environment.

Least Crowded Stocks — NRG is the least crowded stock within our coverage and has been among the least crowded stocks since June 2022. It was not surprising to see the activist campaign start on NRG given the poor investor sentiment. We see value here though. Other names with low crowding scores include OGS, AGR, SWX, and UGI.

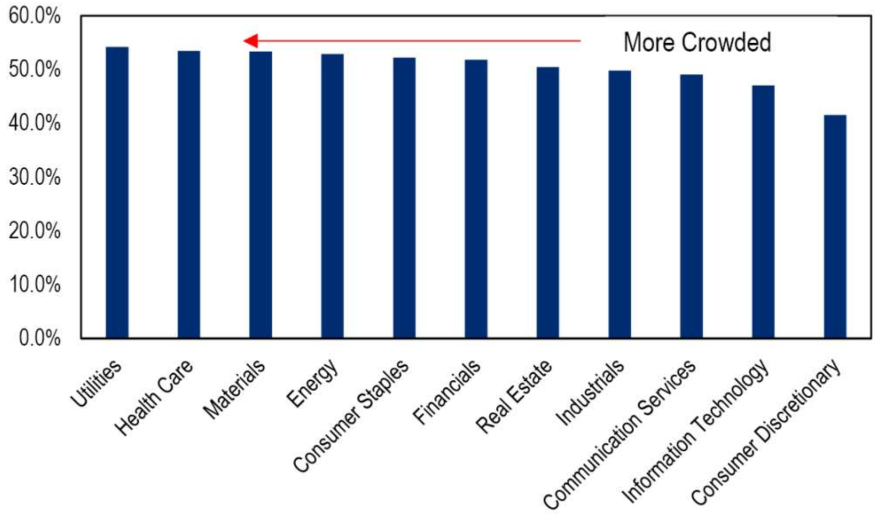
Short Interest — We utilize short interest data that is more accurate than the Bloomberg data (less lag) so worth noting. NOVA has the highest short interest in the utility's universe, followed by POR, NRG, ORA, AGR, AMPS, and BIPC.

Changes in Short Interest since December and March — NRG, POR, AMPS, PNW, BIPC, AES, and CMS saw the largest increases in short interest from the end of Q1. Other names with large increases include CMS and OGE. NOVA, BIPC, NRG, SJW, and PNW saw the largest increases in short interest from the end of Q4. CMS and NFG also have large increases since December. On the other end of the spectrum, the largest declines in short interest came from SJW, BKH, PCG, and SWX. ED, BIPC, NFG, and ORA saw relatively large declines in short interest as well. The largest declines in short interest since Q4 2022 came from PCG, ATO, and BKH. UGI, CNP, and PNM also saw relatively large declines.

Utilities Crowding

Utilities remains the most crowded sector in the Citi Quant Research team's May update (link). It was the most crowded as of our last update in March 2023 (link).

Figure 1. Sector Crowding



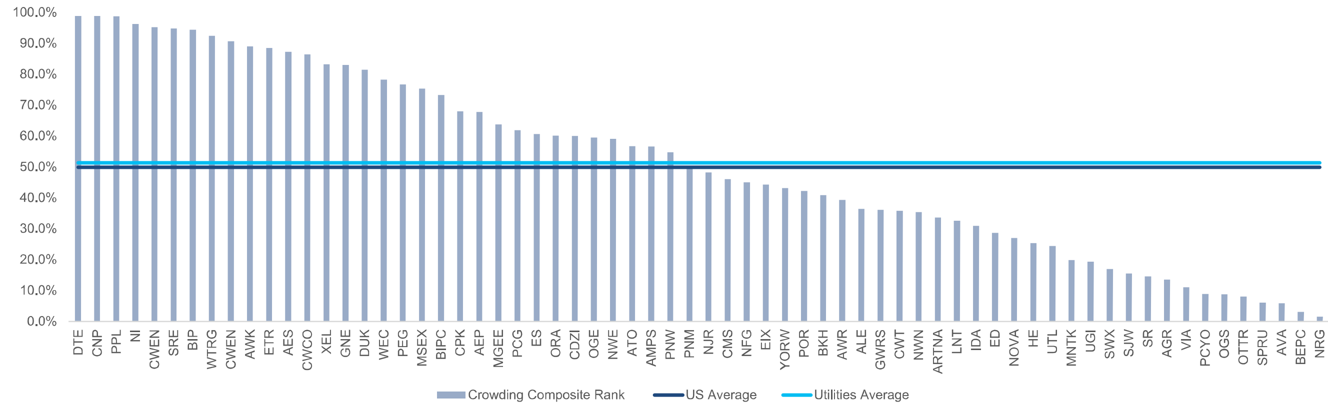
Source: Citi Research

Crowding Scores

DTE is the most crowded name in the space, followed by CNP (the most crowded in Jan and Mar), PPL, NI, SRE, and BIP. It is interesting to see DTE on the top of the charts as the company starts pursuing new unregulated CCUS projects and pursues rate cases in Michigan (recent rate case didn't go great given questions around google mobility data). PPL remains popular among investors but there are longer-term concerns around rate base growth in Kentucky and cost-cutting initiatives. NiSource outlook appears to be improving with new growth initiatives including RNG and Indiana transmission being more certain, but NIPSCO sale process in earlier stages. Sempra continues to perform well operationally with a CoC positive adjustment for 2024 potentially coming in the near future.

NRG is the least crowded stock within our coverage and has been among the least crowded stocks since June 2022. Other names with low crowding scores include OGS, AGR, SWX, and UGI. SWX has been under pressure on concerns around a dividend cut, spin economics, balance sheet, regulatory approvals, and potential shareholder overhang.

Figure 2. Crowding Scores (5/22/2023)



Source: Citi Research

Changes in Crowding Since Q1 2023 & Q4 2022

Utilities' rate of improvement in crowding score among all GICS industry groups has slowed down in the last month (1.2% vs. 8.7% in March) but remains the most improved industry in the last quarter, 6.2%.

Figure 3. Changes in Sector Crowding

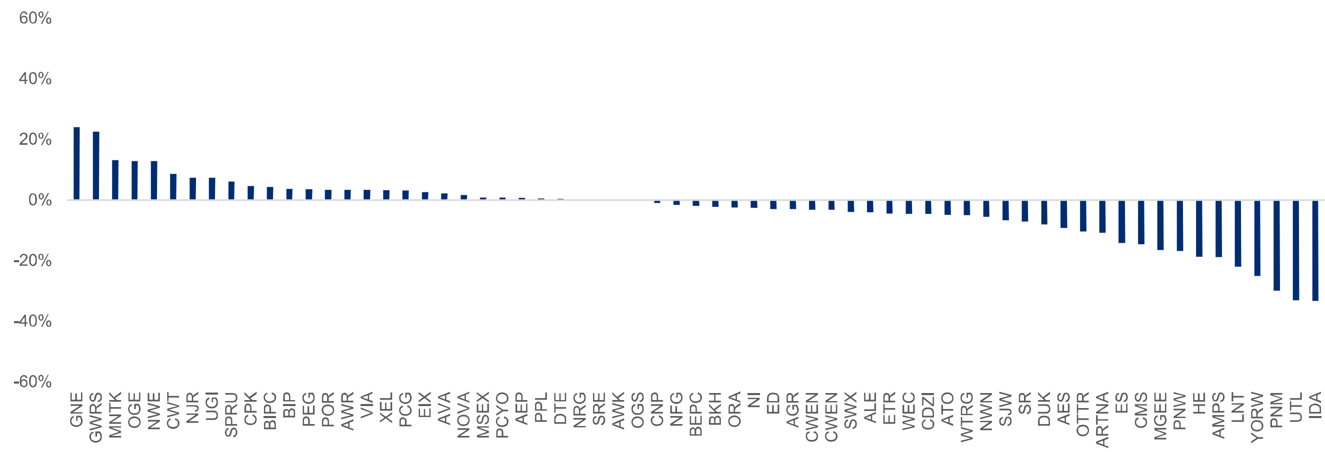
GICS Industry Group	April	May	1M Chg	3M Chg
Health Care Equipment & Services	48.8%	51.9%	3.3%	4.5%
Insurance	58.5%	61.5%	3.0%	1.5%
Financial Services	48.8%	51.2%	2.3%	0.2%
Consumer Staples Distribution & Retail	52.0%	53.7%	1.7%	2.1%
Household & Personal Products	49.6%	49.2%	1.4%	4.2%
Food Beverage & Tobacco	51.9%	52.9%	1.4%	3.4%
Telecommunication Services	46.9%	46.9%	1.4%	-0.9%
Utilities	53.0%	54.2%	1.2%	6.2%
Media & Entertainment	48.7%	49.6%	0.9%	1.6%
Consumer Discretionary Distribution & Retail	33.8%	34.7%	0.8%	0.1%
Banks	48.5%	49.3%	0.6%	-9.9%
Consumer Services	52.4%	53.1%	0.3%	-3.4%
Automobiles & Components	35.6%	35.9%	0.3%	-3.6%
Energy	52.7%	52.9%	0.2%	-3.1%
Pharmaceuticals, Biotechnology & Life Sciences	54.5%	54.3%	0.2%	1.5%
Real Estate Management & Development	38.8%	39.0%	0.2%	1.8%
Materials	53.4%	53.4%	-0.1%	4.3%
Transportation	39.4%	39.3%	-0.1%	4.6%
Consumer Durables & Apparel	38.9%	38.8%	-0.1%	4.3%
Equity Real Estate Investment Trusts (REITs)	53.3%	52.9%	-0.3%	2.3%
Commercial & Professional Services	49.3%	48.2%	-0.8%	-0.7%
Capital Goods	54.2%	52.8%	-1.1%	0.3%
Software & Services	49.5%	46.7%	-2.5%	0.1%
Technology Hardware & Equipment	51.4%	46.1%	-5.3%	-1.1%
Semiconductors & Semiconductor Equipment	56.6%	49.4%	-7.2%	0.9%

Source: Citi Research

In general, the California utilities and some the gas utilities seemed to become more crowded as California is decoupled from load and has potential improvement to earnings outlook coming in the near future, while the gas utilities are expected to benefit from "ban on bans," and improving regulatory environments. Atmos is the exception given higher O&M outlook. Looking at specific names in the utilities space, GNE, NWE, and UGI have some of the biggest increases in crowding scores since the end of Q1 2023. BIPC, BIP, PEG, POR also saw relatively large increases.

The stocks that became less crowded are names with M&A risk and power price exposure. Stocks that saw some of the largest decreases in crowding scores since the end of Q1 2023 include UTL, PNM, AMPS, PNW, CMS, and ES.

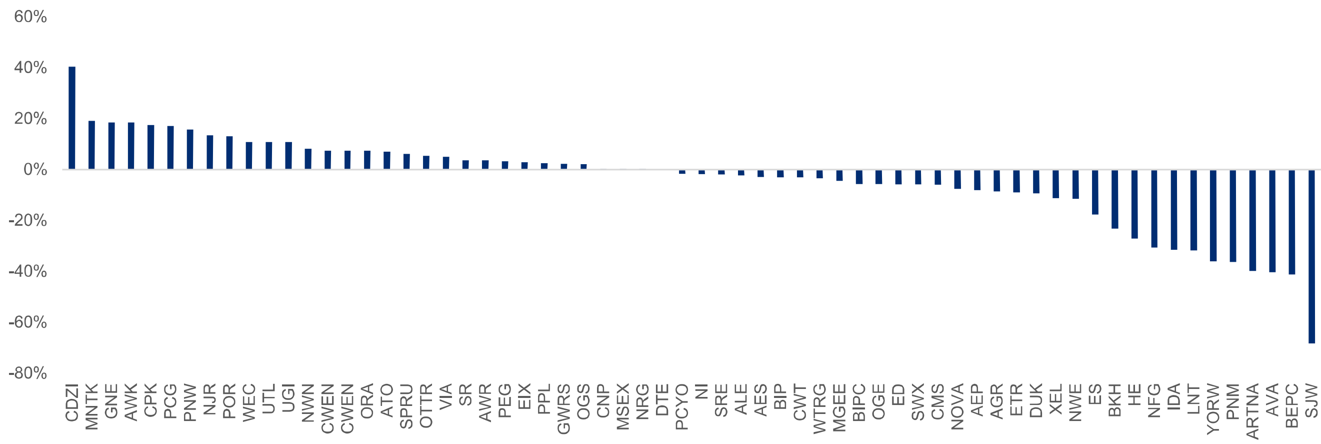
Figure 4. Changes in Crowding (3/2023 - 5/2023)



Source: Citi Research

Similar trends in crowding from recent weeks also apply from late 2022. GNE, AWK, PCG, PNW, and POR have some of the biggest increases in crowding scores since the end of Q4 2022. Stocks that saw some of the largest decreases in crowding scores since the end of Q3 2022 include SJW, BEPC, PNM, NFG, BKH, and ES.

Figure 5. Changes in Crowding (12/2022 - 5/2023)

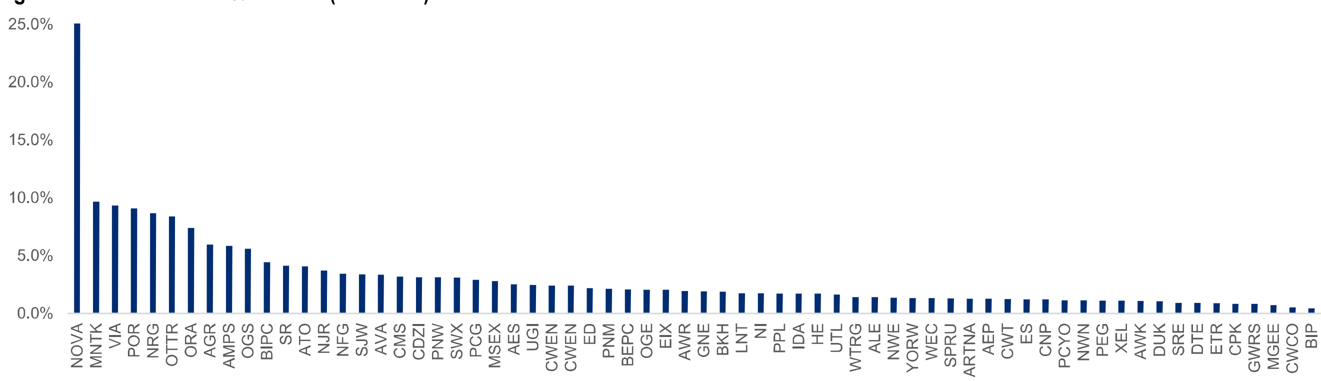


Source: Citi Research

Short Interest

NOVA continues to have the highest short interest in the utility's universe, followed by POR, NRG, ORA, AGR, AMPS, and BIPC. The lower power curves and changing power development market has weighed on several of these stocks.

Figure 6. Short Interest - % of Float (5/22/2023)

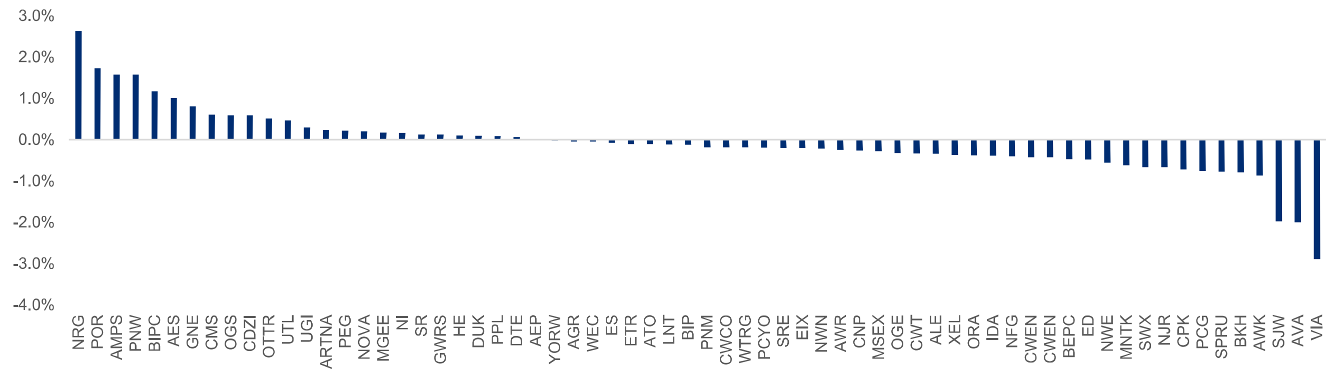


Source: Citi Research, FactSet

Changes in Short Interest Since Q1 2023 & Q4 2022

NRG, POR, AMPS, PNW, BIPC, AES, and CMS saw the largest increases in short interest from the end of Q1. Other names with large increases include CMS and OGE. On the other end of the spectrum, the largest declines in short interest came from SJW, BKH, PCG, and SWX. ED, BIPC, NFG, and ORA saw relatively large declines in short interest as well.

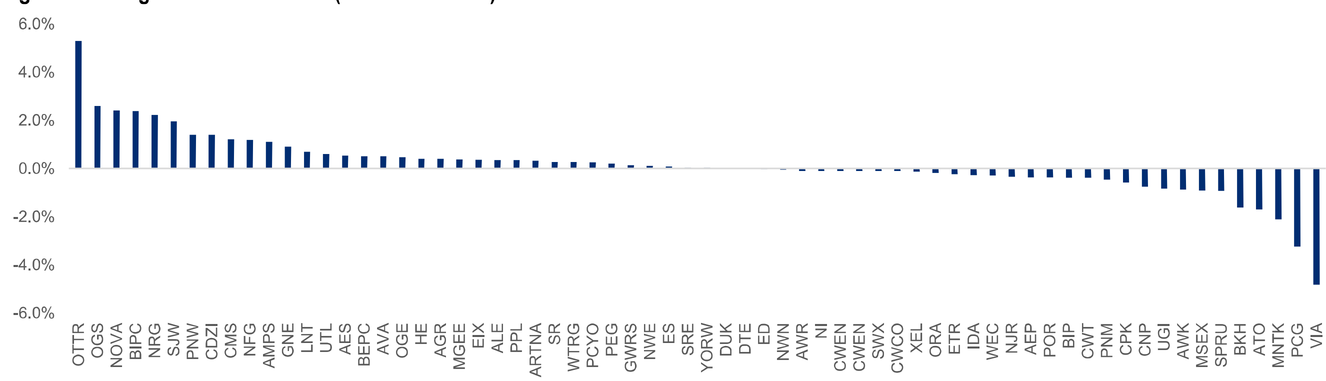
Figure 7. Changes in Short Interest (3/2023 - 5/2023)



Source: Citi Research

NOVA, BIPC, NRG, SJW, and PNW saw the largest increases in short interest from the end of Q4. CMS and NFG also have large increases since December. On the other end of the spectrum, the largest declines in short interest came from PCG, ATO, and BKH. UGI, CNP, and PNM also saw relatively large declines.

Figure 8. Changes in Short Interest (12/2022 - 5/2023)



Source: Citi Research

Companies Mentioned:

NRG (NRG.N; US$33.94; 1; 26 May 23; 16:00) | DTE Energy Co (DTE.N; US$106.51; 1; 26 May 23; 16:00) | CenterPoint Energy Inc (CNP.N; US$28.34; 2; 26 May 23; 16:00) | NiSource Inc (NI.N; US$26.85; 2; 26 May 23; 16:00) | PPL Corp (PPL.N; US$26.01; 2; 26 May 23; 16:00) | Southwest Gas Holdings Inc (SWX.N; US$58.33; 2; 26 May 23; 16:00) | Sempra Energy (SRE.N; US$143.85; 2; 26 May 23; 16:00) | Brookfield Infrastructure Partners (BIP.N; US$36.28; 2; 26 May 23; 16:00) | ONE Gas Inc (OGS.N; US$81.11; Not Rated; 26 May 23; 16:00) | Avangrid, Inc. (AGR.N; US$37.19; Not Rated; 26 May 23; 16:00) | Altus Power Inc (AMPS.N; US$4.74; 1; 26 May 23; 16:00)

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Appendix A-1

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From: Levine, Ryan (Citi)
To: Weisenburger \ Michael \ V
Subject: NiSource Inc (NI.N): Favorable NIPSCO Deal Price; IURC Settlement Increasingly Likely
Date: Tuesday, June 20, 2023 12:20:39 PM
Attachments: dcm_citiLogo.png
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F L A S H | NiSource Inc (NI.N) | Neutral

Favorable NIPSCO Deal Price; IURC Settlement Approval Increasingly Likely

CITI'S TAKE

We think today's NIPSCO sale announcement is attractive given the 32.5x LTM P/E and 1.85x rate base multiples, and the merger document language on the IURC settlement was generally constructive, but we note that the $250M equity commitment over 3 years implies $1B of NIPSCO funding needs from NiSource (may come from operating activities). Given the delays we have witnessed for other utility processes YTD, in our view, it is a positive sign around the quality of NIPSCO that this deal was announced at a healthy valuation.

News: NIPSCO announced the 19.9% sale at $10.8B equity value and enterprise value of $14.3B, which is expected by the end of 2023. As part of the transaction, Blackstone is committed to funding its pro rata share of ongoing capital requirements, which is supported by a $250 million equity commitment letter. This deal was quicker than expected and the headline P/E multiple multiple of 32.5x LTM P/E and 1.85x rate base multiples look attractive given non-control stakes.

Commitment Letter, Potential Future Equity Needs?: Blackstone's $250M equity commitment over the next 3 years implies that the business will need about $1.25B of "maintenance" equity to fund NIPSCO over this time period. NiSource continues to indicate it does not need external equity until at least 2025 as the company can utilize internally generated capital to meet its short-term capital needs. In 2025 and beyond, the financing plan may evolve. We note that NiSource hired new operating executive(s) that could help develop new investment opportunities and drive upside to plan (both capex, and funding needs).

Merger Agreement Language Supportive of IURC Settlement: Our view of the disclosed commentary and likely investor diligence is positive formal update on the process. "Neither Parent nor any of its Affiliates has received written notice or any other affirmative indication that the Indiana Utility Regulatory Commission (the "IURC") will not approve that certain March 10, 2023 Settlement Agreement (the "Settlement Agreement") by and between NIPSCO and NIPSCO Industrial Group; NLMK Indiana; United States Steel Corporation; Walmart Inc.; RV Industry User's Group; and the Indiana Office of Utility Consumer Counselor (collectively, the "Settling Parties" and each, a "Settling Party") consistent with the terms provided for in the Settlement Agreement and to the Knowledge of Company, there are not currently any facts or circumstances that would reasonably be expected to cause the IURC not to approve such Settlement Agreement in its entirety without modification of material condition deemed unacceptable to any Settling Party. "

Neutral			
Price (16 Jun 23 16:00)	US$27.38	Expected share price return	9.6%
Target price	US$30.00	Expected dividend yield	3.7%
Market Cap	US$11,310M	Expected total return	13.2%

Read Full Report

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NiSource Inc

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $32. We value regulated assets at a multiple of 1.5x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $32 and $29, respectively.

Risks

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

Citi Research

VIEWPOINT

25 Apr 2023 17:33:44 ET | 9 pages

US Diversified Utilities

Thoughts into Q1, Ugly Prints, but Fundamentals Improving

CITI'S TAKE

We are more positive on SRE, NI, and PCG on prints but more concerned about AEP, DUK, and CMS. Expect weather, M&A, financing, and costs in focus.

Ryan Levine AC

Xinru Yin

Poor Weather — As we walked through Q1 previews with most of our coverage, CMS, AEP (link), and NOVA stuck out on the negative, given mild winter weather and weak seasonality for NOVA's generation portfolio (only ~10% in Q1). Nisource adjusts its weather in EPS, so less of a headwind. These dynamics point to the positive for Sempra (link) higher Cameron volumes, LNG cargo divergence, and Mexico/US gas arb, and PCG (weather allows memo account for large storm costs, so cost saving from an EPS print standpoint). AES restructured contracts to have less TTF/HH exposure (new segments and disclosure on EPS/FFO adds near term risk).

Operational Improvement Focus — With weather and other factors driving weak expected Q1 prints, we expect the utilities to look for ways to improve EPS numbers in the rest of the year which could emphasize more aggressive operational improvements, pushing costs in 2024, and managing deferred gas costs/etc.

Evolving Financing Markets – Converts Hot for Utilities/Power: We witnessed Ormat (link), PPL(link), Duke(link), and 3 others raise convertible notes in the last few months. These deals termed out CP balances and other financing gaps, while helping 2023 EPS given the lower interest rates, but lead to modest potential dilution or cash outflow in the future. The feedback we receive from convert investors is the window is open now for issuers but may not last that long. Companies that investors debate if they will issue converts include NiSource, AEP, Sempra, Edison, and Eversource.

Slowing M&A — With choppy M&A markets and prolonged legal/regulatory processes, we already witnessed PNM merger extension to July 20th and AEP Kentucky deal scrapped, but we expect more delays to come with earnings release. We are concerned about Duke's renewable sale timeline given public peer multiples contracting and think LDC sales may be more attractive (link). We have a positive catalyst watch for MDU into the Knife River spin. We also expect that AEP decides to start a process to sell its retail business in the coming weeks given Kentucky. We also are optimistic that Ormat will look at buying a merchant power portfolio (link).

Supply Chain Starting to Normalize — During our calls, the companies indicated that the supply chain started to ease in March around supplies for transformers and other key inputs. As excitement around permitting reform in Washington starts to pick up again, supply chain improvement helps. We have an expert event on T&D and policy outlook scheduled post earnings on May 31st at 10am. Ping us for details.

Tapping Government Capital — As ratepayer bills start to normalize with gas, we see the utilities/power markets finding ways to access lower cost governments funds, from IIJA and IRA to push energy transition (NOVA made headline, but more to come).

Upcoming Citi Energy/Utility Conference – May 9-10th, Boston — Great lineup with 1x1 meetings available for the utility and energy space.

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

Companies Mentioned:

American Electric Power Co Inc (AEP.O; US$94.24; 2; 24 Apr 23; 16:00) | CMS Energy Corporation (CMS.N; US$62.26; 2; 24 Apr 23; 16:00) | Duke Energy (DUK.N; US$98.9; 1; 24 Apr 23; 16:00) | MDU Resources Group Inc (MDU.N; US$29.68; 2; 24 Apr 23; 16:00) | NiSource Inc (NI.N; US$28.53; 2; 24 Apr 23; 16:00) | PG&E Corp (PCG.N; US$17.14; 1H; 24 Apr 23; 16:00) | PPL Corp (PPL.N; US$28.67; 2; 24 Apr 23; 16:00) | The AES Corp (AES.N; US$24.16; 1; 24 Apr 23; 16:00) | Sempra Energy (SRE.N; US$157.85; 2; 24 Apr 23; 16:00) | Ormat Technologies, Inc. (ORA.N; US$88.37; 2; 24 Apr 23; 16:00) | Sunnova Energy International Inc (NOVA.N; US$18.59; 1; 24 Apr 23; 16:00)

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Appendix A-1

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EVERCORE ISI

Energy | Power & Utilities

May 03, 2023

NiSource Inc

NI | $27.91

Outperform | Target Price/Base Case: $31.00

Company Update

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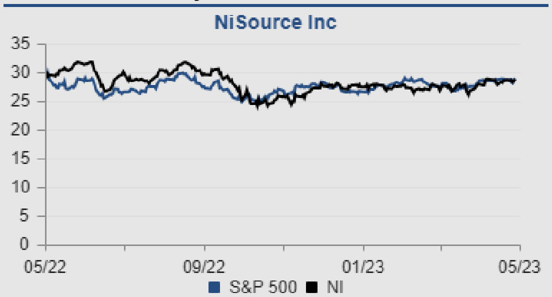
Company Statistics

Market Capitalization (M)	$11,996
Shares Outstanding (M)	413
Dividend	0.94
Dividend Yield	3.2%
Payout Ratio	59.7%
Expected Total Return	9.8%
Fiscal Year End	Dec

Earnings Summary

	2023E	2024E	2025E
EPS	$1.57	$1.69	$1.80
P/E	18.5	17.2	16.1
EPS vs Consensus	1.5%	1.4%	0.7%
Consensus EPS	$1.55	$1.67	$1.79
Consensus P/E	18.8	17.4	16.3

1 Year Price History



Source: FactSet

Effective Execution

Key Takes:

- NI reported Q1 adjusted diluted Net operating EPS (NOEPS) of $0.77 vs. our estimate of $0.77 and street consensus of $0.75. 1Q23 NOEPS is 3% higher than 1Q22 NOEPS of $0.75.
- Reaffirmed 2023 non-GAAP NOEPS guidance range of $1.54-$1.60.
    - Midpoint of $1.57 represents 6.8% growth off 2022 NOEPS. Consensus is at $1.55.
- Reaffirmed annual non-GAAP NOEPS growth of 6-8% through 2027.
    - Off the 2023 earnings guidance range of $1.54-$1.60.
- Reaffirmed $15B 2023-2027 capex plan with ~75% of investments beginning earning in less than 18 months
    - Driving 8%-10% annual utility rate base growth
- Northern Indiana Public Service Company (NIPSCO) minority sale process on track for 2023
- Long-term 14-16% FFO/Debt target reaffirmed
- NIPSCO reached a settlement in the electric rate case on March 10th

Maintaining our Outperform rating and $31TP (details within)

Additional Details:

- **Minority Interest Sale:** Minority interest sale of NIPSCO is still expected to be completed in 2023 and continues to track as expected. The company remains confident in the attractiveness of the asset and has previously stated that there is no decline in interest attributable to higher rates, particularly given the quality of the potential counterparties with ready capital to deploy, bank leverage tools, and long-term investment preference. NiSource has initiated the sale process, and we anticipate an announcement and close by year end. We estimate $1.5-$2B in cash proceeds.

- **NIPSCO Electric rate case**: On March 10th, NIPSCO and other parties reached a settlement agreement in its electric rate case in Indiana. The settlement proposed a $292M rate increase compared with $395M company requested, including base rate increase and tracker. The parties agreed on an ROE of 9.8% versus current 9.75%, and an equity layer of 51.63% versus current 47.86%. Recall that company requested a 10.4% ROE and a 58.5% equity ratio on a rate base of $5.95B. We view the settlement as constructive if approved. A final Commission order is expected in mid-August with rates going into effect in September.

- **Virginia gas rate case**: On Dec 9th, Columbia Gas of Virginia reached a settlement with $25.8 million rate increase, inclusive of SAVE (Steps to Advance Virginia's Energy Plan) infrastructure tracker ($14.5MM), representing a settlement as to a specific revenue number but not as to a specific ROE. Recall that NiSource requested $40.6MM revenue increase net of the SAVE infrastructure tracker ($17.7MM) with a 10.75% ROE and 39.3% equity ratio on a rate base of $1.0B with a 12/21 test year. A final order is expected in 2Q23.

- **OH gas rate case**: On Oct 31st, 2022, Columbia Gas of Ohio filed a settlement representing a $68.2M revenue increase with 9.6% ROE and 50.6% equity layer. The company originally requested $221MM with ROE of 10.9%. The equity ratio request of ~51% was not disputed. The commission approved the settlement in January 2023 for new rates effective in March.

- **Indiana ROFR legislation**: HB 1420 was signed by the Governor on May 1st, which gives Indiana utility companies the right of first refusal (ROFR) to build, own, and operate new transmission lines approved by a regional transmission organization in their service area, and prevents new projects from being bid on by other competitive transmission companies. The legislation would solidify NI's position to own and invest in Transmission assets, which could be upside to their current capex plan.

- **Leadership changes:** The company announced several leadership changes on March 15th, link. Notably Shawn Anderson formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer effective Mar 27th. Donald Brown, NiSource's former chief financial officer, assumed the role of executive vice president and chief innovation officer on Mar 27th, replacing Melody Birmingham, who was named as executive vice president, and group president, NiSource utilities.

- **Target Price**: Maintaining our Outperform rating and our target price of $31/share. We keep our 2023/2024/2025 EPS estimates of $1.57/$1.69/$1.80 unchanged. See our base case SOTP valuation of $31 on Exhibit 1. We apply a conservative 5% premium to our peer target 17x multiple for the electric business, which we estimate will grow rate base by 8-10% through 2027 versus peers at 6-7%. Our base case for the LDCs applies an in-line gas multiple, now of 16.6x 2025 EPS as we mark to market comparable trading multiples. Our bear case in Exhibit 1 below derives $27/share valuation assuming NI can grow EPS at 6% using low end of 2023 guidance range of $1.54, while our bull case is $33/share assuming the company can grow at 8% using high end of 2023 guide of $1.60.

Exhibit 1: NiSource SOTP Valuation

Base

Base Case	'25 EPS	P/E	Val/Shr
Gas EPS	$1.35	16.6x	$22.53
Electric EPS	$0.75	17.9x	$13.47
Parent/Other	($0.31)	17.2x	($5.27)
Consolidated 2024 EPS	$1.80	17.2x	$31.00
ETR (including dividend)			15%

Bull 1.86

Bull Case	'24 EPS	P/E	Val/Shr
Gas EPS	$1.39	17.5x	$24.33
Electric EPS	$0.77	17.9x	$13.81
Parent/Other	($0.31)	17.7x	($5.44)
Consolidated 2024 EPS	$1.86	17.7x	$33.00
ETR (including dividend)			22%

Bear 1.73

Bear Case	'24 EPS	P/E	Val/Shr
Gas EPS	$1.31	15.0x	$19.55
Electric EPS	$0.73	16.1x	$11.74
Parent/Other	($0.31)	15.6x	($4.79)
Consolidated 2024 EPS	$1.73	15.6x	$27.00
ETR (including dividend)			0%

Source: Evercore ISI, Note: ETR based on closing price as of 5/2/23

VALUATION METHODOLOGY

We use a SOTP analysis to arrive at our price target

RISKS

Risks to our thesis include an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs

COMPANIES UNDER COVERAGE BY AUTHOR

Symbol	Company	Rating	Price (2023-03-05)	Evercore ISI Target
AEE	Ameren Corp.	Outperform	$89.11	$94.00
AEP	American Electric Power	In Line	$91.28	$102.00
AES	The AES Corporation	Outperform	$22.60	$30.00
AWK	American Water Works Company, Inc.	Outperform	$146.74	$160.00
AWR	American States Water Company	Underperform	$88.42	$70.00
CEG	Constellation Energy Corp	Outperform	$76.79	$93.00
CMS	CMS Energy Corp.	In Line	$61.49	$68.00
CNP	CenterPoint Energy, Inc.	Outperform	$30.05	$32.00
CWT	California Water Service Group	In Line	$55.81	$50.00
D	Dominion Energy, Inc	In Line	$55.53	$65.00
DTE	DTE Energy Co.	Outperform	$111.60	$126.00
DUK	Duke Energy Corp.	In Line	$97.60	$102.00
ED	Consolidated Edison Inc.	In Line	$98.57	$93.00
EIX	Edison International	In Line	$73.28	$70.00
ES	Eversource Energy	Outperform	$76.44	$92.00
EVRG	Evergy	In Line	$61.44	$62.00
EXC	Exelon Corp.	Outperform	$42.57	$46.00
NEE	NextEra Energy Inc	In Line	$75.94	$90.00
NI	NiSource Inc	Outperform	$27.91	$31.00
NRG	NRG Energy Inc.	In Line	$33.33	$40.00
OGE	OGE Energy Corp	In Line	$36.82	$39.00
PCG	PG&E Corp.	Rating Suspended	$17.26	
PEG	Public Service Enterprise Group	Outperform	$62.81	$68.00
PPL	PPL Corp.	Outperform	$28.50	$32.00
SJW	SJW Group	In Line	$75.71	$67.00
SO	Southern Co.	In Line	$73.15	$69.00
SRE	Sempra Energy	Outperform	$153.20	$175.00
VST	Vistra Energy Corp	Outperform	$23.11	$31.00
WEC	WEC Energy Group, Inc.	In Line	$95.25	$98.00
WTRG	Essential Utilities Inc.	Outperform	$42.28	$55.00
XEL	Xcel Energy Inc.	Outperform	$69.10	$75.00

TIMESTAMP

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Time of dissemination: May 03 2023 3:49 PM ET

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In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's coverage sector.
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Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

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Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	465	57	Buy	53	11
Hold	296	36	Hold	26	9
Sell	16	2	Sell	0	0
Coverage Suspended	35	4	Coverage Suspended	4	11
Rating Suspended	9	1	Rating Suspended	2	22

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Price Charts

Ratings Key

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

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From: Durgesh Chopra
To: Weisenburger \ Michael \ V
Subject: NI – Promises Made, Promises Kept
Date: Tuesday, June 20, 2023 6:10:52 PM

20 June 2023

Energy | Power & Utilities

NiSource Inc

NI | $27.27 | Target Price/Base Case: $30.00 | Outperform

Promises Made, Promises Kept

This morning, NiSource Inc. (NYSE: NI) announced an agreement to sell the 19.9% non-controlling equity interest in NIPSCO for $2.15 billion to an affiliate of Blackstone Infrastructure Partners, Blackstone's (NYSE: BX) dedicated Infrastructure group, with additional equity commitment of $250 million to fund ongoing capital requirements. NiSource intends to use the proceeds to support growth at the utility, strengthen the balance sheet, and fund capital needs consistent with the plan laid out at its Investor Day in November 2022. The transaction is expected to close by year-end 2023, subject to customary closing conditions, including receiving FERC approvals and clearances. In conjunction with the announcement, NiSource reaffirmed its 2023 non-GAAP EPS guidance of $1.54 to $1.60, 6-8% growth through 2027 and its FFO/debt target of 14-16%. The company still projects annual rate base growth of 8-10% is driven by $15 billion of planned capital expenditures during the 2023-2027 period.

Our take – Positive. The $2.15B in proceeds is above the top end of our estimated $1.5B-$2B range. The 32.5x LTM P/E multiple is higher than the 28x LTM P/E multiple of DUK's minority interest sale announced in January 2021, see our note here. As part of the transaction, Blackstone is committed to funding its pro rata share of ongoing capital requirements, which is supported by a $250 million equity commitment letter and contractual obligations. Including the value of the total $2.4 billion equity raise from Blackstone, the company still does not expect new equity in the plan other than the maintenance equity under the ATM starting no earlier than 2025. With this transaction, NI continues to execute strongly on the plan laid out in November. The company raised its 2023 EPS expectations in February (note), announced a constructive NIPSCO electric rate case settlement in March with a final order expected by August for rates effective in September. We are maintaining our EPS projections and lowering TP to $30 from $31. Our lowered TP is predicated on electric utility target P/E of 15x (vs 17x previously) close to where the group is trading today. Rating still Outperform.

Click Here for the Report

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Energy | Power & Utilities

June 21, 2023

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Notes From Our Ohio Road Trip

On June 19-20th, we hosted investor meetings with executives of AEP, AES and NI in Columbus, Ohio. We also met with Ohio State Representative Bill Seitz. See below for takeaways from our meetings.

American Electric Power (AEP), In Line rating, $90 price target

- **Contracted Renewable asset sale**: AEP has now received FERC approval as well as approval from antitrust authorities. The only remaining approval required is from the Committee on Foreign Investment in the United States. The transaction is now expected to close in July or August 2023 (versus Q2 previously). Recall in February 2023, AEP announced the sale of its contracted renewable assets to IRG Acquisition Holdings for enterprise value of $1.5B ($1.3B equity value is in line with our $1.2-1.4B estimate).

- **New Mexico Renewable Development (NMRD) asset sale:** AEP said an announcement could be imminent, with expected closure by year-end 2023. This asset represents a 50/50 joint venture partnership with PNM Resources consisting of eight operating solar projects of 135 MW, one project under construction of 50 MW, six development projects of 440 MW, all located in New Mexico. The book value of AEP's investment as of 3/31/2023 was $102MM. The assets contribute $0.01 EPS in 2023 operating earnings guidance.

- **Divestiture of retail and distributed resources businesses (not including NMRD).** AEP said it plans to launch the process in July/August 2023 with an expected closure date in the first half of 2024. The book value of AEP's investment as of 3/31/2023 was $200MM for the retail and $350MM for distributed resources assets. The expected EPS contributions to 2023 operating guidance are $0.04 retail and $0.02 distributed resources.

- **Strategic review of certain non-core transmission joint venture businesses:** AEP said it intends to complete the strategic review by year-end 2023. As of 3/31/2023, AEP's portion of PP&E was $551M and rate base was $456M.The assets contribute $0.05 EPS in 2023 operating earnings guidance. We estimate ~$1B in total proceeds from the announced strategic reviews/asset sales- NMRD, retail, DER and Transmission. Assuming that the proceeds are used towards lowering future equity needs, we see the transactions as earnings neutral to modestly accretive to our 25E of $6.00.

Continued on next page…

AEP highlights continued…

- **SWEPCO renewables**: In May 2023, the Public Utility Commission of Texas (PUCT) voted 5- 0 to reject SWEPCO's filing for three new regulated wind/solar projects. AEP's Southwestern Electric Power Company (SWEPCO) filed for approval of 999 MW of wind and solar projects with the Texas, Louisiana, and Arkansas commissions. These projects total $2.2 billion of investment that is included in AEP's current five-year 2023-2027 capital plan of $40 billion. This rejection by the PUCT follows the Louisiana commission's decision in April 2023 to not approve a settlement reached there, with the commission requesting that AEP propose more options for PPAs in a special meeting is being held on June 29th . Note that the settlement in Louisiana approved a flex option to include a portion or all three of the 999 MW of wind / solar projects. In Arkansas, a settlement was approved in June 2023. We estimate these SWEPCO projects would contribute roughly $0.20/share annually starting in 2026 or ~3% of 2025 EPS estimate of $6.00/share. Following the Texas decision, AEP stated to us that all its financial commitments remain intact, and the company still expects to deliver its long-term 6-7% EPS growth target. AEP said that if it ultimately does not move forward with part or all of the $2.2 billion of SWEPCO projects that it could backfill that capital with transmission and/or other renewable generation investment.

- **Kentucky strategy**: In the near-term, AEP will be focused on: 1) filing a base rate case in Kentucky in June 2023 (14% rate increase request) with a six-month expected commission approval process, and new rates taking effect in January 2024; 2) right-sizing its Kentucky rate base to better meet the region's needs and address costs while providing reliable service to customers in the near-term; this includes securitizing retired coal assets through the Kentucky commission's approval to reduce rates for customers.

- **PSO rate case settlement:** On May 5th, AEP reached a settlement in its PSO rate case for a $50MM revenue increase with a 9.5% ROE and 54.6% equity ratio. A final order is expected in 3Q23 to be effective June 1, 2023. Recall on November 22nd, AEP filed a rate case in Oklahoma, requesting a net revenue increase of $103MM with an ROE of 10.4% and equity ratio of 54.6% on a rate base of $4.4B.

- **ApCo Virginia rate case**: On March 31st, ApCo Virginia filed a rate case, requesting a net revenue increase of $160MM with a 10.6% ROE and 48.3% equity ratio on a rate base of $2.9 billion with a 12/31/22 test year. Next step is direct testimony on July 14th, followed by rebuttal testimony on August 11th, then a hearing on August 24th, with an expected commission decision in 4Q23 for rates effective January 2024.

- **Target Price change**: We are maintaining our EPS projections and lowering TP to $90 from $102. Our lowered TP is predicated on electric utility target P/E of 15x (vs 17x previously) close to where the group is trading today

AES Corporation (AES), Outperform rating, $29 price target

- **Feedback from May 8th Investor Day**: AES said it received positive feedback about its new business segment disclosures and on the more granular detail it provided about the utilities. Investors were disappointed about how EPS dilutive the coal retirement process would be over the planning period. Investors also felt negatively about the five-year financing plan, which includes $1,600-1,900 million of equity issuance.

- **Utilities Investment Proposition**: The company highlighted the substantial need for investment in IN and OH due to a significantly older asset base compared to peers (45 to 60% assets depreciated vs peers in the 23-34% range). With bills still materially below peer average, AES is investing ~$5B in capex through 2027 which is projected to grow rate base at 10% CAGR from 2022-2027

- **Ohio ESP 4 filing:** AES said it anticipates a final decision in late summer 2023. Recall in September 2022, AES Ohio filed a new ESP 4 to provide a regulatory foundation to upgrade and modernize its network and settle any outstanding regulatory proceedings. The company is asking for a distribution rider (covers 75-80% of distribution spend) with quarterly updates. Note that the final order in the December 2022 Ohio rate case outcome will take effect once the pending ESP is approved. In that case, AES was granted a $76 million revenue increase with a 10.0% ROE, 53.87% equity ratio on a rate base of $783 million. The ESP will be in effect for three years upon receiving commission approval expected in the August/September time frame. Post the ESP4 implementation the company projects that 90% of the capex (vs 60% currently) will be eligible for recovery under riders/formula rates minimizing regulatory lag.

- **Indiana IRP**: AES spoke about its pending Indiana IRP that it filed in December 2022. Its near-term plan includes the conversion of the utility's last two coal units to gas in 2025 using an existing on-site gas pipeline. It also includes the addition of up to 1.3 GWs of new wind, solar and storage by 2027 and should reduce AES Indiana's carbon intensity by 2/3rds from 2018 to 2030. CCNs to be filed for new projects have a statutory requirement for an order within 120 days.

- **Bellefield project:** On June 7th, AES announced the acquisition of the 2 GW Bellefield project, which is currently in late-stage development, and is the largest permitted solar-plus-storage project in the United States. The project, located in Kern County, California, includes two phases, each with 500 MW of solar and up to 500 MW of four-hour duration battery energy storage. Phase one of the project has a 15-year Power Purchase Agreement (PPA) to deliver hourly, carbon-free energy to an existing AES corporate customer. AES expects to contract up to an additional 1 GW of solar-plus-storage in phase two by the end of 2023. The two phases of the project are being developed by the seller, Avantus, and are expected to come online in 2025 and 2026, respectively. Including the Phase one PPA, company's signed backlog now stands at 12.3GW versus 11.3GW as of their investor day in early May. Our take on the transaction is positive - we estimate ~$2B purchase price for project which will be part owned by Alberta Investment Management Corporation (AIMCo), an investor in AES' clean energy business in the US with 25% ownership of the business' growth projects. AES' ~1.5B investment will be predominantly funded by debt and tax equity which is incorporated in company's financial plan laid out on the May 8th investor day (key highlights here). We project ~$500M in ITC's attributed to AES's ownership share and ~$100M in annual EBITDA contribution starting in 2026 (~3% of total 2026 implied EBITDA guidance of $3.1B). This transaction demonstrates AES' leadership position as a top provider of renewable energy solutions for corporates which we think will be a key differentiating factor as AES executes on and grows earnings/cash flow from the multi decade long decarbonization trend.

NiSource (NI), Outperform rating, $30 price target

- **NIPSCO asset sale:** Yesterday, NiSource announced an agreement to sell the 19.9% non-controlling equity interest in NIPSCO for $2.15 billion to an affiliate of Blackstone Infrastructure Partners, Blackstone's (NYSE: BX) dedicated Infrastructure group, with additional equity commitment of $250 million to fund ongoing capital requirements. NiSource intends to use the proceeds to support growth at the utility, pay down debt, and fund capital needs, consistent with the plan laid out at its Investor Day in November 2022. The transaction is expected to close by year-end 2023, subject to customary closing conditions, including receiving FERC approvals and clearances. In conjunction with the announcement, NiSource reaffirmed its 2023 non-GAAP EPS guidance of $1.54 to $1.60, 6-8% growth through 2027 and its FFO/debt target of 14-16%. The company still projects annual rate base growth of 8-10% is driven by $15 billion of planned capital expenditures during the 2023-2027 period.. Our take on the transaction is positive as the $2.15B in proceeds is above the top end of our estimated $1.5B-$2B range. The 32.5x LTM P/E multiple is higher than the 28x LTM P/E multiple of DUK's minority interest sale announced in January 2021, see our note here. As part of the transaction, Blackstone is committed to funding its pro rata share of ongoing capital requirements, which is supported by a $250 million equity commitment letter and contractual obligations. Including the value of the total $2.4 billion equity raise from Blackstone, the company still does not expect new equity in the plan other than the maintenance equity under the ATM starting no earlier than 2025. With this transaction, NI continues to execute strongly on the plan laid out in November. The company raised its 2023 EPS expectations in February (note), announced a constructive NIPSCO electric rate case settlement in March with a final order expected by August for rates effective in September.
- **NIPSCO Electric rate case**: NiSource said a final decision is expected in August 2023 with new rates to be effective in September 2023. Recall on March 10th, NIPSCO and other parties reached a settlement agreement in its electric rate case in Indiana. The settlement proposed a $292MM rate increase compared with $395MM company requested, including a base rate increase and a tracker. The parties agreed on an ROE of 9.80% versus the current 9.75%, and an equity layer of 51.63% versus the current 47.86%. Recall that company requested a 10.4% ROE and a 58.5% equity ratio on a rate base of $5.95B. We view the settlement as constructive, if approved. A final Commission order is expected in mid-August 2023 with rates going into effect in September 2023.
- **Key focuses this year**: NI said its next major milestone is a final decision on the NIPSCO rate case settlement. Second, the company said it remains focused on delivering its 2023 EPS guidance of $1.54-1.60/share. Third, NiSource is focused on closing the announced NIPSCO transaction by year-end 2023.

Meeting with Ohio State Representative Bill Seitz (30th District of the Ohio House of Representatives)

- Our discussion with Bill Seitz focused primarily on four pending bills in the House, including HB79, HB33, HB197 and HB120. Bill also spoke about a rate case reform bill that is expected to be introduced soon.
- **HB79** would reinstate a modified energy efficiency program. The bill applies only to residential customers who can opt out, and commercial customers who would like to opt in. The prior legislation was involuntary. Another key difference in the new bill is that it has more modest attainment goals, including energy efficiency sales reductions of 0.5% per year, as opposed to prior program's 2.0% per year. In addition, the new legislation proposes a 3 to 5 year program, depending on PSC approval.
- **HB33** encourages the extension of electric transmission lines (through $1B state sponsored funding) to select sites with the goal of accelerating future growth.
- **HB197** is a community solar bill that would support developers of small non-utility scale installations in locations such as condo complexes and distressed economic areas. The bill calls for installing community solar equally (based on utility

customer count) across each of the utilities' territories. A key component of the bill is deciding how the solar developers should get compensated.

- **HB120** would repeal OVEC subsidies (subsidies for coal plants owned by the energy company consortium known as the Ohio Valley Electric Corporation). The proponents of the bill argue that the subsidies extend the life of coal plants and the current bill credits are temporary because of near term power market conditions.
- **Rate case reform bill to be introduced**: the legislation is expected to propose a requirement for rate case filings every 5-7 years with forward-looking test years. It would also propose additional trackers for cost recovery and would be intended to speed up the rate case decision process.

Company Changes														
									Estimates					
			Rating			Target Price			Current Year			Next Year		
Symbol	Company	Price		Curr	Prev		Curr	Prev		Curr	Prev		Curr	Prev
AEP	American Electric Power	$84.54	-	IL	IL	▼	$90.00	$102.00	-	$5.30	$5.30	-	$5.65	$5.65
AES	The AES Corporation	$21.01	-	OPF	OPF	-	$29.00	$30.00	-	$1.70	$1.70	-	$1.90	$1.90
NI	NiSource Inc	$27.22	-	OPF	OPF	-	$30.00	$31.00	-	$1.57	$1.57	-	$1.69	$1.69

Source: Company Data, Evercore ISI Research

Valuation and risks:

AEP:

Valuation: Our new TP is predicated on electric utility target P/E of 15x (vs 17x previously) close to where the group is trading today.

Risks: The perceivable risks to our thesis include unfavorable regulatory outcomes, cost management and sales growth.

AES:

Valuation: We value AES using a sum-of-the-parts analysis.

Risks: Our EPS forecast and target price could be too high / too low if: commodity prices, FX rates, and hydrology in Brazil worsen / recover, and or the proportional FCF falls short of articulated targets, limiting share repurchase potential and debt reduction / FCF meets targets and capital allocation proves more accretive than we assume. Also, their backlog of infrastructure projects could fail to realize / meet ROE targets, causing net income to fall short of / match our estimates.

NI:

Valuation: We value NI using a sum-of-the-parts analysis.

Risks: Risks to our thesis include an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs

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Time of dissemination: June 21 2023 1:09 PM ET

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Current Ratings Definition

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In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's coverage sector.
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*Prior to October 10, 2015, the "Coverage Suspended" and "Rating Suspended" categories were included in the category "Suspended."

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

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

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

Evercore Group:

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

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Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
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Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company, and in certain other circumstances; a stock in the model portfolio is removed.
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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

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Evercore ISI rating (as of 06/21/2023)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	468	57	Buy	59	13
Hold	291	36	Hold	26	9
Sell	14	2	Sell	0	0
Coverage Suspended	37	5	Coverage Suspended	4	11
Rating Suspended	4	0	Rating Suspended	0	0

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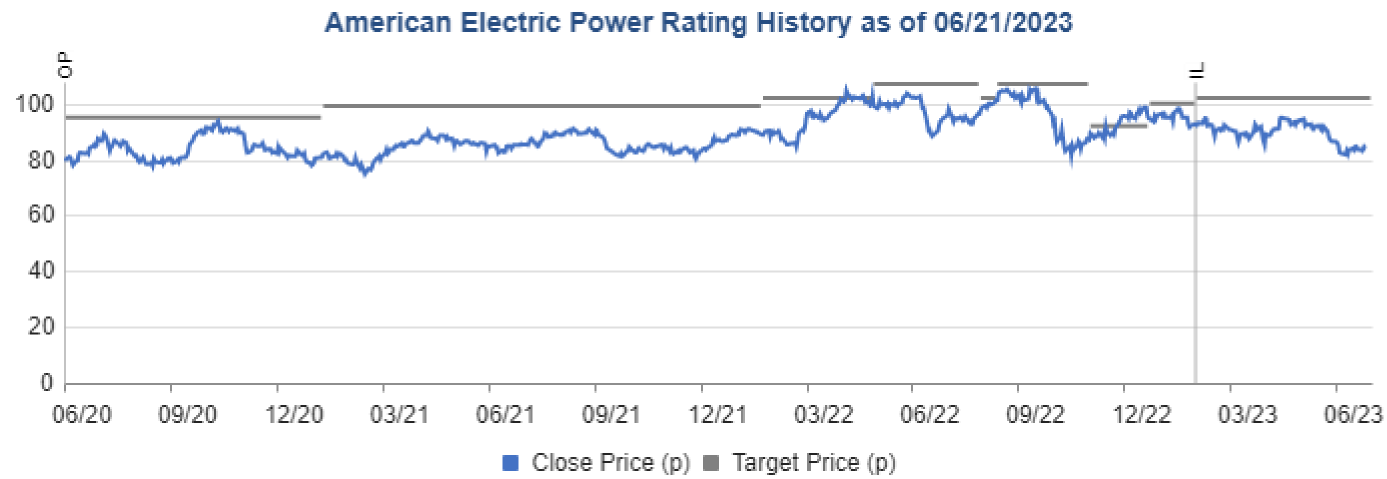
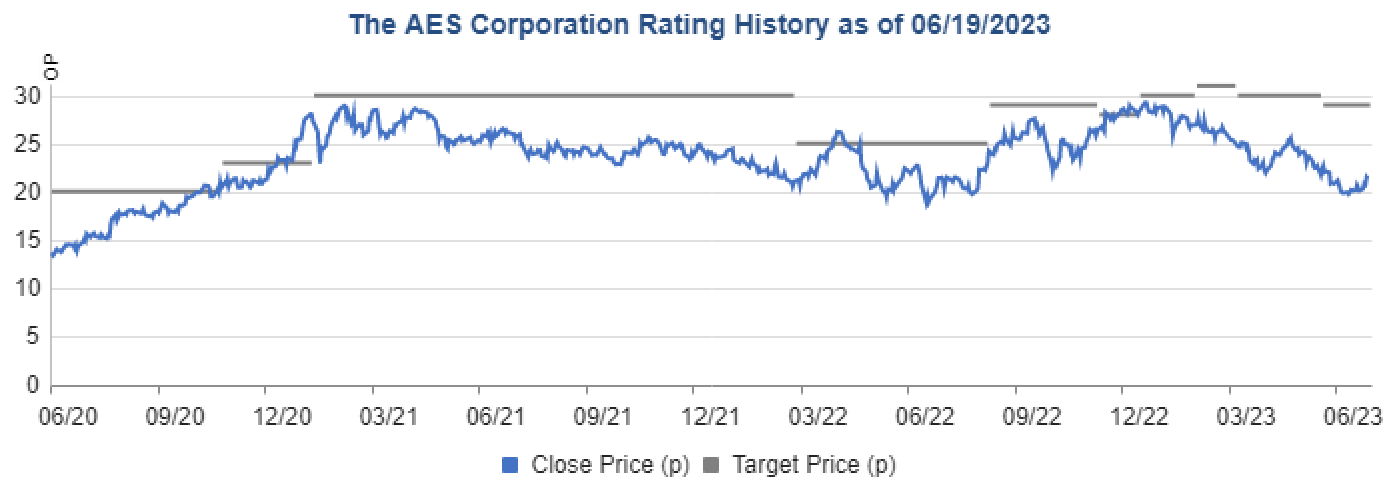
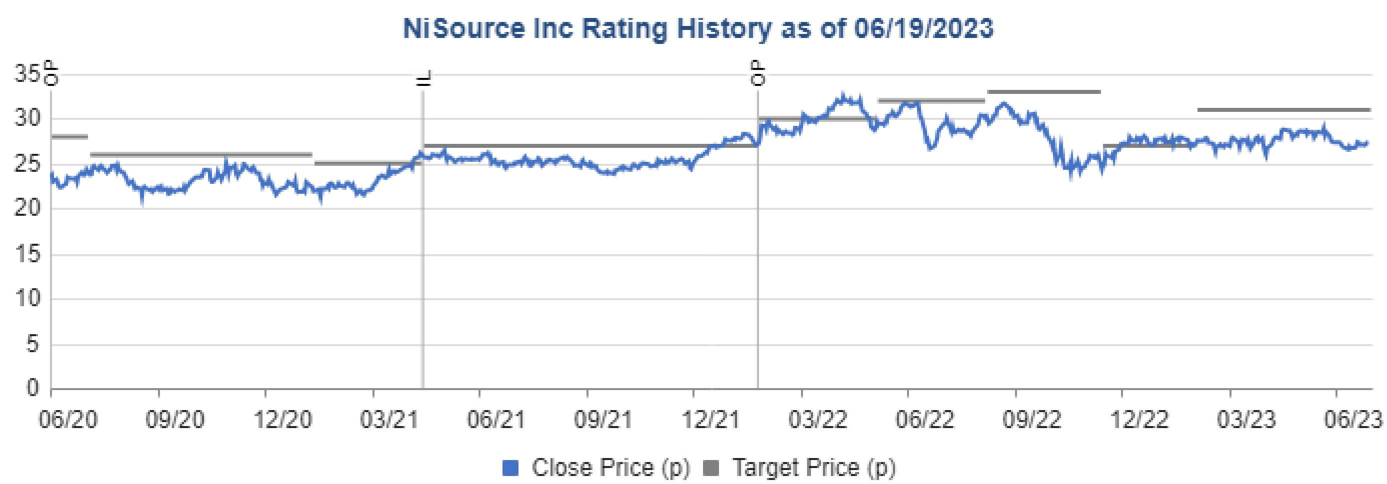
Price Charts







Ratings Key

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

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EVERCORE ISI

Flash Note | **Energy | Power & Utilities**

May 03, 2023

NiSource Inc
NI | $27.91
Outperform | Target Price/Base Case: $31.00
Company Update

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First Crack at 1Q23

We believe NiSource's 1Q23 earnings release has neutral implications for the stock. Q1 EPS slightly beat consensus. The company reaffirmed its 2023 non-GAAP NOEPS earnings guidance and annual non-GAAP NOEPS growth of 6-8% through 2027. NIPSCO minority sale is on track for 2023.

Key Takes:

- NI reported Q1 adjusted diluted Net operating EPS (NOEPS) of $0.77 vs. our estimate of $0.77 and street consensus of $0.75. 1Q23 NOEPS is 3% higher than 1Q22 NOEPS of $0.75.
- Reaffirmed 2023 non-GAAP NOEPS guidance range of $1.54-$1.60.
  - Midpoint of $1.57 represents 6.8% growth off 2022 NOEPS. Consensus is at $1.55.
- Reaffirmed annual non-GAAP NOEPS growth of 6-8% through 2027.
  - Off the 2023 earnings guidance range of $1.54-$1.60.
- Reaffirmed $15B 2023-2027 capex plan with ~75% of investments beginning earning in less than 18 months
  - Driving 8%-10% annual utility rate base growth
- Northern Indiana Public Service Company (NIPSCO) minority sale process on track for 2023
- Long-term 14-16% FFO/Debt target reaffirmed
- NIPSCO reached a settlement in the electric rate case on March 10th
- Shawn Anderson, formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer, effective Mar 27th

NI will host a conference call at 11am ET. Dial-in: 1 (888) 330-2391. Passcode: 28323. We will follow the call with a detailed note.

Additional Details:

- **Minority Interest Sale:** Minority interest sale of NIPSCO is still expected to be completed in 2023 and continues to track as expected. The company remains confident in the attractiveness of the asset and has previously stated that there is no decline in interest attributable to interest rates, particularly given the quality of the potential counterparties with ready capital to deploy, bank leverage tools, and long-term investment preference. NiSource has initiated the sale process, and we expect an announcement by mid-year and close by year-end. We estimate $1.5-$2B in cash proceeds.
- **NIPSCO Electric rate case**: On March 10th, NIPSCO and other parties reached a settlement agreement in its electric rate case in Indiana. The settlement proposed a $292M rate increase compared with $395M company requested, including base rate increase and tracker. The parties agreed on an ROE of 9.8% versus current 9.75%, and an equity layer of 51.63% versus current 47.86%. Recall that company requested a 10.4% ROE and a 58.5% equity ratio on a rate base of $5.95B. We view the settlement as constructive if approved. A final Commission order is expected in mid-August with rates going into effect in September.
- **Virginia gas rate case**: On Dec 9th, Columbia Gas of Virginia reached a settlement with $25.8 million rate increase, inclusive of SAVE (Steps to Advance Virginia's Energy Plan) infrastructure tracker ($14.5MM), representing a settlement as to a specific revenue number but not as to a specific ROE. Recall that NiSource requested $40.6MM revenue increase net of the SAVE infrastructure tracker ($17.7MM) with a 10.75% ROE and 39.3% equity ratio on a rate base of $1.0B with a 12/21 test year. A final order is expected in 2Q23.

- **OH gas rate case**: On Oct 31st, 2022, Columbia Gas of Ohio filed a settlement representing a $68.2M revenue increase with 9.6% ROE and 50.6% equity layer. The company originally requested $221MM with ROE of 10.9%. The equity ratio request of ~51% was not disputed. The commission approved the settlement in January 2023 for new rates effective in March.
- **Leadership changes:** The company announced several leadership changes on March 15th, link. Notably Shawn Anderson formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer effective Mar 27th. Donald Brown, NiSource's former chief financial officer, assumed the role of executive vice president and chief innovation officer on Mar 27th, replacing Melody Birmingham, who was named as executive vice president, and group president, NiSource utilities.

VALUATION METHODOLOGY

We use a SOTP analysis to arrive at our price target

RISKS

Risks to our thesis include an inability to deploy capital at the company's expected rate resulting in a lower rate base and regulatory pressure resulting in lower allowed ROEs

TIMESTAMP

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

Time of dissemination: May 03 2023 7:36 AM ET

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The analysts, Durgesh Chopra, Sharon Wang, primarily responsible for the preparation of this research report attest to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Current Ratings Definition

Evercore ISI's recommendations are based on a stock's total forecasted return over the next 12 months. Total forecasted return is equal to the expected percentage price return plus gross dividend yield. We divide our stocks under coverage into three primary ratings categories, with the following return guidelines:

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

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

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

Historical Ratings Definitions

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

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

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

ISI Group and ISI UK:

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

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

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

Evercore Group:

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

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

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

Ratings Definitions for Portfolio-Based Coverage

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

Long- the stock is a positive holding in the model portfolio; the total forecasted return is expected to be greater than 0%.
Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
No Position- the stock is not included in the model portfolio.
Coverage Suspended- the rating and target price have been removed pursuant to Evercore ISI policy when Evercore is acting in an advisory capacity in a merger or strategic transaction involving this company, and in certain other circumstances; a stock in the model portfolio is removed.
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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

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

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Evercore ISI rating (as of 03 May 2023)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	465	57	Buy	53	11
Hold	296	36	Hold	26	9
Sell	16	2	Sell	0	0
Coverage Suspended	35	4	Coverage Suspended	4	11
Rating Suspended	9	1	Rating Suspended	2	22

Issuer-Specific Disclosures **03 May 2023**

Price Charts

Ratings Key

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

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EVERCORE ISI

Energy | Power & Utilities

April 20, 2023

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Off to a Bumpy Start – Q1 2023 Preview

Following a strong 2022 (UTY/S&P500 -2.4%/-19.4%), utilities have materially underperformed in the first quarter of 2023 (UTY/S&P500 -4.5%/+7.0%) and YTD (UTY/S&P500 -2.9%/+8.2% pg.31). Utilities are now trading at ~18.3x, still above the 15-year average multiple of 17x (NTM) (pg.32). Versus Bond Yields, group valuation remains elevated at 20% expensive (pg.34). NTM P/E relative to S&P500 is 1.00x, lower than the historical average of 1.07x (pg.35). Our sector thesis played out last year (see our Recession read through for Utilities deep dive note published in late March 2022 here) as utilities materially outperformed**.** Against an ongoing challenging macro backdrop (high inflation/rates, elevated customer bills driven by higher fuel costs, regulatory risk rising throughout the year), the group is expensive absolutely and versus bond yields. While Utes outperform in the run-up to a recession, the sector lags during and post the recession. With a recession approaching, we remain cautious and expect reversal of the material outperformance last year.

Q1 2023 Preview (Bumpy Start) – We expect mild weather to be a dominant theme heading into earnings next week. As we point out in our note on April 9th US weather in 1Q 2023 was abnormally warm for utilities vs. the same period last year, and as compared to normal. Based on National Oceanic and Atmospheric Administration (NOAA) heating degree day data, the weather in 1Q 2023 drove -8% lower degree days vs. last year and -10% below normal, on average across the US (pg.36). As we show on pg.38, we expect over 70% of utilities to miss consensus expectations with mild weather being the major driver. For the majority, we expect weather to be a headwind ranging from -0.5% to -7.4% (Average -2.4%) compared to our 23E for each company (pg.37). With that said, we expect many companies to implement cost mitigations, and to reaffirm 2023 EPS targets, for now, until after the third quarter which makes up a substantial portion of annual electric sales. Separately, we hosted Moody's Utilities team in March (link), and they do not currently see material risks for utilities amidst the latest developments in the banking sector. The credit agency stated that the utilities sector is primarily dependent on larger banks (not regional ones) for their credit facilities and that companies currently have strong access to capital markets. Moody's did add that it is thinking more cautiously about utilities with revolver facilities coming due soon. We are positive on NI and PEG going into 1Q prints and cautious on AES and ETR.

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

Within, we include company-specific tear sheets with our / consensus first quarter 2023 EPS estimates along with discussion on key investor debates going into earnings. On page 40, we show trends of short interest by company over two-week, four-week and six-month timeframes.

AES we are the energy

Outperform **TP $30**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$0.01 to $0.20. Weather was likely not a major factor during the quarter. Last year in 1Q22, there were +$0.02 of positive nonrecurring items that need to be adjusted out for comparison purposes. In terms of negative YoY drivers, we primarily anticipate lost earnings from asset sales and higher interest expense. In terms of positive YoY drivers, we expect AES to benefit from a Fluence earnings growth, as well as from a small amount from new renewable generation that is typically not a large driver in the first quarter.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: We expect AES to reaffirm its 2023 EPS guidance of $1.65-$1.75, the company also plans to introduce new business reporting segments. We expect the most incremental detail for AES to be provided at its May 8th Investor Day a few days after the earnings call, which could include some further discussion of the 2023 earnings outlook, which does not include up to $0.10 potential EPS upside from 600 MW of new 2023 projects in the US that are currently expected to slip to 2024, but which AES is still working to complete this year and updated/extended EBITDA/earnings growth rate through 2027. AES currently targets long-term EPS growth rate of 7-9% through 2025 (based off of 2020).Below are more topics that could also be discussed on the Q1 call.
  - **Renewable PPAs and backlog:** The company's backlog, which includes projects with signed contracts, but which are not yet operational, is now 12,179 MW, including 5,453 MW under construction. AES is targeting signing a total of 14-17 GW of new long-term renewables PPAs through 2025. Management still expects 4.5-5.5GW of new PPAs each year, on average, but stated that it could be lumpy.
  - **Indiana IRP:** AES filed an Indiana IRP in December 2022. Its near-term plan includes the conversion of the utility's last two coal units to gas in 2025 using an existing on-site gas pipeline. It also includes the addition of up to 1.3 GWs of new wind, solar and storage by 2027 and should reduce AES Indiana's carbon intensity by 2/3rds from 2018 to 2030.
  - **Asset sales:** AES is still targeting $1B in proceeds from asset sales in total from 2022-2025. They received $150MM in 2022 and project $400-$600MM this year.
  - **Coal plant PPA termination:** on April 18th, AES announced an agreement to terminate the PPA for its 205 MW Warrior Run coal plant in Maryland. The off taker, Potomac Edison, a subsidiary of FirstEnergy, agreed to terminate the PPA for a total consideration of $357MM, subject to approval by the Maryland PSC. If approved, the early termination of the PPA is forecasted to save Potomac Edison's customers nearly $80MM over the next seven years and will help the State of Maryland achieve its decarbonization targets. Under the terms of the agreement, AES will continue to operate the Warrior Run plant through at least May 2024. AES will maintain full operational control of the site following decommissioning. AES' $357MM of proceeds is expected to be utilized for its targeted $1B of asset sales through 2025.
  - **Ohio ESP 4 filing:** In September 2022, AES Ohio filed a new ESP 4 to provide a regulatory foundation to upgrade and modernize its network and settle any outstanding regulatory proceedings. The company is asking for a rider with quarterly updates. AES recently reached a settlement and will provide an update on the financial impacts on the Q1 call. A hearing will be held in early May with a final decision expected mid-year 2022 or sometime this summer. Note that the final order in the December 2022 Ohio rate case outcome will take effect once the pending ESP is approved. In that case, AES was granted a $76MM revenue increase with a 10.0% ROE, 53.87% equity ratio on a rate base of $783MM.
  - **Green hydrogen production**: In December 2022, AES and Air Products announced a joint venture to invest ~$4B to build, own and operate a green hydrogen production facility in Texas. This mega-scale renewable to hydrogen project includes 1.4 GWs of wind and solar generation, along with electrolyzer capacity capable of producing >200 metric tons per day (MT/D) of green hydrogen, making it the largest green hydrogen facility in the US. The facility is targeted to begin commercial operations in 2027 and will serve growing demand in the mobility market as well as other industrial markets. AES projects a 10-13% levered after-tax return (or $40-52MM, $0.07 annual EPS at the mid-pt) on their equity portion of the investment ($400MM), with the remaining $1.6B to be funded by debt and/or tax equity. Lastly, Alberta Investment Management Company (AIMCo) is an investor in AES' clean energy business and will fund 25% of AES' capital investment. See our note here.
  - **Exposure to Silicon Valley Bank, Credit Suisse or other**: AES' exposure to SVB is not seen as a material risk because the SVB-sponsored revolving credit is relatively small and should be easy to replace.

- **Positioning into Qtr: Negative.** Our below consensus EPS estimate drives our negative view. Furthermore, AES is expected to introduce new segment and disclosures (EBITDA or cash flow metrics vs EPS previously) at the upcoming Investor Day, which creates some uncertainty in the near team and limits upside in our view.

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$1.52**	**$1.67**	**$0.20**	**$1.70**	**$1.90**	**$2.10**
Consensus			0.27	1.70	1.93	2.10
% diff.			*-26%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

Ameren

Outperform **TP $94**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease -$0.02 to $0.95. Last year in 1Q22, weather was $0.02 favorable and this year in 1Q23 we expect it to be -$0.08 unfavorable.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** Ameren typically reaffirms its guidance on its first quarter calls. We expect the company to maintain its 2023 EPS guidance of $4.25-4.45, reiterate its long-term EPS growth target of 6-8% for 2023-2027, reaffirm its $19.7 billion capital plan for 2023-2027, and maintain its rate base growth outlook of 8% for 2022-2027. Below are thematic topics we believe could be discussed.
  - **Missouri electric rate case settlement**: On Mar. 29, 2023, parties reached settlement for a $140MM revenue increase with an unspecified allowed ROE, capital structure and rate base. The annual revenue increase drivers include increased investments made under the Smart Energy Plan, including higher cost of capital and depreciation expense, and increased net fuel expense due to reduced off system sales primarily driven by reduced operations at Rush Island Energy Center. The settlement also includes a continuation of existing FAC, RESRAM and other regulatory mechanisms. A MoPSC decision is expected by June 2023 for new rates effective by July 1, 2023. Recall on March 24, 2023, Ameren Missouri filed true-up testimony requesting a $239MM annual revenue increase with a 10.2% ROE and equity ratio of 51.91%. Also on March 24, 2023, MoPSC Staff filed true-up testimony recommending a $107MM annual revenue increase with an ROE of 9.59% (midpoint of 9.34% to 9.84% range) and an equity ratio of 51.91%.
  - **Illinois multi-year rate case filing**: Staff/intervenor testimony is due on May 11th, and a regulatory decision is required by December 2023. Recall on January 20th, Ameren filed this multi-year electric rate case with the Illinois commission to set distribution rates for 2024 through 2027. For 2024, the company requested a revenue increase of $175MM with a 10.5% ROE and 53.99% equity ratio on a forecasted average annual rate base of $4.3 billion. For 2025, Ameren requested a revenue increase of $91MM with a 10.5% ROE and 53.97% equity ratio on a forecasted average annual rate base of $4.6 billion. For 2026, the company requested a revenue increase of $104MM with a 10.5% ROE and 54.02% equity ratio on a forecasted average annual rate base of $5.0 billion. For 2027, Ameren requested a revenue increase of $79MM with a 10.5% ROE and 54.03% equity ratio on `a forecasted average annual rate base of $5.3 billion. AEE has said it also proposed to defer 50% of the 2024 rate increase of $175MM as a regulatory asset to be collected from customers in 2026. Recall on Sept. 27, 2022, the Illinois commission issued performance incentives for Ameren (see our note).
  - **MISO transmission planning**: Ameren has been assigned $1.8B of the ~$10B of MISO approved Tranche 1 transmission projects. In addition to the assigned projects, MISO approved $700MM of competitive projects that cross through AEE's Missouri territory, which provide additional potential capex opportunities for Ameren. RFPs are due for the $172MM project (Orient-Denny-Fairport) in Missouri on May 2023, for the $560MM project (Denny-Zachary-Thomas Hill-Maywood) in Missouri on November 2023, and for the $22MM project (Skunk River – Ipava) in Illinois on October 2023. The competitive bidding process is expected to take 12-24 months. For projects assigned to AEE, the company expects the capex to begin in 2025 with completion dates expected near the end of this decade (current capex plan includes $0.8B of the $1.8B). Work on three additional MISO tranches has begun and MISO has indicated that an initial set of Tranche 2 projects, also located at MISO North, is scheduled to be approved in 4Q23. Projects included in Tranche 3 are expected to be located in MISO South, with approval scheduled for 4Q24, while projects identified in Tranche 4 are expected to improve transfer capability between MISO North and MISO South, with approval scheduled for 4Q25.
  - **Solar projects**: Huck Finn's CCN was approved in February 2023, and the project has a targeted in-service date in 4Q24. Ameren's Boomtown CCN was approved this month, and the project has targeted in-service date of 4Q24 as well. Both Huck Finn (200 MW) and Boomtown (150 MW) are already included in the company's capex plan.
  - **Rush Island**: The original March 31, 2024 compliance date remains in effect unless extended by the court. Ameren expects a decision in the nearer term.
  - **Illinois gas rate case**: Staff / intervenor testimony is due May 5th with a decision required by Dec. 2023 for new rates expected to be effective by early Dec. 2023. Recall in Jan. 2023, Ameren requested a $160MM annual base rate increase that includes ~$77MM that would otherwise be recovered in 2024 under QIP and other riders. The request is based on a 10.7% ROE and 54% equity ratio on a $2.9 billion rate base with a 2024 future test year. The rate base is as of year-end 2023 plus estimated average 2024 rate base additions.

- **Positioning into Qtr: Neutral**.

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$3.84**	**$4.15**	**$0.95**	**$4.35**	**$4.65**	**$5.00**
Consensus			0.97	4.36	4.68	5.01
% diff.			*-2%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

AMERICAN ELECTRIC POWER

In Line **TP $102**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$0.08 to $1.14/share driven the most by very unfavorable weather. In terms of negative YoY drivers, we also expect higher depreciation and amortization, increased interest expense, and higher property taxes. Positive YoY drivers primarily include rate relief, higher retail load, and the benefit of the TCOS and DCRF riders in Texas.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** AEP typically updates guidance on its third quarter call or for the EEI conference in November. As such, this quarter we expect AEP to reaffirm its 2023 EPS guidance of $5.19-5.39, its long-term 6-7% EPS growth forecast, and its five-year 2023-2027 capital plan of $40B, driving a 7.6% rate base CAGR. We anticipate the company will also reiterate its FFO to debt target of 14-15% and its equity financing plan. Below are thematic items we believe could be discussed on the Q1 call.
  - **Contracted Renewable asset sale:** in February 2023, AEP announced the sale of its contracted renewable assets to IRG Acquisition Holdings for enterprise value of $1.5B ($1.3B equity value is in line with our $1.2-1.4B estimate). The sale is expected to close in 2Q23 and will result in an after-tax GAAP loss of $100-150MM in 1Q23.
  - **Kentucky asset sale**: on February 13th, parties filed a new FERC 203 application requesting expedited approval as they work to close the transaction by April 26, 2023. FERC issued a notice incorporating a shortened 45-day comment deadline related to the application.
  - **Retail business strategic review**: AEP announced at its October 2022 Analyst Day that it had initiated a strategic review of its retail business to be complete in 2Q23; we estimate the company could generate $220-$260MM in net proceeds at 7-8x our estimate for 2023 EBITDA of $32MM.
  - **Credit metrics and equity issuance plan**: AEP's equity issuance plan for 2023-2027 remains $2.8B, including $100MM, $600MM, $700MM, $700MM and $700MM by year, respectively. The company will provide an update following the potential sale of Kentucky in late April. AEP's long-term FFO to debt target remains unchanged at 14-15%. Currently, the company stands at 13.2% on both a Moody's and GAAP basis, reflecting 100bps drag due to $1.7B deferred fuel balance at year-end 2022.
  - **Deferred fuel cost recovery in West Virginia**: AEP continues to work through recovery of ~$500MM in deferred fuel costs in West Virginia. The Commission recently instructed its Staff to finish its prudence review of the 2021-2022 costs. The state legislature passed securitization legislation on March 11th and it became law upon passage. There is a prudency review ongoing, and AEP will file later this year for bonds to be issued in the first half of next year.
  - **Rate case update:** On November 22nd, AEP filed a rate case in Oklahoma, requesting a net revenue increase of $103MM with an ROE of 10.4% and equity ratio of 54.6% on a rate base of $4.4B; a hearing is scheduled for May 9th with an expected Commission order in 2Q23. On March 31st, ApCo Virginia filed a rate case, requesting a net revenue increase of $160MM with a 10.6% ROE and 48.3% equity ratio on a rate base of $2.9 billion with a 12/31/22 test year.
  - **Regulated renewable filings:** For PSO, the company reached a settlement in Oklahoma in April 2023 for the 999.5 MW of wind/solar projects totaling $2.5B of investment; a final order is expected in 3Q23. For SWEPCO, the company also reached settlements in Arkansas and Louisiana in January and March 2023, respectively, in their regulated renewable filings and a decision in Texas is expected in 3Q23; these wind/solar projects total 999 MW and $2.2B of investment. Regardless of what is decided in Texas, Arkansas and Louisiana are expected to flex up their spending to the total $2.2B. For PSO and SWEPCO, these combined $4.7B of investments (SWEPCO $2.2B and Oklahoma $2.5B) are currently reflected in the five-year $40B capital plan. Recall ApCo's 209 MWs of owned solar and wind resources were approved by West Virginia and Virginia, marking a $500MM investment that is also included in the current capex plan.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$4.74**	**$5.09**	**$1.14**	**$5.30**	**$5.65**	**$6.00**
Consensus			1.21	5.27	5.62	5.97
% diff.			*-6%*	*1%*	*1%*	*1%*

Source: Evercore ISI, FactSet as of 4/18/23

CenterPoint Energy

Outperform **TP $32**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$0.01 to $0.46/share. We expect weather to contribute unfavorably in 1Q23 versus normal. In terms of negative YoY, there will be the loss of earnings from the Arkansas and Oklahoma gas LDC divestitures, higher depreciation & amortization expense, and increased interest expense. In terms of positive YoY drivers, we anticipate positive contributions from rate recovery, sales growth and O&M reductions.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations**: We expect CenterPoint to reaffirm its 2023 EPS guidance of $1.48-1.50 as well as its annual EPS target of 8% in 2024, and its mid-to-high end of 6-8% target for 2025-2030. We anticipate the company will also reaffirm its five-year capex plan of $20.3B for 2021-2025 and its ten-year capex program of $43B for 2021-2030. CenterPoint has indicated it has $3B of potential incremental opportunities from increased and accelerated C&I electrification, accelerated EV adoption, and additional grid modernization projects. We expect CNP to reiterate its organic growth and O&M savings targets (more details below) and its zero external equity issuance plan through 2030. Below are more thematic items we believe could be discuss on the Q1 call.

  - **Texas legislative session**: There are three bills being proposed in the legislative session that could have implications for CenterPoint, including: one that presents an opportunity to file two DCRF riders per year, which would be similar to the TCOS riders; another pertaining to management compensation to ensure utilities have the right management team in place to be incentivized to be the best operators as possible; and a third bill pertaining to cap structure with higher equity layer. The legislative session ends at the end of May.

  - **Rate case schedule**: Texas gas is still expected to file a rate case in mid-2023. In addition, Texas electric is still expected to file in late 2023/early 2024. Indiana electric is also still expected to file in late 2023. Northern Indiana gas and Southern Indiana gas are both still expected to file post-2025. In addition, Louisiana gas is still expected to file post-2025. Mississippi gas is still expected to file post-2025. Lastly, Ohio gas is still expected to file in mid-2024.

  - **Indiana IRP**: CenterPoint received approval for the 130 MW CrossTrack Solar project CPCN in January 2023. The company filed for a wind project in January 2023. The next Indiana IRP is on track to be filed in mid-2023.

  - **Organic growth and O&M reductions**: CenterPoint continues to expect 1-2% annual organic growth and 1-2% annual average O&M savings.

  - **Texas securitization proceeds**: the $1.1B of proceeds were received at the end of March 2023 after several months of delay.

  - **CFO appointment**: In March, CNP announced the appointment of Christopher Foster as Executive Vice President and Chief Financial Officer, effective May 5. Foster joins CenterPoint Energy from PG&E Corporation where he held roles of increasing responsibility over the past 11 years. Most recently, he served as Executive Vice President and Chief Financial Officer overseeing PG&E's financial activities.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$1.64**	**$1.38**	**$0.46**	**$1.49**	**$1.61**	**$1.73**
Consensus			0.48	1.49	1.62	1.73
% diff.			*-5%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

CMS ENERGY

In Line **TP $68**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$0.53 to $0.67/share. Weather and storms were significant headwinds during the quarter. Warmer than normal weather was similar to the weather in Q1 2020, which contributes to 18-25 cents of drag for gas and electric utilities. We also assume 20 cents of drag from storm costs, which according to the company was planned for in their full-year guidance.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** We expect CMS to maintain its 2023 EPS guidance of $3.06-$3.12 and its long-term EPS growth forecast of 6-8% CAGR for 2023-2027 despite headwinds in the first quarter. We also anticipate the company will reaffirm its five-year capex plan of $15.5 billion for 2023-2027, which is expected to drive rate base growth higher than 7% CAGR. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **Voluntary Refund Mechanism (VRM):** In Dec 2022, the company filed for VRM to use $22 million in excess revenue form 2022 towards 2023 expenses. On April 13th, the commission denied Consumers Energy Company's issuing a voluntary refund pertaining to the $17 million towards incremental electric capital spending, or in the alternative, storm restoration efforts. On the other hand, the commission approved Consumers Energy Company's proposed methodology to issue a voluntary refund in the form of $5 million towards assistance for low-income and payment-challenged gas customers with utility bills and the associated accounting requests
  - **Gas rate case**: Gas rate case was filed in Dec 2022. CMS requested a $212 million rate increase with 10.25% ROE and 51.50% equity ratio. Staff's position came out on April 17th with $89 million rate increase based on 9.7% ROE and 50.5% equity layer. Settlement discussion will continue through the summer for proposed final decision in mid-August. Final decision is expected in September 2023 with rates going in to effect on Oct 1st, 2023.
  - **Commission's storm response review**: The review is going to take place over the course of 2023 and beyond after CMS files its next electric rate case in May this year. The commission is pursuing an external consultant to conduct the review.
  - **Contingency in 2023**: As per the electric rate case settlement agreement approved on Jan 19th, Consumers Energy will provide a $15 million voluntary refund of 2022 revenue through a 12-month bill credit in 2023. The company will also make $10 million contribution towards programs that assist low-income customers. Taking VRM into consideration, these 3 prior year pull-forward items total ~10 cents of EPS contingency in 2023. CMS stated they are working on cost reductions to get back on track to achieve the full-year guidance, including hiring freezes, reducing contractors, taking out consultants, efficient financing, and tax planning, etc.
  - **Legislative bills in Michigan**: Given Michigan's track record and bipartisan energy policy, CMS doesn't see substantial changes to energy policy in Michigan. The legislative session that just started follows the house terms with a two-year cycle.
  - **DIG & Peakers upside in 2025+**: CMS has 50% of the combined capacity (950MW) is contracted which is projected to generate $30MM in pretax earnings from 2023-2025+ (0.08 EPS or 2% of our 25E). Management pointed to $10-$25MM in pre-tax upside ($0.03-$0.07 EPS upside or 1% of our 25E using the mid-pt) from higher power prices utilizing the uncontracted capacity.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.65**	**$2.89**	**$0.67**	**$3.10**	**$3.36**	**$3.65**
Consensus			0.94	3.10	3.34	3.62
% diff.			*-28%*	*0%*	*1%*	*1%*

Source: Evercore ISI and FactSet as of 4/18/23 conEdison

In Line **TP $93**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to increase by +$0.02 to $1.49/share. Positive YoY drivers primarily include revenue increases under the multi-year rate agreement at O&R. Negative YoY drivers include unfavorable weather impacting steam business, higher O&M, increased interest expense, higher depreciation & amortization, and increased property taxes.

- **What to look for in the earnings report (reminder that ED does not host a conference call):**

  - **Q1 expectations**: We expect Con Ed to maintain its 2023 EPS guidance of $4.75-4.95 and its long-term EPS growth forecast of 5-7% CAGR for 2023-2027. We also anticipate the company will reaffirm its three-year capex plan of $14.6 billion for 2023-2025, which is expected to drive rate base growth of 6.2% CAGR. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **CECONY electric and gas rate case settlement**: On February 16th, CECONY reached a settlement with a three-year ROE of 9.25% (request was 10.0%), equity layer of 48% (versus 50% request) and $11.8 billion in new capital investment authorized. The electric revenue increase totals $442 million in 2023, $518 million in 2024, and $382 million in 2025, for an annual levelized rate increase of $457 million. The gas revenue increase totals $217 million in 2023, $173 million in 2024, and $122 million in 2025, for an annual levelized rate increase of $187 million. A final decision is expected this year with rates retroactive to January 1, 2023.
  - **Steam rate case filing**: On March 24th, Staff recommended a $94MM revenue increase with a 9.0% ROE and 48% equity ratio on a rate base of $1.79B with a 10/31/24 test year. Staff disagreed with the Con Ed's revenue decoupling request. Recall on February 10th, Con Ed's revised request included a $141MM revenue increase with a 10.0% ROE and 50% equity ratio on a $1.812B rate base. As mentioned, the request includes a new revenue decoupling mechanism, in addition to a continuation of full reconciliation of costs for pension and OPEBs and environmental remediation. Con Ed is also requesting full reconciliation of property taxes, municipal infrastructure support costs, and long-term debt cost rate as well as continued reconciliation for uncollectible costs. In addition, the company is asking for symmetrical reconciliation for labor and non-labor inflation rate to the extent that actual inflation rate deviates from what is assumed in the revenue requirement by 50 bps up or down. Con Ed last filed a steam rate case several years ago in 2013 for rates effective in 2014. The business typically represents ~5% of consolidated annual earnings. A final decision expected by year-end 2023.
  - **CEB asset sale closed on March 1st**. Proceeds from the divestiture are being used to repay $1.25 billion of parent debt in 2023, invest in the utilities, and repurchase up to $1 billion of equity.
  - **Shares repurchase plan**: In March 2023, Con Ed commenced an accelerated repurchase plan, for which the company made payments of $1 billion in aggregate to the dealers on March 7, 2023 and received 8.7 million common shares in aggregate on the same day. The final number of Con Edison common shares to be repurchased from the dealers will be based on the volume-weighted average share price of ED's common shares during the term of the applicable transaction, less a discount. The final settlement of the transactions under the accelerated share repurchase agreements is expected to occur no later than 3Q23.
  - **Equity issuance plan**: Con Ed plans to issue up to $900MM of common equity in 2025.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$4.39**	**$4.57**	**$1.49**	**$4.85**	**$5.15**	**$5.45**
Consensus			1.59	4.86	5.19	5.49
% diff.			*-6%*	*0%*	*-1%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

Constellation.

Outperform **TP $93**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project 1Q23 adjusted EBITDA of $727MM for Constellation versus last year's 1Q22 adjusted EBITDA of $866MM. We expect the primary drivers of the YoY increase to be higher open gross margin, partially offset by lower capacity revenues and higher O&M expense.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations**: We expect CEG to maintain its 2023 EBITDA guidance range of $2.9-$3.3B. Below are more thematic items that we expect could be covered in the company's Q1 presentation.

  - **Capital allocation strategy**: with Q4 results, Constellation announced an initial capital allocation strategy that includes $1.5B in organic growth capital that will exceed its double-digit return threshold, doubling the per share dividend from the 2022 level of $0.5640/sh to $1.1280/sh while targeting growth at 10% annually, and authorizing $1B in share buybacks. The organic growth capex will be allocated to a commercial-scale hydrogen project, nuclear uprates at Byron and Braidwood, and wind repowering and refurbishment. Approximately $2.0B of the additional capital to be allocated in 2023-2024.
  - **M&A:** Management said they will be patient and disciplined in going after inorganic growth opportunities. The company said it prefers dual units instead of single units because the cash flow profile is better. It also applies on a DCF valuation and focuses on the liabilities involved.
  - **December 2022 PJM Performance Bonuses**: On Dec. 23-25, as a result of Winter Storm Elliott, a significant portion of PJM's fossil generation fleet failed to perform as reserves were called, while CEG's operated nuclear fleet performed at 100%. PJM's initial estimate of nonperformance charges ranges from $1-2B and, in accordance with its tariff, funds collected from those charges are redistributed to generating resources that performed above expectations during the event, including nuclear. Leveraging preliminary data from PJM and applying significant judgments and assumptions, CEG recognized an estimated benefit of $109MM (pre-tax) for performance bonuses in Q4 (net of non-performance charges), primarily driven by the over performance of its nuclear fleet that prevented rolling blackouts across PJM. Constellation said that it is confident that number will hold or be better and could present upside this year.
  - **Commercial hydrogen production**: Hydrogen facility will initially use ~250 MWs and produce ~33,450 TPA hydrogen, with the ability to expand to 400 MWs. Constellation said to expect long-term off-take agreements to consume more than 90% of the output. The company is investing total construction capex of $900MM from 2023-2025. Hydrogen will be provided to customers co-located at the facility. Commercial production of hydrogen expected in 2026.
  - **Nuclear uprates**: CEG announced that it was increasing nuclear output by ~135 MWs at Byron and Braidwood and investing ~$800MM from 2023-2029 for needed low pressure turbine replacements, upgrades of the high pressure turbines, and a pull-forward of planned generator maintenance at Byron, of which ~$200MM is growth capital to uprate the plants. The company said to anticipate uprate MWs to be phased in starting in 2026 with full implementation by 2029, based on timing of the turbine installations during planned refuel outages.
  - **Wind repower and refurbishment**: The repowering program totals 315 MWs in initial scope. Constellation is investing $350MM from 2023-2025. The 70 MWs of partial repowering is expected to be in commercial operation in 2023.
  - **CEG plans to apply for license renewals for Clinton and Dresden nuclear plants sometime next year**. On Oct. 31, 2022, Constellation announced its intent to seek renewal of the operating licenses for our Clinton and Dresden nuclear power plants. These renewals, if granted, would allow the plants to operate for an additional 20 years. Clinton could operate until 2047 and Dresden could operate until 2049 (Unit 2) and 2051 (Unit 3).
  - **Hedging**: Percentage of 2023 generation hedged is 94-97%. 2024 generation hedged is 75-78%.

- **Positioning into Qtr: Neutral**

Adj. EBITDA	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2,667**	**$727**	**$3,100**	**$3,300**	**$3,500**
Consensus		767	3,099	3,438	3,574
% diff.		*-5%*	*0%*	*-4%*	*-2%*

Source: Evercore ISI, FactSet as of 4/18/23

Dominion Energy

In Line **TP $65**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$0.22 to $0.96. Weather was a materially negative driver during the quarter. We expect other negative YoY drivers to mainly include interest expense, solar ITC, partially offset by regulated investment, higher millstone hedge prices, and sales growth.

- **What to look for in the earnings call (Key debates/themes):**

  - **Q1 call expectations**: Dominion has said they will discuss the recently passed legislations in VA. The VEPCO-related measures were passed as H.B. 1770/S.B. 1265. Both chambers also accepted Youngkin's modifications to the bill addressing legislative oversight of utilities but declined to approve the governor's proposed amendments to a bill intended to accelerate the deployment of offshore wind in the state. Youngkin has until May 15, 2023, to act on the reconvened session bills. The approved bills are effective July 1.

  - **H.B. 1770:** As per the bill, Dominion will move from a triennial to biennial review. The new law requires VEPCO to file its next earnings review on or after July 1, 2023, covering 2021 and 2022. The legislation provides that a 9.70% ROE (vs current 9.35%) and 52.1% equity layer will be authorized in the 2023 review. If the Commission determines that the utility has earned more than 70 basis points above authorized ROE during the 2023 biennial review, the Commission will direct 85% (vs 70% under the prior framework) of the overearnings be credited to customers' bills. The bill requires Dominion Energy Virginia, in its 2023 biennial review, to select a subset of rate adjustment clauses with annual revenue requirement of at least $350 million and combine them with the utility's base rates. The combination of such rate adjustment clauses will be subject to audit by the Commission in the utility's 2023 biennial review filing. The bill states that this combination cannot be used to justify an increase in base rates in the 2023 earnings review; VEPCO will effectively be required to reduce rates by $350 million.

  - **SB 1477 - Electric utility; offshore wind affiliate:** The bill signed into law in March, allows Dominion to sell a passive stake in its ~$10 billion Coastal Virginia Offshore Wind project. Senate Bill 1477 authorizes Dominion Energy Virginia to establish an offshore wind affiliate, subject to approval by the Virginia State Corporation Commission. The bill also includes provisions that allow the affiliate to "construct, own, or operate the project" and enable the affiliate to cost recovery as a public utility. Any premium or purchase price in excess of book value resulting from the sale will be passed onto customers.

  - **Business review update**: D is expected to provide a comprehensive business and financial update at the conclusion of the strategic review process on an investor day to be held in Q3 2023. On the q4 earnings call management reiterated the business review priorities which include focus on premier state regulated utility profile and commitment to current credit profile and dividend.

  - **Regulated offshore wind project**: As expected, the total project costs excluding contingency are currently more than 90% fixed now vs. 80% as of Q4 2022. The company remains on track to complete construction of the project by the end of 2026. Draft Environmental Impact Statement (DEIS) has finished its public comment period. The company has received minimal comments with no red flags, so they are working with agencies to move the permit forward. Next milestone to watch is the Final Environmental Impact Statement (EIS) expected on September 30th and Record of Decision for Final Environmental Impact Statement on October 30th, later than the previously expected mid-2023 but still in support of current project schedule, according to the company.

  - **RPS development program**: On April 14th, the State Corporation Commission (SCC) approved the 2022 Renewable Energy Portfolio Standard (RPS) development plan for Dominion Energy Virginia including nine solar projects, one energy storage project, and PPAs, totaling more than 800 MW. The company is required to submit an annual plan to the SCC to comply with the Virginia Clean Economy Act (VCEA). The SCC also approved a revenue requirement of $89.154 million for the recovery of certain VCEA-related resources for the rate year of May 2023 through April 2024.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$3.86**	**$4.11**	**$0.96**	**$3.53**	**$3.76**	**$4.00**
Consensus			1.06	4.03	3.78	3.89
% diff.			*-9%*	*-12%*	*-1%*	*3%*

Source: Evercore ISI, Capital IQ, Factset as of 4/18/23

DTE

Outperform **TP $126**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$1.11 to $1.20. We expect YoY negative drivers to include materially unfavorable weather versus last year, storm costs, trading margin, depreciation, property taxes and interest, accelerated deferred tax amortization, and parent company drag, partially offset by O&M savings, rate increases, and Vantage revenue.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** We expect DTE to reaffirm its 2023 EPS guidance of $6.09 - $6.40 and its long-term EPS growth forecast of 6-8% CAGR for 2023-2027 despite headwinds in the first quarter. We also anticipate the company will reaffirm its five-year capex plan of $21.6 billion for 2023-2027. Below are more thematic items that we expect could be covered in the company's Q1 presentation.

  - **Storms in Michigan:** We expect DTE's storm costs to be 30 cents of headwind in Q1 2023, which taps out all of its electric contingency. Company said they are going to work on rebuilding electric contingency and better manage the outages. On March 24th, the MPSC's order increased power outage credits to $35 for eligible customers plus $35 more each additional day the power's out and makes the credits automatic, also strengthened rules and technical standards for regulated utilities as the MPSC continues its work to improve the reliability of Michigan's electric grid against more frequent storms due to climate changes.

  - **Commission investigation**: In Nov, the company submitted a report updating the Commission on the efforts to improve the utilities' storm response and restoration times. DTE pointed to its track record and does not view the process as punitive but rather creating more alignment between the two parties and focusing on the additional grid investment. The commission is pursuing an external consultant to conduct the review.

  - **Electric rate case:** On Feb 10th, DTE Electric Company filed a general rate case requesting rate increase of $622M with ROE of 10.25%, equity layer of 50%, and rate base of $22.6B, vs current 9.9% ROE and 50% equity ratio. This rate case primarily supports investments in system reliability, grid modernization, and cleaner generation investments. The requested rate relief is based on a projected test year for the 12-month period ending November 30, 2024, utilizing a historical test year of 2021. In terms of sales forecast, management said DTE will have more stability going into this filing as they saw residential sales down ~3% in 2022 versus 2021 with people returning to work. Company is also proposing an investment recovery mechanism (IRM) focused on certain distribution capital expenditures that will be recovered by means of an IRM surcharge, which will help the company to stay out longer between rate cases. The rate increase request will be $619 million if the IRM proposed by the company is accepted. DTE will start conversations for settlement around the electric rate case later this year. Proposed final decision is anticipated in October and final decision is expected in December.

  - **Future gas rate case**: DTE is still considering the timing to file gas rate case (originally it was planned for early 2023, but now timing could be later this year or early next year).

  - **Clean Vision Plan (IRP) filing**: In early November, DTE filed an updated IRP to support generation transformation to cleaner energy and the modernization of electric grid for resiliency and reliability to prepare for increasing climate extremes and load growth from EV adoption. The plan accelerates 4,100 MW of coal plant retirements and drives 5,400 MW renewables development in 2023 – 2032, and 10,000 MW in 2033 – 2042. Some of the IRP investment could be incremental to current capex in the back end of five-year plan. Proposed final decision is due on July 14th, and final commission decision is expected in 2H 2023. Since they already have staff and intervener testimony, DTE is working towards a settlement with various parties.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$5.99**	**$6.10**	**$1.20**	**$6.25**	**$6.72**	**$7.21**
Consensus			1.52	6.22	6.69	7.17
% diff.			*-21%*	*0%*	*0%*	*1%*

Source: Evercore ISI, FactSet as of 4/18/23

DUKE ENERGY

In Line **TP $102**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project 1Q23 adjusted EPS of $1.20/share, which excludes the Commercial Renewables segment (for the second straight quarter) that is being sold and will be reported as discontinued operations. Weather last year in 1Q23 was $0.03 unfavorable and we expect it to be $0.18 unfavorable this year. In terms of positive YoY drivers, we expect rate cases and riders to contribute favorably, in addition to higher sales growth, lower O&M, lower storm costs, an AFUDC equity benefit, and a modest increase in gas utilities contribution. In terms of negative YoY drivers, we primarily anticipate increased depreciation and amortization and higher interest expense.

- **What to look for in the earnings report (Key debates/themes):**
    - **Q1 expectations**: Duke typically updates its current-year guidance on its third quarter call, so we expect the company to reaffirm its outlooks this quarter. These include 2023 EPS guidance of $5.55-5.75, and a long-term 5-7% EPS growth through 2027 based off the $5.65 midpoint of 2023 guidance. The company has a five-year 2023-2027 capex plan of $65 billion and five-year 2028-2032 capex program of $80-85 billion. The spending is expected to drive rate base growth of 7.1% CAGR for 2022-2027. Below are thematic items we believe could be discussed on the Q1 call.
    - **Commercial Renewables business asset sale**: Duke targets closing its planned sale of its Commercial Renewables business in the second half of this year. The sale is currently presented as discontinued operations. We estimate DUK could fetch $3-3.5 billion in cash proceeds at a 11-13x EV/EBITDA multiple applied to our $360 million of EBITDA estimate less $1 billion of debt. Proceeds will be used to avoid holding company future debt issuance. The Commercial Renewables business comprises of ~5.1 GW of wind and solar in operation (~3.5 GW net ownership, $150MM net income).
    - **North Carolina Carbon Plan**: in February 2023, Duke filed for 2023 solar procurement, with an order expected by year-end 2023. The updated North Carolina Carbon Plan and IRP will be filed by September 1st with an order expected by year-end 2024. Duke will file the CPCNs for gas generation in late 2023 or early 2024 with a final expected order date to be determined. The related capex is included in Duke's plan and will be addressed in future rate cases.
    - **North Carolina DEP rate case Staff recommendation**: On October 6, 2022, DEP filed a rate case with the North Carolina commission that includes a Performance Based Regulation (PBR) Application which includes a Multi-Year Rate Plan (MYRP) and proposes rates for 3 years within the MYRP period. The rate case filing requests approval of a $615MM revenue increase with a 10.4% ROE and 53% equity layer and is based on a retail rate base of $12.3B as of December 31, 2021, adjusted for known and measurable changes projected through April 30, 2023. The MYRP includes impacts of approximately $3.8B (NC retail allocation) of capital projects that are projected to go in service over the MYRP period. In late March 2023, Staff recommended a $260MM revenue increase with a 9.25% ROE and 52% equity layer on a $11.6B rate base. Key drivers between Duke's original application and the PSC staff request include ROE ($80MM) and depreciation rates. The rest includes normal adjustments proposed by Staff like incentive, amortization periods, and other. The Q1 supplemental updates are not included in the Public Staff numbers (~$70MM), which accounts for the delta between the original application and the supplemental testimony. Rebuttal testimony is due April 17th and hearings are expected to start in May 2023. Duke intends to implement temporary rates subject to refund June 1, 2023 for the historic base case increase and has requested the NCUC approve the requested permanent total Year 1 rates to be effective no later than Oct. 1, 2023.
    - **North Caroline DEC rate case**: Duke recently filed for a revenue increase of $833MM with a 10.4% ROE and 53% equity ratio.
    - **Florida cost recovery**: Duke was recently granted recovery of $1.2 billion of 2022 deferred fuel costs and $450 million of storm costs to be recovered over a 12-month period.
    - **Indiana IRP**: final stakeholder meeting on the IRP refresh was held in Q1. Duke plans to file for CPCNs in Q2.
    - **Kentucky rate case**: DUK filed a Kentucky electric rate case in Dec. 2022. Key components of the rate case include a revenue increase request of +$75 million with an ROE of 10.35% and equity ratio of 52.51% on a rate base of $1,177 million with a June 2024 test year. A hearing will be held in May 2023 with a decision expected by the end of June.
    - **Convertible note issuance**: Duke recently announced the offering of $1.5B aggregate principal amount of 4.125% convertible senior notes due 2026 in a private placement. The conversion rate for the convertible notes will initially be 8.4131 shares of common stock per $1,000 principal amount of convertible notes. The notes will mature on April 15, 2026, unless earlier converted or repurchased in accordance with their terms. Conversion could represent $0.07-0.08 annualized EPS dilution, which for example would be ~1% of estimated 2027 EPS if Duke were to deliver the midpoint of its long-term 5-7% EPS growth forecast.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$5.24**	**$5.27**	**$1.20**	**$5.65**	**$6.00**	**$6.35**
Consensus			1.34	5.63	5.98	6.32
% diff.			*-10%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

EDISON INTERNATIONAL®

In Line **TP $70**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decline -$0.03 to $1.04/share, Positive YoY drivers primarily include GRC revenues benefits. Negative YoY drivers primarily consist of increased depreciation, higher property taxes, increased interest expense, and some share dilution.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: We expect EIX to reaffirm its 2023 EPS guidance of $4.55-4.85 and its targeted long-term growth rate of 5-7% CAGR through 2025, based off of the original 2021 guidance range of $4.42-4.62. We also anticipate the company to maintain its five-year $27-30B capex plan for 2021-2025 (and financing outlook), which is expected to drive a 7-9% rate base CAGR over that time period. Below are thematic items we believe could be discussed on the Q1 call.
  - **Best estimate of expected losses for the 2017/2018 Wildfire/Mudslide events:** With Q4 results, EIX maintained its best estimate at $8.8B; now $900MM of claims remain. SCE targets filing the TKM (2017 Thomas and Koenigstein fires and the 2018 Montecito Mudslides) cost recovery application totaling ~$2B in the third quarter of 2023 with an 18-month decision timeline request. The company also plans to request securitization of approved amounts. SCE will make a separate filing for Woolsey.
  - **Cost of capital triggering mechanism**: EIX's long-term EPS growth forecast does not include upside from the cost of capital mechanism trigger where a 50bps ROE change impacts 2025 EPS by $0.28 (5% of our estimate). The target also does not include potential upside from successful recovery of wildfire claims. The measurement period for the cost of capital mechanism ends September 30th and it would kick into effect in January 2024.
  - **Equity issuance plans**: EIX issued ~$505MM of junior subordinated notes with 50% equity content ($250MM) in early March; the notes are tax deductible. The company has said it plans to issue $300-400MM of equity content securities this year, through a potential combination of hybrids (50% content), $50-100mm of internal programs (100% content), and an ATM program (100% content). EIX has been saying it expects to issue equity content up to $250MM annually, on average, from 2022-2025. The company issued ~$100mm in 2022.
  - **Rate case**: EIX still plans to file a rate case in May for the 2025-2028 period.
  - **Sales growth**: SCE is projecting a 2% average annual sales growth from 2023- 2035. The ramp up to 2% is expected to be gradual with majority of the impact to be in 2025 and beyond. The company will incorporate this growth along with associated capex needs in the 2025-2028 GRC.
  - **Probability of losses from catastrophic wildfire**: As of the Q4 earnings call, Management estimates that its wildfire mitigation and PSPS have reduced probability of losses from catastrophic wildfires by 75-80% from 65-70% previously.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$4.59**	**$4.63**	**$1.04**	**$4.70**	**$5.15**	**$5.50**
Consensus			0.98	4.72	5.11	5.55
% diff.			*6%*	*-1%*	*1%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

Entergy.

Outperform **TP $118**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease by -$0.02 to $1.30/share. Last year in 1Q22 weather was $0.08 favorable, and this year in 1Q23 we expect it to be $0.16 unfavorable. We estimate that the negative impact of weather will more than offset the benefits driven primarily by sales growth, higher FRP revenue in Arkansas, storm cost recovery, and recovery under the Texas DCRF rider.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: Entergy revisits guidance on every earnings call, but we expect the company to reaffirm its 2023 EPS guidance of $6.55-6.85, as well as its 2024 and 2025 guidance of $7.05-7.35 and $7.50-7.90, respectively. We also anticipate the company will maintain its $16B capital plan for 2023-2025. Below are thematic items we believe could be discussed on the Q1 call.
  - **Resiliency spending:** The current three-year $16B capex program for 2023-2025 includes $0.9B of accelerated "resiliency" spending of the total $1.7B amount that will be recommended to regulators through 2025; the $0.8B balance will be added to the capex plan once regulators approve it. Entergy New Orleans filed for $1.5 billion in investment over ten years in the third quarter with a final decision expected in 4Q23. Entergy Louisiana filed in December 2022 for $9B in investment over ten years and has a hearing scheduled in January 2024. Entergy Texas expects to make its initial regulatory filing in the third quarter of this year after legislative efforts are completed. The company is targeting a decision from the Texas Commission sometime next year.
  - **SERI update**: FERC did not rule on SERI's compliance refund report (order was expected 2/23/23). SERI filed an appeal with the 5th circuit Court on the uncertain tax position and leaseback ruling, and the Court is going to wait for FERC to clarify its order before acting. FERC has no timeline to decide. Recall on December 23rd, the FERC issued orders regarding the SERI sale leaseback and uncertain tax position case. Entergy said that it believes the orders are a positive step toward resolving a number of long-standing issues raised by its retail regulators. The company said that while it disagrees with some elements of FERC's findings, in particular its ruling on the sale leaseback claim, it is pleased that FERC's remedy results in no additional refunds due to customers beyond those already provided in 2021 on the uncertain tax positions taken by SERI.
    - Regarding the uncertain tax position issue, under the remedy specified by FERC, for uncertain tax positions that the IRS fully disallowed, and for which SERI received no tax benefits, no refunds are due. Entergy therefore calculates the remaining refund for the uncertain tax positions issue to be zero dollars. Litigators in the case are calling for $800MM in additional refunds ($450MM additional refunds taking into account SERI's previous settlement with the Mississippi PSC).
    - On the sale leaseback case, the order calls for SERI to refund approximately $149MM, including interest, resulting from the disallowance of $17MM in annual lease payments from 2015 through 2022. Taking into account SERI's previous settlement with the Mississippi PSC, the total sale leaseback refund amount is $89MM. The order also states that SERI can no longer collect $17MM in annual lease payments on a prospective basis. Net of the Entergy Mississippi settlement, the prospective exclusion would be $10MM annually (or $0.03 EPS hit). Regarding the financial impacts of these FERC orders, assuming there are no changes to either order upon rehearing, Entergy reaffirmed its adjusted EPS guidance for 2023-2025 subsequent to receiving the order in December 2022.
  - **Credit metrics**: Entergy's equity needs forecast through 2024 totals just $130MM remaining to be sourced as of 12/31/22. The company has also been saying it expects to issue $1.4B of combined equity for the subsequent 2025-2026 years. Entergy still expects CFO pre-working capital to debt to be in the range or better than Moody's >14% target, and FFO to debt to be in the range or better than S&P's 14-16% target.
  - **Louisiana FRP / rate case**: In Q3, Entergy will file a rate case to be effective Sept. 2024 or for extension request for the FRP, or both. The current FRP will be effective through end of Aug. 2024.
  - **Louisiana storm cost recovery:** Entergy recently received $1.5B of securitization proceeds for the balance of Ida stock cost recovery.
  - **Entergy Texas rate case update:** Parties are currently working to reach a settlement. On July 1, 2022, Entergy Texas filed for a net revenue increase of $131MM with an ROE of 10.8%, equity ratio of 51.21% on a rate base of $4.4B with a December 2021 test year. On November 2, 2022, Staff recommended a net revenue increase of $77MM with a 9.45% ROE and 51.21% equity ratio on a rate base of $4.4B. A final decision is expected in May 2023.

- **Positioning into Qtr: Negative.** Our below consensus EPS estimate drives our negative view into earnings. In addition, SERI concerns still loom, investors will also focus on the Louisiana FRP extension, and there could be a recession that would impact strong C&I load growth.

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$6.02**	**$6.42**	**$1.30**	**$6.70**	**$7.15**	**$7.70**
Consensus			1.50	6.72	7.20	7.73
% diff.			*-13%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

EVERSOURCE

Outperform **TP $92**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to increase by +$0.07 to $1.37. We expect positive drivers to include rate increase at electric and gas companies, increased transmission earnings, and trackers. Negative drivers include higher depreciation and property taxes, debt interest expense, and pension.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** We expect ES to maintain its 2023 EPS guidance of $4.25 - $4.43 and its long-term EPS growth forecast of 5-7% CAGR for 2023-2027. We also anticipate the company will reaffirm its five-year capex plan of $21.5 billion for 2023-2027, which is expected to drive rate base growth 7.5% CAGR. The company is likely to provide an update on offshore wind strategic review. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **Offshore Wind Strategic Review:** Update on the strategic review of offshore wind assets is expected in Q2 2023 versus original expectation of having the review completed by 2022 year-end. We estimate up to $3-3.5B in proceeds from the sale of Eversource's share. The company anticipates an expedited sale completion post the announcement as early as Q3 or latest by year end. Sale proceeds would be used on day one to pay down parent debt, which will create increased financial flexibility to fund regulated investments in the future.
  - **Additional Details on Offshore Wind:** In terms of capital investment, ES estimates total capex of $5.5-$6B as of the Q4 call versus previous estimate of $5.1-$5.8B. During the review process, the company will continue execution of the three offshore wind projects and lead the onshore portion of the projects during citing and construction. Despite high costs due to global supply chain issues, company has locked in 90% of the costs in Feb 2023, vs 82% in Oct 2022. Offshore investment as of the Q4 call totaled $1.95B versus $1.8B in Oct 2022. Projected in-service dates for the three projects are unchanged – late 2023 for South Fork Wind (130 MW), 2025 for Revolution Wind (704 MW), and late 2025 for Sunrise Wind (924 MW). When asked about Ørsted's impairment charge related to Sunrise Wind on the Q4 earnings call, ES pointed to different accounting standards, and they don't foresee booking a charge under GAAP.
  - **Aquarion Rate Case:** On March 15, 2023, the Public Utilities Regulatory Authority (PURA) ordered a rate decrease of $2M, or approximately 1%, from the company's currently approved revenue requirement for the rate year commencing on March 15, 2023. Recall that company's requested revenue deficiency was $27.5M in year 1 and $22.4M over 2 subsequent rate years. Aquarion Connecticut rate case filed in August 2022 was its first rate review in roughly 10 years. PURA approved an allowed ROE of 8.70% and 50.35% common equity, vs. the requested 10.35% ROE and 53% Equity Layer. ES appealed the rate case decision on March 30th with no timeline for a final decision. According to the company, ES had been significantly under-earning and will likely continue to do so. Since Aquarian earnings make up a small portion of ES's earnings (~3%) we don't see material implications to near and long term EPS growth outlook.
  - **Advanced Meter Infrastructure (AMI).** In November, the MA DPU authorized company's proposed AMI spending of $535M through 2028 (versus ask of $575M) which is now included in the updated five-year plan. In CT, ES targets all customers on AMI during 2023-2027 with capital investment of approximately $475 million awaiting approval, which will be incremental to current capex plan. Decision is expected sometime this year.
  - **Distributed Energy Resources (DER) Projects**: In Massachusetts, Eversource's proposed capital investment in the six solar clusters is ~$980M (included in the five year plan), of which about $310M would be reimbursed over 15 to 20 years by solar developers. Current proposal would enable up to 1 GW of solar, with interconnection upgrades needed to deliver additional clean energy to company's system. One of the six solar cluster is approved, with decision on remaining five projects expected by mid-year. Eversource is targeting completion of the projects 4 years from decision dates.
  - **Senate Bill 7.** An Act Strengthening Protections for CT Consumers Energy" sets conditions for PURA to approve a settlement in a rate amendment proceeding, limits the term of any provision in the settlement to three years instead of four, and brings water companies that have at least 75,000 customers (including Aquarion) under the requirement for a general rate case at least every four years. The bill could have negatively impacted some of the capital trackers that ES has in CT, if adopted. We'll continue to monitor the process on this proposed bill, Connecticut General Assembly 2023 Regular Session adjourns June 7th

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$3.86**	**$4.09**	**$1.37**	**$4.34**	**$4.70**	**$5.10**
Consensus			1.36	4.37	4.67	5.00
% diff.			*1%*	*-1%*	*1%*	*2%*

Source: Evercore ISI, Factset as of 4/18/23

In Line **TP $62**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to be flat at $0.58/share. Key YoY positive factors are tax timing, retail demand, FERC revenue, O&M reduction, corporate-owned life insurance (COLI), offset by Sibley accounting adjustment, unfavorable weather, higher D&A, and interest expense.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** We expect EVRG to maintain its 2023 EPS guidance of $3.55-$3.75 and its long-term EPS growth forecast of 6-8% CAGR through 2025. We also anticipate the company will reaffirm its five-year capex plan of $11.6 billion for 2023-2027, which is expected to drive rate base growth 6% CAGR. The inflection point that will impact their outlook and perspective on the mix of capital expenditures is going to be IRP update in the second quarter, which would support more owned renewable generation. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **Kansas Rate Cases:** Evergy is preparing to file Kansas Central and Kansas Metro rate cases in late April 2023. We expect to see staff testimony in August. The Company expects a test year ending September 30, 2022, and the true-up date around June 30, 2023, with new rates becoming effective in December 2023.
  - **Annual Update to IRP:** EVRG will file an annual update to its IRP for both states in June this year, which will include the impact of IRA, higher commodity curves, and increased SPP (Southwest Power Pool) capacity margin requirement, these factors can be more supportive of EVRG owning more renewables. Recall that in June 2022, Evergy filed an annual update to its Missouri and Kansas IRP. The Company's preferred plan for the next decade is consistent with the resource plan laid out in 2021 triennial IRP filing and the renewables development discussed during EVRG's Investor Day in Sep 2021. The minor tweaks in the plan reflect updates to the sequencing of near-term investments. Overall, by the end of 2032, Evergy's preferred plan now includes 3,500 MWs of renewable additions while also retiring nearly 2,000 MWs of coal.
  - **Winter Storm Uri Securitization** (EF-2022-0155): In March 2022, the company initiated the securitization process in Missouri to recover ~ $300 million of Storm Uri cost in Missouri West with recovery period over 15 years, which significantly moderate the impacts on customers. In November 2022, the MPSC issued a revised financing order authorizing Evergy Missouri West to issue securitized bonds to recover its extraordinary fuel and purchased power costs incurred as part of the February 2021 winter weather event. In January 2023, the OPC filed an appeal with the Missouri Court of Appeals challenging the financing order regarding the treatment of income tax deductions, carrying costs and discount rates related to the financing of the extraordinary fuel and purchased power costs incurred. A final non appealable financing order is required prior to the issuance of securitized bonds. In terms of timing, a decision by the Missouri Court of Appeals is currently expected in the second half of 2023. The company has room in the 2023 EPS guidance to absorb the delay in receiving securitization proceeds.
  - **Persimmon Creek Acquisition** (EA-2022-0328): In Missouri, the company had applied for the acquisition of the 199 MW Persimmon Creek Wind Farm. On April 6th, Commission issued an approval of the Certificate of Convenience or Necessity (CCN) but with certain performance guarantees that considerably increase the financial risk associated with the project. EVRG may file for the project to be included in rate base in the upcoming Kansas rate case filing. The acquisition is expected to contribute $0.05 in EPS this year which is included in EVRG's 2023 EPS guidance.
  - **HB 2225**: HB 2225 or "The Electric Utility Cost Recovery through Transmission Delivery Charges" legislation that becomes effective July 1st amends the law authorizing a Kansas Corporation Commission (KCC)-regulated utility to recover costs associated with the transmission of electric power through a transmission delivery charge (TDC). As a result, EVRG voluntarily agreed to an ROE reduction on the elective projects to be from FERC's jurisdictional ROE down to the KCC's authorized ROE, which is roughly a 100bps decrease in ROE, or a 4c headwind to EPS starting in 2024.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$3.54**	**$3.71**	**$0.58**	**$3.65**	**$4.00**	**$4.27**
Consensus			0.57	3.63	3.97	4.24
% diff.			*2%*	*0%*	*1%*	*1%*

Source: Evercore ISI, FactSet as of 4/18/23

exelon

Outperform **TP $46**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to increase by +$0.03 to $0.67. We expect weather to unfavorable (we estimate -$0.03) this year. However, weather is not a major driver of earnings for EXC given that roughly 75% of its earnings are decoupled. Note that last year in 1Q22 there was $0.03 of negative nonrecurring items. In terms of the primary positive YoY drivers, we expect higher rates at Pepco, Delmarva and BGE to contribute positively, in addition to a benefit in Illinois from the increased 30-year Treasury rate and plus lower storm costs. Recall every 50bps increase in the 30-year Treasury rate equates to a $0.04 annual EPS benefit. In terms of negative YoY drivers, we primarily expect increased interest expense and higher depreciation.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: Exelon typically updates its guidance on the third quarter call. This quarter we expect the company to reaffirm its 2023 EPS guidance of $2.30-2.42, as well as its outlook for delivering the midpoint or better of 6-8% EPS growth through 2026 off the midpoint of 2022 adjusted guidance ($2.25).
  - **Illinois multi-year plan rate case filing**: Next step is the intervenor testimony in mid-May. Recall on January 17th, ComEd filed its Illinois electric distribution multi-year rate plan asking for base rate revenue requirements of ~$3.8B in 2024, $3.9B in 2025, $4.1B in 2026 and $4.4B in 2027. ComEd's requested revenue requirements are based on requested returns on common equity of 10.50%, 10.55%, 10.60%, and 10.65% in 2024, 2025, 2026, and 2027, respectively, and on capital structures that reflect between 50.58% and 51.19% common equity. The approved revenue requirements will be reconciled to actual costs incurred during each such year, subject to certain limitations and to ICC review, in accordance with law. In the filing, ComEd will ask the ICC to phase-in the new rates by deferring 35% of the 2024 base rate increase, with that amount being recovered in 2026. The ICC must review the Rate and Grid Plans in a proceeding on a consolidated basis and issue a decision by 12/20/23. On September 27, 2022, the Illinois commission issued performance incentives for Exelon (see our note).
  - **Delmarva rate case**: In December 2022, Exelon filed a Delaware electric rate case, requesting a $60MM revenue increase with a 10.5% ROE and 50.5% equity ratio on a rate base of $1.1B with a test year of 6/30/23. Interim rates will go into effect on July 15th and a final order is expected in 2Q24.
  - **Atlantic City rate case**: In February, Exelon filed an Atlantic City electric rate case, requesting a $105MM revenue increase with a 10.5% ROE and 50.2% equity ratio on a rate base of $2.2B with a 6/30/23 test year. No procedural schedule has been made public yet. As permitted by New Jersey law, Atlantic City Electric may implement full proposed rates on November 17, 2023, subject to refund. Procedural schedule for ACE base rate case is expected to be finalized in 2Q23 with a final decision expected in 1Q24.
  - **BGE rate case**: Next step is intervenor direct testimony in June 2023 with a final decision is expected in December 2023. Recall in February, Exelon filed a Baltimore Gas & Electric rate case, requesting $602MM over a three-year cumulative multi-year plan with a 10.4% ROE and 52% equity ratio. The company proposed incremental revenue requirement increases with rates effective January 1, 2024, January 1, 2025, and January 1, 2026, respectively. The proposed revenue requirement increase in 2024 reflects $84.8MM increase for electric and $158.3MM increase for gas; 2025 reflects $103.3MM increase for electric and $77.0MM increase for gas; 2026 reflects $125.0MM increase for electric and $54.0MM increase for gas. These include a proposed acceleration of certain tax benefits.
  - **Pepco DC rate case**: Pepco DC recently filed its second multi-year plan (upon conclusion of the PSC's stay-out provision) for rates effective 2024-2026. Exelon is requesting a cumulative revenue increase of $191MM with an ROE of 10.5% and equity ratio of 50.5%
  - **Pepco MD rate case**: Exelon has said that it plans to file a Pepco MD rate case in 2Q23.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.08**	**$2.27**	**$0.67**	**$2.35**	**$2.50**	**$2.70**
Consensus			0.66	2.36	2.51	2.73
% diff.			*2%*	*-1%*	*0%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

FirstEnergy

Outperform **TP $45**
Analyst: Michael Lonegan / Durgesh Chopra

- **Q1 EPS Bridge:** We project year-over-year EPS to increase +$0.05 to $0.65/share. FE's guidance for the quarter is $0.56-0.66/share. In terms of positive YoY divers, we anticipate FirstEnergy will benefit from higher rates from Ohio grid modernization, plus Pennsylvania and transmission rate base growth, reduced O&M, increased Signal Peak earnings, and a benefit from lower Ohio rate credits. In terms of negative YoY drivers, we expect the primary impacts to be lower pension EPS, unfavorable weather, and loss of earnings from the FET asset sale.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: We expect FirstEnergy to reaffirm its 2023 EPS of $2.44-$2.64, long-term EPS, capital, rate base, and balance sheet targets until at least the new CEO is in place, who is said to be committed to the existing plan. Below are thematic topics we believe could be addressed on the Q1 call.
  - **CEO hire**: FirstEnergy recently announced Brian Tierney as the new President and CEO, effective June 1st. He succeeds interim President and CEO John Somerhalder II. Tierney joins FirstEnergy from Blackstone where here he serves as the global head of Portfolio Operations and Asset Management for the Infrastructure group. He previously spent 23 years at AEP, where he held a number of leadership positions, including most recently serving as executive VP of Strategy following more than 11 years as its CFO.
  - **Balance sheet**: FirstEnergy paid down roughly $3 billion of long-term debt in 2022 and achieved its targeted 11% FFO to debt for the year. FE lowered holding company debt as a percentage of total debt to 24% at year-end 2022 from 33% at year-end 2021. As disclosed with its announced FET asset sale on February 2nd, the company is now targeting 14-15% FFO to debt in 2024 and 2025, solidly in line with investment grade peers.
  - **Dividend expected to resume growth later this year for first time since 2020**: The Board approved a new dividend policy that raises FE's targeted payout ratio to 60-70%, up from 55-65% previously. FirstEnergy said it expects to resume dividend growth (current annual dividend is $1.56/share) subject to Board approval for dividends payable late this year. Its new payout ratio is more in line with peers and reflects the steps the company has taken to improve its credit profile and its commitment to enhancing value for investors.
  - **Rate cases**: FirstEnergy filed rate cases in New Jersey and Maryland on March 16th and 22nd, respectively. A good summary of the filings is in the IR Summary of the Regulatory Corner section on FE's website here. The company plans to file in West Virginia in second quarter 2023. In New Jersey, the last case was filed a case in 2020, and for West Virginia and Maryland, the last base rate case was filed in 2014 and 2018, respectively. In 2024, FirstEnergy is required to file a rate case for its Ohio utilities, and the Company stated it will also potentially file a rate case in Pennsylvania in 2024. Finally, in these regulatory filings, FE plans to adjust recovery of regulatory asset balances such as the first storm costs, which currently amount to approximately $680 million across all its jurisdictions.
  - **Strong mining results**: FirstEnergy's coal mining legacy investment in Montana dates back to the late 2000s with the Company as a minority investor with a 33% share in the facility. Historically, the mining business has not been a significant driver of earnings. However, given higher commodity prices, the mine is outperforming expectations for 2022-2023 with both earnings and cash distributions, which provides significant flexibility to accelerate reliability and maintenance work in the distribution business. Signal Peak and pension comprised roughly 30% of total operating earnings for the full-year 2022 (we estimate Signal Peak was $0.20-0.25/share EPS or 10% of the consolidated $2.41/share). The Signal Peak and pension combined earnings contributions are expected to be 15% of consolidated EPS guidance this year and 10% for both 2024 and 2025. FirstEnergy has generally been looking at exploring how to transition out of the facility over time, but it is a challenge to do given lack of interest in coal.
  - **Planned consolidation of Pennsylvania and Ohio operating companies**: FirstEnergy filed an application on March 6th to consolidate its Pennsylvania utilities, requesting a decision by year-end 2023. This company views this as an important step to align with its new state operating model, to simplify its legal entity structure and to increase the flexibility and efficiency of its financing strategy. This consolidation will not represent any changes in current electric rates for its Pennsylvania customers; those will be combined as appropriate over time through future rate case activity. Next, the company plans to file for consolidation of its Ohio utilities.
  - **Ohio audits and SEC investigation**: The four Ohio audits are stayed another six months as of February 2023.The SEC investigation remains ongoing with no timeline for a decision.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.60**	**$2.41**	**$0.61**	**$2.55**	**$2.63**	**$2.80**
Consensus			0.62	2.53	2.67	2.84
% diff.			*-2%*	*1%*	*-1%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

HEI

In Line **TP $38**
Analyst: Michael Lonegan / Durgesh Chopra

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease -0.08 to $0.55/share. Recall last year in 1Q22 there was a $0.06 gain on sale of investment in EverCharge at Pacific Current. In terms of negative YoY drivers, we primarily expect bank provisioning expense, higher interest expense, increased O&M, higher depreciation, and increased property taxes. In terms of positive drivers, we primarily anticipate higher ARA revenues.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** We expect Hawaiian to reaffirm its 2023 utility EPS guidance of $1.75-1.85, but potentially revisit its bank guidance of $0.75-0.85 which could be hard to predict for the company due to all of the economic uncertainty. Given the supply chain issues that HE has been facing, we are uncertain if it will update its 2023-2025 capital plan or wait until later in the year to do so, if necessary. Below are more thematic items we believe could be discussed on the Q1 call.
  - **Hawaiian economy and American Savings Bank (ASB):** The strength of the Hawaiian economy has large implications for the bank; recall the utilities are decoupled. The University of Hawaii Economic Research recently published a report highlighting a potential US recession where Hawaii itself may not experience one because of an increase of international tourism (offsetting lower from the US) which has remained low. The University stated that is expects relatively strong government spending. American Savings Bank's 15% loan growth last year reflected its solid credit quality and a still-healthy Hawaii economy. Loan growth is expected to return to more normalized low single-digit growth levels in 2023. In order to fund the strong loan growth in 2022 given flat deposit growth, ASB increased its wholesale borrowings and CD balances, which reduced its balance sheet asset sensitivity to be essentially neutral. As a result, the company said that although additional Fed rate increases should continue to benefit the bank, it will also have to manage its funding costs to see improved net interest margin. HE stated that is already taking measures to manage its funding costs, including focusing on paying down higher cost wholesale borrowings as those costs have come up considerably as short-term rates have risen. Note that the average cost of funds was 16 basis points for the full-year 2022, 10 basis points higher than the prior year. American Savings Bank saw a larger increase in the fourth quarter as the bank utilized the wholesale borrowings to support its strong loan growth. As a result, the company saw an increase in its funding costs in the fourth quarter to 38 basis points, up 25 basis points from the prior quarter. Hawaiian said that it expects higher funding costs to continue throughout 2023 as market interest rates continue to increase and to the extent its level of wholesale funding remains elevated. However, ASB believes the strength of its core deposit base will allow it to maintain its funding cost advantage in comparison to its peers throughout 2023.
  - **Utility EPS growth and regulatory lag**: Hawaiian now expects to deliver long-term EPS growth of 5% "including $4-5 million of net PIM rewards annually," a forecast that was lowered from the most recent 5% expected for 2022 through 2024 "with upside from PIMs." New guidance reflects continued higher generating station maintenance moderating in the coming years as the company brings new generation and storage resources online and as units are retired. It also accounts for higher O&M expenses due to the inflationary environment and increased bad debt expense, updated timelines for placing EPRM-recovered projects in service, and higher interest expense. PBR and its associated PIMs are expected to materially improve regulatory lag, a persistent problem for the Company.
  - **PIMs:** Hawaiian has stated that there is the potential for $4 million of PIM rewards this year, mostly driven by RPS-A. The company is guiding to $4-5 million of PIM rewards per year in its long-term EPS growth forecast.
  - **Cost management**: HE has been implementing aggressive cost management to respond to the inflationary and interest rate environment. Higher generation cost is being offset by savings in labor, outside services, and leased space expense. For the utility, 2023 adjusted O&M excluding pension is expected to be below ARA allowed levels.
  - **Oil price impact on customer bills**: While HE has aggressive renewable and decarbonization targets to 100% renewables by 2045, currently about 50% of its generation is derived from conventional oil-fired steam units. While oil prices have come down some, they remain elevated and electric bills are higher than have been in recent years, which could potentially result in higher bad debt expense than normal.
  - **Capex and supply chain**: Utility capex in 2022 totaled $357 million, towards the low end of the guidance range of $350-375 million. Capex was lower than originally anticipated due to supply chain disruptions, customer work delays, project rescoping, resource availability and permitting delays.
  - **Stage 3 RFPs**: Bids are expected this month with projects expected to be chosen by July 2023.
  - **Major projects:** HE has pending filings for major projects as it relates to public EV charging, self-build storage and resiliency, for which decisions are expected in 2023.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.25**	**$2.20**	**$0.55**	**$2.25**	**$2.40**	**$2.55**
Consensus			0.49	2.28	2.45	2.60
% diff.			*11%*	*-1%*	*-2%*	*-2%*

Source: Evercore ISI, FactSet as of 4/18/23

NEXTera ENERGY

In Line **TP $90**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q3 EPS Bridge:** We expect year-over-year EPS to decline -$0.06 to $0.68. We anticipate that Florida Power & Light will grow rate base by 9% and utilize part of its depreciation reserve ($1.45 billion) to earn towards the top end of its 9.8-11.8% allowed ROE band. In the NEER segment, we anticipate growth to be driven by new projects added, plus existing projects, though wind resource could be weaker YoY after a strong 1Q22 at 107%. We expect some drag from a planned outage at Point Beach unit 2 nuclear plant for 20 days in 1Q23 versus an outage at the same unit for five days during the same period last year. We also anticipate higher interest expense and share dilution from the 33.3 million shares issued in March 2023.

- **What to look for in the earnings report (Key debates/themes):**

    - **Q1 expectations:** We expect NextEra to reiterate its 2023-2026 EPS guidance ranges with the expectation that it will deliver at or near the top end of the range for all years. We anticipate the company will reaffirm its renewable development expectations as well. We expect some commentary on NEE's plan to file for dismissal of the FEC complaint. We anticipate some messaging from Armando Pimentel, who replaced Eric Silagy in mid-February as President and CEO of FPL. Pimentel previously served in several senior executive roles with NextEra. Below are additional thematic items we believe could be discussed on the Q1 call.
    - **NEER origination:** Energy Resources' origination amount increased at a slower pace in 4Q22 than the prior sequential quarter in 3Q22. In total, the origination amount for 4Q22 was ~1,700 MW versus last quarter's 2,345 MW increase. It included: 730 MW of solar, 670 of battery storage, 300 MW of wind MW of battery storage. Energy Resources now has ~19,000 MW in its year-end record backlog.
    - **NEER renewable development:** with Q4 results, NextEra rolled forward its NEER renewable development program by one year and raised it 15% at the midpoints. New expectations for the 2023-2026 period total 32,700-41,800 MW, which includes guidance for 14,900-19,000 of solar, 12,000-14,600 MW of wind, 5,100-6,800 MW of storage, and 700-1,400 of wind repowering.
    - **NextEra has said it plans to file for dismissal of the complaint to FEC.** Recall the FEC complaint was filed by a special interest group and primarily relies on media articles to allege certain violations of the Federal Election Campaign Act by various parties, including, by implication, FPL. The FEC process is a confidential, civil administrative process, with an investigation only commencing if the FEC votes to do so, which decision likely will not occur until late this year. After an internal investigation, NEE has said it is confident there was no wrongdoing by the company and plans to file its response seeking dismissal of the complaint and does not believe it is appropriate for a complaint such as this to move forward. Some investors were concerned about the timing of Eric Silagy's retirement, announced on the 4Q22 call. The total amount of contributions referenced in the complaint is less than $1.3MM and NextEra does not expect that allegations of federal campaign finance law violations taken as a whole would be material to them.
    - **Florida PSC approval of fuel and storm cost recovery**: FPL filed to recover approximately $2.1B of incremental fuel costs incurred in 2022. Based on the drop in projected natural gas prices, FPL is now expected to benefit customers by offsetting the 2022 fuel cost recovery by approximately $1.4B this year. FPL also received approval of approximately $1.3 billion of storm costs incurred in 2022. Taking both proposals together, FPL anticipates that its typical 1,000-kilowatthour residential customer bills as of May 2023 will remain well below the projected national average and the projected average for Florida investor-owned utilities.
    - **Solar projects and supply chain**: FPL completed 13 different solar projects totaling 1 GW in the first quarter 2023. The company stated that the supply chain has been improving.
    - **Construction on FPL's green hydrogen pilot at Okeechobee remains on schedule** as it continues to advance toward its projected commercial operation date later this year.
    - **Treasury guidance on clean energy tax credits**: Expected late Q2 or early Q3 this year.
    - **NEP**: Addressing investor concerns, NextEra has stated that NEP is well-positioned with $3 billion of liquidity, $6 billion of forward swaps and room in credit metrics.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.55**	**$2.90**	**$0.68**	**$3.10**	**$3.40**	**$3.65**
Consensus			0.70	3.11	3.40	3.68
% diff.			*-4%*	*0%*	*0%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

NiSource®

Outperform **TP $31**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to increase $0.02 to $0.77. Recall that NiSource adjusts weather out of its non-GAAP EPS results. In terms of positive YoY drivers, we expect riders and rate increases partially offset by increased depreciation & amortization, higher interest expense, pension, and share dilution.
- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** We expect NI to maintain its 2023 EPS guidance of $1.54-$1.60 and its annual NOEPS growth of 6-8% through 2027. We also anticipate the company will reaffirm its five-year capex plan of $15 billion for 2023-2027, which is expected to drive 8%-10% annual utility rate base growth. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **Minority Interest Sale:** Minority interest sale of NIPSCO is still expected to be completed in 2023 and continues to track as expected. The company remains confident in the attractiveness of the asset and stated that there is no decline in interest attributable to interest rates, particularly given the quality of the potential counterparties with ready capital to deploy, bank leverage tools, and long-term investment preference. NiSource has initiated the sale process, and we expect an announcement by mid-year and close by year-end. We estimate $1.5-$2B in cash proceeds.
  - **NIPSCO Electric rate case**: On March 10th, NIPSCO and other parties reached a settlement agreement in its electric rate case in Indiana. The settlement proposed a $292M rate increase compared with $395M company requested, including base rate increase and tracker. The parties agreed on an ROE of 9.8% versus current 9.75%, and an equity layer of 51.63% versus current 47.86%. Recall that company requested a 10.4% ROE and a 58.5% equity ratio on a rate base of $5.95B. We view the settlement as constructive if approved. An IURC settlement hearing is scheduled to start on Apr. 26, 2023. A final Commission order is expected in mid-August with rates going into effect in September.
  - **Virginia gas rate case**: On Dec 9th, Columbia Gas of Virginia reached a settlement with $25.8 million rate increase, inclusive of SAVE (Steps to Advance Virginia's Energy Plan) infrastructure tracker ($14.5MM), representing a settlement as to a specific revenue number but not as to a specific ROE. Recall that NiSource requested $40.6MM revenue increase net of the SAVE infrastructure tracker ($17.7MM) with a 10.75% ROE and 39.3% equity ratio on a rate base of $1.0B with a 12/21 test year. A final order is expected in 2Q23.
  - **Leadership changes:** The company announced several leadership changes on March 15th, link. Notably Shawn Anderson formerly senior vice president of risk and chief strategy officer, moved into the role of executive vice president and chief financial officer effective Mar 27th. Donald Brown, NiSource's former chief financial officer, assumed the role of executive vice president and chief innovation officer on Mar 27th, replacing Melody Birmingham, who was named as executive vice president, and group president, NiSource utilities.

- **Positioning into Qtr: Positive.** Despite our below consensus EPS projection for the quarter, we expect NiSource to reaffirm EPS guidance for 2023. Recall that NI adjusts weather out of its non-GAAP EPS results. NiSource has been a relative underperformer over the past month (+2.6% vs peers +3.6%), and we see reversal of the underperformance going into earnings supported by the constructive settlement filed last month in Indiana and NI's ability to meet/exceed 2023 EPS guidance given that they don't have a weather-related headwind to start the year like majority of their peers.

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$1.37**	**$1.47**	**$0.77**	**$1.57**	**$1.69**	**$1.80**
Consensus			0.81	1.55	1.67	1.79
% diff.			*-5%*	*1%*	*1%*	*1%*

Source: Evercore ISI, FactSet as of 4/18/23

nrg

In Line **TP $40**
Analyst: Durgesh Chopra

- **Q1 EBITDA Bridge:** We project year over year EBITDA to increase by +$81MM to $590MM. We primarily expect the benefits of the VVNT contribution starting in March 2023 and Direct energy synergies to be partially offset by lost EBITDA from asset sales.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** We expect NRG to discuss combined company guidance (post VVNT) with VVNT included as a separate segment. NRG targets $2.27-2.47B legacy business EBITDA this year with $770M EBITDA contribution from VVNT. We also anticipate the company will reaffirm its targeted 15-20% free cash flow per share growth through 2025. NRG has plans of hosting an investor day later in the year with a final date to be determined. Below are thematic topics we believe could be addressed on the Q1 call.

  - **VVNT acquisition:** On March 13th, NRG completed the announced acquisition of VVNT. In December 2022, NRG announced that they have entered into a definitive agreement to acquire Vivint Smart Home, Inc (NYSE: VVNT) for $2.8B or $12/share in an all-cash transaction ($5.2B Enterprise Value including VVNT's debt). The acquisition price of $12/share represented a ~33% premium to VVNT's closing price of $8.99 on 12/05/22. NRG's expected annual run-rate EBITDA is $835mm (including $100mm of assumed synergies to be realized by 2025), representing a transaction multiple of 6.3x EV/EBITDA with a 16% FCF Yield (or 7.2x EV/EBITDA pre-synergies). The acquisition was financed with a mix of debt, hybrid securities ($2,290mm), and cash on hand ($600mm).

  - **$1 Billion Share Repurchase Program.** As of the Q4 call, NRG had completed NRG has completed $645mm (vs $640mm as of Nov 2022) in share repurchases with $355mm remaining to be executed in 2023.

  - **Parish Unit 8 Fire.** On May 9, 2022, a fire was reported at Unit 8 at the WA Parish coal-fired power plant in Texas. The fire tripped the 610MW unit offline as designed, which translated into a $70mm headwind for the quarter and $200mm projected for the whole year. NRG is still targeting to return the unit to service by the end of the second quarter of 2023.

  - **PJM Plant Outage:** PJM said on January 11th that it had an "unacceptably high" level of power generation resources unavailable for the December 24, 2022, morning peak amid extremely cold weather. For those that did not perform as promised when called upon to do so, the grid operator said it expects to levy between $1-2 billion in fines. NRG booked a $80mm charge in Q4 last year.

- **Positioning into Qtr: Neutral.**

Adj. EBITDA	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2,423**	**$1,754**	**$590**	**$2,900**	**$3,100**	**$3,150**
Consensus			624	2,844	2,959	3,027
% diff.			*-6%*	*2%*	*5%*	*4%*

Source: Evercore ISI, FactSet as of 04/18/23
Note: We do not incorporate EBITDA contribution from VVNT acquisition in our estimates.

OG&E

In Line **TP $39**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year (utility plus parent) EPS to decrease -$0.03 to $0.22/share. We expect weather to be a drag this year, with heating degree days down 10% versus normal and 16% versus last year. Negative drivers include hold co drag, O&M and D&A, weather drag, interest expense, partially offset by customer growth, AFUDC, rate increase, other income and recovery of URI cost.
- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** We expect OGE to maintain its 2023 EPS guidance of $1.93-2.07 and its long-term EPS growth forecast of 5-7% CAGR through 2027. We also anticipate the company will reaffirm its five-year capex plan of $4.75 billion for 2023-2027, excluding potential investments associated with 2021 IRP. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **Fuel recovery:** Fuel clause under-recovery balance was $515 million as of December 31, 2022.
    - Oklahoma $474 million being recovered with 21 months left as of January 1, 2023.
    - Arkansas $41 million being recovered with 15 months left as of January 1, 2023
  - **Limited interest rate exposure:** OGE is targeting FFO to debt ratio of 17.5%-18%. With no equity issuance need in current 5-year plan, OGE expects to issue in Q2 up to $400 million of long-term debt at OG&E to support capital investments. Due to Energy Transfer unit exit and increased capital plan, the company will start to grow Holdco Debt over the years. OGE has less than $200 million of floating-rate debt and no fixed-rate debt maturities through 2026, excluding Uri-related debt that matures in May 2023.
  - **Re-issued solar RFP:** OGE re-issued the solar RFP last year to incorporate favorable opportunities from the Inflation Reduction Act. The company received multiple bids in early November. Decision is expected in May 2023. Management said they will review the three active RFPs (solar, CT units, and existing resource) for long-term generation holistically as their service area continues to grow combined with the increased reserve margin requirements, and they will provide an update once they review the results from all the RFP's.
  - **Uri proceeds.** Winter Storm Uri bond proceeds of $750MM in Oklahoma were received in July 2022. In Arkansas, the Company had filed a request to recover $80MM of Uri costs over ten years at a weighted average cost of capital (WACC). On Jan 2nd, 2023, commission authorized OGE to recover the remaining balance of ~$64 million at WACC over eight years.
  - **Natural gas storage plan:** Following storm URI in 2021, OGE started to build up and acquire more physical gas storage capabilities. The company said they will continue to take the opportunities to build and fill their physical storage capability which can help with supply shortages caused by extreme weather or outages.
- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.36**	**$2.19**	**$0.22**	**$2.03**	**$2.17**	**$2.30**
Consensus			0.33	2.01	2.12	2.27
% diff.			*-33%*	*1%*	*3%*	*2%*

Source: Evercore ISI, FactSet as of 4/18/23.

PINNACLE WEST
CAPITAL CORPORATION

Underperform **TP $75**
Analyst: Michael Lonegan / Durgesh Chopra

- **Q1 EPS Bridge:** We project year-over-year EPS to be flat at $0.15/share. Last year in 1Q22, weather was relatively neutral. This year in 1Q23, weather was beneficial as shown on the company website here). In terms of positive YoY drivers, we primarily expect sales growth and higher AFUDC. In terms of negative YoY drivers, we expect Pinnacle West to see pension impacts, higher O&M expense (even though full-year is expected to be flat), increased D&A, higher property taxes, increased interest expense, and a small TCA drag.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**:. Given the pending rate case and not yet finalized reversal of the SCR disallowance and ROE penalty, we expect PNW to reaffirm its 2023 and long-term EPS growth forecasts, as well as its capex plan, rate base growth and financing outlook. Below are additional thematic items we believe could be discussed on the Q1 call.
  - **Arizona rate case**: Pinnacle West filed its Arizona rate case on October 28th and key highlights include: Requested net revenue increase of 460 million; Equity ratio of 51.93% (versus current 54.67%); ROE of 10.25% (versus current 8.7%); ACC adjusted rate base of $10.5 billion with test year ended June 30, 2022; A 1% return on the increment of fair value rate base above APS's original cost rate base, as provided for by Arizona law; Modification of its adjustment mechanisms including the elimination of the Environmental Improvement Surcharge and collection of costs through base rates; Eliminating the Lost Fixed Cost Recovery mechanism and collecting costs through base rates and the Demand Side Management Adjustment Charge ("DSMAC"); Maintaining as inactive the Tax Expense Adjustor Mechanism; Maintaining the Transmission Cost Adjustment mechanism; Modifying the performance incentive in the DSMAC; Modifying the Renewable Energy Adjustment Charge to include recovery of capital carrying costs of APS owned renewable and storage resources; Changes to its limited-income program, including a second tier to provide an additional discount for customers with greater need; using a Twelve months of post-test Year plant to reflect used and useful projects that will be placed into service prior to July 1, 2023. Staff testimony is due May 22nd and hearings are set for August 2nd. APS requested that the increase become effective December 1, 2023.
  - **Court of Appeals' decision to vacate the SCR disallowance and ROE penalty presents potential upside.** The Court of Appeals issued its decision vacating the Commission's decision on the SCR disallowance and remanding it back to the Commission for further process. In addition, the Court vacated the Commission's 20 basis point "penalty" on ROE. The other parties have 30 days from the date of the decision on March 7th to appeal the Court of Appeals decision to the Supreme Court. The Supreme Court has discretion over whether it wants to take up the case or not. There is not a statutory timing requirement for when the Supreme Court makes that decision, however it is expected within a few months. If the decision gets appealed, Pinnacle West will need to wait for that process to conclude. If it does not get appealed, then PNW will need to figure out with the Commission the next steps. That can come in a few different forms, including folding into the current pending case, or keeping it in its own separate process. Either could happen, and it is unknown what will happen. As for the impact, the disallowed SCR portion was $216 million, which combined with the 20 basis point ROE benefit presents an opportunity for $0.20-0.30/share upside to our forecast. But again, it depends on how it is ultimately addressed by the Commission to know the actual earnings impact. Pinnacle West has not assumed any impact from the SCR in its current guidance and numbers, so obviously any impact would be in the positive unless the Supreme Court reversed the Court of Appeals' decision.
  - **Strong sales growth**: This year, PNW forecasts steady customer growth and robust weather-normalized sales growth of +1.5-2.5% and +3.5-5.5%, respectively. The company's long-term forecast now assumes retail customer growth of +1.5-2.5% for 2023 through 2025 and weather-normalized sales growth of +4.5-6.5% over the same period.
  - **O&M expense**: Pinnacle West continues to target declining adjusted O&M per kWh (with respect to 2021 levels) over its long-term plan and flat nominal adjusted O&M this year.
  - **IRP**: Pinnacle West plans to file an IRP in August 2023. It is typically a two-year process.
  - **Equity issuance plan**: PNW plans to continue to defer any equity issuance until the current rate case is resolved. The plan still includes $400-500 million of equity/alternatives. PNW's credit metric target remains 16-18% FFO to debt.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$5.47**	**$4.26**	**$0.15**	**$4.10**	**$4.65**	**$4.85**
Consensus			0.05	4.08	4.76	4.89
% diff.			*-100%*	*1%*	*-2%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

Outperform	**TP $32**
Analyst: Durgesh Chopra / Sharon Wang	

- **Q1 EPS Bridge:** We project year-over-year ongoing EPS to increase by $0.05 to $0.46, driven by addition of Rhode Island Energy and incremental transmission investment, O&M savings in PA, partially offset by less favorable weather than last year, and higher interest expense.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations:** We expect PPL to maintain its 2023 EPS guidance of $1.50-$1.65 and its long-term EPS growth forecast of 6-8% CAGR through 2026. We also anticipate the company will reaffirm its five-year capex plan of $11.9 billion for 2023-2026, which results in 5.6% average annual rate base growth through 2026, with greater than 7% rate base growth in back half of the plan. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **KY CPCN filling** (No. 2022-00402): In Dec, PPL subsidiaries Kentucky Utilities Company and Louisville Gas and Electric Company announced their plan to replace 1,500 MW of aging coal-fired generation by 2028. LG&E and KU are seeking approval of the Certificate of Public Convenience and Necessity (CPCN) filing from the KPSC (Kentucky Public Service Commission) by Oct.1, 2023. If approved, the proposed replacement plan represents ~$2.1B of investment in Kentucky from 2023-2028. PPL's Jan 11th updated capex plan through 2026 includes $1.6 billion out of the total $2.1 billion KY replacement generation spend and ~$1B of higher transmission spend in PA and RI. Next steps are intervener testimony in May and hearings scheduled in late August. Final decision is expected by Nov 6th.
  - **Additional details on the coal replacement strategy.** The proposal includes building two new 621 MW combined-cycle natural gas plants, building a 120 MW solar array, acquiring another 120 MW array to be developed by a third-party and constructing 125 MW of battery storage. LG&E and KU also plan to secure PPA (Power Purchase Agreement) for over 600 MW of additional solar generation and adding 14 new energy efficiency programs, which would reduce LG&E and KU's overall need for future generation by nearly 200 MW. PPL is also seeking permission to book AFUDC (Allowance for Funds During Construction) on these projects while under construction.
  - **Senate Bill 4:** Senate Bill 4 became law on March 29th, which requires Kentucky Public Service Commission (KPSC) approval of the retirement of fossil fuel-fired electric generating units in the state. PPL does not expect this bill to alter its KY generation investment plans as filed with the KPSC, or the timing of a KPSC decision on the filing. The Company also does not expect the new law to materially impact its business outlook and reaffirmed its earnings forecast and growth targets subsequent to the bill becoming effective in March.
  - **Rhode Island ISR**: On March 29th, the Rhode Island Public Utilities Commission ("RIPUC") approved $290 million (vs $352 million proposed) to improve Rhode Island's electric and gas networks in connection with the latest Infrastructure, Safety, and Reliability ("ISR") plans proposed by PPL subsidiary Rhode Island Energy for the period from April 1, 2023 to March 31, 2024. Proposed investments not approved (~$60million) may be considered in future proceedings.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$1.05**	**$1.41**	**$0.46**	**$1.59**	**$1.68**	**$1.80**
Consensus			0.46	1.59	1.70	1.82
% diff.			*0%*	*0%*	*-1%*	*-1%*

Source: Evercore ISI, Factset as of 4/18/23

PSEG
We make things work for you.

Outperform **TP $68**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year adjusted EPS to decrease by -0.04 to $1.29/share. PEG is decoupled, so weather will not impact results. Negative YoY drivers should primarily be driven by higher interest expense and pension/OPEB impacts. In terms of positive YoY drivers, we primarily anticipate growth from T&D investment programs and lower O&M.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations**: We expect PEG to reaffirm all of its guidance and messaging that it provided at its March 10th Investor Conference (highlights below).
  - **Quiet quarter following PEG's March 10th Investor Conference.** The company reaffirmed its 2023 EPS guidance of $3.40-3.50 and its long-term consolidated growth forecast of 5-7% EPS CAGR for 2023 through 2027, which includes a matching growth rate at the utility, and is driven by rate base growth and the PTC threshold for nuclear. In addition, PEG reaffirmed its five-year 2023-2027 utility capex program of $15.5-18.0B, which is still expected to drive a 2022-2027 rate base CAGR of 6.0-7.5%. The company also initiated a ten-year $34-40B capex program for 2023-2032 with the potential for $3-7B of incremental opportunities linked to NJ's accelerated electrification goals per Governor Murphy's Feb. 2023 executive order. PEG still does not plan to issue equity over its forecast period through 2027 and is targeting mid-teens FFO to debt. As previously known, PEG plans to exit offshore wind generation to eliminate large project risk (see our note) but will continue to pursue regulated offshore transmission projects. The company has said the 2023 EPS pension impacts are a $0.25-0.30 headwind. The New Jersey BPU recently approved its request to overlay a regulatory mechanism that reduced 20% of the headwind which is incorporated into PEG's 2023 EPS guidance range. PEG is also pursuing a lift-out approach which could mitigate another 20-30% of volatility moving forward. The lift-out pension expense mitigation strategy (transferring some pension related assets and obligations to a third party thereby reducing pension expense volatility) being considered is expected to be completed by year-end. As a reminder, 70% of the company's pension is recoverable through future rate cases.
  - **Rate case**: PEG plans on filing a rate case by year-end 2023 for rates effective in late 2024/early 2025. The rate case combined with the lift-out strategy should materially de-risk PEG's pension related earnings exposure in 2025 and beyond.
  - **PJM Outage:** An unplanned outage at Salem unit 2 in late Dec. 2022 occurred during a PJM region-wide generation emergency action and resulted in capacity performance penalties. The financial impact of the outage, including replacement power, penalties, as well as bonuses earned by the other operating PEG units, is not expected to be material.
  - **Offshore wind generation**: In Jan. 2023, PSEG announced it would sell its 25% equity interest in the Ocean Wind 1 offshore wind generation project to Ørsted (~$200MM in proceeds expected this year). PSEG has also decided not to exercise its option to purchase 50% of Ørsted's two Skipjack generating projects in Maryland or pursue an ownership interest in Ørsted's Ocean Wind 2 project or other offshore wind generation projects. PSEG is evaluating its options for the potential sale of its 50% interest in Garden State Offshore Energy, which holds rights to an offshore wind lease area south of New Jersey which we estimate could fetch $150MM. In total, the $350MM of potential cash inflow would be incremental to PEG's current earnings and financing plan through 2027. Assuming the company uses $350MM in excess cash to pay down debt at 4%, or lower future debt issuances in the plan, we see a small $0.02/share (or less than 1% of our 25E) EPS benefit. While we see a modest EPS benefit, we believe PEG's strategic decision to exit offshore wind and focus on its core utilities and nuclear generation business will be well perceived by investors
  - **Offshore wind Transmission investment**: On October 26th, PEG was awarded just ~$40MM of offshore wind transmission projects by the NJ BPU; the Company had been expecting a much higher $1-3B, however, the BPU also indicated an additional solicitation to consider the state's increased offshore wind generation targets. PEG has said that it remains optimistic that the Coastal Wind Link's emphasis on reliability and resiliency will keep it as a strong contender for any future transmission solicitations to bring regional offshore wind projects onshore.

- **Positioning into Qtr: Positive**. Our above-consensus EPS estimate drives our positive view into earnings. PEG is decoupled, so weather will not impact results unlike the majority of peers. We expect the stock to build on the YTD momentum (+9% vs peers +3.6%) as PEG is strongly positioned with first quarter results to deliver on 2023 targets with a light regulatory calendar for the balance of the year. PEG is expected to file its NJ rate case by year-end 2023.

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$3.65**	**$3.47**	**$1.29**	**$3.45**	**$3.75**	**$4.00**
Consensus			1.19	3.44	3.69	4.05
% diff.			*8%*	*0%*	*2%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

Sempra Energy

Outperform **TP $175**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease -$0.06 to $2.85/share. We expect weather to be favorable (+$0.04 estimate) this year, driven by Texas. In terms of negative YoY drivers, we primarily anticipate lower Infrastructure business earnings, higher interest expense, and the negative impact of the cost of capital decision in California. In terms of positive YoY drivers, we expect benefits in Texas from higher rate base and sales growth, and increased earnings from a step-up in FERC rate base in California.

- **What to look for in the earnings report (Key debates/themes):**

    - **Q1 expectations:** Sempra has said it will issue 2024 EPS guidance and extend its capex forecast by a year to 2027 on the 1Q23 earnings call, now that it has received a final outcome in the Texas rate case and has made a positive FID on Port Arthur Phase 1. We expect the company to reaffirm 2023 EPS guidance of $8.60-9.20 and extend its long-term 6-8% growth forecast through 2027 based off of 2023 guidance. Below are thematic items that we believe could be discussed on the Q1 call.
    - **On March 20th, Sempra announced that its 70%-owned subsidiary Sempra Infrastructure Partners (SIP) reached a positive final investment decision (FID) for the development, construction, and operation of the Port Arthur LNG Phase 1 project**. Total capex for the Phase 1 project is estimated to be $13 billion which includes previously announced EPC contract with Bechtel of $10.5 billion. SIP also announced an agreement whereby KKR will acquire indirect, non-controlling interest in the Port Arthur LNG Phase 1 project. Using the 25% midpoint of SIP's targeted 20-30% project ownership, KKR/ConocoPhillips (NYSE: COP, covered by Stephen Richardson) will own 45%/30% respectively. Sempra stated that if SIP's indirect ownership interest is at 25% ($3.3 billion capex), Sempra Infrastructure would expect its share of average adjusted EBITDA after full commercial operations to be ~$410MM annually which after taxes translates into ~$330MM annually or 10% unlevered return, in line with company's high single digit to low double digit targeted returns. The Port Arthur LNG Phase 1 project located in Texas, is fully permitted and is designed to include two natural gas liquefaction trains, two LNG storage tanks and associated facilities with a nameplate capacity of 13 Mtpa. The expected commercial operation dates for Train 1 and Train 2 are 2027 and 2028, respectively. The long-term contractable capacity of 10.5 Mtpa is fully subscribed under binding long-term agreements with the following counterparties: ConocoPhillips, RWE Supply and Trading, PKN ORLEN S.A., INEOS and ENGIE S.A., all of which became effective upon reaching FID. Sempra Infrastructure also announced the closing of the project's $6.8B non-recourse debt financing and the issuance of the final notice to proceed under the project's engineering, procurement and construction agreement. Finally, SRE is actively marketing and developing the competitively positioned Port Arthur LNG Phase 2 project, which is expected to have similar offtake capacity to Phase 1. See our note.
    - **Credit metrics**: Moody's stated that the positive FID in the Port Arthur LNG Phase 1 project is credit negative, but the credit agency has maintained its Stable outlook for its Baa2 rating. Moody's said on our March 21st webinar (see note) that it was waiting to see how the Oncor rate case played out (positively, in our view). Recall that Sempra does not currently have any equity issuance in its plan.
    - **Oncor rate case**: On April 5th, the Texas commission issued an order granting Oncor a ~$150MM revenue increase (ask was ~$250MM) with a 9.7% ROE (request 10.3%) and equity ratio of 42.5% (ask was 45%).
    - **Cost of Capital potential trigger**: For the 2023-2025 cost of capital, a final decision lowered the ROE by 25bps to 9.95% for SDGE and to 9.80% for SCG, with the equity layer for both maintained at 52%. The CCM mechanism is still in place and if the current interest rate environment holds, could trigger to the upside in 2024 and increase ROE.
    - **California rate cases**: Sempra has a pending rate case in California for new rates effective in 2023 and 2024, respectively. A proposed decision is expected in 2Q24.
    - **Cameron LNG**: the FID decision is expected this summer 2023.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$8.43**	**$9.21**	**$2.85**	**$8.95**	**$9.65**	**$10.10**
Consensus			2.84	8.97	9.59	10.15
% diff.			*0%*	*0%*	*1%*	*-1%*

Source: Evercore ISI, FactSet as of 4/18/23

Southern Company

In Line **TP $69**
Analyst: Durgesh Chopra / Michael Lonegan

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease -$0.27 to $0.70/share. Company guidance for 1Q23 is also $0.70, which includes -$0.13 of unfavorable weather as of the first half of the quarter when the outlook was issued. Weather last year in 1Q22 was -$0.02 unfavorable. In terms of negative YoY drivers, we primarily expect the Company to see higher O&M, increased interest expense, higher depreciation & amortization, increased taxes other than income, and share dilution from the mandatory convertible that converted in August 2022. For positive YoY drivers, Southern should benefit primarily from new electric rates and higher sales growth at the utilities.

- **What to look for in the earnings report (Key debates/themes):**

  - **Q1 expectations**: We expect Southern to reaffirm its 2023 EPS guidance of $3.55-3.65, its 2024 EPS guidance of $3.95-4.10, and its long-term 5-7% EPS growth forecast. We anticipate the company will also maintain its $43 billion capital plan for 2023-2027 and its 6% total rate base growth for 2022-2027, including 5% electric and 10% gas. Below are additional thematic items that we believe could be discussed on the Q1 call.
  - **Management change:** Chris Womack recently became the new President and CEO of Southern Company. Womack has served as president of Georgia Power since 2020 and chairman, president and CEO since 2021. Womack is expected to host the 1Q23 earnings call, so investors will be keenly focused on any new messaging from the company.
  - **Vogtle project update:** Georgia Power recently announced that the generator at Vogtle Unit 3 has generated electricity for the first time, and the unit has successfully synchronized and connected to the electric grid. Connecting to the electric grid is part of ongoing startup testing for Vogtle Unit 3, and operators will continue to raise reactor power for electricity generation while performing tests at various power levels. This Unit 3 milestone follows initial criticality, reached on March 6th, when operators safely started the nuclear reaction inside the reactor, generating nuclear heat to produce steam. Once all startup testing is successfully completed and the unit is available for reliable dispatch, Unit 3 is expected to enter commercial operation in May or June 2023. As it pertains to Unit 4, Georgia Power recently announced that hot functional testing has begun. Hot functional testing marks the last series of major tests underway for the new nuclear unit ahead of initial fuel load. As part of the testing process, nuclear operators will use the heat generated by the unit's four reactor coolant pumps to raise the temperature and pressure of plant systems to normal operating levels. Once normal operating temperature and pressure levels are achieved and sustained, the unit's main turbine will be raised to normal operating speed using steam from the plant. During these series of tests, nuclear operators will be able to exercise and validate procedures as required ahead of fuel load. Vogtle Unit 4 is projected to enter service in late 4Q23 or 1Q24. The total cost of the Vogtle unit 3 and unit 4 remains $10.5B.
  - **Vogtle prudency filing**: Southern will make its prudency filing in the summer or fall of 2023 and it should take six months for approval. Any cost recovery above the $7.3 billion (of the total $10.5 billion) of Vogtle costs would be additive to the financial plan as SO has already written of ~$3.2 billion. Roughly $3.6 billion of total costs has already been deemed prudent.
  - **Incremental capex opportunities:** with Q4 results, Southern rolled forward and raised its five-year capex program by 5% to 43 billion for 2023-2027 versus $41 billion for the 2022-2025 period. The company reiterated is previous disclosure (but for this new extended plan) that there could have incremental opportunities totaling $3 billion for Southern Power growth projects and additional regulated investments. That could bring this program to $46+ billion. SO still does not have any plans to issue equity.

- **Positioning into Qtr: Neutral**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$3.41**	**$3.60**	**$0.70**	**$3.60**	**$4.05**	**$4.30**
Consensus			0.77	3.61	4.03	4.31
% diff.			*-9%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

VISTRA ENERGY

Outperform **TP $31**
Analyst: Durgesh Chopra

- **Q1 EBITDA Bridge:** We project VST's 1Q23 EBITDA to be $550MM, which would be relatively flat versus the $547MM from the same period last year. In terms of positive YoY drivers, we primarily expect the company to benefit from higher power prices with lower capacity revenues. In terms of negative YoY drivers, we expect a NOPEC-related headwind.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** We expect VST to reaffirm its 2023 legacy business EBITDA guidance range of $3.4-$4.0B. We also expect affirmation of the $3.5-3.7B targeted annual EBITDA range for 2024 and 2025. VST is likely to provide a combined company (Pro Forma Energy Harbor acquisition) EBITDA guidance/disclosures after the transaction closes, which is currently expected in second half of this year. Below are thematic topics we believe could be addressed on the Q1 call.
  - **Energy Harbor Acquisition**. On March 6th, VST announced acquisition of Energy Harbor for $3B in cash and 15% equity interest in Vistra Vision, a newly found subsidiary, which will include Energy Harbor's nuclear and retail businesses and Vistra's nuclear, retail businesses and renewables/storage projects. The expected annual run rate EBITDA is $900mm (including $125mm of assumed synergies to be realized by 2025 and excluding ~$150mm average annual impact of out-of-the money generation hedges), representing a transaction multiple of ~7.5x EV/EBITDA. The implied valuation for Vistra Vision is ~9.5x EV/EBITDA. The company plans to finance the $3.2B (including fees) cash payment with a mix of senior secured, unsecured and term loan ($2.6B) and cash on hand ($0.6B) Management continues to target long-term net Debt/EBITDA of sub 3x. The transaction is expected to close in second half of 2023 and subject to customary approvals, including from the Nuclear Regulatory Commission (NRC); the Federal Energy Regulatory Commission (FERC), and the Department of Justice (DOJ) under HartScott-Rodino Act. We view the transaction as the right strategic move which gives VST diversification and scale across multiple carbon-free technologies, making them the second largest merchant operator of nuclear assets in the US. We have run a simple accretion/dilution analysis on Exhibit 2 to gauge the economic value of this transaction which we estimate to be 16% to 28% value accretive, see our note here.
  - **NOPEC related headwind.** In September 2022, citing rising electric prices, Ohio's retail energy provider Northeast Ohio Public Energy Council (NOPEC) moved its 550K customers form its own platform to their utility default service provider. We estimate ~$10MM EBITDA impact per month (~$40MM for 2022) assuming VST has to procure power to serve as the default service provider to roughly 1/3rd of NOPEC customers. The company's 2023 guidance incorporates a continued headwind this year, which we estimate to be $50MM through May 2023 (VST's obligation as a default service provider ends in May 2023) .
  - **Capital Allocation Update**: VST had completed~$2.45 billion of share repurchases as of 02/23/23. The remaining~$0.8 billion of the upsized $3.25 billion authorization is expected to be executed by year-end 2023. Through 2026 the company projects a total of $3B in additional repurchases
  - **VST Zero**: VST announced its 50MW Brightside Solar Facility was online in April 2022 in TX. The Company also announced in each of May and June 2022 that its 260MW DeCordova Energy Storage Facility and its 108MW Emerald Grove Solar Facility were online in Texas. With these announcements, VST Zero has >1GW of renewable assets (solar and storage) in operation versus their target of ~5 GWs by year-end 2026 with the ~$5B in development capital (generating $450-500MM EBITDA) funded by project debt and other financings ($3.5B), Vistra Zero projects cash flow($0.5B) and $1B preferred stock offering proceeds.
  - **Hedge update:** As of the Q4 call, VST had hedged approximately 73% of its expected generation volumes on average for the three-year period 2023 to 2025, with 2023 hedged at approximately 92% (vs. 87% as of Q3 call) and 2024 hedged at approximately 73%.

- **Positioning into Qtr: Neutral**

Adj. EBITDA	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$1,941**	**$3,115**	**$550**	**$3,500**	**$3,600**	**$3,600**
Consensus			671	3,588	3,880	3,836
% diff.			*-18%*	*-2%*	*-7%*	*-6%*

Source: Evercore ISI, FactSet as of 4/18/23

WEC Energy Group

In Line **TP $98**
Analyst: Durgesh Chopra / Sharon Wang

- **Q1 EPS Bridge:** We project year-over-year EPS to decrease $0.22 to $1.57 in Q1 2023. Weather is roughly a 15c hit YoY (13c vs normal). Other negative drivers include higher interest expense, D&A, fuel expense, reversal of one-time items at WEC Infrastructure partially offset by new rate increase.

- **What to look for in the earnings report (Key debates/themes):**
  - **Q1 expectations:** On March 27th, WEC reaffirmed its 2023 annual earnings guidance of $4.58 to $4.62 per share, assuming normal weather for the remainder of the year. In light of one of the warmest winters in history in the Upper Midwest, the company lowered its Q1 guidance to $1.56-$1.58 from $1.68-$1.72 per share. We expect WEC to maintain its 2023 EPS guidance of $$4.58 to $4.62 and its 6.5-7% long-term EPS growth target. We also anticipate the company will reaffirm its five-year capex plan of $20.1 billion for 2023-2027. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **Limited Reopener**: WEPCO will file for a limited reopener in May 2023 to address the revenue requirements associated with recovering new capital investments that will achieve commercial operation in 2023 and 2024, as well as to address reduced O&M expenses from future coal plant retirements. WEC will also seek limited 2024 rate reopeners for WEPCO gas and WG to address the additional revenue requirements associated with a new facility being place in service for a full year and a liquefied natural gas facility that will achieve commercial operation during 2024.
  - **Illinois Rate Reviews**: In January, Peoples Gas and North Shore Gas filed applications with the Illinois Commerce Commission for rate increase of $194.7 million and $18.7 million, respectively. Peoples Gas proposed ROE is 9.9% vs current 9.05%, and North Shore Gas proposed ROE is 9.9% vs current 9.67%. Proposed equity ratios for both are 54% vs Peoples Gas current 50.33% and North Shore Gas current 51.58%. Final Order is expected by the November timeframe for new rates effective January 1, 2024.
  - **MERC Rate Case**: In Nov, WEC filed a rate review at one of their smaller utilities, Minnesota Energy Resources Corporation (MERC). The company is seeking an adjusted increase in revenues of $32.8M with a 10.3% ROE and a 53.0% equity layer, leading to an overall bill increase of 7.9% primarily driven by capital investment. Decision is expected in Q4 2023 with new rates going into effect on January 1, 2024.
  - **Samson Solar Energy Acquisition**: On Feb 24th, 2023, WEC purchased an 80% ownership interest in Samson I from Invenergy with ~$250M investment, which is a 250-megawatt solar project located in northeastern Texas. The total 1,300 MW Samson is the largest solar project under construction in the United States, and the second solar investment announced in WEC's Infrastructure segment. In early March, Samson I was damaged by a windstorm. Certain sections across 40% of the project have incurred some amount of damage. Company is continuing to assess the extent of the damage at the site. We don't expect material earnings drag from it with insurance and warranties in place.
  - **MISO Transmission Capex**: In July 2022, MISO awarded roughly $900 million investment opportunity out of the total $10.3B MISO transmission capex in the first tranche of Phase 1 projects to ATC (American Transmission Company), in which WEC has an approximately 60% equity ownership interest. Investment in these projects is expected to start as early as 2024 (portion of $900m is included in WEC's 2023-2027 plan). Work on three additional MISO tranches has begun and MISO has indicated that an initial set of Tranche 2 projects, also located at MISO North, is scheduled to be approved in 4Q23. Projects included in Tranche 3 are expected to be located in MISO South, with approval scheduled for 4Q24, while projects identified in Tranche 4 are expected to improve transfer capability between MISO North and MISO South, with approval scheduled for 4Q25.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$4.11**	**$4.45**	**$1.57**	**$4.60**	**$4.90**	**$5.25**
Consensus			1.68	4.61	4.90	5.25
% diff.			*-7%*	*0%*	*0%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

Outperform **TP $75**
Analyst: Durgesh Chopra / Sharon Wang

Xcel Energy

- **Q1 EPS Bridge:** We project year-over-year EPS to increase $0.02 to $0.72/share. Weather impact is expected to be slightly favorable YOY for XEL. Positive YoY drivers include higher electric and gas sales volumes, riders, and new rates, partially offset by O&M increase and share dilution.

- **What to look for in the earnings report (Key debates/themes):**

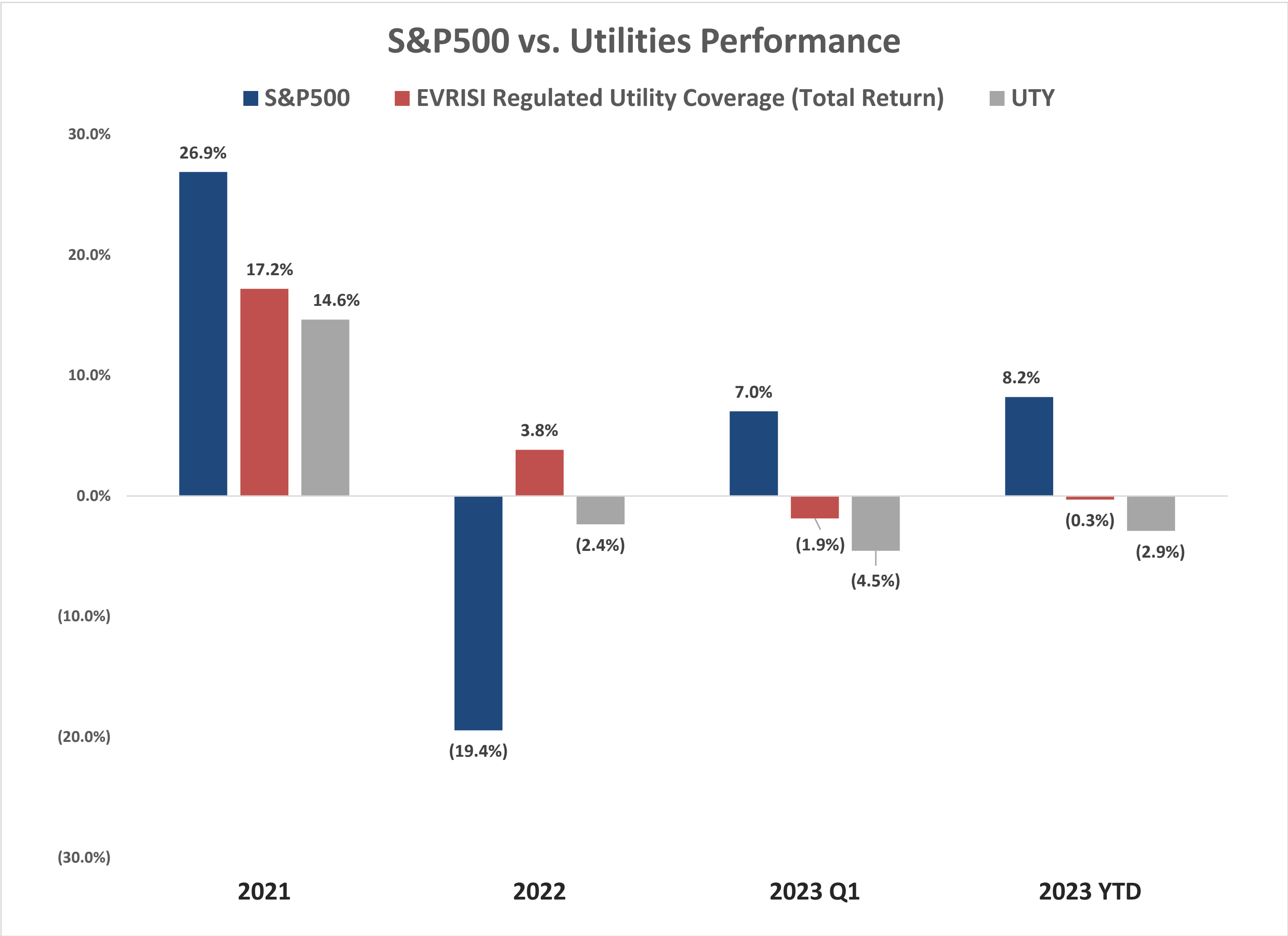
  - **Q1 expectations:** We expect XEL to maintain its 2023 EPS guidance of $3.30 to $3.40 and its long-term annual EPS growth of 5%-7%. We also anticipate the company will reaffirm its five-year capex plan of $29.5 billion for 2023-2027. Below are more thematic items that we expect could be covered in the company's Q1 presentation.
  - **MN electric rate case**: NSPM filed a three-year electric rate case requesting rate increase of $677M (revised to $498M) over three years, with ROE of 10.2% and equity ratio of 52.5%. On March 31, 2023, the Administrative Law Judge (ALJ) recommended a rate increase of $384M based on a ROE of 9.87% and an equity ratio of 52.5%. In addition, it also reflects rate reductions associated with certain wind and nuclear generation life extensions and Midcontinent Independent System Operator, Inc. (MISO) capacity revenues and related tracker, as proposed in NSP-Minnesota's revised rate request. We see it as a constructive recommendation and will look for final decision in Q2 2023.
  - **MN gas rate case**: In October, XEL filed a constructive settlement in the gas rate case for a $20.5M revenue increase (vs $36M requested) with a 9.57% ROE (vs 10.5% requested) and 52.5% equity ratio (same with requested). In March 2023, Minnesota commission approved the settlement without modification.
  - **CO electric rate case**: In Nov, XEL filed Colorado electric rate case requesting revenue increase of $312 million, with 10.25% ROE and 55.7% equity layer. Intervenor testimony is due on May 3rd and hearings will start on July 6th. Final decision is expected in Sep 2023.
  - **New Mexico electric rate case**: In Nov, XEL also filed New Mexico electric rate case, requesting rate increase of $78 million with 10.75% ROE and 54.7% equity layer. Final decision is expected in Sep 2023.
  - **South Dakota electric rate case**: In June 2022, NSP-Minnesota filed a South Dakota electric rate case seeking a revenue increase of ~$44M, based on a ROE of 10.75 and an equity ratio of 53%. A final decision is expected in mid-2023.
  - **Texas electric rate case filing**: In Feb 2023, XEL filed Texas electric rate case requesting revenue increase of $158 million, based on a 10.65% ROE and a 54.68% equity layer. We expect the final decision to be in the first quarter next year.
  - **Generation RFPs of approved resource plans:** RFPs for 7.5GW of generation opportunities are issued in MN and CO. Company expects a decision in Minnesota in Q3 timeframe. Commission decision in Colorado is anticipated to be filed in 2H 2023.
  - **MISO**: XEL still estimates ~$1.2 billion investment opportunity (included in the current plan) out of the total $10.3 billion MISO transmission capex in the first tranche of Future 1 projects awarded by MISO in July 2022. The total $30B spending in all of Future 1 should be awarded over the next 10-15 years, which could mean potential for up to $4-$5 billion incremental investment for XEL, ~$0.15 annual EPS upside or 4% of our 25E.

- **Positioning into Qtr: Neutral.**

Adj. EPS	2021A	2022A	1Q23E	2023E	2024E	2025E
EVR ISI	**$2.96**	**$3.17**	**$0.72**	**$3.37**	**$3.59**	**$3.84**
Consensus			0.73	3.38	3.61	3.85
% diff.			*-1%*	*0%*	*-1%*	*0%*

Source: Evercore ISI, FactSet as of 4/18/23

After a Strong 2022, Utes Have Underperformed YTD

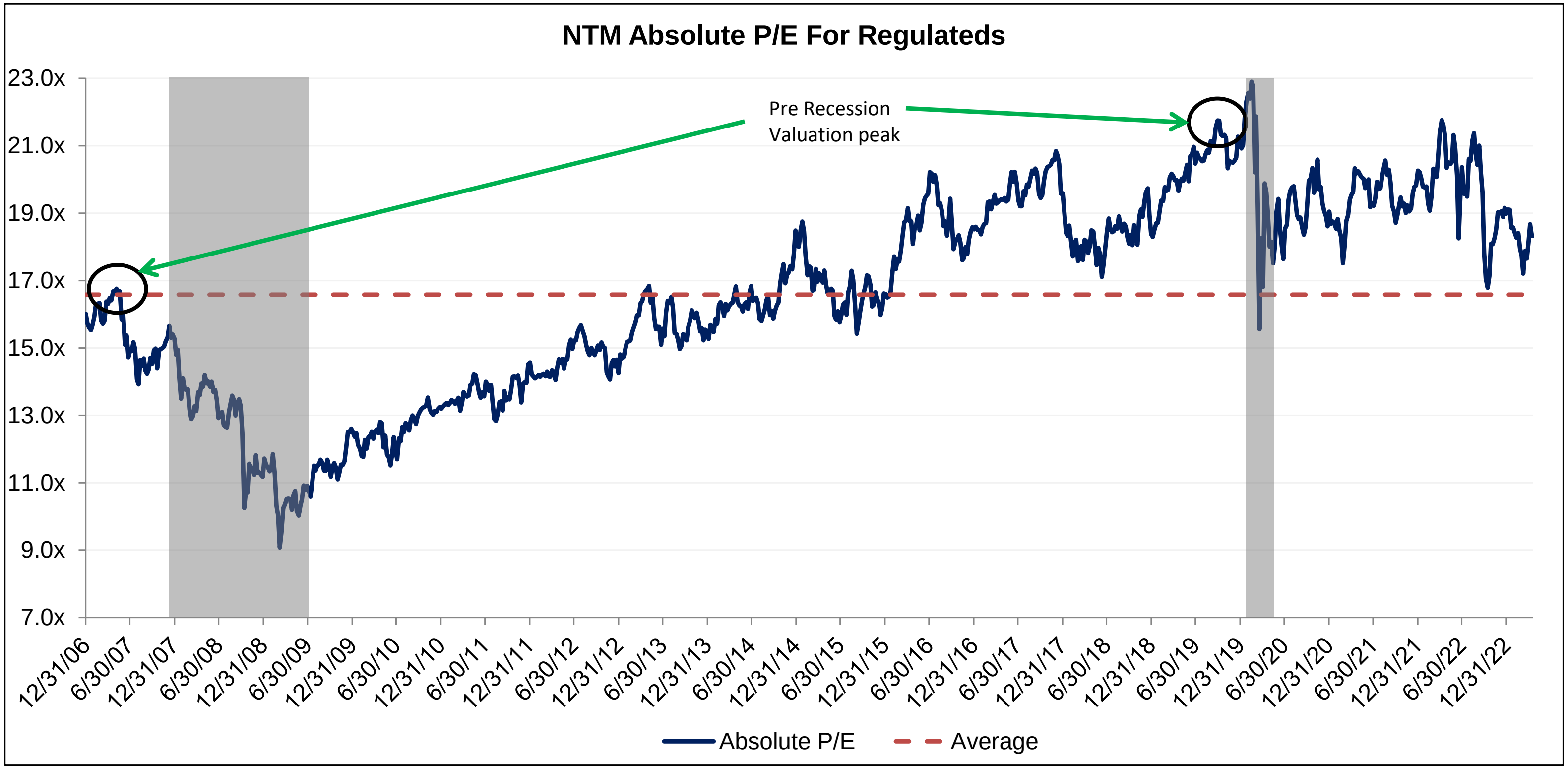


Updated as of 4/18/23

Source: FactSet, Evercore ISI Research

Absolute valuation is higher than historical average

- The group is now trading at ~18.3x, higher than the 15-year average multiple of 16.6x (NTM)
- On an absolute basis, NTM PEs for Utes averaged ~15x 12mths leading up to the 08/09 recession peaking at ~17x, below where the group is trading currently.
- In the COVID recession however, absolute P/E for Utes averaged ~21x 12mths prior and peaked at 23x, which would be 26% upside from current levels at ~18.3x.



Updated as of 4/18/23

Source: FactSet, Evercore ISI Research

Utilities Are 20% Expensive on '24 Yields Assuming Yields Remain Unchanged

Utility Valuation 4/18/23			10 YR / Baa	3.58% / 5.62%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2023 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	**2.76%**	**2.60%**	**24.3x**	**33.3%**
	2.98%	2.75%	23.0x	25.9%
	3.20%	2.91%	21.8x	19.3%
	3.42%	3.06%	20.7x	13.4%
	3.64%	3.21%	19.7x	8.1%
	3.86%	3.36%	18.8x	3.2%
- 68% Confidence Interval	**4.08%**	**3.51%**	**18.0x**	**-1.3%**
	4.30%	3.66%	17.3x	-5.4%
	4.52%	3.82%	16.6x	-9.1%
	4.74%	3.97%	16.0x	-12.6%
	4.96%	4.12%	15.4x	-15.8%
	5.18%	4.27%	14.8x	-18.8%
	5.40%	4.42%	14.3x	-21.6%
Predicted Valuation	**5.62%**	**4.57%**	**13.8x**	**-24.2%**
	5.84%	4.73%	13.4x	-26.6%
	6.06%	4.88%	13.0x	-28.9%
	6.28%	5.03%	12.6x	-31.1%
	6.50%	5.18%	12.2x	-33.1%
	6.72%	5.33%	11.9x	-35.0%
+ 68% Confidence Interval	**6.94%**	**5.49%**	**11.5x**	**-36.8%**
	7.16%	5.64%	11.2x	-38.5%
	7.38%	5.79%	10.9x	-40.1%
	7.60%	5.94%	10.7x	-41.6%
	7.82%	6.09%	10.4x	-43.1%
	8.04%	6.24%	10.1x	-44.5%
+ 95% Confidence Interval	**8.26%**	**6.40%**	**9.9x**	**-45.8%**

Regulated utilities now look ~24% expensive on current yields

Utility Valuation 4/18/23			10 YR / Baa	3.58% / 5.62%
Confidence Intervals	BBB Yield %	Expected Defensive Index Yld	Implied 2024 P/E	Upside / (Downside) for Index
- 95% Confidence Interval	**2.76%**	**2.60%**	**24.0x**	**40.0%**
	2.98%	2.75%	22.6x	32.3%
	3.20%	2.91%	21.5x	25.4%
	3.42%	3.06%	20.4x	19.2%
	3.64%	3.21%	19.4x	13.5%
	3.86%	3.36%	18.6x	8.4%
- 68% Confidence Interval	**4.08%**	**3.51%**	**17.8x**	**3.7%**
Current Valuation	4.30%	3.66%	17.0x	-0.6%
	4.52%	3.82%	16.3x	-4.5%
	4.74%	3.97%	15.7x	-8.2%
	4.96%	4.12%	15.1x	-11.6%
	5.18%	4.27%	14.6x	-14.7%
	5.40%	4.42%	14.1x	-17.6%
Predicted Valuation	**5.62%**	**4.57%**	**13.6x**	**-20.4%**
	5.84%	4.73%	13.2x	-22.9%
	6.06%	4.88%	12.8x	-25.3%
	6.28%	5.03%	12.4x	-27.6%
	6.50%	5.18%	12.0x	-29.7%
	6.72%	5.33%	11.7x	-31.7%
+ 68% Confidence Interval	**6.94%**	**5.49%**	**11.4x**	**-33.6%**
	7.16%	5.64%	11.1x	-35.4%
	7.38%	5.79%	10.8x	-37.1%
	7.60%	5.94%	10.5x	-38.7%
	7.82%	6.09%	10.2x	-40.2%
	8.04%	6.24%	10.0x	-41.7%
+ 95% Confidence Interval	**8.26%**	**6.40%**	**9.7x**	**-43.0%**

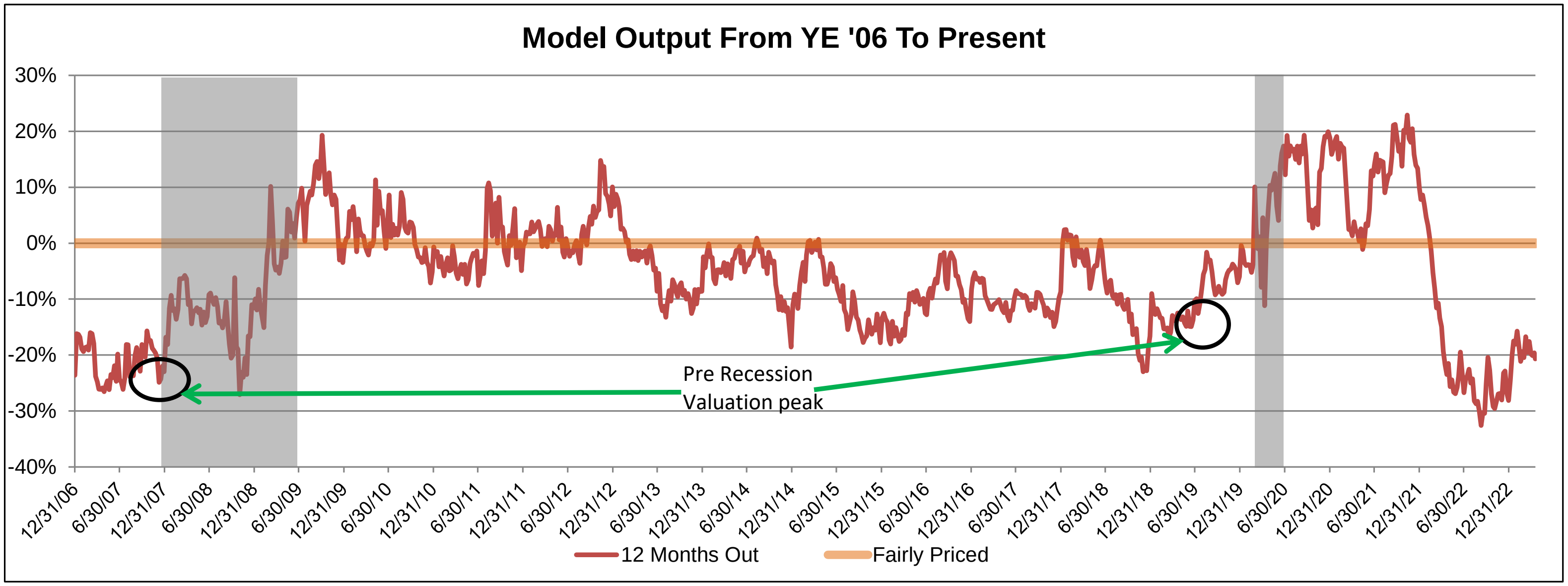
If rates stay unchanged for the next 12 months, regulated utilities now ~20% expensive

Updated as of 4/18/23

Source: FactSet, Evercore ISI Research

Versus Bond Yields, group valuation remains elevated, 20% expensive

- The group was 16% expensive on average when compared to Moody's Baa yield in our bond regression model 12mths prior to the 08/09 recession with group valuation peaking at 24%.
- Utes were 4% expensive on average in our bond regression model 12mths leading up to the COVID recession peaking at 12%.
- Utes are now 20% expensive in our bond model, 4% below 08/09 pre-recession peak.

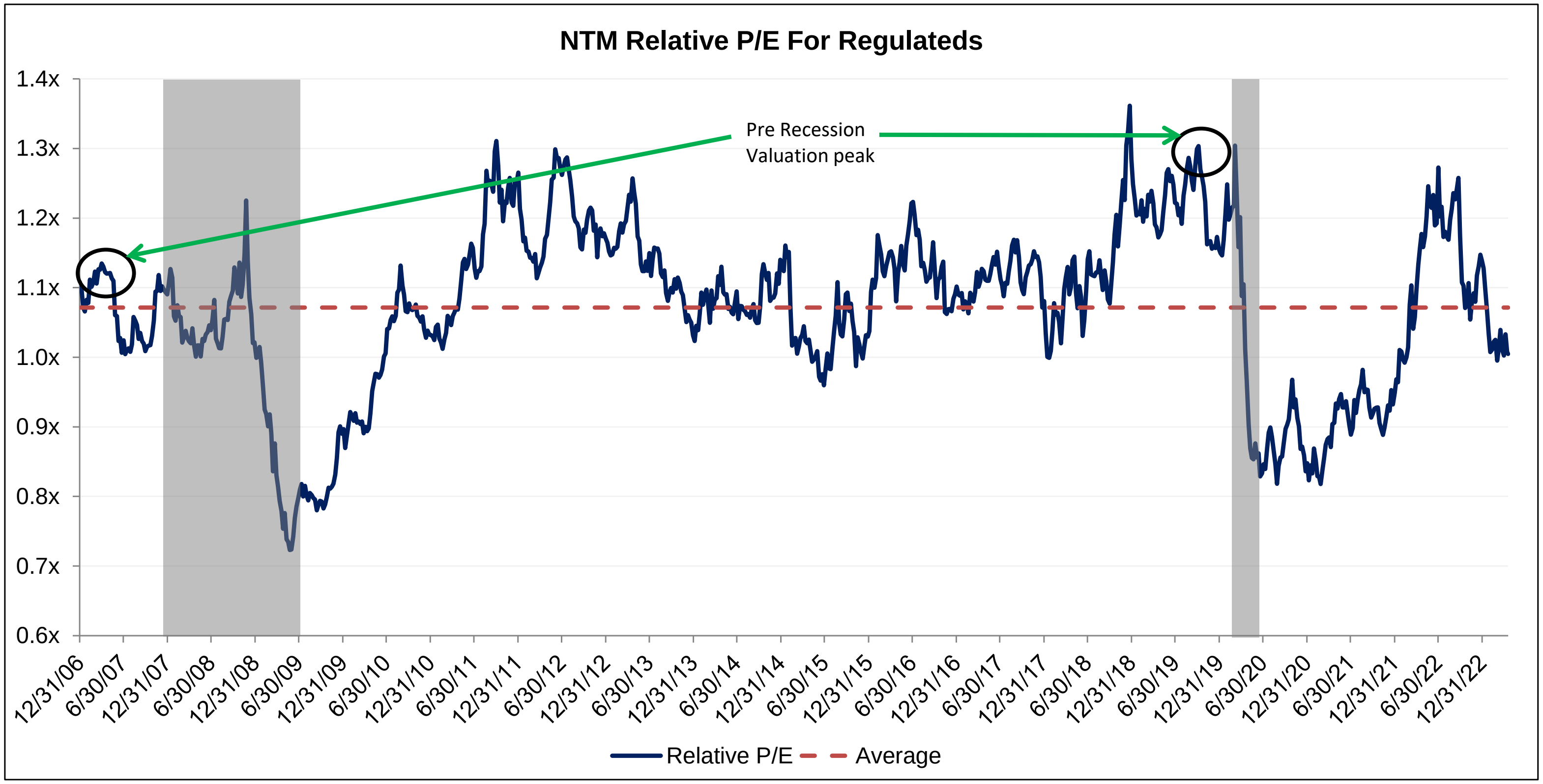


Updated as of 4/18/23

Source: FactSet, Evercore ISI Research

Group's NTM P/E relative to S&P 500 is lower than the historical average

- NTM P/E relative to S&P 500 is 1.00x, lower than the historical average of 1.07x.
- NTM relative PEs for Utes averaged 1.07x 12mths leading up to the 08/09 recession peaking at 1.13x, 13% higher than where the group is trading currently.
- In the COVID recession, relative P/E for Utes averaged 1.22x 12mth prior and peaked at 1.30x, which would be ~30% upside from current levels at 1.00x assuming S&P500 stays flat.

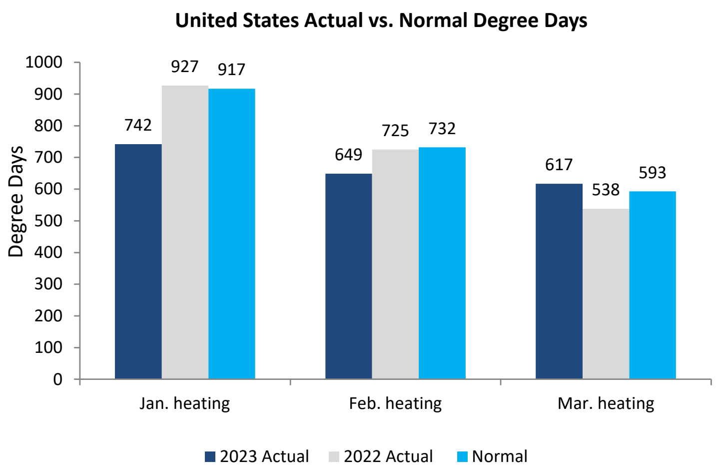


Updated as of 4/18/23

Source: FactSet, Evercore ISI Research

US weather in 1Q 2023 was unfavorable for utilities versus the same period last year and as compared to normal.

- **US weather in 1Q 2023 was unfavorable for utilities versus the same period last year and as compared to normal.** Based on National Oceanic and Atmospheric Administration (NOAA) heating degree day data, the weather in 1Q23 drove -8% lower degree days versus last year and -10% below normal, on average across the US. Most of the regions were meaningfully lower when compared to the same period last year in 1Q22, with the SW Central having the largest decrease. Relative to normal, most of the regions had unfavorable weather, with South Atlantic having the most unfavorable weather. In March, WEC Energy lowered its Q1 guidance in light of one of the warmest winters in history in the Upper Midwest, based on our Q1 preview conversations with several companies to date, weather has also been communicated as unfavorable versus guidance (normal weather), but the impact does vary on a company-by-company basis versus the prior year.



	Q1 2023	Q1 2022	Norm	% change vs. year-ago	% change vs. norm
New England	2,754	3,131	3,219	-12%	-14%
Middle Atlantic	2,447	2,882	2,968	-15%	-18%
NE Central	2,751	3,208	3,227	-14%	-15%
NW Central	3,201	3,456	3,326	-7%	-4%
South Atlantic	1,133	1,369	1,523	-17%	-26%
SE Central	1,419	1,817	1,895	-22%	-25%
SW Central	1,024	1,334	1,270	-23%	-19%
Mountain	2,667	2,360	2,321	13%	15%
Pacific	1,783	1,317	1,419	35%	26%
U.S.	2,008	2,190	2,242	-8%	-10%

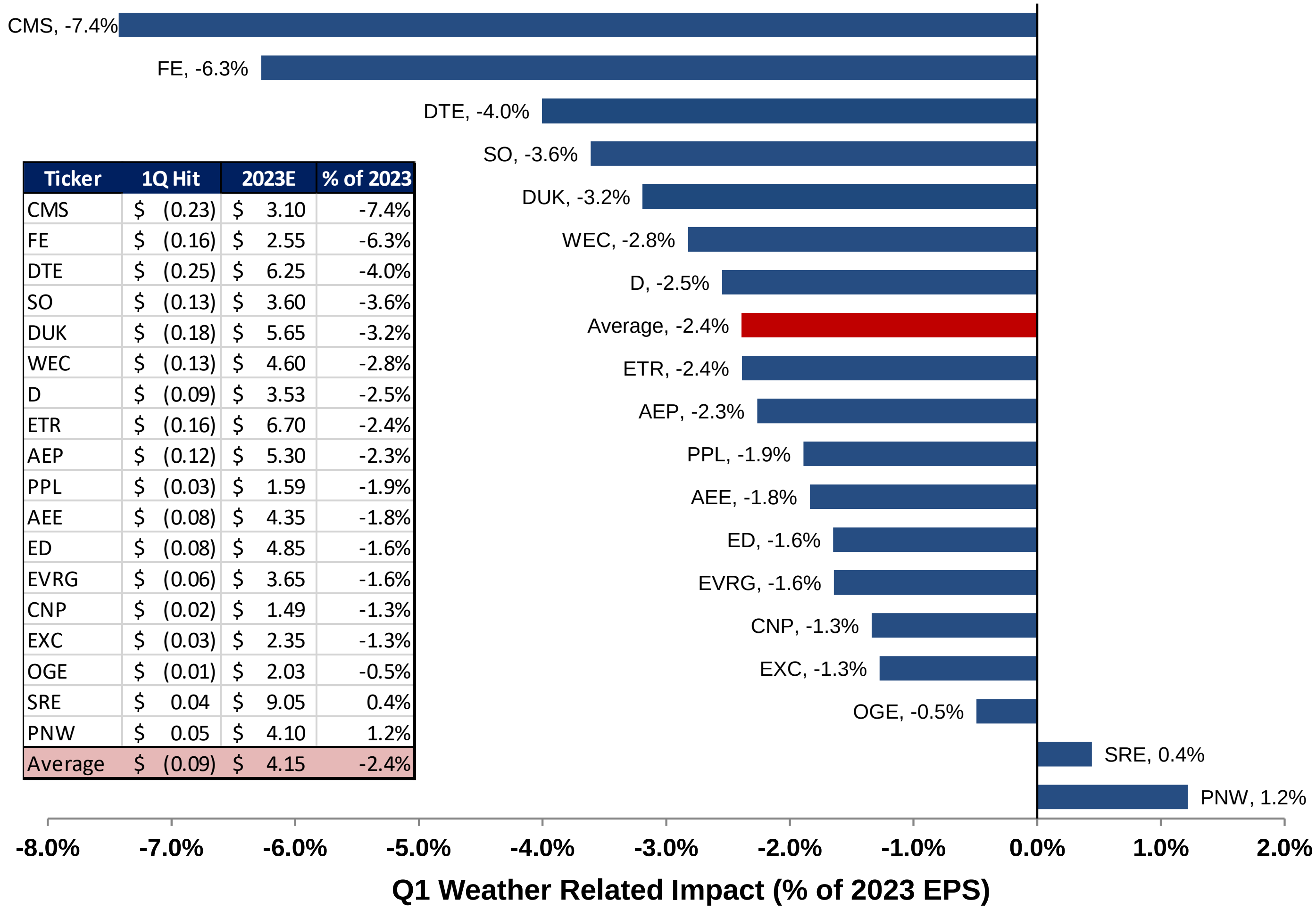
Region	Jan. heating 2023 actual	Jan. heating 2022 actual	Jan. heating norm	% change vs. year-ago	% change vs. norm
New England	945	1,299	1,246	-27%	-24%
Middle Atlantic	849	1,224	1,158	-31%	-27%
NE Central	1,007	1,355	1,302	-26%	-23%
NW Central	1,196	1,419	1,390	-16%	-14%
South Atlantic	469	654	643	-28%	-27%
SE Central	577	838	820	-31%	-30%
SW Central	433	561	593	-23%	-27%
Mountain	993	906	951	10%	4%
Pacific	613	507	564	21%	9%
United States	**742**	**927**	**917**	**-20%**	**-19%**

Region	Feb. heating 2023 actual	Feb. heating 2022 actual	Feb. heating norm	% change vs. year-ago	% change vs. norm
New England	955	995	1,060	-4%	-10%
Middle Atlantic	811	920	983	-12%	-17%
NE Central	887	1,067	1,061	-17%	-16%
NW Central	1,040	1,182	1,078	-12%	-4%
South Atlantic	327	420	507	-22%	-36%
SE Central	428	597	623	-28%	-31%
SW Central	362	501	414	-28%	-13%
Mountain	863	825	737	5%	17%
Pacific	573	440	439	30%	31%
United States	**649**	**725**	**732**	**-10%**	**-11%**

Region	Mar. heating 2023 actual	Mar. heating 2022 actual	Mar. heating norm	% change vs. year-ago	% change vs. norm
New England	854	837	913	2%	-6%
Middle Atlantic	787	738	827	7%	-5%
NE Central	857	786	864	9%	-1%
NW Central	965	855	858	13%	12%
South Atlantic	337	295	373	14%	-10%
SE Central	414	382	452	8%	-8%
SW Central	229	272	263	-16%	-13%
Mountain	811	629	633	29%	28%
Pacific	597	370	416	61%	44%
United States	**617**	**538**	**593**	**15%**	**4%**

Source: NOAA, Evercore ISI Research

Q1 Weather Related Impact (% of 2023 EPS)*



Ticker	1Q Hit	2023E	% of 2023
CMS	$ (0.23)	$ 3.10	-7.4%
FE	$ (0.16)	$ 2.55	-6.3%
DTE	$ (0.25)	$ 6.25	-4.0%
SO	$ (0.13)	$ 3.60	-3.6%
DUK	$ (0.18)	$ 5.65	-3.2%
WEC	$ (0.13)	$ 4.60	-2.8%
D	$ (0.09)	$ 3.53	-2.5%
ETR	$ (0.16)	$ 6.70	-2.4%
AEP	$ (0.12)	$ 5.30	-2.3%
PPL	$ (0.03)	$ 1.59	-1.9%
AEE	$ (0.08)	$ 4.35	-1.8%
ED	$ (0.08)	$ 4.85	-1.6%
EVRG	$ (0.06)	$ 3.65	-1.6%
CNP	$ (0.02)	$ 1.49	-1.3%
EXC	$ (0.03)	$ 2.35	-1.3%
OGE	$ (0.01)	$ 2.03	-0.5%
SRE	$ 0.04	$ 9.05	0.4%
PNW	$ 0.05	$ 4.10	1.2%
Average	$ (0.09)	$ 4.15	-2.4%

**EIX, ES, HE, PEG, and NEE have regulatory mechanisms which mitigate the impact of milder weather.*
NI adjusts weather out of its non-GAAP EPS results
AES, CEG, NRG, VST and XEL are not projected to have meaningful impact from milder weather in the quarter

Updated as of 4/18/23

Source: FactSet, Evercore ISI Research

Q1 Estimates vs. Consensus and Positioning for Quarter

Q1'23 EPS Estimates vs. Consensus				
Ticker	**Evercore ISI**	**Consensus**	**% Diff**	**Positioning for Q1**
AES	0.20	0.27	-26.5%	Cautious ✓
AEE	0.95	0.97	-1.9%	Neutral
AEP	1.14	1.21	-5.6%	Neutral
CMS	0.67	0.94	-28.4%	Neutral
CNP	0.46	0.48	-4.9%	Neutral
D	0.96	1.06	-9.1%	Neutral
DTE	1.20	1.52	-20.9%	Neutral
DUK	1.20	1.34	-10.2%	Neutral
ED	1.49	1.59	-6.2%	Neutral
EIX	1.40	0.98	42.4%	Neutral
ES	1.37	1.36	0.8%	Neutral
ETR	1.30	1.50	-13.2%	Cautious ✓
EVRG	0.58	0.57	2.4%	Neutral
EXC	0.67	0.66	1.5%	Neutral
FE	0.61	0.62	-2.3%	Neutral
HE	0.55	0.49	11.5%	Neutral
NI	0.77	0.81	-4.7%	Positive ✓
NEE	0.68	0.70	-3.4%	Neutral
OGE	0.22	0.33	-32.5%	Neutral
PEG	1.29	1.19	8.7%	Positive ✓
PNW	0.15	0.05	207.2%	Neutral
PPL	0.46	0.46	-0.3%	Neutral
SO	0.70	0.77	-8.5%	Neutral
SRE	2.85	2.84	0.3%	Neutral
WEC	1.57	1.68	-6.4%	Neutral
XEL	0.72	0.73	-1.2%	Neutral
Average			**3.4%**	

Q1'23 EBITDA Estimates vs. Consensus ($mm)				
Ticker	**Evercore ISI**	**Consensus**	**% Diff**	**Positioning for Q1**
CEG	727	767	-5.2%	Neutral
NRG	590	624	-5.4%	Neutral
VST	550	671	-18.0%	Neutral
Average			**-9.6%**	

Q1' 23 EPS/EBITDA Estimates vs Consensus		
Beats	8	28%
Misses	21	72%
Total	**29**	

Source: Everocre ISI, FactSet. Consensus as of 4/18/23

Our Coverage Universe Comp Sheet

Regulated Utilities

Ticker	Company Name	4/18/23 Price	ISI Rating	Shares Out	Market Cap	2023 Div Yld	2023 Payout	ISI EPS Estimate 2023	2024	2025	P/E Multiple 2023	2024	2025	Price to Book	Prem. to Group
WEC	WEC Energy Group	$95.74	In Line	316	30,273	3.2%	67%	4.60	4.90	5.25	20.8x	19.5x	18.2x	2.4x	14%
XEL	Xcel Energy Inc	$69.76	Outperform	537	37,444	2.8%	58%	3.37	3.59	3.84	20.7x	19.4x	18.2x	2.0x	13%
ED	Consolidated Edison Inc	$97.52	In Line	362	35,287	3.3%	66%	4.85	5.15	5.45	20.1x	18.9x	17.9x	1.5x	12%
AEE	Ameren Corp	$88.29	Outperform	267	23,567	2.8%	57%	4.35	4.65	5.00	20.3x	19.0x	17.7x	1.9x	10%
CNP	CenterPoint Energy Inc	$30.23	Outperform	635	19,183	2.1%	43%	1.49	1.61	1.73	20.2x	18.8x	17.5x	2.1x	9%
SO	Southern Company Inc	$72.58	In Line	1,088	78,967	3.8%	77%	3.60	4.05	4.30	20.2x	17.9x	16.9x	2.1x	5%
CMS	CMS Energy Corp	$60.52	In Line	297	17,946	3.2%	63%	3.10	3.36	3.65	19.5x	18.0x	16.6x	2.2x	4%
PNW	Pinnacle West Capital Corp	$79.01	Underperform	123	9,701	4.4%	85%	4.10	4.65	4.85	19.3x	17.0x	16.3x	1.4x	2%
OGE	OGE Energy Corp	$37.24	In Line	201	7,482	4.5%	83%	2.03	2.17	2.30	18.3x	17.2x	16.2x	1.7x	1%
EXC	Exelon Corp	$42.85	Outperform	999	42,793	3.3%	61%	2.35	2.50	2.70	18.2x	17.1x	15.9x	1.6x	-1%
PPL	PPL Corp	$28.49	Outperform	737	20,999	3.3%	60%	1.59	1.68	1.80	18.0x	17.0x	15.8x	1.4x	-1%
NI	NiSource Inc	$28.19	Outperform	451	12,725	3.5%	63%	1.55	1.65	1.80	18.2x	17.1x	15.7x	2.2x	-2%
DTE	DTE Energy Co	$112.04	Outperform	195	21,883	3.2%	58%	6.25	6.72	7.21	17.9x	16.7x	15.5x	2.2x	-3%
SRE	Sempra Energy	$156.02	Outperform	319	49,714	3.3%	58%	8.95	9.65	10.10	17.4x	16.2x	15.5x	1.7x	-4%
AEP	American Electric Power Co Inc	$92.47	In Line	531	49,098	3.5%	61%	5.30	5.65	6.00	17.4x	16.4x	15.4x	1.7x	-4%
ES	Eversource Energy	$78.38	Outperform	353	27,687	3.5%	62%	4.34	4.70	5.10	18.0x	16.7x	15.4x	1.6x	-4%
DUK	Duke Energy Corp	$97.41	In Line	779	75,873	4.2%	72%	5.65	6.00	6.35	17.3x	16.2x	15.3x	1.4x	-4%
HE	Hawaiian Electric Industries, Inc	$39.04	In Line	111	4,327	3.6%	61%	2.30	2.45	2.55	17.0x	15.9x	15.3x	1.6x	-4%
FE	FirstEnergy Corp	$40.48	Outperform	552	22,348	4.0%	64%	2.55	2.63	2.80	15.9x	15.4x	14.5x	2.5x	-10%
EVRG	Evergy	$61.74	In Line	231	14,237	4.0%	67%	3.65	4.00	4.27	16.9x	15.4x	14.4x	1.8x	-10%
D	Dominion Resources Inc	$57.36	In Line	822	47,136	4.8%	79%	3.53	3.76	4.00	16.2x	15.2x	14.3x	1.5x	-11%
ETR	Entergy Corp	$108.58	Outperform	211	22,900	3.8%	61%	6.70	7.15	7.70	16.2x	15.2x	14.1x	1.6x	-12%
EIX	Edison International	$72.11	In Line	391	28,213	3.8%	58%	4.70	5.15	5.50	15.3x	14.0x	13.1x	1.1x	-18%
PCG	PG&E Corp	$16.90	Rating Suspended	1,988	30,551	0.0%	0%	1.10	1.23	1.36	15.3x	13.7x	12.5x	1.4x	-22%
Regulated Group Average (Excludes PCG for Div Values)						**3.6%**	**64.5%**				**18.1x**	**16.8x**	**15.8x**	**1.78x**	
Regulated Group Average (Excluding Stocks: EIX and PCG)						3.6%	64.7%				18.4x	17.1x	16.0x	1.83x	
Regulated Group Max (Excludes PCG for Div Values)						4.8%	85.0%				20.8x	19.5x	18.2x	2.5x	
Regulated Group Min (Excludes PCG for Div Values)						2.1%	42.6%				15.3x	13.7x	12.5x	1.1x	

Diversified Utilities

Ticker	Company Name	4/18/23 Price	ISI Rating	Shares Out	Market Cap	2023 Div Yld	2023 Payout	ISI EPS Estimate 2023	2024	2025	P/E Multiple 2023	2024	2025	Price to Book	Prem. to Group
NEE	NextEra Energy, Inc.	$78.30	In Line	2,004	156,876	2.4%	60%	3.10	3.40	3.65	25.3x	23.0x	21.5x	3.6x	36%
PEG	Public Service Enterprise Group	$63.81	Outperform	500	31,905	3.5%	65%	3.45	3.75	4.00	18.5x	17.0x	16.0x	2.2x	1%
AES	AES Corp	$24.42	Outperform	668	16,313	2.7%	39%	1.70	1.90	2.10	14.4x	12.9x	11.6x	2.6x	-26%
Diversified Group Average						**2.9%**	**55%**				**19.4x**	**17.6x**	**16.4x**	**2.8x**	
Diversified Group Max						3.5%	65%				25.3x	23.0x	21.5x	3.6x	
Diversified Group Min						2.4%	39%				14.4x	12.9x	11.6x	2.2x	

Independent Power Producers (IPP's)

Ticker	Company Name	4/18/23 Price	ISI Rating	Shares Out	Market Cap	2023 Div Yld	EV	ISI EBITDA Estimate 2023	2024	2025	EV/EBITDA Multiple 2023	2024	2025	Price to Book	Prem. to Group
CEG	Constellation Energy Corporation	$74.48	Outperform	328	24395	1.5%	30,207	3,100	3,300	3,500	9.7x	9.2x	8.6x	2.6x	25%
VST	Vistra Corp.	$24.31	Outperform	381	9273	3.3%	25,113	3,500	3,600	3,600	7.2x	7.0x	7.0x	3.1x	1%
NRG	NRG Energy, Inc.	$34.66	In Line	230	7964	4.3%	16,118	2,900	3,100	3,150	5.6x	5.2x	5.1x	1.9x	-26%
IPP Group Average						**3.0%**					**7.5x**	**7.1x**	**6.9x**		
IPP Group Max						4.3%					9.7x	9.2x	8.6x		
IPP Group Min						1.5%					5.6x	5.2x	5.1x		

Updated as of 4/18/23. Note: PCG estimates above reflect consensus view from FactSet. NRG EV and EBITDA includes VVNT.

Source: FactSet, Evercore ISI Research

Coverage Universe - Short Interest

		Short Interest Ratio (Days to Cover)				Absolute Shares Short				Shares Short
		Current	vs Prior	1-Month Chg	6-Month Chg	Current (MM)	Chg vs. Prior	1-Month Chg	6-Month Chg	(%Float)
	Ticker	3/31/23	3/15/23	2/28/23	9/30/22	3/31/23	3/15/23	2/28/23	9/30/22	Current
Regulated Utilities										
Consolidated Edison, Inc.	ED	**4.1**	-13%	74%	-1%	**9.0**	-5%	55%	25%	**2.5%**
Edison International	EIX	**4.0**	-8%	33%	54%	**9.3**	10%	19%	49%	**2.4%**
PG&E Corporation	PCG	**4.0**	2%	-15%	172%	**65.9**	3%	-3%	-20%	**3.7%**
CMS Energy Corporation	CMS	**4.0**	-1%	-8%	51%	**7.4**	-1%	9%	43%	**2.6%**
Pinnacle West Capital Corporation	PNW	**3.6**	137%	83%	44%	**3.6**	104%	73%	86%	**3.1%**
OGE Energy Corp.	OGE	**3.3**	-23%	13%	38%	**4.4**	-6%	-5%	49%	**2.2%**
Ameren Corporation	AEE	**3.2**	-13%	11%	18%	**4.4**	-4%	12%	2%	**1.7%**
Hawaiian Electric Industries, Inc.	HE	**3.2**	9%	-21%	13%	**1.8**	1%	-11%	45%	**1.6%**
Southern Company	SO	**2.7**	14%	35%	9%	**15.7**	36%	53%	45%	**1.4%**
WEC Energy Group Inc	WEC	**2.6**	-4%	-29%	-11%	**4.3**	1%	2%	5%	**1.4%**
Entergy Corporation	ETR	**2.3**	47%	49%	-45%	**2.8**	37%	13%	-47%	**1.3%**
American Electric Power Company, Inc.	AEP	**2.2**	-2%	-5%	4%	**7.8**	20%	6%	12%	**1.5%**
PPL Corporation	PPL	**2.1**	8%	34%	1%	**13.1**	9%	10%	18%	**1.8%**
Sempra Energy	SRE	**2.0**	-15%	9%	5%	**3.4**	-2%	23%	14%	**1.1%**
CenterPoint Energy, Inc.	CNP	**1.9**	0%	-29%	-31%	**8.5**	-7%	-10%	-41%	**1.4%**
Duke Energy Corporation	DUK	**1.8**	-18%	-42%	-25%	**6.3**	-13%	-21%	-10%	**0.8%**
Eversource Energy	ES	**1.8**	-9%	-21%	-22%	**3.8**	-14%	-6%	-13%	**1.1%**
NiSource Inc	NI	**1.7**	14%	44%	-32%	**6.5**	2%	3%	-41%	**1.6%**
Xcel Energy Inc.	XEL	**1.7**	-30%	-43%	-9%	**6.1**	-24%	-16%	-5%	**1.1%**
Evergy, Inc.	EVRG	**1.7**	1%	10%	-21%	**2.4**	-3%	18%	-9%	**1.1%**
Dominion Energy Inc	D	**1.6**	16%	44%	-18%	**6.7**	-2%	25%	-26%	**0.8%**
Exelon Corporation	EXC	**1.5**	-15%	22%	7%	**14.2**	6%	30%	16%	**1.4%**
DTE Energy Company	DTE	**1.5**	37%	12%	-13%	**1.9**	13%	3%	-26%	**1.0%**
FirstEnergy Corp.	FE	**1.3**	-37%	-53%	-3%	**5.3**	-29%	-45%	-27%	**0.9%**
Regulated Utilities Average		**2.5**	**4%**	**9%**	**8%**	**8.9**	**5%**	**10%**	**6%**	**1.6%**
Diversified Utilities										
AES Corporation	AES	**2.3**	2%	14%	14%	**11.2**	12%	9%	-12%	**1.7%**
NextEra Energy, Inc.	NEE	**1.8**	10%	-7%	-14%	**13.4**	-14%	-26%	-30%	**0.7%**
Public Service Enterprise Group Inc	PEG	**1.3**	-11%	-32%	-44%	**3.7**	-17%	-32%	-38%	**0.7%**
Diversified Utilities Average		**1.8**	**0%**	**-8%**	**-15%**	**9.4**	**-7%**	**-16%**	**-27%**	**1.0%**
Independent Power Producers (IPP's)										
Constellation Energy Corporation	CEG	**2.6**	-7%	43%	84%	**6.0**	-5%	15%	45%	**1.8%**
Vistra Corp.	VST	**2.4**	142%	-6%	5%	**9.1**	20%	6%	-16%	**2.5%**
NRG Energy, Inc.	NRG	**2.3**	-27%	-8%	-64%	**11.2**	-17%	-9%	-30%	**5.0%**
IPP's Average		**2.4**	**36%**	**9%**	**8%**	**8.8**	**-1%**	**4%**	**0%**	**3.1%**
Our Coverage Universe Average		**2.4**	**7%**	**7%**	**5%**	**9.0**	**4%**	**7%**	**2%**	**1.7%**

Updated as of 4/18/23. Orange indicates top moves higher in short interest. Yellow indicates top moves lower in short interest.

Source: FactSet, Evercore ISI Research

TIMESTAMP

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

Time of dissemination: April 19 2023 9:01 PM ET

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Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

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

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Evercore ISI rating (as of 04/19/2023)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	471	57	Buy	55	12
Hold	298	36	Hold	28	9
Sell	15	2	Sell	0	0
Coverage Suspended	35	4	Coverage Suspended	4	11
Rating Suspended	10	1	Rating Suspended	3	30

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From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: AGA 2023 Recap: Acquisitions, Guidance and Growth Dominate Discussion - Guggenheim Securities, LLC
Date: Thursday, May 25, 2023 4:53:56 PM

AGA 2023 Recap: Acquisitions, Guidance and Growth Dominate Discussion

Power & Utilities May 25, 2023

Shahriar Pourreza, CFA 212 518 5862
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Guggenheim Utilities Research Team

Access This Report

Key Message: We are combining our 3 days of meetings at the AGA conference in FL and providing stock-by-stock takes below as well as highlighting the most interesting meetings we had where we received some incremental datapoints. While many of our meetings focused on company-specific issues, broader themes across the three days included the impacts of falling natural gas prices on bill headroom, ongoing inflation, high interest rates, overcoming 1Q23 weather headwinds, and potential LDC M&A. Companies often took clear stances in our meetings on potential interest in acquisitions. **Interesting Meetings to flag: CNP dinner, D, DUK, ED, NWE, SO, SR, WEC.**

Key Takeaways:

- **AEE:** All about Illinois Staff recommendation. Message similar to EXC – Mgmt. was surprised, early in the process, and believes they have a strong argument around capex reduction (i.e., could be solved with incremental documentation) and won't spend without recovery; ROE recommendation pegged to 30-year was just setting a floor – in the end, they said it won't sway their guidance. Watch for rebuttals on 6/14.

- **AVA:** Roll-off of tax credits from prior rate agreements and recovery of ERM & PGA balances to reduce equity needs post-2023. We like the new CFO.

- **BKH:** 2023 equity need of $140M-$160M is focused on B/S repair; mgmt. expects to be above BBB credit metric thresholds by YE23.

- **CMS:** Company is confident in O&M offset measures to remain within guidance – detailed some tactical and perpetual savings including IT, voluntary separations, return to office policies; storm audits kick off in September – key event to watch for confidence in regulatory relationships/construct as MI remains a concern for investors given mixed datapoints.

- **CNP:** We hosted a well-attended dinner – higher capex coming in 2Q from the incremental $3bn identified (a portion will go into plan) with DSIC approved in TX; per the company, more asset sales could be utilized to fund higher growth; upcoming Houston case is expected to remain non-contentious. CFO Foster remains big win for CNP.

- **CPK:** From a guidance perspective, management noted a continuous 5-year planning update cycle internally, despite providing a simple 2025 guidance reiteration for investors; remains focused on organic growth; despite a history of growing through regulated and unregulated acquisitions, management doesn't see any attractive valuations or accretive opportunities.

- **D:** No change in message regarding strategic review; the company expects an announcement in July–Sept timeframe with analyst day following shortly thereafter. Investors should have all questions answered with only remaining items being closure of deals – as we have highlighted, D could be solely left with VEPCO, Millstone, Scana with modest O/S ownership as we believe the company is looking for a simpler story and all gas LDCs could be on the block (i.e., Questar, NC, etc.) including potentially Cove Point… the O/S wind vessel potentially being second phase of a sale post initial strategic review.

- **DTE:** Continues to restore confidence in management's ability to execute against headwinds; noted progress in settlement talks around the IRP as well as constructive datapoints on the voluntary renewables program approval; Vantage remains a source of upside potential from higher-return projects; management noted vastly increased conversations with the MPSC as well as the MPSC's recognition of the negative optics of the prior litigated outcome for DTE Electric.

- **DUK:** 2023 firmly on track; management noted interest in M&A in states DUK already operates in, as long as credit positive and earnings accretive. Remains confident around '23 guide; rate cases could be key driver year-over-year with opportunities to diminish lag, earn above allowed returns.

- **ED:** An interesting potential upside also exists on the side of NY Transco – there is Long Island transmission debottlenecking, where NY Transco and NYPA put out several solutions. NYISO will evaluate the ultimate recommendation, but staff has recommended the top 3 solutions as those coming from Transco. The project's $3bn investment by 2030 would be about 30% attributed to ED, and for financing there would be some project-level debt and push-down equity (incremental to guidance); in settlement talks on CECONY Steam; items outside the base rate case include the Brooklyn clean energy hub, which is now approved and in plan, but needs around new capacity are emerging outside of plan, such as new substations and transmission (~2028 timeframe, $1.1bn in capex).

- **LNT:** Wisconsin process just kicking off, but management strikes an upbeat tone as the core of the regulatory asks remain straightforward (fuel, capital, and ROE/equity layer); noted that transparency with the PSCW and Staff has been a priority in the new case, with management acknowledging subtle changes in approach; IPL case remains a longer-dated item to monitor as management continues to work through advanced ratemaking efforts in the near term. The financing plan remains partially dependent on guidance from the treasury on transferability, with management reiterating several familiar points and introducing incremental ones. The company now expects that transferability guidance could come as soon as later this quarter, with the team conducting several RFIs to evaluate the optionality – the company could start selling some credits by the second half of the year, with the team laying out expectations to earn in the mid-90% range on the transfers, with the delta passed on to customers.

- **MDU:** We caught up with the company on the strategic direction (including the imminent separation of Knife River materials business) and thoughts around business fundamentals related to construction, regulated utilities, and pipelines. We are focused on the post-separation RemainCo and any further optimization between the regulated businesses and construction services (currently under strategic review; management targeting end of 2Q outcome).

- **NI:** NIPSCO sale reiterated by YE23; we came away with increased confidence in continued 6%-8% annual NOEPS growth beyond existing plan through 2027.

- **NJR:** Management still expects ‘23/‘24 EPS to be top of range, regardless of level of CEV capital investment.

- **NWE:** Came away incrementally positive on prospects post-MT GRC outcome; could see LT CAGR tightened higher on expected rebase off 2022.

- **NWN:** Conversations focused on water opportunities and as scale is built, management will look to break this segment out, likely when ~10% of the mix. We also asked about gas M&A more broadly, given the current industry backdrop, with the team noting that they remain focused on water and renewables growth as an adjunct to the core utility – the bar for both regional and national LDC M&A remains high.

- **OGS:** 1.0% customer growth target will likely prove overly conservative, we believe; targeting 19%-20% FFO/D & 58%-59.5% equity to keep A3/A- rating.

- **PEG:** PEG continues to enjoy reduced volatility from the 2022 reset on pension, interest, and other guidance assumptions. Messaging was exactly consistent with 1Q23 earnings call disclosures and the only volatility we anticipate is the late 2023 rate case filing.

- **SO:** Vogtle Unit 3 in service in June; prudency review request may be above $7.3bn but won't be close to $10.5bn potential ask; no M&A interest and happy with existing portfolio of businesses.

- **SR:** Company expects new CEO announcement well in advance of YE23. Potential for additional natural gas asset/system acquisitions (including LDCs), in our view.

- **SRE:** Continued strong messaging around long term earnings growth (not linear but pointing to the high end of 6-8%); remains muted on acquisition strategy, and management prefers organic regulated investments to support business mix while LNG growth provides upside on earned returns; overall, management plans to optimize the business mix to 80/20 with LNG project equity sell-downs.

- **WEC:** Potential MSFT data center capacity need could be incremental 1 GW; Nov. '23 capex update could be accompanied by growth-driven equity.

CONTINUED ON NEXT PAGE…

GUGGENHEIM

Power & Utilities

April 10, 2023

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Ticker	Price	Rating
AEE	90.07	Neutral
CMS	62.31	Neutral
DTE	113.85	Buy
ED	98.97	Neutral
ES	80.82	Buy
EVRG	63.29	Buy
FE	41.70	Buy
NWE	61.07	Sell

The Guggenheim Daily Transmission: AEE, NWE, FE, TX, IN, CMS/DTE/MI, EVRG/MO, PJM/FERC, ED, ES/MA

SAVE THE DATE: We are hosting a dinner with CNP's COO, new CFO, and others on May 22nd...

For our AGA conference (May 20-23) meeting schedule, please scroll down...

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our EXC NDR, ETR NDR, PNW NDR, DTE NDR, PCG NDR, ES NDR, SMR NDR, LNT NDR, AWK NDR, CMS NDR, SO NDR, POR NDR, and other events, scroll down...

Forward Power Curves, Genco MtM, and Weekly Commentary (see our note HERE)

AEE — Details of Missouri settlement released

NWE — NorthWestern to appeal district court order vacating air quality permit for Yellowstone facility

FE — West Virginia regulators to hear proposal to keep Pleasants Power Plant on April 23rd

TX — Multiple energy bills advance through legislative process

IN — Indiana legislation aimed at greater consideration of reliability and resiliency in utility resource plans signed by the House Speaker

CMS/DTE/MI — MI lawmaker to introduce bill for elected commission

FE — Solar generation rider docket opened for comment following review of Ohio Supreme Court decision

EVRG/MO — MO PSC grants CCN for Persimmon Creek wind farm

PJM/FERC — Storm penalties draw multiple complaints at FERC

ED — Evidentiary hearing on joint proposal to be held 4/18

ES/MA — DPU issues clarifications on Phase 2 EV requests

AEE — Details of Missouri settlement released

- AEE MO has released the details of its settlement with the PSC Staff, OPC, CCM, and various other stakeholder groups (MECG, MIEC) calling for a $140m revenue increase with new rates effective 7/1/23.
- "On April 7, 2023, Ameren Missouri, the staff of the MoPSC, the Missouri Office of Public Counsel, and certain other intervenors filed a nonunanimous stipulation and agreement with the MoPSC. The stipulation and agreement, which is subject to MoPSC approval, would result in a $140 million increase to Ameren Missouri's annual revenue requirement for electric service compared to its prior revenue requirement established in the MoPSC's December 2021 electric rate order. The stipulation and agreement did not specify an allowed return on equity or common equity ratio. The stipulation and agreement also did not specify a rate base amount or any rate base disallowances." – filing

- "As a result of these discussions, the Signatories have agreed to a series of compromises to determine mutually acceptable resolutions to all issues relating to the revenue requirement and certain other issues as set forth in more detail below. The Signatories agree that resolution of these issues will shorten the forthcoming hearing, and only certain issues (i.e., Issue 4 (and all subparts), 24.B, and 30) will require a hearing. The Signatories agreed to the settled "black box" revenue requirement increase amount using their own assumptions." – filing
- More in docket HERE.
- Hearings on issues 24B and 30 were previously proposed to be rescheduled for 4/13.
- Earlier Position Statement from AEE with issues HERE.

Guggenheim takeaway: *Generally as-expected coming off the 3/29 motion (see our note HERE), with the remaining issue items appearing unchanged from that initial filing. The black box outcome is consistent with prior MO processes and not a surprise coming off our very recent NDR (see our note HERE) where this route was raised as a potential pathway forward. As a reminder, AEE MO's most recent trued-up ask was ~$239m, while Staff on the same date put forward a $107m recommended increase. As we noted previously, the major drivers of $120mm in variance between Staff and the company were threefold:* ***1)*** *ROE of 9.59% vs. requested 10.2% (~$50mm of the difference),* ***2)*** *High Prairie curtailments (~$30m), and* ***3)*** *Rush Island availability (~$40-50m). We continue to model approximately average earned ROEs of 9.5% through 2027 for Ameren MO. We see AEE's ongoing ability to reach settlements in MO as further underscoring what we see as the name's premium attributes (management, growth, execution, etc.).*

NWE ─ NorthWestern to appeal district court order vacating air quality permit for Yellowstone facility

- The judge supported the majority of the state-issued air quality permit but vacated the permit after taking issue with certain elements of the Montana DEQ analysis, the company said.
- The Montana DEQ originally issued NorthWestern an air quality permit on Sept. 8, 2021, which enabled the commencement of construction of the project.
- The current ruling "appears to require new criteria to be analyzed," according to a company spokesman.
- NorthWestern is seeking an immediate stay and will appeal the decision.
- Company statement HERE.

Guggenheim takeaway: *We continue to expect the Yellowstone County Generating Station to be constructed as planned and will be monitoring the appeals process, with more details expected as it gets underway.* ***Based on our current expectation of construction still proceeding on schedule, we do not expect this to be impactful to NWE's capital plan or CAGR at this time.***

FE ─ West Virginia regulators to hear proposal to keep Pleasants Power Plant on April 23rd

- The WV PSC has scheduled an April 23, 2023, evidentiary hearing on the request by Monongahela Power and Potomac Edison.
- Recall that the West Virginia PSC reopened a docket to consider an interim solution and proposed surcharge relating to FE's potential acquisition of the Pleasants Power Station.
- On March 31, 2023, the companies filed a report on the possibility of acquiring Pleasants.
- In order to provide time for the companies, interested parties, regulatory bodies, and others to further review a possible acquisition of Pleasants, the companies proposed an interim solution to preserve Pleasants' operations in 2023 while the companies complete their analysis. The interim solution proposal includes a temporary surcharge of $3 million per month.
- Docket 22-0793-E-ENEC

Guggenheim takeaway: *For your calendar. The 1,300 MW Pleasants plant was last owned by Energy Harbor (ENGH), which acquired it as part of the FirstEnergy Solutions bankruptcy proceedings. Various parties in WV support FE acquiring the plant, potentially as a replacement for Ft. Martin Power Station, which lacks selective catalytic reduction (SCR) technology. During the 2023 WV legislative session, both WV's Senate and House passed resolutions which encouraged Mon Power to buy Pleasants (i.e., HR12 and*

See pages 25 - 26 for analyst certification and important disclosures.

SB29, respectively). The legislature also passed HB 3308, allowing securitization of the undepreciated book value of retired coal plants. The timeline for a decision to be made has been accelerated due to falling market prices causing Energy Harbor to move up the plant's planned retirement date from 4Q23 to May 31, 2023. We continue to monitor.

TX — Multiple energy bills advance through legislative process

- Several pieces of legislation advanced or stalled in their respective chambers at the end of last week.
- A committee report for SB1076, which deals with deadlines for transmission CPCN deadlines has been printed - see HERE
- SB1015, related to distribution system cost recovery (DCRF) has been transmitted to the House - HERE
- HB2555, pertaining to T&D resiliency planning, was left in committee last week – see HERE
- SB6 and SB7 were transmitted to the House and marked as received – see HERE

Guggenheim takeaway: *Another legislative roundup for your awareness as several of the bills in focus have now been transmitted to the House for their own deliberations. Aside from SB6, pieces of utility legislation above are generally tertiary relative to our focus on the more impactful rate-specific bills such as HB3042 (cap ratios). While some bills have been marked as left in committee, we note that this is not necessarily an indication they have been discarded – it remains possible that they were appended to another bill in that particular chamber. Finally, we continue to believe SB6 and SB7 will face more resistance in the House following their successful navigation of the Senate last week – see our recent note HERE for more on the ERCOT side.*

IN — Indiana legislation aimed at greater consideration of reliability and resiliency in utility resource plans signed by the House Speaker

- Recall that the Senate previously passed the House bill and returned it to the House with amendments.
- The bill includes guidance for the regulators to consider reliability and resiliency of resources in IRPs.
- The process saw Senate add co-sponsors to the bill.
- Regulators would need to consider the ability of resources to provide dispatchable power.
- The guidance from the bill also includes affordability and competitive rates as a goal for the IURC.
- Bill text here: HB1007

Guggenheim takeaway: *FYI. The bill tries to bring a legislated balance to Indiana's decarbonization focus (i.e., balancing reliability with intermittent resources like solar and wind). While the changes to the framework are open-ended, we could see a change in IRP approach from CNP, DUK and NI as the state's electric IOUs.* ***Ultimately, we see this as neutral to slightly positive for the state's utilities, as it should serve to enhance reliability.***

CMS/DTE/MI — MI lawmaker to introduce bill for elected commission

- Sen. Jim Runestad reportedly plans to introduce 'transparency and accountability' legislation this week with a focus on utility lobbying and the selection of the PSC.
- More HERE.

Guggenheim takeaway: *Efforts to transition to elected commissions are a periodic occurrence across this space, however, in this case we believe some of the recent storm frustration has driven the push here, as indicated by media above. We continue to monitor these kinds of efforts as they arise, but in many cases, they do not advance past committee – stay tuned for more this week.*

FE — Solar generation rider docket opened for comment following review of Ohio Supreme Court decision

- The Attorney Examiner made a filing requiring all comments be filed in this docket on or before **May 7, 2023**, and reply comments be filed on or before **May 22, 2023**.
- Recall that this docket was created due to legislation which requires PUCO to establish a rate mechanism for the retail recovery of costs related to the solar generation fund for the period up to December 31, 2027.

- PUCO was tasked with determining the proper rate design for recovering $20m annually for total disbursements required under the new law from the solar generation fund.
- Case 21-447-EL-UNC

Guggenheim takeaway: *For your calendar. Recall that the matter made its way to the Ohio Supreme Court, which remanded it for clarification on December 7, 2022. The Supreme Court had instructed PUCO to "expressly determine whether the revenue recovered by Rider SGF is subject to the CAT and billable to customers." In the current filing, the attorney examiner states that after reviewing the Supreme Court's remand, the issue is being opened for comment.*

EVRG/MO ─ MO PSC grants CCN for Persimmon Creek wind farm

- The PSC has granted a CCN for the wind project alongside a series of conditions regarding costs and benefits.
- "EMW is authorized to acquire and is granted a certificate of convenience and necessity to own, operate, maintain, and otherwise control and manage Persimmon Creek with the conditions set out below." – filing
- "The Commission finds it necessary to condition the grant of a certificate on some added protection for those

  captive ratepayers. The benefits in conjunction with the conditions, outlined below, promote the public interest." – filing
- "Any costs associated with owning and operating Persimmon Creek, including but not limited to those related to PISA treatment and any required wildlife mitigation, that exceed the ratepayer realized market revenues and ratepayer realized tax benefits shall be shared equally between EMW shareholders and rate payers including the market value of energy serving EMW customers." - filing
- More HERE.

Guggenheim takeaway: *Welcome closure on the process that had seen some back and forth between Staff, OPC, and the company over the benefits of the project. We see the successful navigation of this process as a minor positive for our perception of the stakeholder/regulatory environment in MO (coming on the heels of AEE's recent settlement). As a reminder, the asset is included in the 2023 guide (~$0.05).*

PJM/FERC ─ Storm penalties draw multiple complaints at FERC

- A group of gas generators and a solar generator have filed different complaints at FERC over their perceived grievances stemming from the 2022 storm charges.
- "As described further below in Section IV.C, during Winter Storm Elliot on December 23-24, 2022, as a result of PAIs called by PJM during two evenings, the Solar Projects' are being assessed an amount of Non-Performance Charges, with approximately 87% of such Non-Performance Charges accruing during Evening Hours when the Solar Projects are incapable of operating no matter how much investment is made to improve those resources' operational performance. The first of the Non-Performance Charges are scheduled to be invoiced to SunEnergy1 on April 7, 2023. This is not a just and reasonable result." - filing
- EL23-58 HERE
- "PJM now intends to assess $1 to $2 billion in Non-Performance Charges to those generators that were not operating during Winter Storm Elliott, notwithstanding the load forecasting errors, PJM's failure to adhere to its emergency procedures in violation of the Tariff, and the general failure on PJM's part to identify what generation was needed and to communicate that need in a timely and compliant manner." - filing
- EL23-55 HERE

Guggenheim takeaway: *Zero surprise to see more complaints as the penalties are finalized by the RTO – as a reminder, this event was one of the bigger PAI tests since the 2014 polar vortex. The sheer size of the penalties has driven several smaller single-asset entities toward bankruptcy, so not a surprise to see significant legal action at FERC ahead of the payment deadlines. We expect this to remain a noisy process in the near term and a significant policy/reform area for the RTO as the Board sets out on a new examination of the RPM.*

ED ─ Evidentiary hearing on joint proposal to be held 4/18

- The PSC will hold an evidentiary hearing on 4/18 regarding the 2/16 joint proposal.

 See pages 25 - 26 for analyst certification and important disclosures.

- “The purpose of the hearing is to receive into evidence and evaluate, through the presentation of evidence and cross-examination of witnesses, a Joint Proposal filed in these proceedings on February 16, 2023.” - filing
- More HERE.

Guggenheim takeaway: *For your calendars.*

ES/MA ─ DPU issues clarifications on Phase 2 EV requests

- The DPU has issued a lengthy response to both requests for reconsideration, requests for clarification, and a motion from the AG to reopen the record in the DPU’s ongoing EV docket.
- More HERE.

Guggenheim takeaway: *Very minor heads up – most of the items in the DPU’s combined filing appear to be relatively minor and procedural as all parties continue to finalize the earlier (Dec) order from the DPU.*

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Exelon Corporation (EXC)

Calvin Butler, *President & Chief Executive Officer*
Jeanne Jones, *Chief Financial Officer*
Andrew Plenge, *VP, Investor Relations*

Dates & Location

May 15 – 16, 2023
New York

Meeting Format

NDR - 1:1 Meetings, Group Meeting & Small Group Dinner

Company Information

Market Cap: $42.4bn

Exelon Corporation (EXC) operates as a utility services holding company, which engages in the energy generation, power marketing, and energy delivery business. It operates through the following segments: Mid Atlantic, Midwest, New York, Electric Reliability Council of Texas (ERCOT) and other Power Regions. The Mid-Atlantic segment represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina. The Midwest segment operates in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky. The New York (NY) segment provides operations within ISO–NY, which covers the state of New York in its entirety. The ERCOT segment includes operations within the Electric Reliability Council of Texas, covering most of the state of Texas. The Other Power Regions consist of the operations in New England, South, West, and Canada. The company was founded in February 1999 and is headquartered in Chicago, IL. (Source: FactSet)

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CenterPoint Energy, Inc. (CNP)

Jason Wells, *Chief Operating Officer*
Chris Foster, *Chief Financial Officer*
Jackie Richert, *VP Investor Relations & Treasurer*
Ben Vallejo, *Director Investor Relations*

Dates
Monday, May 22, 2023
6:00 PM

Location
Restaurant TBD
Fort Lauderdale, Florida

Company Information
Market Cap: $18.6bn
CenterPoint Energy, Inc. (CNP) is a holding company that engages in the business of power generation and distribution. It operates through the following segments: CenterPoint Energy, Houston Electric, and CERC. The CenterPoint Energy segment consists of electric transmission and distribution services in the Texas gulf coast area in the ERCOT region and electric transmission and distribution services primarily to southwestern Indiana and includes power generation and wholesale power operations in the MISO region. The Houston Electric segment consists of electric transmission services to transmission services customers in the ERCOT region and distribution services to REPs serving the Texas gulf coast area. The CERC segment covers the Restructuring consisting of intrastate natural gas sales to, and natural gas transportation and distribution for residential, commercial, industrial and institutional customers in Indiana, Louisiana, Minnesota, Mississippi, Ohio and Texas, and permanent pipeline connections through interconnects with various interstate and intrastate pipeline companies through CEIP. The company was founded in 1866 and is headquartered in Houston, TX. (Source: FactSet).

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SAVE THE DATE

2023 AGA Financial Forum

Dates

May 20 – 23, 2023

Location

Fort Lauderdale Marriott Harbor Beach Resort
3030 Holiday Drive
Fort Lauderdale, Florida

Guggenheim Hosted Dinner

We will be hosting a dinner with Shar Pourreza and team to kick off the conference on Saturday May 20 at 6:30PM ET.

Company Meetings

**Additional meetings may be added*

Sunday, May 21st	
Time	*Co.*
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

 See pages 25 - 26 for analyst certification and important disclosures.

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Entergy Corporation (ETR)

Drew Marsh, *Chairman & Chief Executive Officer*
Kimberly Fontan, *Chief Financial Officer*
Bill Abler, *VP, Investor Relations*

Dates & Location

June 1 – 2, 2023
West Coast

Meeting Format

NDR - 1:1 Meetings

Company Information

Market Cap: $22.64bn

Entergy Corp. (ETR) is a holding company that engages in electric power generation and distribution. It operates through the following segments: Utility and Entergy Wholesale Commodities. The Utility segment includes the generation, transmission, distribution, and sale of electric power and the operations of a natural gas distribution business. The Entergy Wholesale Commodities segment owns, operates, and decommissions nuclear power plants and sells electric power. The company was founded by Harvey Couch on November 13, 1913, and is headquartered in New Orleans, LA. (Source: FactSet)

 See pages 25 - 26 for analyst certification and important disclosures.

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Equity Research | Corporate Access

Pinnacle West Capital Corporation (PNW)

Andrew Cooper, *Chief Financial Officer*

Date & Location

Monday, June 5, 2023
New York

Meeting Format

NDR - 1:1 Meetings & Group Meeting

Company Information

Market Cap: $9.05bn

Pinnacle West Capital Corp. (PNW) is a holding company, which engages in providing energy and energy-related products. It offers regulated retail and wholesale electricity businesses and related activities, such as electricity generation, transmission and distribution through its subsidiary, Arizona Public Service Co. The company was founded on February 20, 1985, and is headquartered in Phoenix, AZ.
(Source: FactSet)

See pages 25 - 26 for analyst certification and important disclosures.

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DTE Energy Company (DTE)

Jerry Norcia, *Chairman, President & Chief Executive Officer*
Barbara Tuckfield, *Director Investor Relations*

Dates & Location

June 7 & 8, 2023
New York

Meeting Format

NDR - 1:1 Meetings, Group Meeting & Small Group Dinner

Company Information

Market Cap: $22.4bn

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

 See pages 25 - 26 for analyst certification and important disclosures.

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PG&E Corporation (PCG)

Patti Poppe, *Chief Executive Officer (Tentative)*

Carolyn Burke, *Incoming Chief Financial Officer*

Tom Webb, *Senior Advisor to Chief Executive Officer*

Jonathan Arnold, *Vice President, Investor Relations*

Date & Location

Monday, June 12, 2023
New York

Meeting Format

NDR - 1:1 Meetings, Group Meeting

Company Information

Market Cap: $39.6bn

PG&E Corp. (PCG) is a holding company that engages in generation, transmission, and distribution of electricity and natural gas to customers. It specializes in energy, utility, power, gas, electricity, solar and sustainability. The company was founded in 1995 and is headquartered in Oakland, CA. (Source: FactSet)

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Eversource Energy (ES)

Joseph Nolan, *Chairman, President & Chief Executive Officer*

John Moreira, *Chief Financial Officer*

Jeffrey Kotkin, *Vice President, Investor Relations*

Bob Becker, *Director, Investor Relations*

Date & Location

Thursday, June 22, 2023
New York

Meeting Format

NDR - 1:1 Meetings & Group Meeting

Company Information

Market Cap: $28.02bn

Eversource Energy (ES) engages in the generation, transmission, and distribution of natural gas and electricity. It operates through the following segments: Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution. The Electric Distribution segment distributes electricity to retail customers. The Electric Transmission segment owns and maintains transmission facilities through CL&P, NSTAR Electric, PSNH, and WMECO. The Natural Gas Distribution segment transmits and distributes natural gas to retail customers. The Water Distribution segment operates three separate regulated water utilities in Connecticut, Massachusetts, and New Hampshire. The company was founded on July 1, 1966, and is headquartered in Springfield, MA. (Source: FactSet)

 See pages 25 - 26 for analyst certification and important disclosures.

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NuScale Power Corporation (SMR)

Chris Colbert, *Chief Financial Officer*

Scott Kozak, *Director, Investor Relations*

Date & Location

Tuesday, June 27, 2023
New York

Meeting Format

NDR - 1:1 Meetings & Group Meeting

Company Information

Market Cap: $1.9bn

NuScale Power Corp. (SMR) engages in the commercialization of a modular, scalable 77 megawatt electric Light Water Reactor nuclear power plant using rights to a nuclear power plant design. Its products include VOYGR SMR Plants and Energy Exploration (E2) Centers. The company was founded by José N. Reyes in 2007 and is headquartered in Portland, OR. (Source: FactSet)

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SAVE THE DATE

2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO)/Georgia Power C-Suites, Porsche Racing & GA Commissioner Meetings

What does Southern Company & Georgia Power C-Suite meetings, Georgia Commissioner meetings and racing Porsches on race tracks have in common? Almost nothing! But we are combining all of them for an action-packed 2 days in GA. Please join the Guggenheim Utilities Research Team in Atlanta, GA on July 11 and 12.

Dates and Location

July 11 & 12, 2023 — Atlanta, Georgia

Schedule

Tuesday, July 11th

We advise flying in the morning of Tuesday, July 11. Recommended flights to follow.

~1:00 PM | Georgia PSC Meetings
Tricia Pridemore, PSC Chair, *Commissioner*
Tim Echols, Vice-Chairman, *Commissioner*
Fitz Johnson, *Commissioner*
Lauren "Bubba" McDonald, *Commissioner*
Jason Shaw, *Commissioner*

~6:00 PM | Client Dinner with Southern Company (SO) C-Suite
Chris Womack, *President & Chief Executive Officer (Incoming)*
Dan Tucker, *Chief Financial Officer*
Scott Gammill, *VP of Investor Relations & Treasurer*
Among others

Wednesday, July 12th

8:30 AM | Porsche Racing Experience
Experience the thrill of the drive at the Porsche Experience Center. Attendees will drive vehicles from the full Porsche model range with driving coaches by their side in a race-controlled atmosphere. See: https://www.porschedriving.com/atlanta

1:00 PM | Lunch with Southern Company (SO) and Georgia Power C-Suite
Kim Greene, *Chair, President & Chief Executive Officer (Georgia Power)*
Dan Tucker, *Chief Financial Officer (SO)*
Aaron Abramovitz, *Chief Financial Officer (Georgia Power)*
Among others

Company Information

Market Cap: $73.3bn

Southern Co (SO) is a holding company, which engages in the generation and sale of electricity. It operates through the following segments: Traditional Electric Operating Companies, Southern Power and Southern Company Gas. The Traditional Electric Operating Companies segment refers to vertically integrated utilities that own generation, transmission and distribution facilities, and supplies electric services in the states of Alabama, Georgia, and Mississippi. The Southern Power segment constructs, acquires, owns, and manages generation assets such as renewable energy projects and sells electricity in the wholesale market. The Southern Company Gas segment distributes natural gas through natural gas distribution facilities in the states of Illinois, Georgia, Virginia, and Tennessee. The company was founded on November 9, 1945, and is headquartered in Atlanta, GA. (Source: FactSet)

Guggenheim 2023 Client and Corporate Access Utility Events

Ticker	Dates	Regions
EIX	*1/10 & 1/11*	Boston & New York
Commissioner Roundtable Event	*1/20*	In Person at Guggenheim
2023 Utilities Conference Call	*1/23*	Dial-In
Virginia Policy Call	*2/7*	Dial-In
Wisconsin Regulatory Call (Chair Valcq)	*2/9*	Virtual
WEC	*2/14–2/16*	West Coast
Wisconsin Regulatory Call (Commissioner Huebner)	*2/17*	Virtual
Arizona Regulatory Call (Commissioners Myers and Thompson)	*2/27*	Virtual
DUK	*3/7-3/8*	NYC
NEE	*3/14-3/16*	West Coast
AEE	*3/22*	Virtual
ERCOT Policy Call	*3/31*	Virtual
PPL	*4/3–4/4*	Boston
EXC	5/15–5/16	NYC
CNP C-Suite Dinner	5/22	Fort Lauderdale, FL
AGA Conference Meetings	5/20–5/23	Fort Lauderdale, FL
ETR	6/1–6/2	West Coast
PNW	6/5	NYC
DTE	6/7–6/8	NYC
PCG	6/12	NYC
ES	6/22	NYC
SMR	6/27	NYC
SO Meeting, Porsche racing, & Georgia PSC	7/11–7/12	Atlanta
LNT	7/17–7/18	NYC
AWK	8/9–8/10	West Coast
CMS	8/30–8/31	NYC
SO	9/13–9/15	West Coast
POR	9/18–9/19	NYC

MORE TO BE ADDED…

Guggenheim Comp Sheet

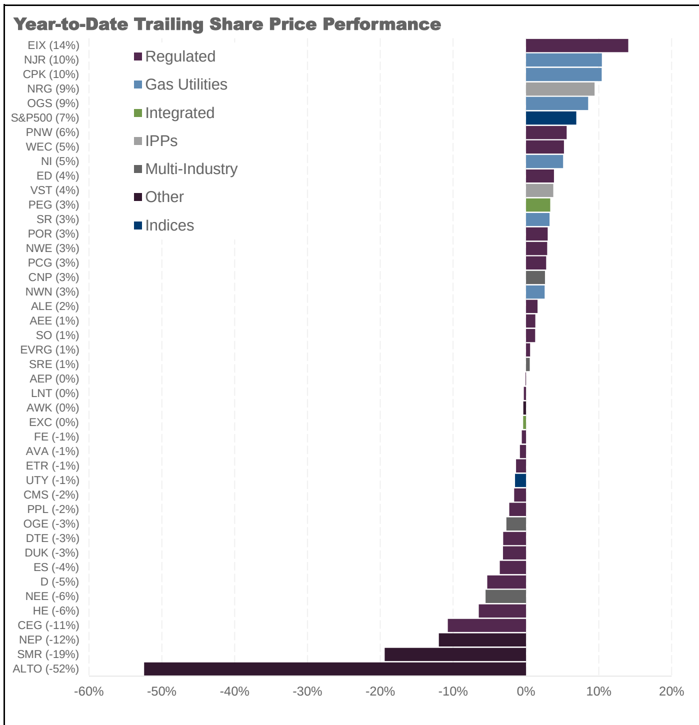
4/7/2023		Market	Guggenheim EPS Ests					Consensus					Δ vs Consensus (>$0.02)					Implied P/E Multiple					Prem/(Disc) vs Mid/Lg Cap Utes					'22–'27	NTM	Payout	Guggenheim		NTM Total	Consensus		NTM Total
	Price	Cap ($m)	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	EPS	Yield	Ratio	Rating	Target	Return	Rating	Target	Return
Small Cap Electric																																				
ALE	$64.69	3,708	3.70	4.17	4.56	4.87	5.07	3.70	4.08	4.34	4.83	5.05	–	0.09	0.22	0.04	–	17.5x	15.9x	14.9x	13.4x	12.8x	-6%	-8%	-8%	-8%	-17%	8.4%	4.3%	72%	Sell	$54	-12%	Buy	$66	7%
AVA	$43.62	3,284	2.28	2.49	2.61	2.67	2.73	2.34	2.47	2.61	2.67	2.80	(0.06)	–	–	–	(0.07)	18.6x	17.7x	16.7x	16.3x	15.6x	0%	2%	3%	3%	1%	7.6%	4.3%	78%	Sell	$35	-15%	Sell	$39	-7%
NWE	$59.99	3,586	3.42	3.55	3.75	3.91	4.08	3.45	3.58	3.73	3.88	4.05	(0.03)	–	–	0.03	–	17.4x	16.8x	16.1x	15.5x	14.8x	-6%	-3%	-1%	-1%	-5%	5.1%	4.3%	74%	Sell	$46	-19%	Buy	$59	2%
POR	$49.78	4,452	2.68	3.00	3.15	3.31	3.50	2.66	3.03	3.19	3.35	3.53	–	–	(0.04)	(0.04)	–	18.7x	16.5x	15.6x	14.9x	14.1x	1%	-5%	-4%	-4%	-8%	5.0%	3.8%	69%	Buy	$54	12%	Buy	$53	10%
		15,029																**18.1x**	**16.7x**	**15.8x**	**15.0x**	**14.3x**	**-3%**	**-4%**	**-2%**	**-2%**	**-7%**	**6.6%**	**4.2%**	**73%**						
Mid/Large Cap Electric																																				
AEE	$89.27	23,431	4.35	4.67	5.05	5.40	5.68	4.36	4.68	5.02	5.36	5.69	–	–	–	0.04	–	20.5x	19.1x	17.8x	16.6x	15.7x	10%	10%	10%	10%	3%	6.5%	2.9%	58%	Neutral	$89	3%	Buy	$92	6%
AEP	$94.54	48,632	5.30	5.64	6.00	6.39	6.81	5.28	5.63	5.97	6.35	6.78	–	–	–	0.04	–	17.9x	16.8x	15.8x	14.9x	13.9x	-4%	-3%	-2%	-2%	-8%	6.0%	3.6%	63%	Buy	$105	15%	Buy	$101	10%
CMS	$62.12	18,093	3.12	3.41	3.65	3.91	4.26	3.10	3.35	3.63	3.89	4.17	–	0.06	–	–	0.09	20.0x	18.5x	17.1x	16.0x	14.9x	8%	7%	6%	6%	-1%	8.1%	3.2%	63%	Neutral	$68	13%	Buy	$68	13%
CNP	$30.39	19,128	1.51	1.62	1.74	1.89	2.05	1.49	1.62	1.73	1.85	2.00	–	–	–	0.04	0.05	20.4x	18.8x	17.6x	16.4x	15.2x	10%	9%	8%	8%	1%	8.2%	2.5%	50%	Neutral	$32	8%	Buy	$32	8%
D	$57.41	47,952	4.15	3.75	3.97	4.24	4.50	3.91	3.78	3.97	4.51	4.70	0.24	(0.03)	–	(0.27)	(0.20)	14.7x	15.2x	14.5x	12.7x	12.2x	-21%	-12%	-11%	-11%	-22%	1.8%	4.7%	69%	Buy	$63	14%	Neutral	$61	12%
DTE	$112.13	23,111	6.26	6.73	7.19	7.75	8.30	6.23	6.69	7.17	7.73	8.22	–	0.04	–	–	0.08	18.0x	16.8x	15.6x	14.5x	13.6x	-3%	-3%	-4%	-4%	-11%	6.4%	3.5%	61%	Buy	$131	20%	Buy	$128	18%
DUK	$98.84	76,171	5.65	6.05	6.35	6.75	7.15	5.63	5.98	6.33	6.71	7.14	–	0.07	–	0.04	–	17.5x	16.5x	15.6x	14.7x	13.8x	-6%	-5%	-4%	-4%	-9%	6.3%	4.2%	72%	Buy	$114	20%	Buy	$107	13%
ED	$98.51	34,128	4.82	5.18	5.40	5.71	5.97	4.85	5.20	5.48	5.81	6.09	–	–	(0.08)	(0.10)	(0.12)	20.3x	19.0x	18.0x	17.0x	16.2x	9%	10%	11%	11%	5%	5.5%	3.3%	66%	Neutral	$86	-9%	Sell	$89	-6%
EIX	$72.26	27,649	4.70	4.94	5.36	5.70	6.10	4.74	5.12	5.55	5.78	5.96	(0.04)	(0.18)	(0.19)	(0.08)	0.14	15.2x	14.1x	13.0x	12.5x	12.1x	-18%	-18%	-20%	-20%	-23%	5.7%	4.1%	62%	Buy	$75	8%	Buy	$72	3%
ES	$80.52	28,075	4.34	4.75	5.04	5.37	5.70	4.36	4.67	5.00	5.33	5.71	–	0.08	0.04	0.04	–	18.5x	17.2x	16.1x	15.1x	14.1x	-1%	-0%	-1%	-1%	-7%	6.9%	3.4%	62%	Buy	$91	16%	Buy	$87	12%
ETR	$110.57	23,451	6.71	7.16	7.76	8.31	8.97	6.72	7.21	7.76	8.32	–	–	(0.04)	–	–	8.97	16.5x	15.3x	14.3x	13.3x	n/a	-11%	-11%	-12%	-12%	-18%	6.9%	4.0%	64%	Buy	$128	20%	Buy	$120	13%
EVRG	$63.15	14,498	3.65	3.97	4.24	4.47	4.75	3.64	3.96	4.22	4.46	3.08	–	–	–	–	1.67	17.4x	16.0x	15.0x	14.1x	20.5x	-7%	-8%	-8%	-8%	-13%	5.1%	4.0%	68%	Buy	$72	18%	Neutral	$64	5%
EXC	$42.93	42,685	2.36	2.50	2.74	2.93	3.10	2.36	2.51	2.73	2.93	3.12	–	–	–	–	–	18.2x	17.1x	15.7x	14.7x	13.8x	-2%	-1%	-3%	-3%	-10%	6.4%	3.4%	61%	Neutral	$45	8%	Buy	$46	10%
FE	$41.61	23,811	2.54	2.69	2.89	3.07	3.27	2.52	2.67	2.83	2.96	3.26	–	–	0.06	0.11	–	16.5x	15.6x	14.7x	14.1x	12.8x	-11%	-10%	-9%	-9%	-13%	6.3%	3.8%	62%	Buy	$46	14%	Buy	$43	8%
LNT	$54.82	13,767	2.90	3.08	3.27	3.50	3.67	2.90	3.15	3.28	3.47	3.66	–	(0.07)	–	–	–	18.9x	17.4x	16.7x	15.8x	15.0x	2%	0%	3%	3%	-3%	5.6%	3.4%	62%	Neutral	$52	-2%	Neutral	$57	7%
OGE	$38.96	7,803	2.02	2.16	2.25	2.37	2.48	2.01	2.13	2.30	2.39	2.48	–	0.03	(0.05)	–	–	19.4x	18.3x	16.9x	16.3x	15.7x	4%	6%	4%	4%	1%	2.8%	4.3%	82%	Neutral	$38	2%	Neutral	$39	4%
PCG	$16.50	32,930	1.22	1.37	1.47	1.61	1.75	1.21	1.34	1.47	1.59	1.77	–	–	–	–	–	13.6x	12.3x	11.2x	10.4x	9.3x	-27%	-29%	-31%	-31%	-36%	9.7%	0.7%	10%	Buy	$22	34%	Buy	$18	12%
PEG	$63.17	31,507	3.45	3.67	4.10	4.29	4.59	3.44	3.69	4.03	4.29	4.44	–	–	0.07	–	0.15	18.4x	17.1x	15.7x	14.7x	14.2x	-1%	-1%	-3%	-3%	-9%	5.8%	3.7%	66%	Buy	$68	11%	Buy	$66	8%
PNW	$80.63	9,131	4.05	4.60	4.80	5.05	5.35	4.10	4.76	4.92	5.17	5.42	(0.05)	(0.16)	(0.12)	(0.12)	(0.07)	19.7x	16.9x	16.4x	15.6x	14.9x	6%	-2%	1%	1%	-4%	4.7%	4.4%	82%	Neutral	$77	-0%	Neutral	$76	-2%
PPL	$28.38	20,918	1.58	1.71	1.82	1.96	2.08	1.59	1.70	1.83	1.95	2.08	–	–	–	–	–	17.8x	16.7x	15.6x	14.6x	13.6x	-4%	-4%	-4%	-4%	-10%	8.1%	3.5%	60%	Buy	$34	23%	Buy	$31	13%
SO	$71.50	78,043	3.60	4.05	4.30	4.55	4.80	3.61	4.02	4.29	4.52	4.79	–	0.03	–	–	–	19.8x	17.8x	16.7x	15.8x	14.9x	7%	3%	3%	3%	-3%	5.9%	3.9%	75%	Buy	$73	6%	Neutral	$71	3%
WEC	$98.34	31,020	4.60	4.91	5.24	5.61	5.97	4.60	4.90	5.26	5.62	5.98	–	–	–	–	–	21.4x	20.1x	18.7x	17.5x	16.4x	15%	16%	15%	15%	8%	6.1%	3.2%	67%	Neutral	$99	4%	Buy	$102	7%
Mid/Lg Cap (excl. EIX, PCG)																		**18.6x**	**17.3x**	**16.2x**	**16.2x**	**16.2x**						**6.0%**	**3.6%**	**66%**						
SMID + Lg Cap		**690,965**																**18.5x**	**17.2x**	**16.2x**	**15.2x**	**14.7x**						**6.1%**	**3.7%**	**67%**						

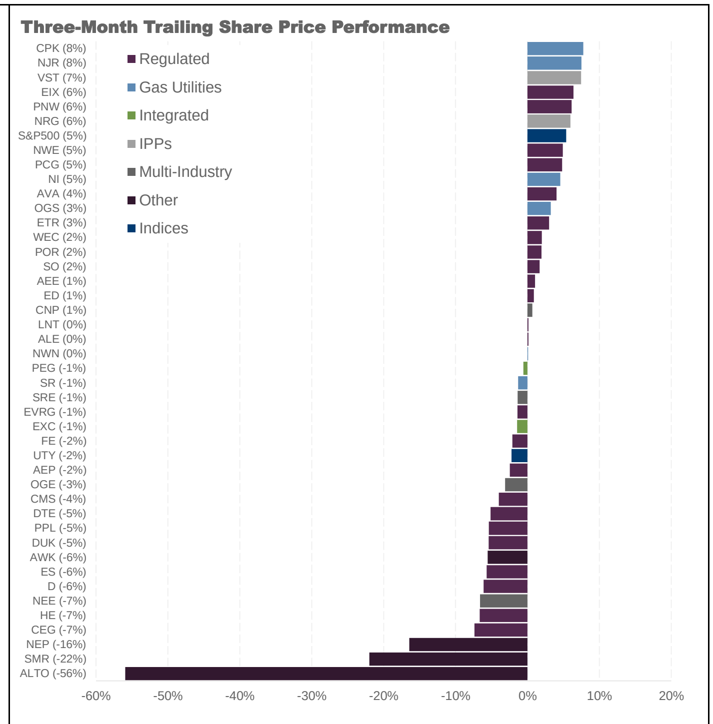
		Market	Guggenheim EPS Ests					Consensus					Δ vs Consensus (>$0.02)					Implied P/E Multiple					Prem/(Disc) vs Mid/Lg Cap Utes					'22–'27	NTM	Payout	Guggenheim		NTM Total	Consensus		NTM Total
Diversified	Price	Cap ($m)	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	EPS	Yield	Ratio	Rating	Target	Return	Rating	Target	Return
HE	$38.82	4,254	2.32	2.50	2.63	2.76	2.89	2.28	2.44	2.59	2.75	2.88	0.04	0.06	0.04	–	–	17.0x	15.9x	15.0x	14.1x	13.5x	-8%	-8%	-8%	-8%	-13%	6%	3.7%	62%	Neutral	$42	12%	Sell	$38	3%
NEE	$78.33	158,492	3.13	3.43	3.69	3.99	4.27	3.11	3.39	3.67	4.02	4.43	–	0.04	–	(0.03)	(0.16)	25.2x	23.1x	21.3x	19.5x	17.7x	35%	33%	31%	31%	20%	8%	2.5%	60%	Buy	$96	25%	Buy	$93	22%
SRE	$153.14	48,186	9.00	9.50	10.13	10.80	11.71	8.97	9.57	10.16	10.92	11.64	0.03	(0.07)	–	(0.12)	0.07	17.1x	16.0x	15.1x	14.0x	13.2x	-8%	-8%	-7%	-7%	-14%	5%	3.2%	54%	Buy	$174	17%	Buy	$168	13%
		210,931																**19.8x**	**18.3x**	**17.1x**	**15.9x**	**14.8x**	**6%**	**6%**	**6%**	**6%**	**-2%**	**6.2%**	**3.1%**	**59%**						
Gas LDCs																																				
NI	$28.69	11,835	1.57	1.68	1.82	1.95	2.07	1.56	1.67	1.79	1.95	2.07	–	–	–	–	–	18.4x	17.2x	16.0x	14.7x	13.8x	-1%	-0%	-1%	-1%	-3%	7%	3.6%	64%	Buy	$31	12%	Buy	$31	12%
CPK	$130.34	2,317	5.42	5.84	6.23	6.59	6.94	5.41	5.82	6.24	6.59	6.95	–	–	–	–	–	24.1x	22.4x	20.9x	19.8x	18.8x	30%	30%	29%	29%	30%	7%	1.8%	42%	Neutral	$116	-9%	Buy	$135	6%
NJR	$54.72	5,302	2.67	2.65	2.85	3.05	3.30	2.70	2.75	2.93	3.15	3.40	(0.03)	(0.10)	(0.08)	(0.10)	(0.10)	20.3x	19.9x	18.7x	17.4x	16.1x	10%	16%	16%	16%	14%	6%	3.0%	59%	Neutral	$46	-13%	Neutral	$51	-3%
NWN	$48.30	1,695	2.65	2.83	2.98	3.09	3.21	2.66	2.79	2.99	3.05	3.22	–	0.04	–	0.04	–	18.2x	17.3x	16.1x	15.9x	15.0x	-2%	1%	-0%	-0%	4%	5%	4.0%	72%	Neutral	$45	-3%	Buy	$54	16%
OGS	$81.53	4,516	4.14	4.24	4.53	4.98	5.31	4.14	4.31	4.59	4.99	5.35	–	(0.07)	(0.06)	–	(0.04)	19.7x	18.9x	17.8x	16.3x	15.2x	7%	10%	10%	10%	8%	5%	3.2%	63%	Neutral	$77	-2%	Neutral	$79	0%
SR	$71.52	3,758	4.25	4.31	4.57	4.73	4.99	4.26	4.32	4.59	4.81	5.07	–	–	–	(0.08)	(0.08)	16.8x	16.6x	15.6x	14.9x	14.1x	-9%	-4%	-4%	-4%	-2%	5%	4.1%	69%	Neutral	$69	1%	Neutral	$71	4%
		29,423																**19.6x**	**18.7x**	**17.5x**	**16.5x**	**15.5x**	**6%**	**9%**	**8%**	**8%**	**9%**	**5.8%**	**3.3%**	**62%**						
Regulated Water																																				
AWK	$150.21	29,237	4.76	5.14	5.59	5.98	6.45	4.78	5.14	5.59	6.04	6.45	–	–	–	(0.05)	–	31.5x	29.2x	26.9x	24.9x	23.3x	69%	69%	66%	66%	53%	7%	1.9%	60%	Neutral	$152	3%	Neutral	$160	9%

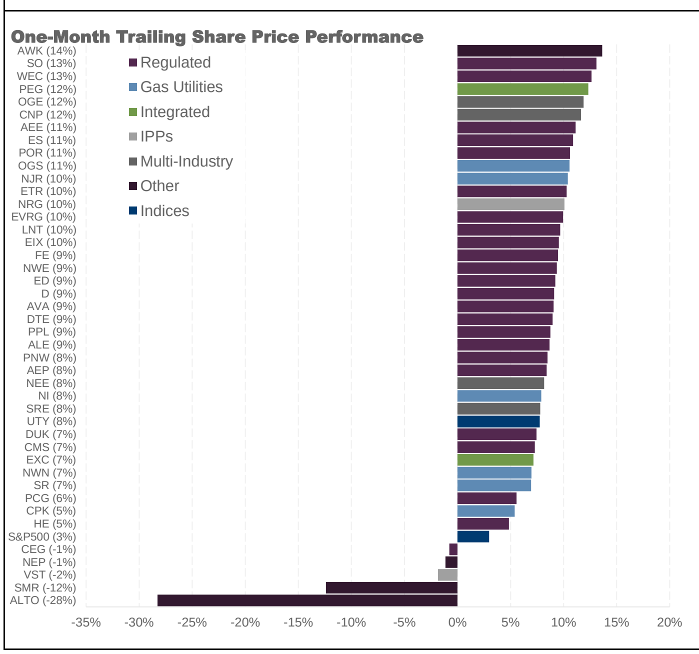
		Market	Guggenheim EBITDA Ests					Consensus					Δ vs Consensus (>$20m)					Implied EV/EBITDA Multiple					Enterprise Value					'22–'25	NTM	Payout	Guggenheim		NTM Total	Consensus		NTM Total
IPPs	Price	Cap ($m)	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	2023E	2024E	2025E	2026E	2027E	Growth	Yield	Ratio	Rating	Target	Return	Rating	Target	Return
CEG	$76.50	24,990	3,100	3,254	3,333	3,455	4,315	3,054	3,469	3,588	3,362	3,590	46	(215)	(255)	93	725	9.3x	7.8x	7.1x	–	0.0x	28,404	26,974	25,517	24,009	21,901	7.7%	1.6%	28%	Buy	$110	45%	Buy	$98	30%
NRG	$34.41	7,992	3,084	3,136	3,140	n/a	n/a	2,777	2,873	2,870	2,820	3,085	307	263	270	–	–	6.3x	5.7x	5.1x	–	0.0x	17,556	16,288	14,764	–	–	21.4%	4.5%	28%	Neutral	$34	3%	Neutral	$38	15%
VST	$23.92	9,124	3,725	3,784	3,716	3,465	n/a	3,601	3,879	3,850	3,865	4,073	124	(95)	(134)	(399)	–	5.9x	5.4x	5.2x	–	0.0x	21,391	20,865	20,004	19,336	–	6.1%	3.5%	28%	Buy	$31	33%	Buy	$32	36%
Other																																				
ALTO	$1.42	107	24	40	46	42	43	29	50	N/A N/A	N/A N/A	N/A N/A	–	–	–	–	–											54.8%	–	–	Buy	$9	534%	Buy	$7	393%
NEP	$61.83	5,353	1,837	1,977	2,143	2,325	2,471	1,902	2,072	2,134	2,390	2,054	(65)	(95)	–	(65)	417											9.1%	5.9%	–	Buy	$81	37%	Buy	$85	44%
SMR	$8.49	593	(100)	(57)	8	96	n/a	(130)	(85)	(31)	55	220	30	28	39	41	–												–	–	Buy	$18	112%	Buy	$14	59%

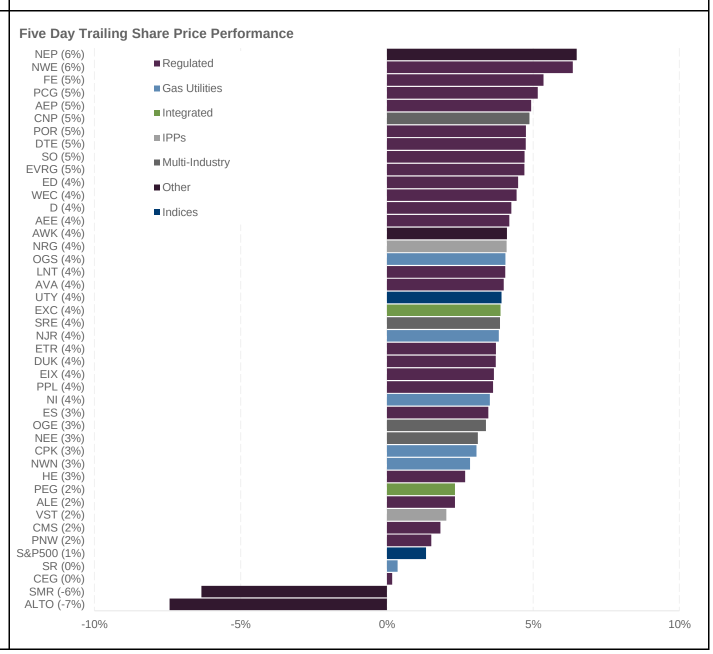
Source: Guggenheim Securities, LLC estimates, Bloomberg LP.

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









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

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

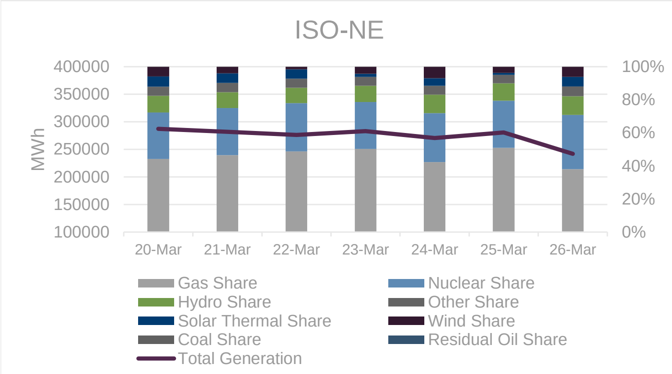
(3) Integrated utilities own and operate regulated T&D franchises, as well as un-regulated power generation with commodity exposure.

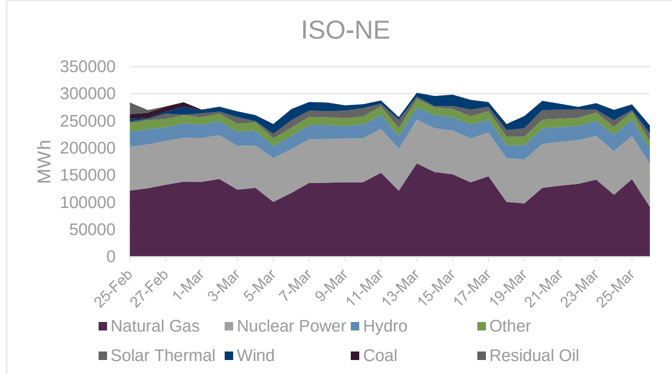
(4) IPPs operate merchant (i.e., un-regulated, non-utility) power plants that compete to sell power in wholesale markets or through retail marketing businesses.

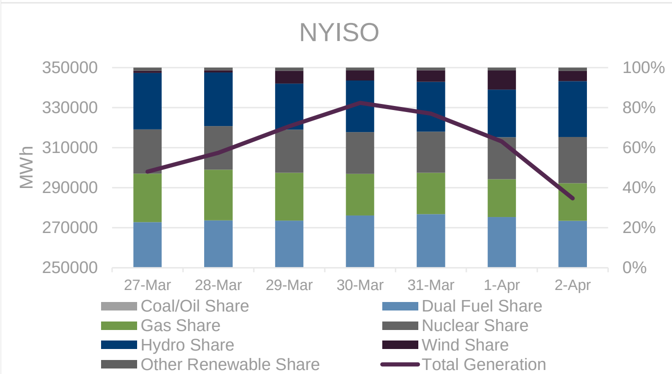
Source: Bloomberg, Guggenheim Securities, LLC estimates.

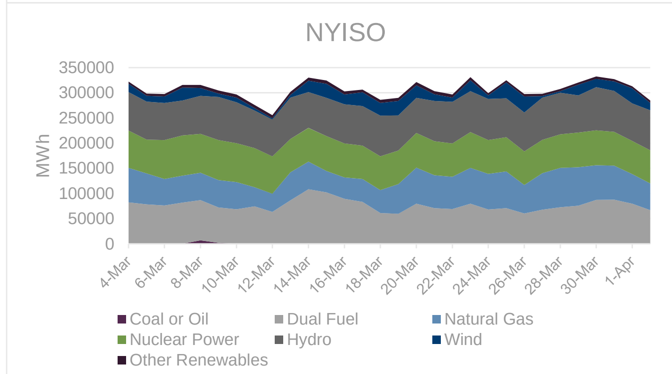
0.23

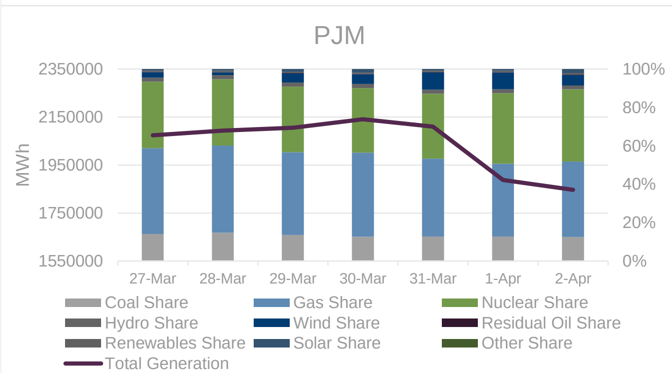
Generation and Mix

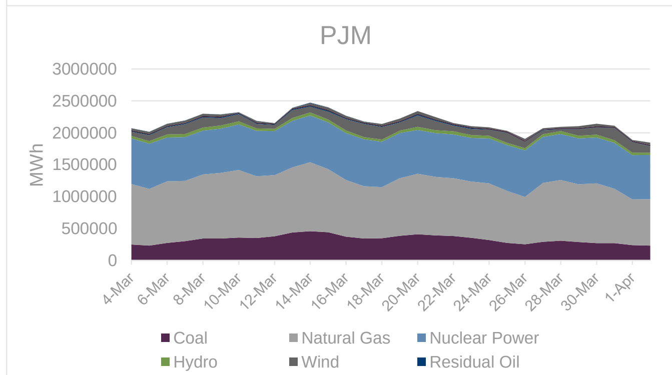


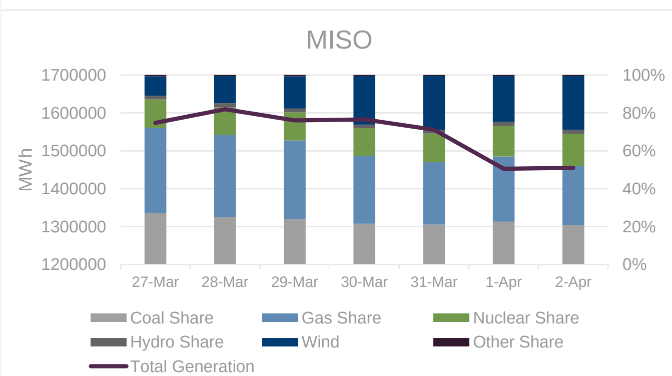


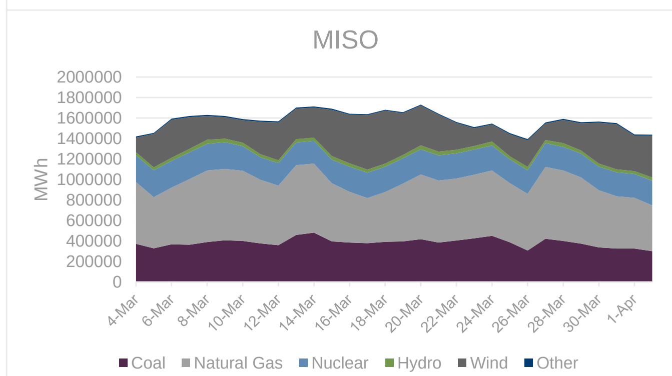






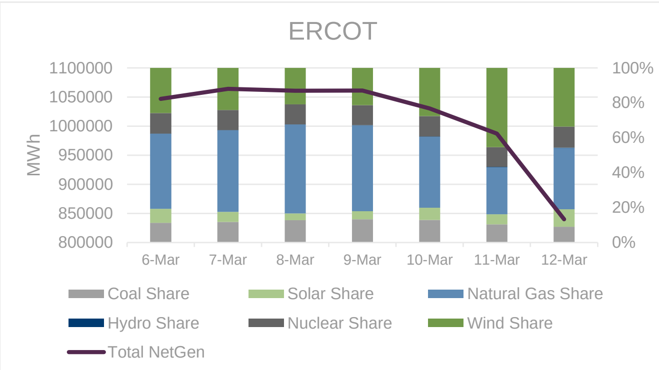


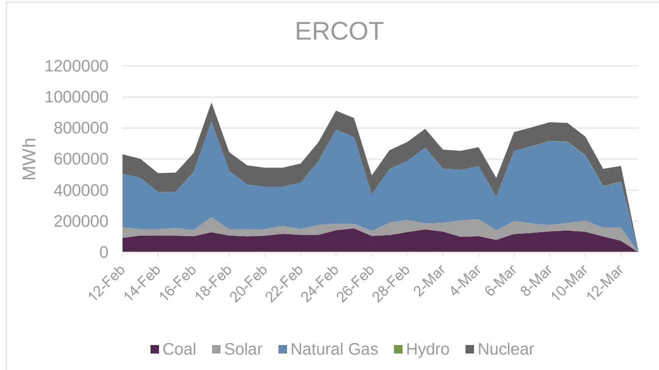


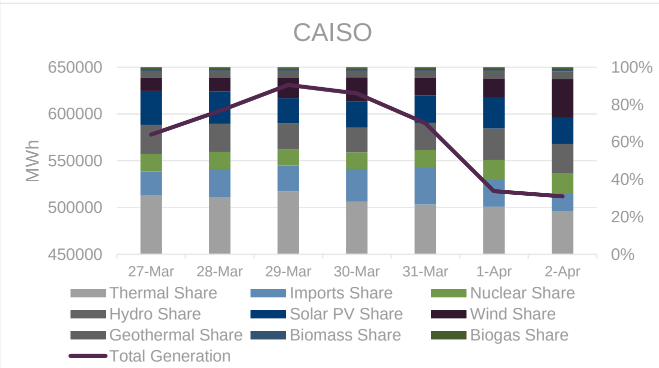


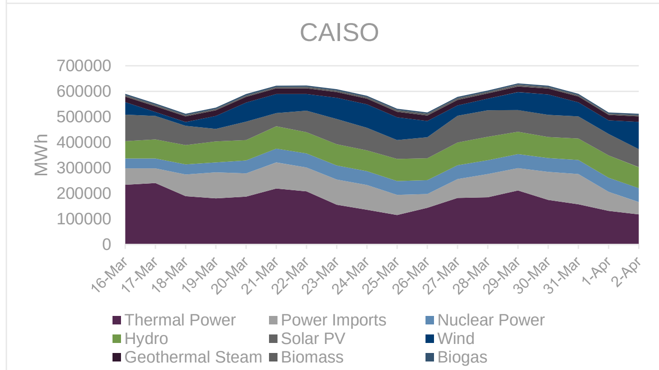
Source: S&P Global Platts, Guggenheim Securities, LLC.

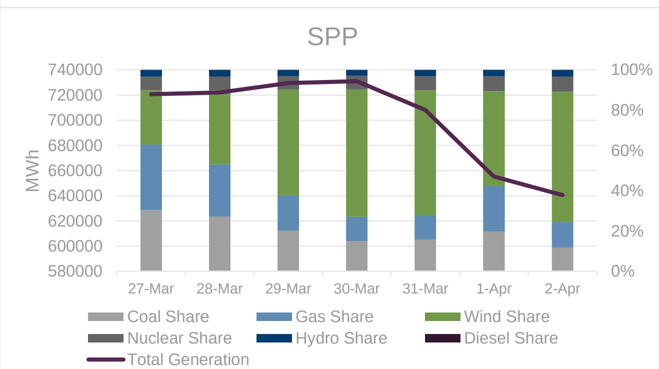
Generation and Mix (continued)

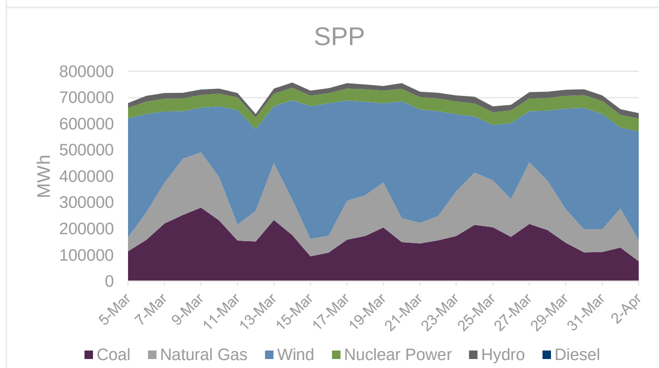






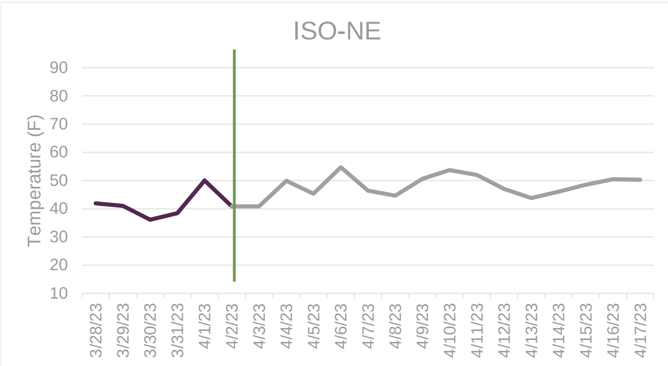


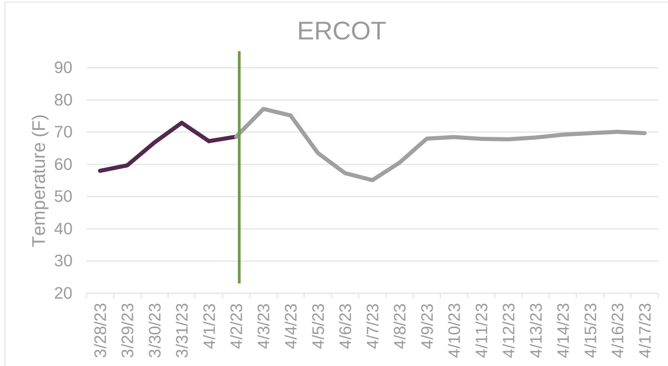


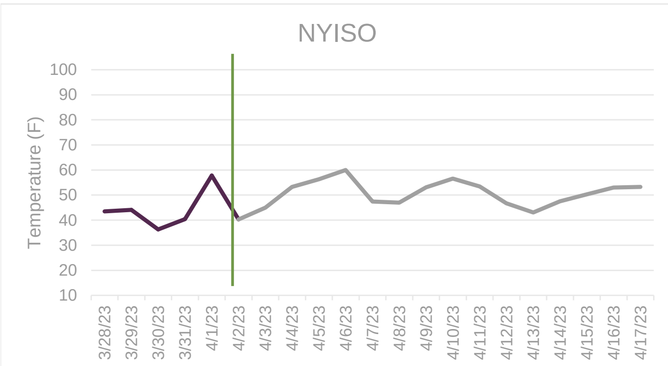


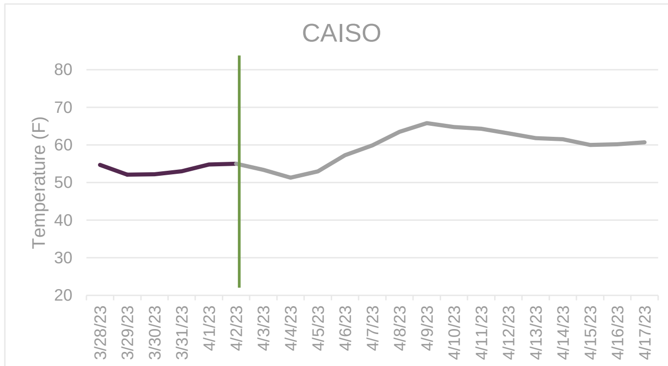
Source: S&P Global Platts, Guggenheim Securities, LLC.

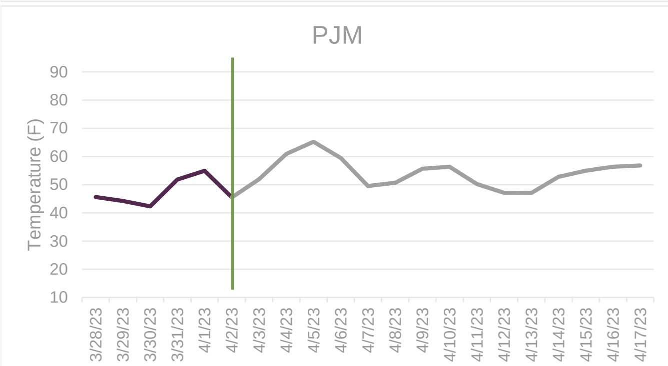
Weather

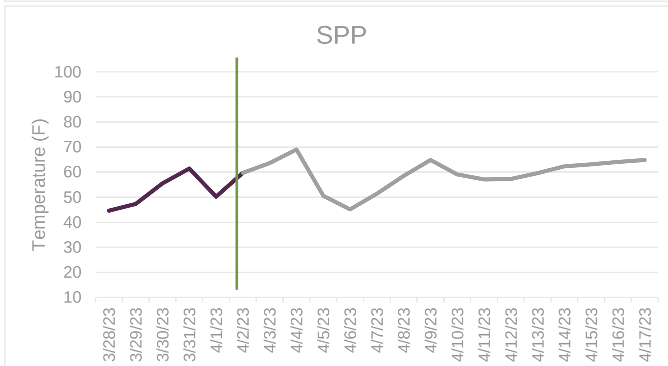


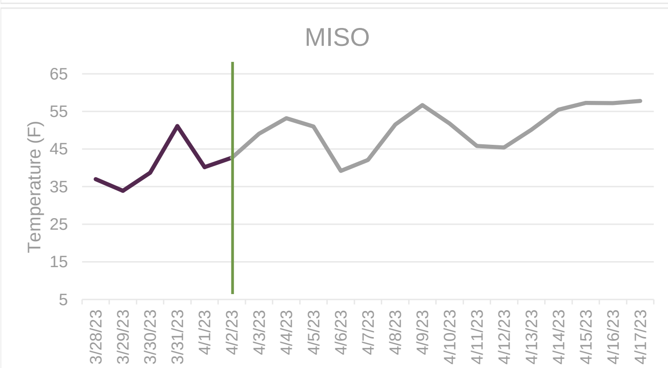






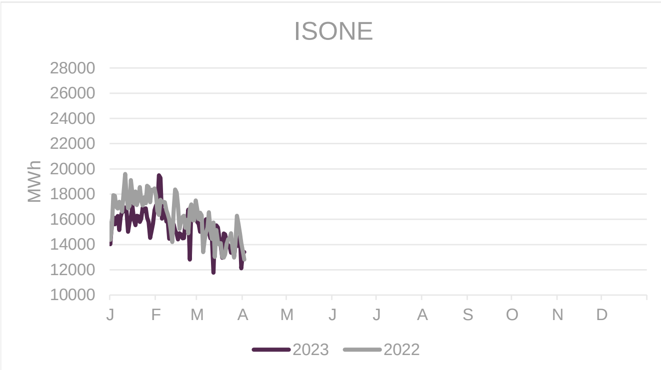


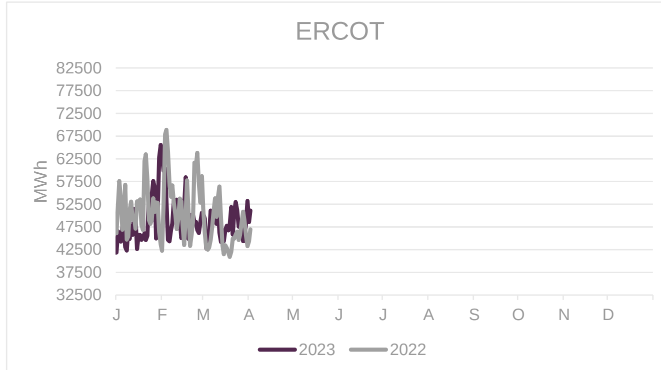


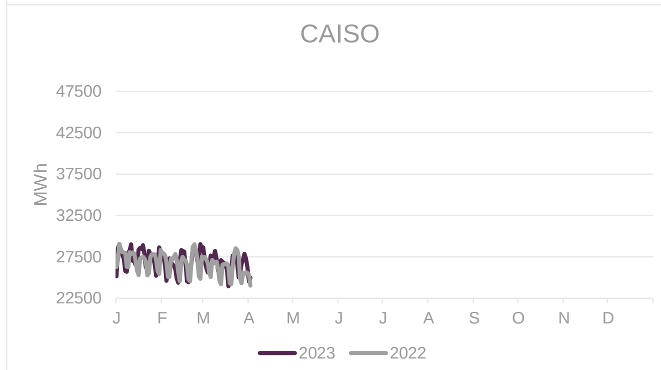


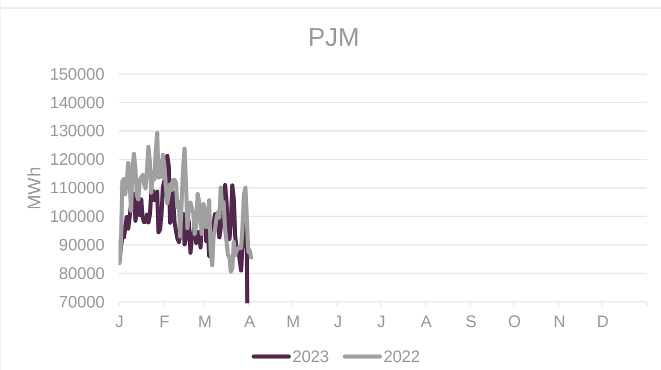
Source: S&P Global Platts, Guggenheim Securities, LLC.

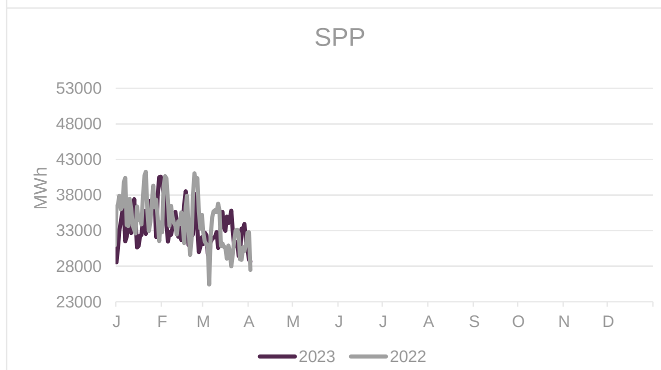
YTD Peak Load

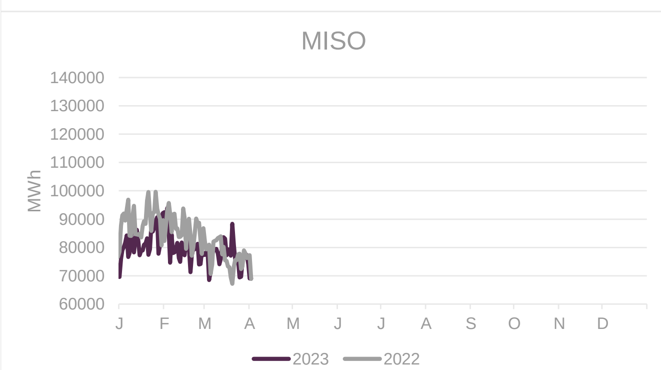












Average Deviation in Peak Load vs Prior Year

RTO/ISO	1Q22	2Q22	3Q22	4Q22	1Q23
ISONE	1.5%	-1.2%	5.1%	-0.9%	-4.5%
NYISO	2.1%	-0.1%	3.5%	-0.7%	-4.5%
PJM	3.9%	3.8%	0.2%	2.1%	-5.3%
MISO	4.0%	5.0%	0.1%	0.7%	-4.9%
CAISO	1.6%	1.2%	4.0%	0.3%	1.0%
ERCOT	13.7%	19.1%	7.9%	7.4%	-1.5%
SPP	5.9%	9.7%	5.0%	7.1%	-1.6%

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

Regulatory Calendar

Power and Utilities: Coverage Calendar (3/31/2023-6/30/2023)

Date	State	Ticker	Utility/Event	Docket	Description
3/1/2023-3/31/2023	TX	ETR	Entergy Texas Inc.	D-53719	ALJ recommended decision may be issued in rate case — suspended due to settlement talks
3/15/2023-4/15/2023	VA	NI	Columbia Gas of Virginia Inc	C-PUR-2022-00036	Decision may be issued in rate case
3/29/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Intervening parties to file testimony in Rider DSM case
3/31/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (EL)	Company to submit annual information filing
3/31/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (GAS)	Company to submit annual information filing
3/31/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Intervening parties to file testimony in Rider OSW update proceeding
3/31/2023-4/15/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00120 (Rider US3)	Decision may be issued in Rider US 3 proceeding
3/31/2023-4/15/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00121 (Rider US4)	Decision expected in Rider US 4 proceeding
3/31/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00124 (Rider CE)	Decision expected in Rider CE update proceeding
4/1/2023-6/30/2023	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Elec)	ALJ proposed decision expected
4/1/2023-6/30/2023	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Gas)	ALJ proposed decision expected
4/1/2023-6/30/2023	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Track 2)	ALJ proposed decision expected
4/1/2023-4/30/2023	KS	EVRG	Evergy Kansas Central Inc.		Rate case filing expected
4/1/2023-4/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00140 (Rider GT)	Hearing examiner's report may be issued in Rider GT update proceeding
4/1/2023-4/30/2023	WI	LNT	Wisconsin Power and Light Co		Rate case expected to be filed early Q2'23
4/3/2023	MO	AEE	Union Electric Co.	C-ER-2022-0337	Hearing to begin in rate proceeding
4/3/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (elec)	Final day for stipulations, settlement agreements
4/3/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (gas)	Final day for stipulations, settlement agreements
4/4/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Rebuttal testimony due in rate proceeding
4/4/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00070*(RiderRGGI)	Staff to file testimony in Rider RGGI reinstatement proceeding
4/4/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00162 (Rider SNA)	Rebuttal testimony due in Rider SNA adjustment proceeding
4/7/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Staff to file testimony in G-RAC proceeding
4/11/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (elec)	Hearing commences
4/11/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (gas)	Hearing commences
4/12/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Staff to filed testimony in Rider OSW update proceeding
4/14/2023	KY	DUK	Duke Energy Kentucky Inc.	C-2022-00372	Company rebuttal testimony due in rate proceeding
4/14/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (EL)	Supplemental direct testimony due
4/14/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (GAS)	Supplemental direct testimony due
4/14/2023	NC	DUK	Duke Energy Progress LLC	D-E-2 Sub 1300	Company rebuttal testimony due by
4/17/2023	MI	CMS	Consumers Energy Co.	C-U-21308	Staff, intervenor testimony due
4/18/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Settlement conference to be held in rate proceeding
4/19/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Staff to file testimony in Rider DSM proceeding
4/21/2023	OR	POR	Portland General Electric Co.	D-UE-416	General rate revision settlement conference
4/21/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Rebuttal testimony due in G-RAC proceeding
4/26/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Rebuttal testimony due in Rider OSW update proceeding
4/28/2023	VA	SO	Virginia Natural Gas Inc.	C-PUR-2022-00052	Staff testimony due in rate case
5/1/2023-5/31/2023	CA	EIX	Southern California Edison Co.		General rate case to be filed
5/1/2023-5/31/2023	MO	SR	Spire Missouri Inc.	C-GO-2023-0203 (ISRS)	Decision possible in ISRS proceeding
5/1/2023-5/4/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00070*(RiderRGGI)	Hearings scheduled in Rider RGGI reinstatement proceeding
5/2/2023	IL	SO	Northern Illinois Gas Co.	D-23-0066	Staff and intervenor testimony due in rate proceeding
5/2/2023-5/3/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Hearings scheduled in G-RAC proceeding
5/5/2023	IL	AEE	Ameren Illinois	D-23-0067	Staff and intervenor testimony due in rate proceeding
5/8/2023	MI	CMS	Consumers Energy Co.	C-U-21308	Rebuttal testimony due
5/9/2023	IL	SO	North Shore Gas Co.	D-23-0068	Staff and intervenor testimony due in rate proceeding
5/9/2023	KY	DUK	Duke Energy Kentucky Inc.	C-2022-00372	Hearing to begin in rate proceeding
5/9/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Hearing to begin in rate proceeding
5/9/2023-5/10/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Hearings scheduled in Rider OSW update proceeding
5/11/2023	IL	AEE	Ameren Illinois	D-23-0082	Staff and intervenor testimony due in rate proceeding
5/16/2023-5/17/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Hearings scheduled in Rider DSM proceeding
5/18/2023	IL	EXC	Commonwealth Edison Co.	D-23-0055	Staff and intervenor testimony due in rate proceeding
5/21/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Decision possible in rate proceeding
5/22/2023-6/16/2023	CA	SRE	San Diego Gas & Electric Co.	A-22-05-016 (Elec)	Hearings scheduled in rate case
5/22/2023-6/16/2023	CA	SRE	San Diego Gas & Electric Co.	A-22-05-016 (Gas)	Hearings scheduled in rate case
5/23/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2023-00005 (Rider E)	Intervening parties to file testimony in Rider E update proceeding
5/24/2023	OR	POR	Portland General Electric Co.	D-UE-416	Staff, intervenor testimony on power cost update due
5/25/2023	TX	ETR	Entergy Texas Inc.	D-53719	End of agreed upon suspension period — decision may be issued in rate case
5/31/2023	NY	ED	Orange & Rockland Utlts Inc.		Long-term gas system plan to be filed
5/31/2023	IL	SO	Northern Illinois Gas Co.	D-23-0066	Company rebuttal testimony due in rate proceeding
5/31/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00140 (Rider GT)	Decision expected in Rider GT proceeding
6/1/2023-6/30/2023	MO	AEE	Union Electric Co.	C-ER-2022-0337	Decision possible in rate proceeding
6/1/2023-6/30/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Hearing Examiner report may be issued in G-RAC proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Hearing Examiners report may bee issued in Rider OSW update proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00070*(RiderRGGI)	Hearing examiners report may be issued in Rider RGGI reinstatement proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00162 (Rider SNA)	Hearing examiner report may be issued in Rider SNA adjustment proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00164 (Rder US-2)	Decision likely in Rider US-2 proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Hearing examiner's report may be issued in Rider DSM proceeding
6/2/2023	IL	AEE	Ameren Illinois	D-23-0067	Company rebuttal testimony due in rate proceeding
6/6/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2023-00005 (Rider E)	Staff to file testimony in Rider E update proceeding
6/12/2023	IL	SO	North Shore Gas Co.	D-23-0068	Company rebuttal testimony due in rate proceeding
6/12/2023-6/13/2023	VA	SO	Virginia Natural Gas Inc.	C-PUR-2022-00052	Hearings scheduled in rate case
6/13/2023	MI	DTE	DTE Electric Co.	C-U-21297	Staff and intervenor testimony due
6/13/2023	OR	POR	Portland General Electric Co.	D-UE-416	Staff, intervenor testimony on rates due
6/14/2023	IL	AEE	Ameren Illinois	D-23-0082	Company rebuttal testimony due in rate proceeding
6/14/2023	OR	POR	Portland General Electric Co.	D-UE-416	Power cost update settlement conference
6/19/2023-6/26/2023	NC	DUK	Duke Energy Carolinas LLC	D-E-7 Sub 1276	Hearings scheduled in rate case
6/20/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (EL)	Parties to file testimony in rate case
6/20/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (GAS)	Parties to file testimony in rate case
6/21/2023	OR	POR	Portland General Electric Co.	D-UE-416	PGE testimony on power cost update due
6/26/2023	MI	CMS	Consumers Energy Co.	C-U-21308	Briefs due in rate case
6/27/2023	IL	EXC	Commonwealth Edison Co.	D-23-0055	Company rebuttal testimony due in rate proceeding
6/28/2023	OR	POR	Portland General Electric Co.	D-UE-416	General rate revision settlement conference
6/28/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2023-00022 (Rider CCR)	Intervening parties to file testimony in Rider CCR update

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

Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- Guggenheim Nuclear Conference Wrap: If You Build It, They Will Come?
- NEP: CEPF and Near-Term Financing Drilldown – Headwinds? Yes. Distribution Reset? Unlikely. Share Weakness Unwarranted; Bear Calls Flawed
- ERCOT: Policy Call Reinforces Uphill View on Repricing as TX Legislature Mulls Resource Adequacy Tweaks
- AEE NDR: Bread and Butter Utility Update Underscores Ameren's Premium Attributes
- NEE NDR: Management Continues to Chop Through IRA Upside Opportunities but Baseline Remains Conservative; Headline Hurdles Require Time
- ES: What Are the Bears Playing for Now? The Dislocation to Group Getting Out of Hand
- SRE: Port Arthur Reaches FID, Few Holdovers with Project Equity, but Economics Are Broadly Accretive
- SMR: 2023 to See Slightly Heightened Cash Usage as Focus Remains on Execution
- HE – Making Sense of Banking Turbulence; HE's ASB Remains Well Insulated From Isolated Liquidity Issues
- DUK: CEO NDR – How to Strengthen the Balance Sheet Without a "Rip-the-Band-Aid-Off" Equity Scenario? Patience.
- PEG Analyst Day – Straight Talking with PEG; Mgmt. Backs Up Sustainable 5-7% EPS Growth with Room to Exceed
- SRE: PUCT Modifies Oncor PFD, Approves Oncor Rate Case; 9.7% ROE and 42.5% Equity Ratio – Above Our Expectation
- Arizona Regulation: Taking a Deep Dive in the Desert — New Commissioners Bring a Wealth of Experience, Insights, and Planned Improvements to the ACC
- PNW: APS Wins Appeal of 2019 Rate Case's Penalty ROE and SCR Disallowance — Arizona Supreme Court May Be Next
- VST: Sensible Transaction and Organizational Realignment Look to Freeze the Melting Ice Cube Argument
- Deal or No Deal? Taking the Pulse of Fuel Deferrals Across Our Coverage Universe
- PJM: How Low Can You Go? Residualization of the BRA Marches On…
- D: Legislative Breakthrough Yields a Deal; Focus Turns to Credit Repair
- AEP: Contracted Renewables Sale Above Our Expectations
- LNT: Cleanup in Aisle 4? PSCW's Damage Control Proves Effective: Upgrading to NEUTRAL
- PSCW: Conversation with Chair Valcq Strikes a Balanced Tone
- D: Halftime in Richmond as Multiple Bills Advance
- D: SB1265 Amended Ahead of Crossover Deadline Tomorrow
- FE – The Same Board Who Set The Current Strategic Plan Is Also Picking The CEO… Follow-Up Thoughts Post Our Mgmt. Call
- FE – Rebase Coming? No. Asset Sale Delay? No. New CEO Strategy Shift? No. Balance Sheet Concerns? No. More Growth Opps? Yes. FE Remains '23 Best Idea
- D: General Assembly Sausage-Making Enters Full Swing as Lawmakers Continue to Cement the Bid-Ask
- D: Key Bills Pass Out of Senate Committee
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D: New Legislation Proposes Novel Option for OSW Stake Sale – Mosaic Pieces Continue to Form a Clearer Picture
- ETR – LPSC Votes on Modified Settlement Proposal with Customer Benefits, but Recognition of Hurricane Cost Prudency
- D: Opening Move in Richmond: Evolutionary Legislation Lays Path Forward

ANALYST CERTIFICATION

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

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Guggenheim Securities, LLC policies.

CS - Coverage Suspended. Guggenheim Securities, LLC has suspended coverage of this company.

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Price targets are assigned for Buy- and Sell-rated stocks. Price targets for Neutral-rated stocks are provided at the discretion of the analyst.

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			IB Serv./ Past 12Mos.	
Rating Category	**Count**	**Percent**	**Count**	**Percent**
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NEUTRAL	112	30.94%	10	8.93%
SELL	9	2.49%	0	0.00%

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Ticker	Price	Rating
AEE	89.97	Neutral
D	57.89	Buy
ED	98.69	Neutral
FE	41.46	Buy
NEE	78.59	Buy
NI	28.66	Buy
SRE	153.95	Buy

Power & Utilities

April 13, 2023

The Guggenheim Daily Transmission: NEE/ED, D/VA, FE, ERCOT, TX, SRE, Policy, PJM/NJ, IL/Wind, D, AEE, NI

SAVE THE DATE: We are hosting a dinner with CNP's COO, new CFO, and others on May 22nd...

For our AGA conference (May 20-23) meeting schedule, please scroll down...

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our EXC NDR, ETR NDR, PNW NDR, DTE NDR, PCG NDR, ES NDR, SMR NDR, LNT NDR, AWK NDR, CMS NDR, SO NDR, POR NDR, and other events, scroll down...

NEE/ED – USFWS posts letter on endangered species consultation with FERC, Sierra Club notes 4th circuit court appeal of new biological opinion

D/VA — General Assembly passes utility reform legislation, discards Governor's amendments to wind bill

FE — West Virginia's Gov. Justice continues to be hopeful regarding future for Pleasants Power Plant

ERCOT — Calpine announces plans for two 425MW gas plants, credits PCM

TX – Texas utility bills progress through committee review

SRE – Cameron Pipeline issues force majeure notice; minor compression reduction

Policy — WOTUS rule enjoined in another 24 states

PJM/NJ — BPU Staff publish progress report on resource adequacy work

IL/Wind — Chicago lawmakers continue to advocate for offshore wind on Lake Michigan

D — Chief nuclear officer to retire; replacement named

AEE — MO PSC grants CCN for 150MW Boomtown solar facility

NI — As expected, NiSource issues its 2022 Integrated Annual Report

NEE/ED – USFWS posts letter on endangered species consultation with FERC, Sierra Club notes 4th circuit court appeal of new biological opinion

- The US fish and Wildlife Service continued correspondence with FERC on endangered species, while Sierra Club noted a 4th circuit court appeal of the February 2023 Biological Opinion.
- The appeal requests a court review of the new USFWS BO.
- MVP is still pending several administrative and judicial outcomes including: fourth circuit appeals court review of WV agency permits, Army Corps of engineers needs VA/WV permits for its water discharge permit approval and FERC has to reissue a Biological Opinion (US Fish and Wildlife previously filed the new biological opinion on MVP with FERC, pending approval).
- FERC staff and the US Wildlife Service have previously reviewed the Updated SBA and requested clarification on endangered species impacts and protective actions.

- Mountain Valley Pipeline also submitted an Implementation Plan for the Amendment Project for Mountain Valley Pipeline Project.
- The plan supports the amended application including changing the crossing method for 183 waterbodies and wetlands at 120 locations from open cut to trenchless.
- Media overview on recent actions here.
- FERC Docket: CP16-10. / CP21-57

Guggenheim takeaway: *The appeal of the new biological opinion is not a surprise as opposition groups have been active in challenging every aspect of reissued permitting from FERC and administrative agencies. As the docket filings indicate, there continue to be opposition and challenges to MVP construction. The MVP project was largely built (~90+ % by prior developer estimates) but the fourth circuit rejection of water permits puts any potential progress on hold. The tug of war continues on MVP legal challenges. The final authorizations to resume construction are still outstanding and FERC commissioners have previously dissented on "continuation of work" approvals. Both ED and NEE have taken major write downs on the MVP project (i.e., not in financial guidance).*

D/VA — General Assembly passes utility reform legislation, discards Governor's amendments to wind bill

- The General Assembly has passed SB1265 following the Governor's amendments, which were largely technical/grammatical - HERE
- The Senate passed by the Governor's amendments to HB2444, which would have set a competitive process for any phase 2 offshore wind procurement.

Guggenheim takeaway: *Little surprise on both counts, with both chambers rejecting the surprise amendments from the Governor's office to the wind bill. As we noted previously, the Governor's amendment had specifically focused on procurement's after CVOW and would not have impacted the current ongoing credit repair process/strategic review, nor the associated optionality around a passive stake sale in CVOW (the current project). The move sets up a return of the original unmodified language (without amendments) to the governor's office, which he can still sign. The legislative finality come as the company previously committed to a business review update in 2Q.*

FE — West Virginia's Gov. Justice continues to be hopeful regarding future for Pleasants Power Plant

- During his weekly virtual briefing from the Capitol, Gov. Justice said he "*was pleased that FirstEnergy Corp. subsidiaries Monongahela Power Co. and Potomac Edison Co. submitted a plan to the PSC at the end of March to operate the plant for a 12-month period while it considers a more permanent proposal.*"
- Recall that Pleasants Power is slated for closure on May 31.
- In order to provide time for the companies, interested parties, regulatory bodies, and others to further review a possible acquisition of Pleasants, the companies proposed an interim solution to preserve Pleasants' operations in 2023 while the companies complete their analysis. The interim solution proposal includes a temporary surcharge of $3 million per month.
- Docket 22-0793-E-ENEC

Guggenheim takeaway: *Recall that the WV PSC has scheduled an April 23, 2023, evidentiary hearing on the request made by Monongahela Power and Potomac Edison. The 1,300 MW Pleasants plant was last owned by Energy Harbor, who acquired it as part of the FirstEnergy Solutions bankruptcy proceedings. Various parties in WV support FE acquiring the plant, potentially as a replacement for Ft. Martin Power Station, which lacks selective catalytic reduction (SCR) technology. During the 2023 WV legislative session, both WV's Senate and House passed resolutions which encouraged Mon Power to buy Pleasants (i.e., HR12 and SB29, respectively). The legislature also passed HB 3308, allowing securitization of the undepreciated book value of retired coal plants. The timeline for a decision to be made has been accelerated due to falling market prices causing Energy Harbor to move up the plant's planned retirement date from 4Q23 to May 31, 2023. We continue to monitor.*

ERCOT — Calpine announces plans for two 425MW gas plants, credits PCM

- "Calpine [PRIVATE] has announced it is relaunching its Texas power plant development program following a move by state regulators to embrace market-based incentives for reliable power. Calpine's plan includes multiple projects in various stages of development

See pages 24 - 25 for analyst certification and important disclosures.

and squarely supports goals outlined by the Public Utility Commission (PUC)… The initial project is a new 425 MW gas-fired power plant adjacent to the existing Freestone Energy Center in Freestone County. Efforts underway include engineering and site planning, grid interconnection requests, and environmental permitting. Critical components including gas turbines and generators have been procured and are ready for deployment. The new facility will be operational before the summer of 2026." - release

- More HERE

***Guggenheim takeaway:** Interesting timing from Calpine as the House now grapples with the Senate-passed pieces of energy legislation (SB6/7), and the PUCT examines a formal reliability standard to underpin the PCM. The company specifically elevated the PCM as a root cause of improved investment signals in its release, although we note that the mechanism has not found particular favor in the legislature or with the Lt. Governor. For both Senate bills, we have heard firsthand and in media that they could have chilling effects on new investment – **most recently with our expert conversation last week (note HERE**). We continue to monitor closely for indications on the Governor's willingness to potentially move away from the PCM and towards more state-supported expenditures.*

TX – Texas utility bills progress through committee review

- TX Senate bill SB 1015 related to bi-annual DCRF review at the PUCT moves to House state affairs committee.
- The committee report is supportive of aligning the DCRF and TCOS frameworks and does not see any change in authority resulting from the bill.
- The bill aligns DCRF reviews to twice in one year, similar to the TCOS process already in place.
- TX SB 1076 was received at the house.
- The bill addresses timelines for CPCN approvals on transmission projects.

***Guggenheim takeaway:**FYI. SB1015 seems to be one of the less contested bills in front of the TX legislature as it does not change any agency authorities or introduce any new concepts in ratemaking. The DCRF cadence could help offset some of the regulatory lag for TX utilities (CNP, SRE, ETR, AEP). Texas legislative session starting to pick up as we are watching multiple utility related bills including on the electric side where there is a capital structure bill proposed (HB 3042).*

SRE – Cameron Pipeline issues force majeure notice; minor compression reduction

- SRE's Cameron pipeline, serving Cameron LNG posted a notice of force majeure capacity reduction due to compressor issues.
- The issues only impact a small fraction of available capacity and could be restored within days.

***Guggenheim takeaway:**FYI. No major impacts for Cameron LNG, despite the headline.*

Policy — WOTUS rule enjoined in another 24 states

- The ruling by a federal judge in ND adds to the two prior states (TX and ID) in which the rules were previously blocked.
- More HERE.
- EPA HERE.

***Guggenheim takeaway:** Very minor FYI as the battle over groundwater jurisdiction and definitions continues to ricochet between the executive branch and Congress. As a reminder, this has been a back-and-forth issue for almost a decade at this point following attempted revisions in 2015, with groundwater considerations touching many points in the energy complex (e.g., coal ash). We expect this to remain a litigious issue.*

PJM/NJ — BPU Staff publish progress report on resource adequacy work

- BPU Staff have docketed a progress report building on their 20212 efforts to analyze future pathways for the state and PJM.
- "In response to the Board's directive to provide a progress report and make additional recommendations, Staff has prepared this 2022 Progress Report on New Jersey's Resource Adequacy Alternatives ("Progress Report" or "2022 Report"). After two years of intensive investigation and consultation with our fellow PJM states, market design

experts, and stakeholders, this Progress Report largely echoes the conclusions of the initial Resource Adequacy Report" - report

- More HERE.

Guggenheim takeaway: *Interesting resource adequacy data points for your awareness as NJ continues to proactively manage its options for ongoing decarbonization.*

IL/Wind ─ Chicago lawmakers continue to advocate for offshore wind on Lake Michigan

- HB2132 seeks to create a program that would enable the construction of a ~$700m wind farm.
- "Amends the Illinois Power Agency Act. In provisions concerning the procurement of renewable energy credits, provides that in addition to the amount of renewable energy credits to be procured from wind projects, the Illinois Power Agency shall procure at least 700,000 renewable energy credits, delivered annually for at least 20 years, from one new utility-scale offshore wind project." – text
- Bill HERE.
- More HERE.

Guggenheim takeaway: *Interesting FYI as lawmakers appear to be seeking support for a single discrete project with economic development benefits for the city.*

D ─ Chief nuclear officer to retire; replacement named

- Dominion "today announced that Daniel G. Stoddard, senior vice president & chief nuclear officer and president-Contracted Assets, will retire, effective Aug. 1, 2023. The company also announced that it has hired Eric S. Carr, president and chief nuclear officer of PSEG Nuclear. Carr will begin his tenure at Dominion Energy on June 5, 2023, as president-Nuclear Operations and will add the chief nuclear officer title on July 1, 2023."
- More HERE.

Guggenheim takeaway: *Minor FYI.*

AEE ─ MO PSC grants CCN for 150MW Boomtown solar facility

- AEE MO "received approval from the Missouri Public Service Commission (MoPSC) to acquire, upon completion, a 150-megawatt (MW) solar facility in White County, Illinois. The solar facility is part of Ameren Missouri's plan to ensure that it can supply its customers with clean and affordable energy. The acquisition is subject to customary closing conditions and is anticipated to begin generating clean energy late next year."
- More HERE.

Guggenheim takeaway: *Minor FYI and part of the plan following the earlier approval of the Huck Finn CCN.*

NI ─ As expected, NiSource issues its 2022 Integrated Annual Report

- The document incorporates its 10-K as well.
- Link HERE

Guggenheim takeaway: *Minor FYI.*

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Exelon Corporation (EXC)

Calvin Butler, *President & Chief Executive Officer*
Jeanne Jones, *Chief Financial Officer*
Andrew Plenge, *VP, Investor Relations*

Dates & Location

May 15 – 16, 2023
New York

Meeting Format

NDR - 1:1 Meetings, Group Meeting & Small Group Dinner

Company Information

Market Cap: $42.4bn

Exelon Corporation (EXC) operates as a utility services holding company, which engages in the energy generation, power marketing, and energy delivery business. It operates through the following segments: Mid Atlantic, Midwest, New York, Electric Reliability Council of Texas (ERCOT) and other Power Regions. The Mid-Atlantic segment represents operations in the eastern half of PJM, which includes New Jersey, Maryland, Virginia, West Virginia, Delaware, the District of Columbia and parts of Pennsylvania and North Carolina. The Midwest segment operates in the western half of PJM, which includes portions of Illinois, Pennsylvania, Indiana, Ohio, Michigan, Kentucky and Tennessee, and the United States footprint of MISO, excluding MISO's Southern Region, which covers all or most of North Dakota, South Dakota, Nebraska, Minnesota, Iowa, Wisconsin, the remaining parts of Illinois, Indiana, Michigan and Ohio not covered by PJM, and parts of Montana, Missouri and Kentucky. The New York (NY) segment provides operations within ISO–NY, which covers the state of New York in its entirety. The ERCOT segment includes operations within the Electric Reliability Council of Texas, covering most of the state of Texas. The Other Power Regions consist of the operations in New England, South, West, and Canada. The company was founded in February 1999 and is headquartered in Chicago, IL. (Source: FactSet)

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CenterPoint Energy, Inc. (CNP)

Jason Wells, *Chief Operating Officer*
Chris Foster, *Chief Financial Officer*
Jackie Richert, *VP Investor Relations & Treasurer*
Ben Vallejo, *Director Investor Relations*

Dates
Monday, May 22, 2023
6:00 PM

Location
Restaurant TBD
Fort Lauderdale, Florida

Company Information
Market Cap: $18.6bn
CenterPoint Energy, Inc. (CNP) is a holding company that engages in the business of power generation and distribution. It operates through the following segments: CenterPoint Energy, Houston Electric, and CERC. The CenterPoint Energy segment consists of electric transmission and distribution services in the Texas gulf coast area in the ERCOT region and electric transmission and distribution services primarily to southwestern Indiana and includes power generation and wholesale power operations in the MISO region. The Houston Electric segment consists of electric transmission services to transmission services customers in the ERCOT region and distribution services to REPs serving the Texas gulf coast area. The CERC segment covers the Restructuring consisting of intrastate natural gas sales to, and natural gas transportation and distribution for residential, commercial, industrial and institutional customers in Indiana, Louisiana, Minnesota, Mississippi, Ohio and Texas, and permanent pipeline connections through interconnects with various interstate and intrastate pipeline companies through CEIP. The company was founded in 1866 and is headquartered in Houston, TX. (Source: FactSet).

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SAVE THE DATE

2023 AGA Financial Forum

Dates

May 20 – 23, 2023

Location

Fort Lauderdale Marriott Harbor Beach Resort
3030 Holiday Drive
Fort Lauderdale, Florida

Guggenheim Hosted Dinner

We will be hosting a dinner with Shar Pourreza and team to kick off the conference on Saturday May 20 at 6:30PM ET.

Company Meetings

**Additional meetings may be added*

Sunday, May 21st	
Time	*Co.*
11:10AM	LNT
12:00PM	NI
12:50PM	NWN
1:40PM	CMS
2:30PM	NJR
3:20PM	AVA
4:10PM	SR

Monday, May 22nd	
Time	*Co.*
7:40AM	SO
8:30AM	WEC
9:30AM	DUK
10:20AM	SRE
11:10AM	ED
12:00PM	NWE
1:00PM	CPK
1:00PM	BKH
1:50PM	PEG
2:40PM	DTE
3:30PM	OGS
4:20PM	D

Tuesday, May 23rd	
Time	*Co.*
8:30AM	CNP
10:10 AM	AEE
11:00 AM	MDU

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Entergy Corporation (ETR)

Drew Marsh, *Chairman & Chief Executive Officer*
Kimberly Fontan, *Chief Financial Officer*
Bill Abler, *VP, Investor Relations*

Dates & Location

June 1 – 2, 2023
West Coast

Meeting Format

NDR - 1:1 Meetings

Company Information

Market Cap: $22.64bn

Entergy Corp. (ETR) is a holding company that engages in electric power generation and distribution. It operates through the following segments: Utility and Entergy Wholesale Commodities. The Utility segment includes the generation, transmission, distribution, and sale of electric power and the operations of a natural gas distribution business. The Entergy Wholesale Commodities segment owns, operates, and decommissions nuclear power plants and sells electric power. The company was founded by Harvey Couch on November 13, 1913, and is headquartered in New Orleans, LA. (Source: FactSet)

See pages 24 - 25 for analyst certification and important disclosures.

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Pinnacle West Capital Corporation (PNW)

Andrew Cooper, *Chief Financial Officer*

Date & Location

Monday, June 5, 2023
New York

Meeting Format

NDR - 1:1 Meetings & Group Meeting

Company Information

Market Cap: $9.05bn

Pinnacle West Capital Corp. (PNW) is a holding company, which engages in providing energy and energy-related products. It offers regulated retail and wholesale electricity businesses and related activities, such as electricity generation, transmission and distribution through its subsidiary, Arizona Public Service Co. The company was founded on February 20, 1985, and is headquartered in Phoenix, AZ.
(Source: FactSet)

 See pages 24 - 25 for analyst certification and important disclosures.

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DTE Energy Company (DTE)

Jerry Norcia, *Chairman, President & Chief Executive Officer*
Barbara Tuckfield, *Director Investor Relations*

Dates & Location
June 7 & 8, 2023
New York

Meeting Format
NDR - 1:1 Meetings, Group Meeting & Small Group Dinner

Company Information
Market Cap: $22.4bn
DTE Energy Co. (DTE) operates as a diversified energy company, which engages in the development and management of energy-related businesses and services. It operates through the following segments: Electric, Gas, DTE Vantage, Energy Trading, and Corporate and Other. The Electric segment consists of generation, purchase, distribution, and sale of electricity to residential, commercial, and industrial customers in southeastern Michigan. The Gas segment is involved in the purchase, storage, transportation, distribution, and sale of natural gas to residential, commercial, and industrial customers throughout Michigan, and the sale of storage and transportation capacity. The DTE Vantage segment focuses on projects that deliver energy and utility-type products and services to industrial, commercial, and institutional customers, produce reduced emissions fuel, and sell electricity and pipeline-quality gas from renewable energy projects. The Energy Trading segment covers energy marketing and trading operations. The Corporate and Other segment includes various holding company activities, holds certain non-utility debt, and holds certain investments, as well as funds supporting regional development and economic growth. The company was founded in January 1995 and is headquartered in Detroit, MI. (Source: FactSet)

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PG&E Corporation (PCG)

Patti Poppe, *Chief Executive Officer (Tentative)*

Carolyn Burke, *Incoming Chief Financial Officer*

Tom Webb, *Senior Advisor to Chief Executive Officer*

Jonathan Arnold, *Vice President, Investor Relations*

Date & Location

Monday, June 12, 2023
New York

Meeting Format

NDR - 1:1 Meetings, Group Meeting

Company Information

Market Cap: $39.6bn

PG&E Corp. (PCG) is a holding company that engages in generation, transmission, and distribution of electricity and natural gas to customers. It specializes in energy, utility, power, gas, electricity, solar and sustainability. The company was founded in 1995 and is headquartered in Oakland, CA. (Source: FactSet)

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Equity Research | Corporate Access

Eversource Energy (ES)

Joseph Nolan, *Chairman, President & Chief Executive Officer*

John Moreira, *Chief Financial Officer*

Jeffrey Kotkin, *Vice President, Investor Relations*

Bob Becker, *Director, Investor Relations*

Date & Location

Thursday, June 22, 2023
New York

Meeting Format

NDR - 1:1 Meetings & Group Meeting

Company Information

Market Cap: $28.02bn

Eversource Energy (ES) engages in the generation, transmission, and distribution of natural gas and electricity. It operates through the following segments: Electric Distribution, Electric Transmission, Natural Gas Distribution and Water Distribution. The Electric Distribution segment distributes electricity to retail customers. The Electric Transmission segment owns and maintains transmission facilities through CL&P, NSTAR Electric, PSNH, and WMECO. The Natural Gas Distribution segment transmits and distributes natural gas to retail customers. The Water Distribution segment operates three separate regulated water utilities in Connecticut, Massachusetts, and New Hampshire. The company was founded on July 1, 1966, and is headquartered in Springfield, MA. (Source: FactSet)

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Equity Research | Corporate Access

NuScale Power Corporation (SMR)

Chris Colbert, *Chief Financial Officer*

Scott Kozak, *Director, Investor Relations*

Date & Location

Tuesday, June 27, 2023
New York

Meeting Format

NDR - 1:1 Meetings & Group Meeting

Company Information

Market Cap: $1.9bn

NuScale Power Corp. (SMR) engages in the commercialization of a modular, scalable 77 megawatt electric Light Water Reactor nuclear power plant using rights to a nuclear power plant design. Its products include VOYGR SMR Plants and Energy Exploration (E2) Centers. The company was founded by José N. Reyes in 2007 and is headquartered in Portland, OR. (Source: FactSet)

See pages 24 - 25 for analyst certification and important disclosures.

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SAVE THE DATE

2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO)/Georgia Power C-Suites, Porsche Racing & GA Commissioner Meetings

What does Southern Company & Georgia Power C-Suite meetings, Georgia Commissioner meetings and racing Porsches on race tracks have in common? Almost nothing! But we are combining all of them for an action-packed 2 days in GA. Please join the Guggenheim Utilities Research Team in Atlanta, GA on July 11 and 12.

Dates and Location

July 11 & 12, 2023 — Atlanta, Georgia

Schedule

Tuesday, July 11th

We advise flying in the morning of Tuesday, July 11. Recommended flights to follow.

~1:00 PM | Georgia PSC Meetings
Tricia Pridemore, PSC Chair, *Commissioner*
Tim Echols, Vice-Chairman, *Commissioner*
Fitz Johnson, *Commissioner*
Lauren "Bubba" McDonald, *Commissioner*
Jason Shaw, *Commissioner*

~6:00 PM | Client Dinner with Southern Company (SO) C-Suite
Chris Womack, *President & Chief Executive Officer (Incoming)*
Dan Tucker, *Chief Financial Officer*
Scott Gammill, *VP of Investor Relations & Treasurer*
Among others

Wednesday, July 12th

8:30 AM | Porsche Racing Experience
Experience the thrill of the drive at the Porsche Experience Center. Attendees will drive vehicles from the full Porsche model range with driving coaches by their side in a race-controlled atmosphere. See: https://www.porschedriving.com/atlanta

1:00 PM | Lunch with Southern Company (SO) and Georgia Power C-Suite
Kim Greene, *Chair, President & Chief Executive Officer (Georgia Power)*
Dan Tucker, *Chief Financial Officer (SO)*
Aaron Abramovitz, *Chief Financial Officer (Georgia Power)*
Among others

Company Information

Market Cap: $73.3bn

Southern Co (SO) is a holding company, which engages in the generation and sale of electricity. It operates through the following segments: Traditional Electric Operating Companies, Southern Power and Southern Company Gas. The Traditional Electric Operating Companies segment refers to vertically integrated utilities that own generation, transmission and distribution facilities, and supplies electric services in the states of Alabama, Georgia, and Mississippi. The Southern Power segment constructs, acquires, owns, and manages generation assets such as renewable energy projects and sells electricity in the wholesale market. The Southern Company Gas segment distributes natural gas through natural gas distribution facilities in the states of Illinois, Georgia, Virginia, and Tennessee. The company was founded on November 9, 1945, and is headquartered in Atlanta, GA. (Source: FactSet)

Guggenheim 2023 Client and Corporate Access Utility Events

Ticker	Dates	Regions
EIX	*1/10 & 1/11*	Boston & New York
Commissioner Roundtable Event	*1/20*	In Person at Guggenheim
2023 Utilities Conference Call	*1/23*	Dial-In
Virginia Policy Call	*2/7*	Dial-In
Wisconsin Regulatory Call (Chair Valcq)	*2/9*	Virtual
WEC	*2/14–2/16*	West Coast
Wisconsin Regulatory Call (Commissioner Huebner)	*2/17*	Virtual
Arizona Regulatory Call (Commissioners Myers and Thompson)	*2/27*	Virtual
DUK	*3/7-3/8*	NYC
NEE	*3/14-3/16*	West Coast
AEE	*3/22*	Virtual
ERCOT Policy Call	*3/31*	Virtual
PPL	*4/3–4/4*	Boston
EXC	5/15–5/16	NYC
CNP C-Suite Dinner	5/22	Fort Lauderdale, FL
AGA Conference Meetings	5/20–5/23	Fort Lauderdale, FL
ETR	6/1–6/2	West Coast
PNW	6/5	NYC
DTE	6/7–6/8	NYC
PCG	6/12	NYC
ES	6/22	NYC
SMR	6/27	NYC
SO Meeting, Porsche racing, & Georgia PSC	7/11–7/12	Atlanta
LNT	7/17–7/18	NYC
AWK	8/9–8/10	West Coast
CMS	8/30–8/31	NYC
SO	9/13–9/15	West Coast
POR	9/18–9/19	NYC

MORE TO BE ADDED…

Guggenheim Comp Sheet

4/12/2023	Price	Market Cap ($m)	Guggenheim EPS Ests 2023E	2024E	2025E	2026E	2027E	Consensus 2023E	2024E	2025E	2026E	2027E	Δ vs Consensus (>$0.02) 2023E	2024E	2025E	2026E	2027E
Small Cap Electric																	
ALE	$64.73	3,710	3.70	4.17	4.56	4.87	5.07	3.70	4.08	4.34	4.83	5.05	–	0.09	0.22	0.04	–
AVA	$44.54	3,353	2.28	2.49	2.61	2.67	2.73	2.34	2.47	2.61	2.67	2.80	(0.06)	–	–	–	(0.07)
NWE	$60.16	3,596	3.42	3.55	3.75	3.91	4.08	3.47	3.59	3.73	3.88	4.05	(0.05)	(0.04)	–	0.03	–
POR	$50.72	4,536	2.68	3.00	3.15	3.31	3.50	2.66	3.03	3.19	3.35	3.53	–	–	(0.04)	(0.04)	–
		15,195															
Mid/Large Cap Electric																	
AEE	$89.97	23,615	4.35	4.67	5.05	5.40	5.68	4.36	4.68	5.02	5.36	5.69	–	–	–	0.04	–
AEP	$94.26	48,488	5.30	5.64	6.00	6.39	6.81	5.28	5.62	5.96	6.32	6.78	–	–	0.04	0.07	–
CMS	$61.44	17,895	3.12	3.41	3.65	3.91	4.26	3.10	3.35	3.63	3.89	4.17	–	0.06	–	–	0.09
CNP	$30.67	19,305	1.51	1.62	1.74	1.89	2.05	1.49	1.62	1.73	1.85	2.00	–	–	–	0.04	0.05
D	$57.89	48,353	4.15	3.75	3.97	4.24	4.50	3.91	3.78	3.97	4.51	4.70	0.24	(0.03)	–	(0.27)	(0.20)
DTE	$113.72	23,439	6.26	6.73	7.19	7.75	8.30	6.23	6.69	7.17	7.73	8.22	0.03	0.04	–	–	0.08
DUK	$99.41	76,610	5.65	6.05	6.35	6.75	7.15	5.63	5.98	6.33	6.71	7.14	–	0.07	–	0.04	–
ED	$98.69	34,190	4.82	5.18	5.40	5.71	5.97	4.85	5.20	5.48	5.81	6.09	–	–	(0.08)	(0.10)	(0.12)
EIX	$73.07	27,959	4.70	4.94	5.36	5.70	6.10	4.74	5.12	5.55	5.78	5.96	(0.04)	(0.18)	(0.19)	(0.08)	0.14
ES	$79.77	27,814	4.34	4.75	5.04	5.37	5.70	4.36	4.67	5.00	5.33	5.71	–	0.08	0.04	0.04	–
ETR	$110.08	23,347	6.71	7.16	7.76	8.31	8.97	6.72	7.21	7.74	8.31	–	–	(0.05)	–	–	8.97
EVRG	$62.10	14,257	3.65	3.97	4.24	4.47	4.75	3.63	3.96	4.22	4.46	3.08	–	–	–	–	1.67
EXC	$43.08	42,834	2.36	2.50	2.74	2.93	3.10	2.36	2.51	2.73	2.93	3.12	–	–	–	–	–
FE	$41.46	23,725	2.54	2.69	2.89	3.07	3.27	2.52	2.67	2.83	2.96	3.26	–	–	0.06	0.11	–
LNT	$54.74	13,747	2.90	3.08	3.27	3.50	3.67	2.90	3.15	3.28	3.48	3.67	–	(0.07)	–	–	–
OGE	$38.60	7,731	2.02	2.16	2.25	2.37	2.48	2.01	2.13	2.30	2.39	2.48	–	0.03	(0.05)	–	–
PCG	$16.96	33,848	1.22	1.37	1.47	1.61	1.75	1.21	1.34	1.47	1.59	1.77	–	–	–	–	–
PEG	$63.59	31,717	3.45	3.67	4.10	4.29	4.59	3.44	3.69	4.04	4.30	4.46	–	–	0.06	–	0.13
PNW	$79.83	9,041	4.05	4.60	4.80	5.05	5.35	4.10	4.76	4.92	5.17	5.42	(0.05)	(0.16)	(0.12)	(0.12)	(0.07)
PPL	$28.66	21,124	1.58	1.71	1.82	1.96	2.08	1.59	1.70	1.83	1.95	2.08	–	–	–	–	–
SO	$72.12	78,720	3.60	4.05	4.30	4.55	4.80	3.61	4.02	4.29	4.52	4.79	–	0.03	–	–	–
WEC	$98.15	30,960	4.60	4.91	5.24	5.61	5.97	4.60	4.90	5.26	5.62	5.98	–	–	–	–	–
Mid/Lg Cap (excl. EIX, PCG)																	
SMID + Lg Cap		**693,914**															

4/12/2023	Implied P/E Multiple 2023E	2024E	2025E	2026E	2027E	Prem/(Disc) vs Mid/Lg Cap Utes 2023E	2024E	2025E	2026E	2027E	'22–'27 EPS	NTM Yield	Payout Ratio	Guggenheim Rating	Guggenheim Target	NTM Total Return	Consensus Rating	Consensus Target	NTM Total Return
Small Cap Electric																			
ALE	17.5x	15.9x	14.9x	13.4x	12.8x	-6%	-8%	-8%	-8%	-17%	8.4%	4.2%	72%	Sell	$54	-12%	Buy	$66	7%
AVA	19.0x	18.1x	17.1x	16.7x	15.9x	2%	4%	5%	5%	3%	7.6%	4.2%	78%	Sell	$35	-17%	Sell	$39	-9%
NWE	17.3x	16.8x	16.1x	15.5x	14.8x	-7%	-3%	-1%	-1%	-4%	5.1%	4.3%	73%	Sell	$46	-19%	Buy	$59	3%
POR	19.1x	16.8x	15.9x	15.1x	14.4x	3%	-3%	-2%	-2%	-7%	5.0%	3.8%	69%	Buy	$54	10%	Buy	$53	8%
	18.2x	**16.9x**	**16.0x**	**15.2x**	**14.5x**	**-2%**	**-3%**	**-1%**	**-1%**	**-6%**	**6.6%**	**4.1%**	**73%**						
Mid/Large Cap Electric																			
AEE	20.6x	19.2x	17.9x	16.8x	15.8x	11%	11%	10%	10%	3%	6.5%	2.9%	58%	Neutral	$89	2%	Buy	$93	6%
AEP	17.8x	16.8x	15.8x	14.9x	13.9x	-4%	-3%	-3%	-3%	-8%	6.0%	3.6%	63%	Buy	$105	15%	Buy	$102	11%
CMS	19.8x	18.4x	16.9x	15.8x	14.8x	7%	6%	4%	4%	-3%	8.1%	3.3%	63%	Neutral	$68	14%	Buy	$68	14%
CNP	20.6x	19.0x	17.7x	16.6x	15.4x	11%	10%	9%	9%	2%	8.2%	2.5%	50%	Neutral	$32	7%	Buy	$32	7%
D	14.8x	15.3x	14.6x	12.8x	12.3x	-20%	-12%	-10%	-10%	-21%	1.8%	4.6%	69%	Buy	$63	13%	Neutral	$61	11%
DTE	18.3x	17.0x	15.9x	14.7x	13.8x	-2%	-2%	-2%	-2%	-9%	6.4%	3.4%	61%	Buy	$131	19%	Buy	$129	16%
DUK	17.6x	16.6x	15.7x	14.8x	13.9x	-5%	-4%	-3%	-3%	-9%	6.3%	4.2%	72%	Buy	$114	19%	Buy	$107	12%
ED	20.4x	19.0x	18.0x	17.0x	16.2x	10%	10%	11%	11%	5%	5.5%	3.3%	66%	Neutral	$86	-10%	Sell	$89	-6%
EIX	15.4x	14.3x	13.2x	12.6x	12.3x	-17%	-18%	-19%	-19%	-22%	5.7%	4.1%	62%	Buy	$75	7%	Buy	$72	3%
ES	18.3x	17.1x	16.0x	15.0x	14.0x	-2%	-1%	-2%	-2%	-8%	6.9%	3.4%	62%	Buy	$91	18%	Buy	$87	13%
ETR	16.4x	15.3x	14.2x	13.2x	n/a	-12%	-12%	-12%	-12%	-18%	6.9%	4.0%	64%	Buy	$128	20%	Buy	$120	13%
EVRG	17.1x	15.7x	14.7x	13.9x	20.2x	-8%	-9%	-9%	-9%	-14%	5.1%	4.1%	68%	Buy	$72	20%	Neutral	$65	8%
EXC	18.2x	17.2x	15.8x	14.7x	13.8x	-2%	-1%	-3%	-3%	-9%	6.4%	3.4%	61%	Neutral	$45	8%	Buy	$46	9%
FE	16.4x	15.6x	14.6x	14.0x	12.7x	-12%	-10%	-10%	-10%	-14%	6.3%	3.8%	62%	Buy	$46	15%	Buy	$44	9%
LNT	18.9x	17.4x	16.7x	15.7x	14.9x	2%	0%	3%	3%	-3%	5.6%	3.4%	62%	Neutral	$52	-2%	Neutral	$57	7%
OGE	19.2x	18.2x	16.8x	16.2x	15.5x	3%	5%	3%	3%	-0%	2.8%	4.4%	82%	Neutral	$38	3%	Neutral	$39	5%
PCG	14.0x	12.6x	11.6x	10.7x	9.6x	-25%	-27%	-29%	-29%	-34%	9.7%	0.7%	10%	Buy	$22	30%	Buy	$18	9%
PEG	18.5x	17.2x	15.8x	14.8x	14.3x	-0%	-1%	-3%	-3%	-9%	5.8%	3.6%	66%	Buy	$68	11%	Buy	$66	7%
PNW	19.5x	16.8x	16.2x	15.4x	14.7x	5%	-3%	0%	0%	-5%	4.7%	4.4%	82%	Neutral	$77	1%	Neutral	$76	-1%
PPL	18.0x	16.8x	15.7x	14.7x	13.8x	-3%	-3%	-3%	-3%	-9%	8.1%	3.4%	60%	Buy	$34	22%	Buy	$31	12%
SO	20.0x	17.9x	16.8x	15.9x	15.1x	7%	4%	4%	4%	-2%	5.9%	3.9%	75%	Buy	$73	5%	Neutral	$71	2%
WEC	21.3x	20.0x	18.7x	17.5x	16.4x	15%	16%	15%	15%	8%	6.1%	3.2%	67%	Neutral	$99	4%	Buy	$102	7%
Mid/Lg Cap (excl. EIX, PCG)	**18.6x**	**17.3x**	**16.2x**	**16.2x**	**16.2x**						**6.0%**	**3.6%**	**66%**						
SMID + Lg Cap	**18.5x**	**17.2x**	**16.2x**	**15.2x**	**14.8x**						**6.1%**	**3.7%**	**67%**						

Diversified	Price	Market Cap ($m)	Guggenheim EPS Ests 2023E	2024E	2025E	2026E	2027E	Consensus 2023E	2024E	2025E	2026E	2027E	Δ vs Consensus (>$0.02) 2023E	2024E	2025E	2026E	2027E
HE	$39.08	4,282	2.32	2.50	2.63	2.76	2.89	2.28	2.44	2.59	2.75	2.88	0.04	0.06	0.04	–	–
NEE	$78.59	159,018	3.13	3.43	3.69	3.99	4.27	3.11	3.39	3.67	4.02	4.43	–	0.04	–	(0.03)	(0.16)
SRE	$153.95	48,440	9.00	9.50	10.13	10.80	11.71	8.97	9.57	10.16	10.92	11.64	0.03	(0.07)	–	(0.12)	0.07
		211,740															
Gas LDCs																	
NI	$28.66	11,822	1.57	1.68	1.82	1.95	2.07	1.56	1.67	1.79	1.95	2.07	–	–	–	–	–
CPK	$130.66	2,323	5.42	5.84	6.23	6.59	6.94	5.41	5.82	6.24	6.59	6.95	–	–	–	–	–
NJR	$54.90	5,319	2.67	2.65	2.85	3.05	3.30	2.70	2.75	2.93	3.15	3.40	(0.03)	(0.10)	(0.08)	(0.10)	(0.10)
NWN	$47.95	1,683	2.65	2.83	2.98	3.09	3.21	2.66	2.79	2.99	3.05	3.22	–	0.04	–	0.04	–
OGS	$81.95	4,539	4.14	4.24	4.53	4.98	5.31	4.14	4.31	4.59	4.99	5.35	–	(0.07)	(0.06)	–	(0.04)
SR	$69.74	3,665	4.25	4.31	4.57	4.73	4.99	4.26	4.32	4.59	4.81	5.07	–	–	–	(0.08)	(0.08)
		29,351															
Regulated Water																	
AWK	$150.82	29,356	4.76	5.14	5.59	5.98	6.45	4.78	5.14	5.59	6.04	6.45	–	–	–	(0.05)	–

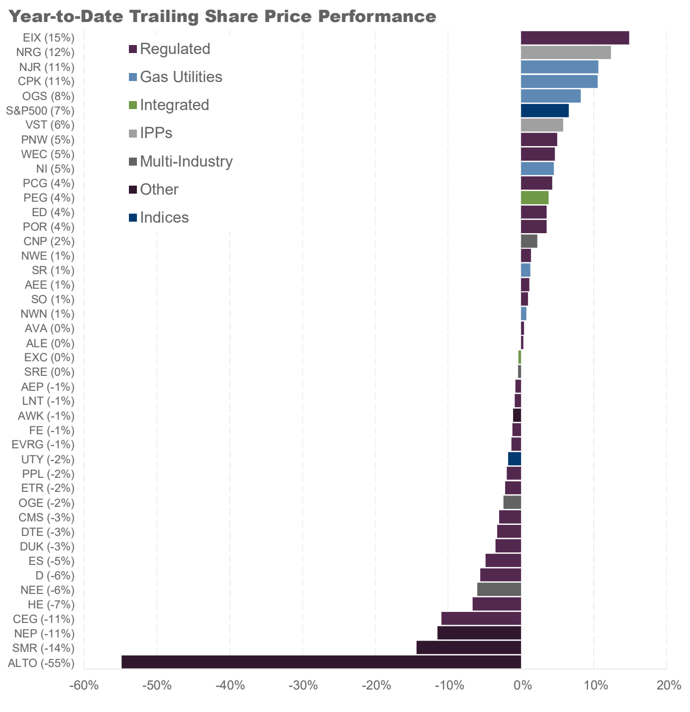
Diversified	Implied P/E Multiple 2023E	2024E	2025E	2026E	2027E	Prem/(Disc) vs Mid/Lg Cap Utes 2023E	2024E	2025E	2026E	2027E	'22–'27 EPS	NTM Yield	Payout Ratio	Guggenheim Rating	Guggenheim Target	NTM Total Return	Consensus Rating	Consensus Target	NTM Total Return
HE	17.1x	16.0x	15.1x	14.2x	13.6x	-8%	-8%	-7%	-7%	-12%	6%	3.7%	62%	Neutral	$42	11%	Sell	$38	2%
NEE	25.3x	23.2x	21.4x	19.5x	17.7x	36%	34%	32%	32%	20%	8%	2.5%	60%	Buy	$96	25%	Buy	$93	21%
SRE	17.2x	16.1x	15.2x	14.1x	13.2x	-8%	-7%	-7%	-7%	-13%	5%	3.2%	54%	Buy	$174	16%	Buy	$168	12%
	19.8x	**18.4x**	**17.2x**	**16.0x**	**14.8x**	**7%**	**6%**	**6%**	**6%**	**-2%**	**6.2%**	**3.1%**	**59%**						
Gas LDCs																			
NI	18.4x	17.2x	16.0x	14.7x	13.8x	-1%	-0%	-1%	-1%	-4%	7%	3.6%	64%	Buy	$31	12%	Buy	$31	12%
CPK	24.1x	22.5x	20.9x	19.8x	18.8x	30%	30%	29%	29%	30%	7%	1.8%	42%	Neutral	$116	-9%	Buy	$135	5%
NJR	20.3x	20.0x	18.7x	17.4x	16.1x	10%	16%	16%	16%	15%	6%	3.0%	59%	Neutral	$46	-13%	Neutral	$51	-4%
NWN	18.0x	17.2x	16.0x	15.7x	14.9x	-3%	-0%	-1%	-1%	3%	5%	4.1%	72%	Neutral	$45	-2%	Buy	$54	16%
OGS	19.8x	19.0x	17.9x	16.4x	15.3x	7%	10%	10%	10%	8%	5%	3.2%	63%	Neutral	$77	-3%	Neutral	$79	-0%
SR	16.4x	16.1x	15.2x	14.5x	13.7x	-12%	-6%	-6%	-6%	-5%	5%	4.2%	69%	Neutral	$69	3%	Neutral	$71	7%
	19.5x	**18.7x**	**17.5x**	**16.4x**	**15.5x**	**5%**	**8%**	**8%**	**8%**	**8%**	**5.8%**	**3.3%**	**62%**						
Regulated Water																			
AWK	31.6x	29.3x	27.0x	25.0x	23.4x	70%	69%	66%	66%	54%	7%	1.9%	60%	Neutral	$152	3%	Neutral	$160	8%

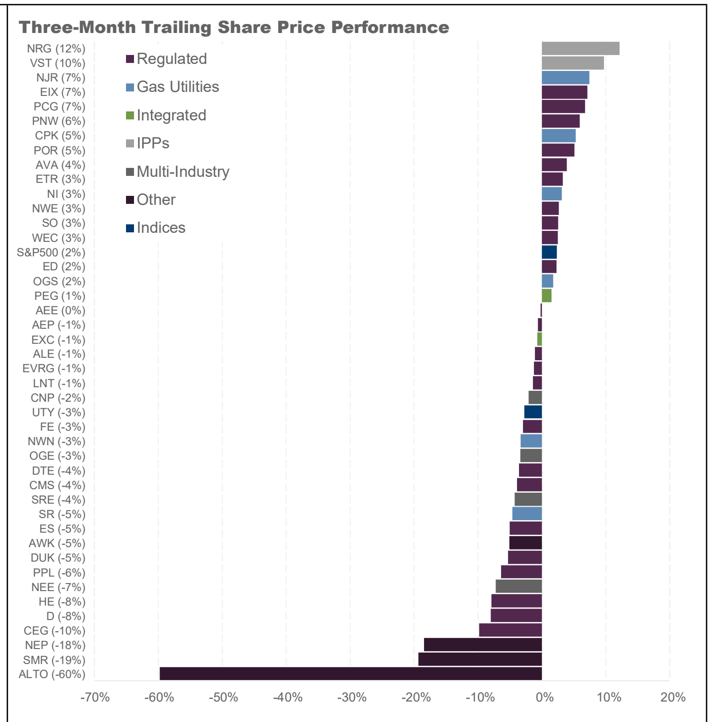
IPPs	Price	Market Cap ($m)	Guggenheim EBITDA Ests 2023E	2024E	2025E	2026E	2027E	Consensus 2023E	2024E	2025E	2026E	2027E	Δ vs Consensus (>$20m) 2023E	2024E	2025E	2026E	2027E
CEG	$76.81	25,091	3,100	3,254	3,333	3,455	4,315	3,054	3,469	3,588	3,362	3,590	46	(215)	(255)	93	725
NRG	$35.76	8,306	3,084	3,136	3,140	n/a	n/a	2,777	2,873	2,870	2,820	3,085	307	263	270	–	–
VST	$24.55	9,365	3,725	3,784	3,716	3,465	n/a	3,601	3,879	3,850	3,865	4,073	124	(95)	(134)	(399)	–
Other																	
ALTO	$1.30	98	24	40	46	42	43	29	50	N/A N/A	N/A N/A	N/A N/A	–	–	–	–	–
NEP	$62.04	5,371	1,837	1,977	2,143	2,325	2,471	1,918	2,087	2,147	2,389	2,228	(81)	(110)	–	(64)	243
SMR	$8.79	616	(100)	(57)	8	96	n/a	(130)	(85)	(31)	55	220	30	28	39	41	–

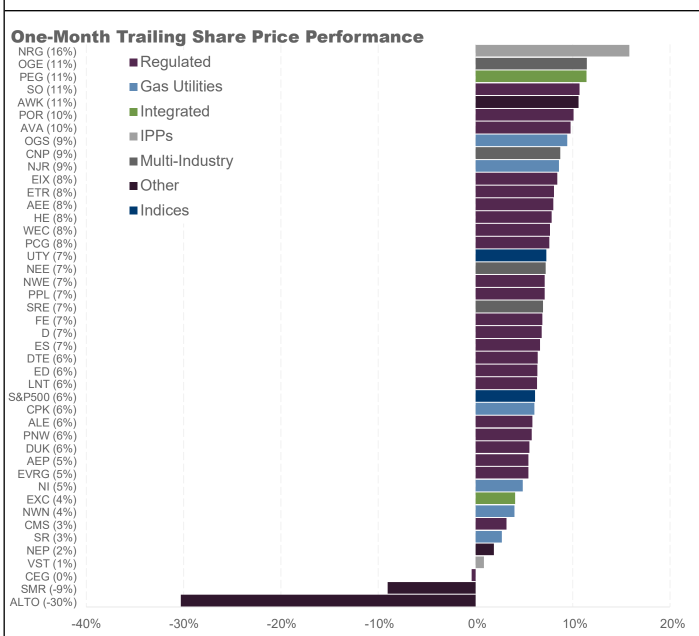
IPPs	Implied EV/EBITDA Multiple 2023E	2024E	2025E	2026E	2027E	Enterprise Value 2023E	2024E	2025E	2026E	2027E	'22–'25 Growth	NTM Yield	Payout Ratio	Guggenheim Rating	Guggenheim Target	NTM Total Return	Consensus Rating	Consensus Target	NTM Total Return
CEG	9.3x	7.8x	7.1x	–	0.0x	28,505	27,075	25,618	24,111	22,002	7.7%	1.5%	28%	Buy	$110	45%	Buy	$98	30%
NRG	6.4x	5.8x	5.3x	–	0.0x	17,869	16,601	15,077	–	–	21.4%	4.3%	28%	Neutral	$34	-1%	Neutral	$38	11%
VST	6.0x	5.4x	5.3x	–	0.0x	21,631	21,106	20,244	19,576	–	6.1%	3.4%	28%	Buy	$31	30%	Buy	$32	32%
Other																			
ALTO											54.8%	–	–	Buy	$9	592%	Buy	$7	438%
NEP											9.1%	5.8%	–	Buy	$81	36%	Buy	$83	39%
SMR												–	–	Buy	$18	105%	Buy	$14	54%

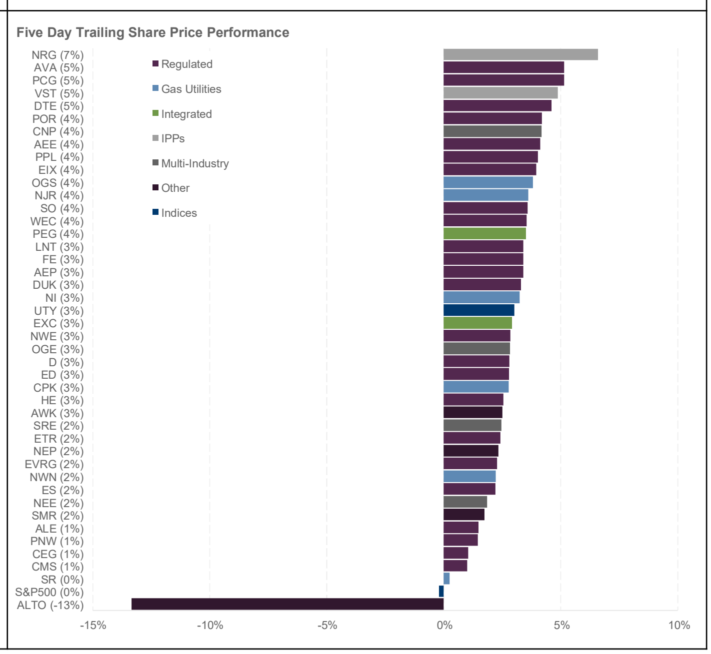
Source: Guggenheim Securities, LLC estimates, Bloomberg LP.

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









(1) Re ulated ut l te 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 ut l te t re ulated r tly ntra ted enerat n are al n luded.

(2) L al Ga D tr ut n C an e (LDC), a ell a d er ed ut l te t a u ne x lar ely r ed a n ra tru ture and related a t te (.e., LDC ran e , nter tate el ne , and/ r t er a d trea a t te).

(3) Inte rated ut l te n and erate re ulated T D ran e , a ell a un-re ulated er enerat n t d ty ex ure.

(4) IPP erate er ant (.e., un-re ulated, n n-ut l ty) er lant t at ete t ell er n le ale ar et r t r u retal ar et n u ne e .

Source Bl er , Gu en e Se urte , LLC e t ate .

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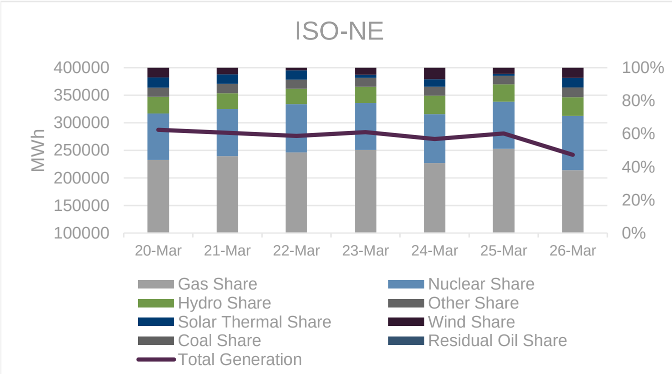
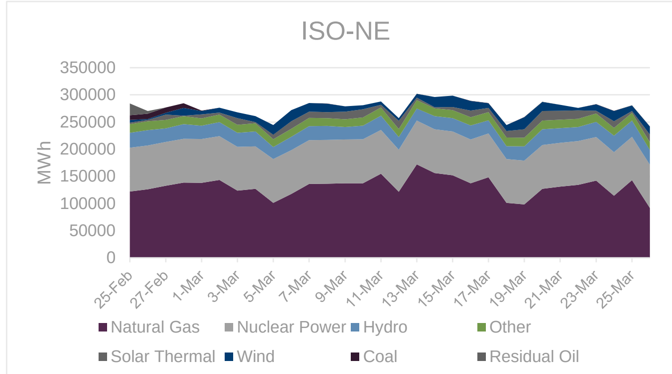
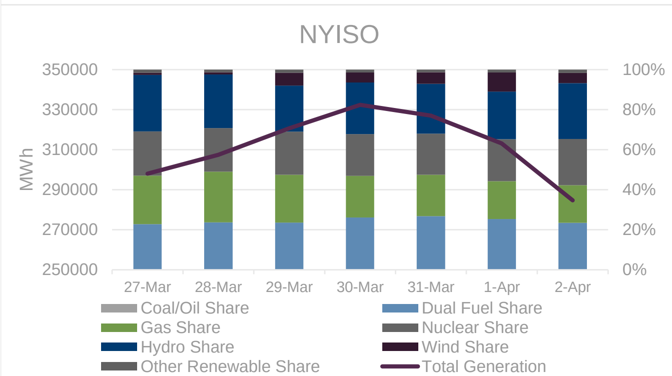
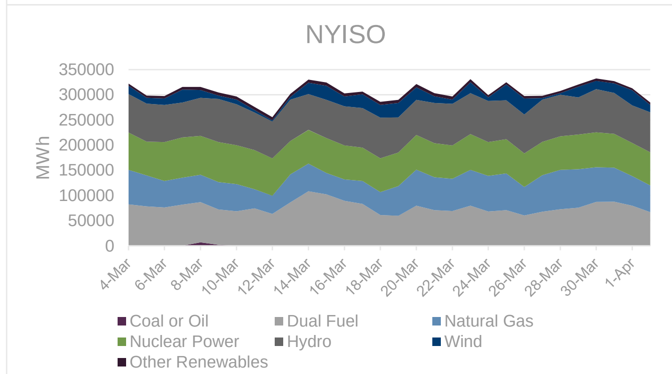
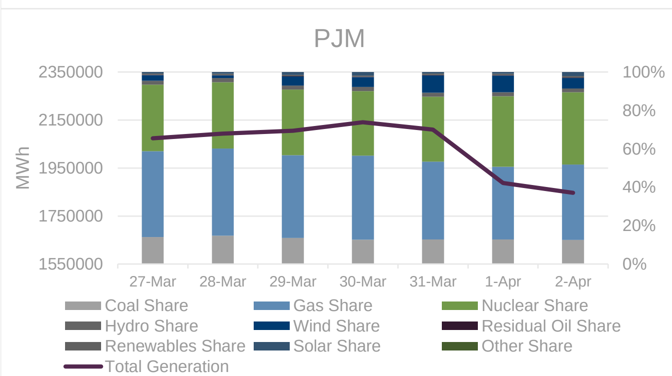
Generation and Mix

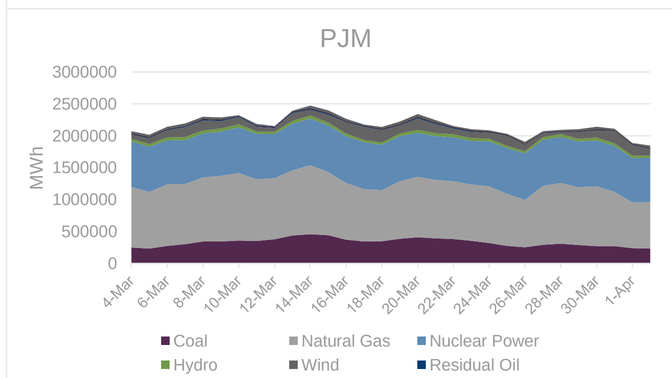


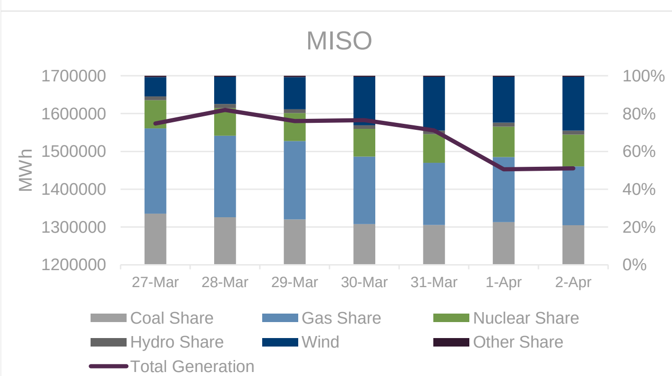


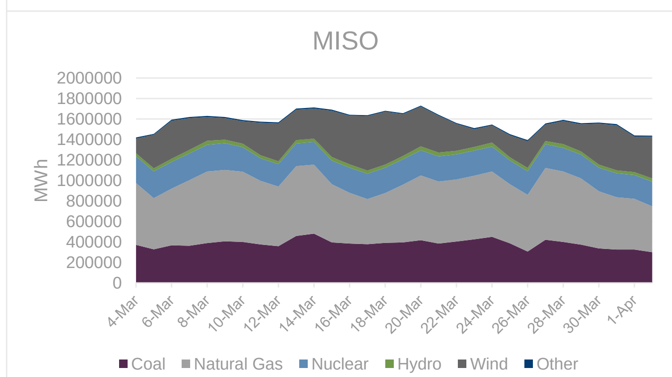






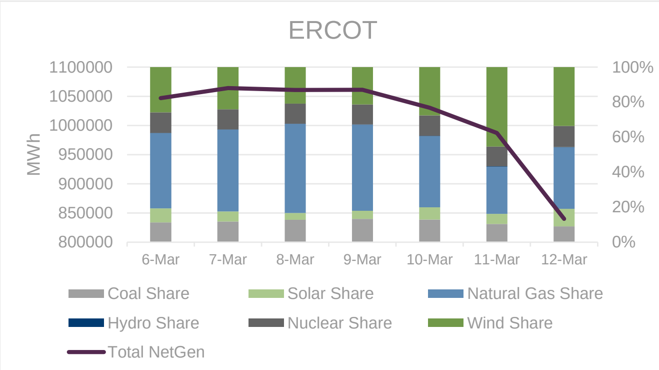


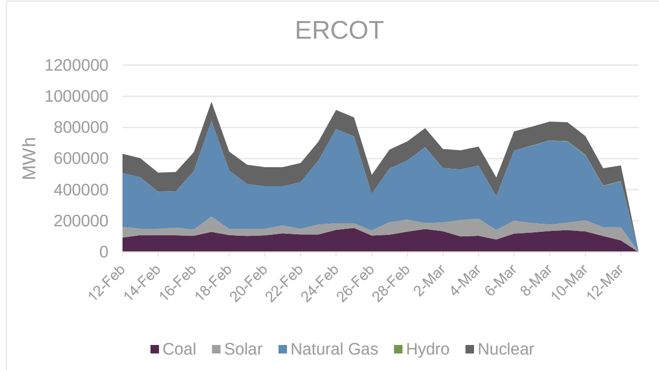


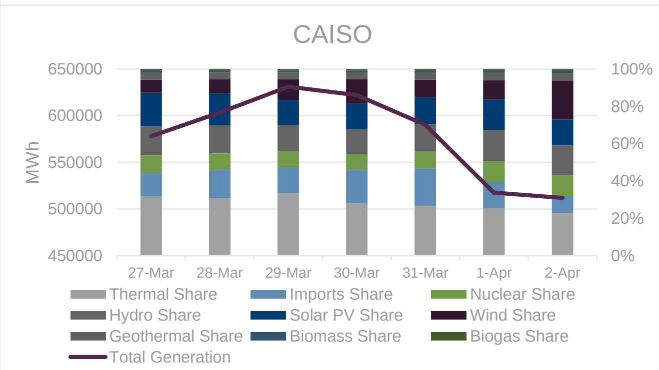


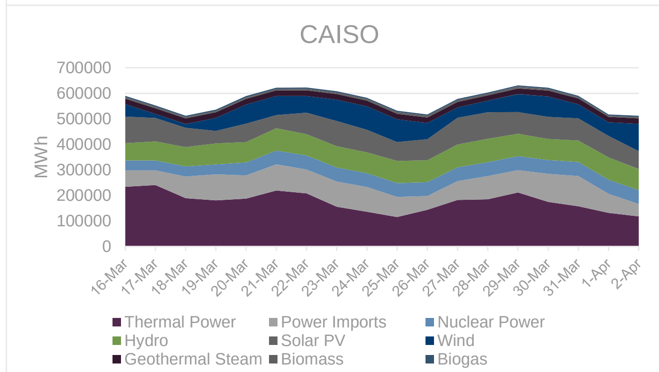
Source: S&P Global Platts, Guggenheim Securities, LLC.

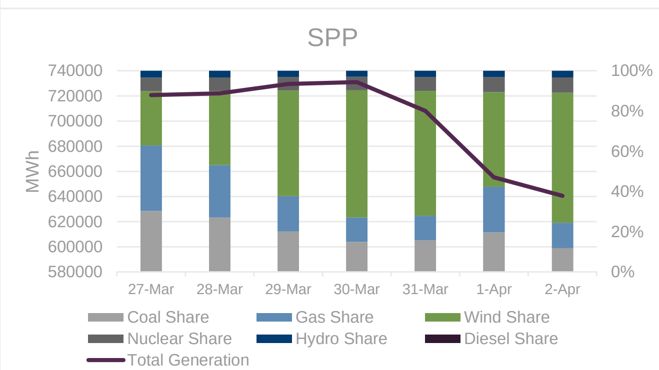
Generation and Mix (continued)

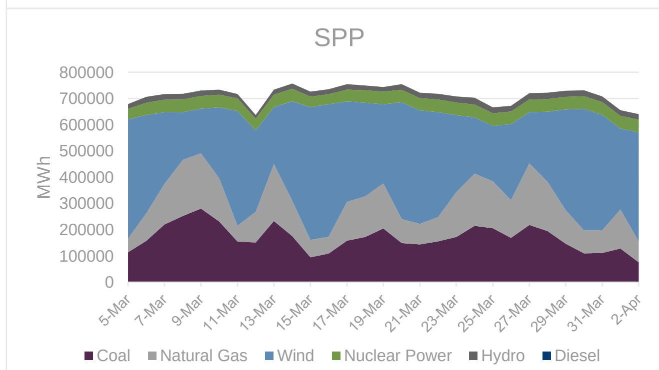










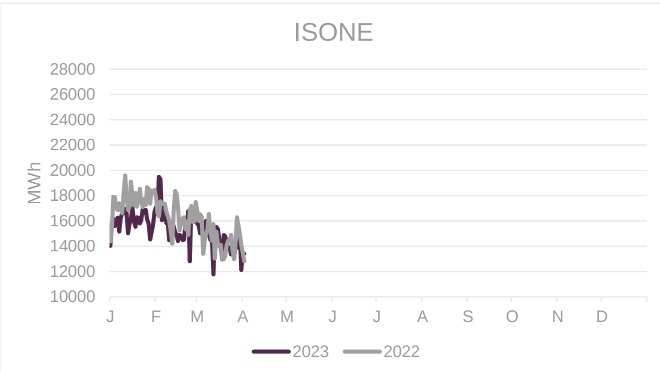


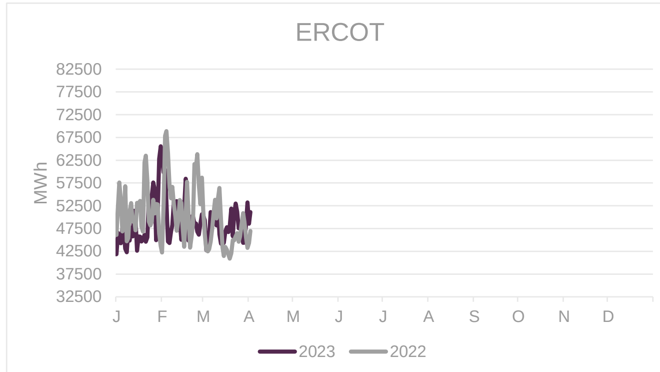
Source: S&P Global Platts, Guggenheim Securities, LLC.

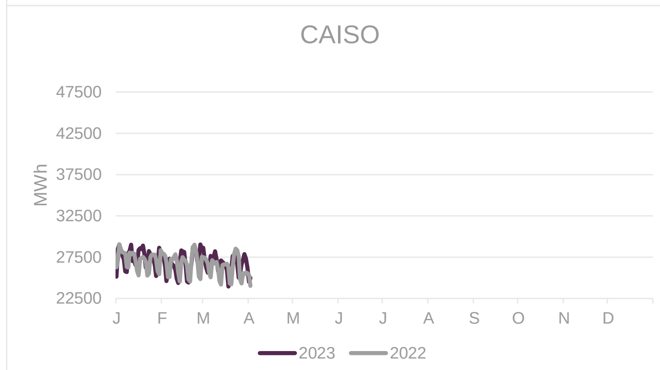
Weather

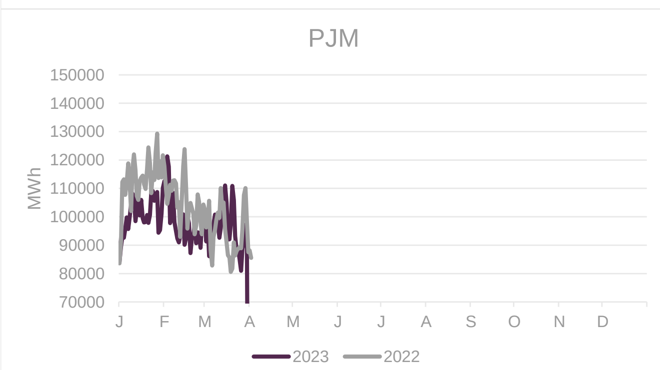
Source: S&P Global Platts, Guggenheim Securities, LLC.

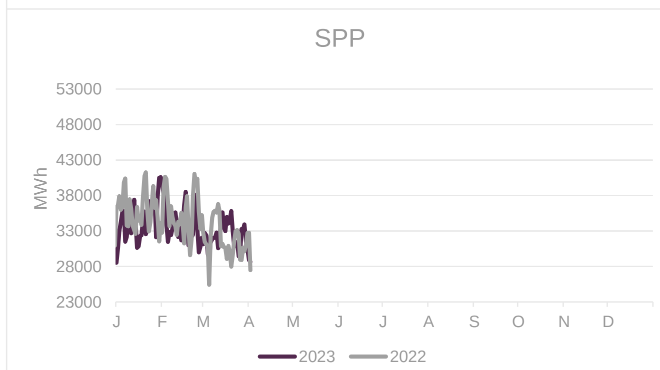
YTD Peak Load

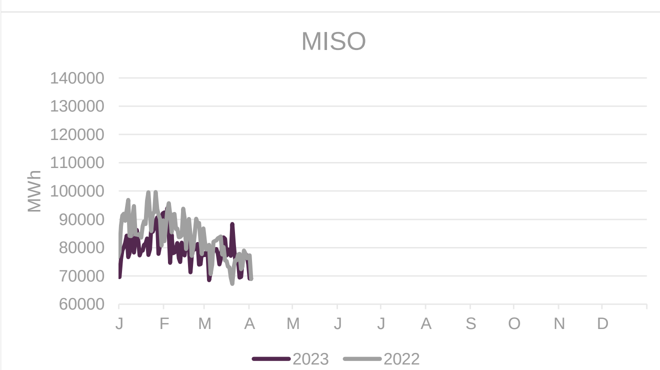












Average Deviation in Peak Load vs Prior Year

RTO/ISO	1Q22	2Q22	3Q22	4Q22	1Q23
ISONE	1.5%	-1.2%	5.1%	-0.9%	-4.5%
NYISO	2.1%	-0.1%	3.5%	-0.7%	-4.5%
PJM	3.9%	3.8%	0.2%	2.1%	-5.3%
MISO	4.0%	5.0%	0.1%	0.7%	-4.9%
CAISO	1.6%	1.2%	4.0%	0.3%	1.0%
ERCOT	13.7%	19.1%	7.9%	7.4%	-1.5%
SPP	5.9%	9.7%	5.0%	7.1%	-1.6%

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

Regulatory Calendar

Power and Utilities: Coverage Calendar (3/31/2023-6/30/2023)					
Date	State	Ticker	Utility/Event	Docket	Description
3/1/2023-3/31/2023	TX	ETR	Entergy Texas Inc.	D-53719	ALJ recommended decision may be issued in rate case — suspended due to settlement talks
3/15/2023-4/15/2023	VA	NI	Columbia Gas of Virginia Inc	C-PUR-2022-00036	Decision may be issued in rate case
3/29/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Intervening parties to file testimony in Rider DSM case
3/31/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (EL)	Company to submit annual information filing
3/31/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (GAS)	Company to submit annual information filing
3/31/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Intervening parties to file testimony in Rider OSW update proceeding
3/31/2023-4/15/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00120 (Rider US3)	Decision may be issued in Rider US 3 proceeding
3/31/2023-4/15/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00121 (Rider US4)	Decision expected in Rider US 4 proceeding
3/31/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00124 (Rider CE)	Decision expected in Rider CE update proceeding
4/1/2023-6/30/2023	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Elec)	ALJ proposed decision expected
4/1/2023-6/30/2023	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Gas)	ALJ proposed decision expected
4/1/2023-6/30/2023	CA	PCG	Pacific Gas and Electric Co.	A-21-06-021 (Track 2)	ALJ proposed decision expected
4/1/2023-4/30/2023	KS	EVRG	Evergy Kansas Central Inc.		Rate case filing expected
4/1/2023-4/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00140 (Rider GT)	Hearing examiner's report may be issued in Rider GT update proceeding
4/1/2023-4/30/2023	WI	LNT	Wisconsin Power and Light Co		Rate case expected to be filed early Q2'23
4/3/2023	MO	AEE	Union Electric Co.	C-ER-2022-0337	Hearing to begin in rate proceeding
4/3/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (elec)	Final day for stipulations, settlement agreements
4/3/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (gas)	Final day for stipulations, settlement agreements
4/4/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Rebuttal testimony due in rate proceeding
4/4/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00070*(RiderRGGI)	Staff to file testimony in Rider RGGI reinstatement proceeding
4/4/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00162 (Rider SNA)	Rebuttal testimony due in Rider SNA adjustment proceeding
4/7/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Staff to file testimony in G-RAC proceeding
4/11/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (elec)	Hearing commences
4/11/2023	MT	NWE	NorthWestern Corp.	D-2022-7-78 (gas)	Hearing commences
4/12/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Staff to filed testimony in Rider OSW update proceeding
4/14/2023	KY	DUK	Duke Energy Kentucky Inc.	C-2022-00372	Company rebuttal testimony due in rate proceeding
4/14/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (EL)	Supplemental direct testimony due
4/14/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (GAS)	Supplemental direct testimony due
4/14/2023	NC	DUK	Duke Energy Progress LLC	D-E-2 Sub 1300	Company rebuttal testimony due by
4/17/2023	MI	CMS	Consumers Energy Co.	C-U-21308	Staff, intervenor testimony due
4/18/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Settlement conference to be held in rate proceeding
4/19/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Staff to file testimony in Rider DSM proceeding
4/21/2023	OR	POR	Portland General Electric Co.	D-UE-416	General rate revision settlement conference
4/21/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Rebuttal testimony due in G-RAC proceeding
4/26/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Rebuttal testimony due in Rider OSW update proceeding
4/28/2023	VA	SO	Virginia Natural Gas Inc.	C-PUR-2022-00052	Staff testimony due in rate case
5/1/2023-5/31/2023	CA	EIX	Southern California Edison Co.		General rate case to be filed
5/1/2023-5/31/2023	MO	SR	Spire Missouri Inc.	C-GO-2023-0203 (ISRS)	Decision possible in ISRS proceeding
5/1/2023-5/4/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00070*(RiderRGGI)	Hearings scheduled in Rider RGGI reinstatement proceeding
5/2/2023	IL	SO	Northern Illinois Gas Co.	D-23-0066	Staff and intervenor testimony due in rate proceeding
5/2/2023-5/3/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Hearings scheduled in G-RAC proceeding
5/5/2023	IL	AEE	Ameren Illinois	D-23-0067	Staff and intervenor testimony due in rate proceeding
5/8/2023	MI	CMS	Consumers Energy Co.	C-U-21308	Rebuttal testimony due
5/9/2023	IL	SO	North Shore Gas Co.	D-23-0068	Staff and intervenor testimony due in rate proceeding
5/9/2023	KY	DUK	Duke Energy Kentucky Inc.	C-2022-00372	Hearing to begin in rate proceeding
5/9/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Hearing to begin in rate proceeding
5/9/2023-5/10/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Hearings scheduled in Rider OSW update proceeding
5/11/2023	IL	AEE	Ameren Illinois	D-23-0082	Staff and intervenor testimony due in rate proceeding
5/16/2023-5/17/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Hearings scheduled in Rider DSM proceeding
5/18/2023	IL	EXC	Commonwealth Edison Co.	D-23-0055	Staff and intervenor testimony due in rate proceeding
5/21/2023	OK	AEP	Public Service Co. of OK	Ca-PUD2022-000093	Decision possible in rate proceeding
5/22/2023-6/16/2023	CA	SRE	San Diego Gas & Electric Co.	A-22-05-016 (Elec)	Hearings scheduled in rate case
5/22/2023-6/16/2023	CA	SRE	San Diego Gas & Electric Co.	A-22-05-016 (Gas)	Hearings scheduled in rate case
5/23/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2023-00005 (Rider E)	Intervening parties to file testimony in Rider E update proceeding
5/24/2023	OR	POR	Portland General Electric Co.	D-UE-416	Staff, intervenor testimony on power cost update due
5/25/2023	TX	ETR	Entergy Texas Inc.	D-53719	End of agreed upon suspension period — decision may be issued in rate case
5/31/2023	NY	ED	Orange & Rockland Utlts Inc.		Long-term gas system plan to be filed
5/31/2023	IL	SO	Northern Illinois Gas Co.	D-23-0066	Company rebuttal testimony due in rate proceeding
5/31/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00140 (Rider GT)	Decision expected in Rider GT proceeding
6/1/2023-6/30/2023	MO	AEE	Union Electric Co.	C-ER-2022-0337	Decision possible in rate proceeding
6/1/2023-6/30/2023	VA	AEP	Appalachian Power Co.	C-PUR-2022-00150 (G-RAC)	Hearing Examiner report may be issued in G-RAC proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-OUR-2022-00187 (Rider OSW)	Hearing Examiners report may bee issued in Rider OSW update proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00070*(RiderRGGI)	Hearing examiners report may be issued in Rider RGGI reinstatement proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00162 (Rider SNA)	Hearing examiner report may be issued in Rider SNA adjustment proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2022-00164 (Rder US-2)	Decision likely in Rider US-2 proceeding
6/1/2023-6/30/2023	VA	D	Virginia Electric & Power Co.	PUR-2022-00210 (Rider DSM)	Hearing examiner's report may be issued in Rider DSM proceeding
6/2/2023	IL	AEE	Ameren Illinois	D-23-0067	Company rebuttal testimony due in rate proceeding
6/6/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2023-00005 (Rider E)	Staff to file testimony in Rider E update proceeding
6/12/2023	IL	SO	North Shore Gas Co.	D-23-0068	Company rebuttal testimony due in rate proceeding
6/12/2023-6/13/2023	VA	SO	Virginia Natural Gas Inc.	C-PUR-2022-00052	Hearings scheduled in rate case
6/13/2023	MI	DTE	DTE Electric Co.	C-U-21297	Staff and intervenor testimony due
6/13/2023	OR	POR	Portland General Electric Co.	D-UE-416	Staff, intervenor testimony on rates due
6/14/2023	IL	AEE	Ameren Illinois	D-23-0082	Company rebuttal testimony due in rate proceeding
6/14/2023	OR	POR	Portland General Electric Co.	D-UE-416	Power cost update settlement conference
6/19/2023-6/26/2023	NC	DUK	Duke Energy Carolinas LLC	D-E-7 Sub 1276	Hearings scheduled in rate case
6/20/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (EL)	Parties to file testimony in rate case
6/20/2023	MD	EXC	Baltimore Gas and Electric Co.	C-9692 (GAS)	Parties to file testimony in rate case
6/21/2023	OR	POR	Portland General Electric Co.	D-UE-416	PGE testimony on power cost update due
6/26/2023	MI	CMS	Consumers Energy Co.	C-U-21308	Briefs due in rate case
6/27/2023	IL	EXC	Commonwealth Edison Co.	D-23-0055	Company rebuttal testimony due in rate proceeding
6/28/2023	OR	POR	Portland General Electric Co.	D-UE-416	General rate revision settlement conference
6/28/2023	VA	D	Virginia Electric & Power Co.	C-PUR-2023-00022 (Rider CCR)	Intervening parties to file testimony in Rider CCR update

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

Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

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- Guggenheim Nuclear Conference Wrap: If You Build It, They Will Come?
- NEP: CEPF and Near-Term Financing Drilldown – Headwinds? Yes. Distribution Reset? Unlikely. Share Weakness Unwarranted; Bear Calls Flawed
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- 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
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By issuing this research report, each Guggenheim Securities, LLC ("Guggenheim Securities") research analyst whose name appears in this report hereby certifies that (i) all of the views expressed in this report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst.

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RATINGS EXPLANATION AND GUIDELINES

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

SELL (S) - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

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Guggenheim Securities, LLC methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Price targets are assigned for Buy- and Sell-rated stocks. Price targets for Neutral-rated stocks are provided at the discretion of the analyst.

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Rating Category	**Count**	**Percent**	**Count**	**Percent**
BUY	240	66.48%	45	18.75%
NEUTRAL	112	31.02%	10	8.93%
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From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: ALTO, IL, EIX, TX, AEP, PCG, ERCOT, PJM, DUK, NI - Guggenheim Securities, LLC
Date: Monday, May 15, 2023 9:22:15 AM

The Guggenheim Daily Transmission: ALTO, IL, EIX, TX, AEP, PCG, ERCOT, PJM, DUK, NI

Power & Utilities May 15, 2023

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Access This Report

SAVE THE DATE: We are hosting a dinner with CNP's COO, new CFO, and others on May 22nd...

For our AGA conference (May 20-23) meeting schedule, please scroll down...

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our EXC NDR TODAY, AEP NDR, ETR NDR, DTE NDR, PCG NDR, ES NDR, SMR NDR, SRE NDR, LNT NDR, PNW NDR, AWK NDR, CMS NDR, SO NDR, POR NDR, CEG NDR, PEG NDR, and other events, scroll down...

Forward Power Curves, Genco MtM, and Weekly Commentary (see note HERE)

ALTO: Normalizing Crush Spreads Set Path to Business Transformation; Not Out of The Woods Yet (see our note HERE)

IL: Staff Direct Testimony Sets Disappointing Floor in MYP Bid-Ask vs. Investor Expectations (see our note HERE)

EIX – SCE filed 2025 GRC; 8% Rate Base CAGR 2023-2028 at requested levels

TX – Texas utility bills progress through legislature

AEP — AEP hires advisor for retail energy sale

PCG – New spent fuel storage methods implemented at Diablo Canyon

PCG – Plaintiffs ask for judge not to drop manslaughter charges against PG&E in the Zogg fire court proceeding

ERCOT — New whitepaper points to significant EE/DR optionality in ERCOT

PJM — RTO points to sufficient summer resources, with tail risk on extreme scenarios

DUK — Ohio Consumers' Counsel objects to Duke Energy Ohio settlement

NI — Intervenor exceptions filed regarding NIPSCO settlement

DUK — Staff file mechanism review letter

AEP — Walmart files as an intervenor in ApCo triennial rate review

EIX – SCE filed 2025 GRC; 8% Rate Base CAGR 2023-2028 at requested levels

- SCE filed a General Rate Case application (A2305010) for revenue increases in support of O&M and capex in 2025-2028.
- The test year increase is $1.9B or 23% over the currently pending 2024 GRC Track 4 request; the application also seeks proposed increases of $600M, $700M and $700M in 2026, 2027 and 2028, respectively.
- The resulting rate base is $55.2B for the range case and $60.9B at the fully requested level in 2028 representing a 6-8% rate base CAGR from 2023 to 2028.
- The majority of the request supports capex in base infrastructure replacement and wildfire mitigation but also embeds an inflection point for load growth with %14% of capex allocated to growth and new service.
- EIX Summary here.
- Docket: A2305010

Guggenheim takeaway: *2025 GRC now has an initial filing, with complete testimony to be filed on May 15, 2023. The request is in line with prior growth trajectory for SCE and encompasses many of mgmt.'s recent comments on infrastructure needs and load growth. Filing not a surprise especially post our visit for their prior small event they hosted at the headquarters for investors.*

TX – Texas utility bills progress through legislature

- TX HB 2555 was reported favorably as substituted at the Senate.
- The bill focuses on transmission and distribution resiliency plans for utilities
- TX Senate bill SB 1015 related to bi-annual DCRF review at the PUCT considered in formal meeting on May 12, 2023.

- The committee report is supportive of aligning the DCRF and TCOS frameworks and does not see any change in authority resulting from the bill.
- The bill aligns DCRF reviews to twice in one year, similar to the TCOS process already in place.
- TX SB 1076 was placed on general calendar at the house.
- The bill addresses timelines for CPCN approvals on transmission projects.

Guggenheim takeaway: *FYI. SB1015 seems to be one of the less contested bills in front of the TX legislature as it does not change any agency authorities or introduce any new concepts in ratemaking. The DCRF cadence could help offset some of the regulatory lag for TX utilities (CNP, SRE, ETR, AEP). Texas legislative session starting to pick up as we are watching multiple utility related bills including on the electric side where there is a capital structure bill proposed (HB 3042).*

AEP — AEP hires advisor for retail energy sale

- RBC Capital Markets will be advising AEP on the sale of its Retail business, according to PeakLoad.
- The sale process will also include AEP OnSite Partners.
- Article HERE

Guggenheim takeaway: *The retail business contributes ~$0.04 to AEP's 2023 EPS, and the distributed resources business contributes ~$0.02, as we have previously written about HERE.* ***We have entire C-suite in NY for NDR this Wednesday.***

PCG – New spent fuel storage methods implemented at Diablo Canyon

- PG&E Diablo Canyon is utilizing a new horizontal spent fuel storage (vs. vertical).
- PG&E will store new spent fuel in the horizontal system after it is installed between June 2025 and March 2026.
- PG&E sees the new system being more efficient with need for storage pool use for spent fuel.
- More in media here.

Guggenheim takeaway: *FYI.*

PCG – Plaintiffs ask for judge not to drop manslaughter charges against PG&E in the Zogg fire court proceeding

- Zogg wildfire victims requested the judge overseeing the Zogg fire lawsuit does not drop the manslaughter charges against PG&E.
- More in media here.

Guggenheim takeaway: *FYI. PG&E committed to defending its employees against criminal charges.*

ERCOT — New whitepaper points to significant EE/DR optionality in ERCOT

- Nonprofit ACEEE has released a follow on to its 2021 study detailing potential savings from energy efficiency and demand response measures, as compared to the Senate's backstop proposal.
- "The study finds that implementing these programs from 2024 through 2030 could reduce summer peak loads statewide by about 14,800 MW and reduce winter peak loads by about 23,500 MW (far more than the 10,000 MW in increased supply from the proposed power plants)." - release

- More HERE

Guggenheim takeaway: *Price responsive demand remains the holy grail of electricity market design, and while it is not yet a reality we note that ERCOT continues to feature a significant amount of DR on the bulk system.*

PJM — RTO points to sufficient summer resources, with tail risk on extreme scenarios

- "PJM projects a non-diversified peak demand for electricity this summer at approximately 156,000 MW and has performed reliability studies at loads nearing 163,000 MW. PJM has more than 186,000 MW of installed generating capacity" - release
- "While its assessment shows that PJM is prepared to maintain reliability this summer, modeling of extreme scenarios indicates tightening reserve margins and the potential need to reduce load by deploying demand response in certain conditions. PJM can deploy demand response by instructing customers who have agreed in advance to be temporarily interrupted in exchange for a capacity payment to reduce their load. This scenario could occur in the event of extraordinary electricity demand and high generator outages – an unlikely but possible set of circumstances." - release
- More HERE

Guggenheim takeaway: *Flagged for your awareness. On paper PJM's reserve margins remain excessive, however as the December event shows, resource availability can quickly tighten reserves.*

DUK — Ohio Consumers' Counsel objects to Duke Energy Ohio settlement

- Recommends a 9.52% ROE vs 9.60% in settlement.
- Recommends a 47.61% equity layer vs 52.32% in settlement.
- Docket 22-0507-GA-AIR

Guggenheim takeaway: *This is not a surprise given the party. Consumers' Counsel files oppositional comments to low-income weather normalization, treatment of depreciation, capital structure, and ROE, among other items.*

NI — Intervenor exceptions filed regarding NIPSCO settlement

- Michigan City, Indiana filed objections and proposed changes to the NIPSCO settlement.
- Topics included ROE as well as issues such as rates related to low-income housing programs.
- Docket 45772

Guggenheim takeaway: *Most notable was the 9.2% proposed ROE, vs 9.8% in the stipulation agreement. More noise.*

DUK — Staff file mechanism review letter

- Public Staff filed a review of the DSM/EE mechanism proposed in the Carbon Plan.
- Staff takes the position that certain language in the Carbon Plan Order only required consideration of proposed enablers (regarding broadening the definition of low-income customers, for example), rather than adoption into the mechanism.
- Docket E-100 Sub 179

Guggenheim takeaway: *Minor FYI.*

AEP — Walmart files as an intervenor in ApCo triennial rate review

- Walmart (WMT) has filed a notice of participation.
- Docket PUR-2023-00002

Guggenheim takeaway: *Minor FYI.*

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

- NEP: NEP Announces Strategic Steps to Minimize Equity; LT Platform Positioning
- Utility and IPP 1Q23: Valuation and Estimate Adjustments
- Quarterly Weather Review: Cloudy With a Chance of Lower EPS
- Rising Debt Costs a Problem? Nah, Fake It Till You Make It
- AEP: No Surprise, KY Deal Breaks – Clearing Event
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Weakness Unwarranted; Bear Calls Flawed

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From: Shahriar Pourreza, CFA <shahriar.pourreza@guggenheimpartners.com>
Sent: Tuesday, June 20, 2023 8:50 AM
To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: POR, NI, ERCOT/VST, SO, D/VA, PJM/FERC, Policy, DTE, SR, Wildfire, CA/Wildfire, ETR, AEP, DUK - Guggenheim Securities, LLC

Categories: SellSide Notes

The Guggenheim Daily Transmission: POR, NI, ERCOT/VST, SO, D/VA, PJM/FERC, Policy, DTE, SR, Wildfire, CA/Wildfire, ETR, AEP, DUK

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Access This Report

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For details on our Guggenheim-hosted client Utility events including our ES NDR, SMR NDR, SRE NDR, LNT NDR, PNW NDR, AWK NDR, ED NDR, CMS NDR, SO NDR, POR NDR, CEG NDR, PEG NDR, and other events, scroll down...

POR: Stepping to the Sidelines as 1H23 Momentum Closes Valuation Gap, NT Catalyst Pathway Quiets, Downgrading to Neutral (see our note HERE)

Forward Power Curves, Genco MtM, and Weekly Commentary (see our note HERE)

NI — NIPSCO 19.9% minority interest sale announced

ERCOT/VST — Comanche Peak experiences partial outage

SO — Vogtle Unit start-up delayed by one month, into July

D/VA — Media continues to draw attention to political donations ahead of primaries

PJM/FERC — Commission meeting on PJM BRA yields little clarity on pathways forward

D — 1GW peaking plant proposed at Chesterfield site draws media coverage

Policy — President Biden announces grid-related grants and climate funding

DTE – Intervenors filed reply briefs in the DTE IRP proceeding; positions reiterated and administrative issues highlighted

SR — Surrebuttal testimony filed in PGA/ACA docket

Wildfire — Media highlights systemic climate change impacts on wildfire risk for utilities

CA/Wildfire — Wildfires reported in northern CA, starting wildfire season

ETR — ETR MS storm recovery continues, MPSC voices concerns

AEP — SWEPCO tax normalization ALJ ruling

DUK — Interim true-up adjustment letters filed in storm securitization dockets

NI — NIPSCO 19.9% minority interest sale announced

- Blackstone (NYSE:BX) agreed to acquire 19.9% non-controlling equity interest in NIPSCO for $2.15bn, with an additional equity commitment of $250m to fund ongoing capital requirements.
- Company 8-K HERE
- Company press release HERE

Guggenheim takeaway: *We caught up with the company this morning and will be publishing our thoughts on the transaction shortly.*

ERCOT/VST — Comanche Peak experiences partial outage

- The dual unit plant experienced a ~1.235GW derating on Friday after a feed water pump issue on the non-nuclear side of the plant.
- More HERE.

Guggenheim takeaway: *VST typically operates with sufficient open length to account for issues at Comanche, however, we continue to dig into the potential ramifications of any prolonged outage – the media reports indicate that the unit in question appears to already be returning to operations. As a reminder, the NRC notifications were not published yesterday on account of the holiday.*

SO — Vogtle Unit start-up delayed by one month, into July

- Georgia Power announced on Friday after the close that it will delay the startup of Vogtle Unit 3 by a month (into July) due to remediating a damaged hydrogen seal.
- More HERE.

Guggenheim takeaway: *Vogtle Unit 3 will now enter base rates in August 2023, with a resulting one-time EPS impact in 2023 of roughly half a penny. As a reminder (and also ahead of the Vogtle prudency review), please join us for our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, which will take place July 11 & 12 in Atlanta.* ***For more on our recent meeting with SO at AGA, see HERE.***

D/VA — Media continues to draw attention to political donations ahead of primaries

- The coverage comes ahead of primaries next week, with several candidates in focus having received donations from Dominion.
- More HERE.

Guggenheim takeaway: *This is nothing more than media noise in our view, however, we are flagging for your awareness, as we have been for several months now. As a reminder, D publicly reports all of its donations/activities.*

PJM/FERC — Commission meeting on PJM BRA yields little clarity on pathways forward

- Parties, including load and generation representatives, remain far apart on how the RTO should overhaul the BRA, per the Commission's meeting last week.
- State representatives remain in favor of the 3-year forward procurement, while others have pushed for more prompt designs (e.g., NYISO).
- More HERE.

Guggenheim takeaway: *Flagged for your awareness as the reform process begins to kick into a higher gear. As a reminder, FERC recently greenlit a yearlong delay to the auction cycle. The importance of the BRA to our IPP coverage universe continues to shrink as eastern generation is retired or augmented with PTC-insulated nuclear.*

D — 1GW peaking plant proposed at Chesterfield site draws media coverage

- Multiple media sources have flagged Dominion's ongoing evaluation of a potential 1GW peaking plant alongside the existing Chesterfield site, consisting of 4 CTs to be placed into service by 2027.
- More HERE.

Guggenheim takeaway: *Minor FYI as Dominion's latest IRP and resource plans continue to draw stakeholder attention – the proposal for gas here is similar to many other recent NT IRP needs we have seen across the space, however, certain groups remain extremely vocal on any and all newbuild.*

Policy — President Biden announces grid-related grants and climate funding

- The President announced $575M in funding for the NOAA Climate Resilience Regional Challenge, alongside power grid funds and planned meetings.
- More HERE.

Guggenheim takeaway: *Minor FYI.*

DTE – Intervenors filed reply briefs in the DTE IRP proceeding; positions reiterated and administrative issues highlighted

- Intervenors in DTE's integrated resource plan, including MPSC staff, AG office and DTE, filed reply briefs on a variety of issues.
- In reply briefs, intervenors highlight agreement/dissent from prior testimony including both accounting treatment, modeling parameters and administrative issues of record.
- Key aspects being debated remains the same from the initial briefs including renewable procurement, FCM and reg asset treatment for coal retirements; Staff broadly supportive of methodology used to develop the plan, but argues certain financial and accounting requests.

- Intervenors propose a 50/50 ownership requirement for new renewables, but DTE argues for an uncapped competitive RFP process to align with the intent of the current law.
- Intervenors oppose the structure of the FCM for PPAs including WACC recovery, DTE argues for FCM including WACC, which is consistent with the commission's prior decision and process.
- Intervenors debate regulatory asset treatment for retiring coal assets and the appropriate returns; DTE argues for needed certainty on treatment and returns (i.e., consistent with prior commission precedent).
- More thoughts on the IRP in our note here.
- Docket: U-21193

Guggenheim takeaway: *The responses are generally in line with the debated topics in the IRP proceeding. Staff and AG recommendations are somewhat contradictory to prior commission precedent and certain aspects of MI law, which leads us to believe those are largely focused on creating a bid-ask, not necessarily something the commission would adopt. The FCM recommendations depart from precedent, which we do not believe will be utilized in the final outcome. The regulatory asset treatment and rate of return was widely debated, but in our view, the CMS IRP precedent sets a reasonable final outcome (i.e., slight discount vs. WACC). Overall, we find DTE's arguments in support of the proposal more compelling than the intervenors' but acknowledge there is room to negotiate for DTE. DTE previously noted that conversations with stakeholders are robust and there is a pathway to settlement (having Initial Briefs filed is an important step in that process, in our view).*

SR ─ Surrebuttal testimony filed in PGA/ACA docket

- The company, Staff, and Intervenors filed surrebuttal testimony in SR's Purchased Gas Adjustment docket on Friday.
- Docket GR-2021-0127

Guggenheim takeaway: *Flagging for your calendars, evidentiary hearings are scheduled to begin on July 25th. Recall that an order was issued back in January, approving a partial stipulation in this docket (see HERE).*

Wildfire ─ Media highlights systemic climate change impacts on wildfire risk for utilities

- Media coverage picked up earlier verdicts on PacifiCorp (NYSE: BRK.A) wildfire claims and efforts by PCG to reduce wildfire risk.
- The media coverage recognizes systemic issues beyond the utilities' control as a major contributing factor to rising liabilities.

- More here.

Guggenheim takeaway: *FYI. Demonstrates broad stakeholder recognition of factors beyond operator control as a contributor to increasing wildfire risks. That said, PG&E has taken the most proactive role in wildfire mitigation, including 10,000 mi of undergrounding.*

CA/Wildfire — Wildfires reported in northern CA, starting wildfire season

- Media coverage picked up small pockets of wildfires in CA.
- The fires were reported in San Jose, Napa and Sonoma regions, but were limited to brush fires and geographically limited.
- No structure damage reported and firefighters controlled the fires immediately.

- More here.

Guggenheim takeaway: *FYI. While the fires were very small, the fires starting highlight a start to another active season. Our recent NDR highlighted that mgmt. is cognizant of the risks, but has layers of protection in place to limit the ignition and spread of wildfire this summer season.* ***See more thoughts on PCG wildfire mitigation here.***

ETR — ETR MS storm recovery continues, MPSC voices concerns

- ETR MS continues storm recovery from about 138,000 outages at the peak.
- The restoration efforts have caused some concern from MPSC regulators as customers have voiced their complaints in restoration delays.
- MPSC commissioner Brent Bailey voiced his concern and disappointment with ETR MS response in media; see here.

Guggenheim takeaway: *FYI. Customer complaints are expected for a storm restoration process and we believe ETR has generally been timely and prudent in restoration. MPSC voicing concerns is a datapoint on public feedback for ETR, but also supports the need for resiliency, which ETR has pushed up in the capex stack.*

AEP — SWEPCO tax normalization ALJ ruling

- Regarding the determination of a tax normalization violation, the ALJ ruled that once a private letter ruling is received from the IRS, SWEPCO should be authorized to book a regulatory asset/(liability). At such time as a determination is made by the IRS, SWEPCO would then be eligible to seek recovery.
- Docket U-35441

Guggenheim takeaway: *FYI.*

DUK — Interim true-up adjustment letters filed in storm securitization dockets

- DUK's utilities DEP and DEC filed interim true-up adjustment letters in North Carolina relating to storm securitization costs.
- Docket E-7, Sub 1243
- Docket E-2, Sub 1262

Guggenheim takeaway: *Minor FYI.*

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)

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Weather

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YTD Peak Load

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Regulatory Calendar

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Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- DUK: Disappointing Transaction Valuation But A Clearing Event Nonetheless; Focus Shifts To NC Rate Case Conclusions
- CNP – Mgmt. Engagement, Regulatory Alignment and Capex Upsides Could Further Differentiate CNP; Upgrading to Buy on a Selective Premium Call, $32PT
- PNW – Staff Files Constructive Testimony, Just Like Last Rate Case; All Eyes on Aug/Sept ACC Hearings While We Remain More Constructive on AZ Overall
- FE – Meeting with FE's New CEO Reinforces Our Confidence in the Existing Plan, No Rebasing Ahead – Bear Calls Won't Likely Work, Remains Our Best Idea
- CEG/NRG: STP Transaction Embodies the Tectonic Rift in IPP Strategies – Deal Supports Our BUY Stance on CEG; Neutral Stance on NRG
- PCG Analyst Day: Digging for Gold in All the Right Places; Investor Day Highlights Tangible Risk Reduction and Stakeholder Buy-In
- ES: Gets Offshore Sale Process in Motion

- AGA 2023 Recap: Acquisitions, Guidance and Growth Dominate Discussion
- AEP – Now TX?? Yes, EPS Trajectory Intact but These Misses Are Becoming Hard to Digest for Anyone – Questions Surround Regulatory Affairs Naiveté
- AEP NDR: Death By 1,000 Cuts? No. Despite Some Stumbles Out of the Gate, CEO Very Honed In; Focus on Execution and B/S Dominates Conversations
- EXC NDR: Post-AEE Selloff Gets Interesting as the Pathway to a Boring Story Runs Through Illinois
- NRG: Hotel NRG - You Can Check Out Anytime You Like but You Can Never Leave… Activist Points Make Sense to Us but Pathways Forward Unclear
- IL: Staff Direct Testimony Sets Disappointing Floor in MYP Bid-Ask vs. Investor Expectations
- ETR – ETR-TX Settlement Filed Resolving Most Issues; 9.57% ROE, 51.21% ER and Full Rate Base Approval
- NEP: NEP Announces Strategic Steps to Minimize Equity; LT Platform Positioning
- Quarterly Weather Review: Cloudy With a Chance of Lower EPS
- Rising Debt Costs a Problem? Nah, Fake It Till You Make It
- AEP: No Surprise, KY Deal Breaks – Clearing Event
- Guggenheim Nuclear Conference Wrap: If You Build It, They Will Come?
- NEP: CEPF and Near-Term Financing Drilldown – Headwinds? Yes. Distribution Reset? Unlikely. Share Weakness Unwarranted; Bear Calls Flawed
- ERCOT: Policy Call Reinforces Uphill View on Repricing as TX Legislature Mulls Resource Adequacy Tweaks
- AEE NDR: Bread and Butter Utility Update Underscores Ameren's Premium Attributes
- NEE NDR: Management Continues to Chop Through IRA Upside Opportunities but Baseline Remains Conservative; Headline Hurdles Require Time
- ES: What Are the Bears Playing for Now? The Dislocation to Group Getting Out of Hand
- SRE: Port Arthur Reaches FID, Few Holdovers with Project Equity, but Economics Are Broadly Accretive
- SMR: 2023 to See Slightly Heightened Cash Usage as Focus Remains on Execution
- HE – Making Sense of Banking Turbulence; HE's ASB Remains Well Insulated From Isolated Liquidity Issues
- DUK: CEO NDR – How to Strengthen the Balance Sheet Without a "Rip-the-Band-Aid-Off" Equity Scenario? Patience.
- PEG Analyst Day – Straight Talking with PEG; Mgmt. Backs Up Sustainable 5-7% EPS Growth with Room to Exceed
- SRE: PUCT Modifies Oncor PFD, Approves Oncor Rate Case; 9.7% ROE and 42.5% Equity Ratio – Above Our Expectation

- Arizona Regulation: Taking a Deep Dive in the Desert — New Commissioners Bring a Wealth of Experience, Insights, and Planned Improvements to the ACC
- PNW: APS Wins Appeal of 2019 Rate Case's Penalty ROE and SCR Disallowance — Arizona Supreme Court May Be Next
- VST: Sensible Transaction and Organizational Realignment Look to Freeze the Melting Ice Cube Argument
- Deal or No Deal? Taking the Pulse of Fuel Deferrals Across Our Coverage Universe
- PJM: How Low Can You Go? Residualization of the BRA Marches On…
- D: Legislative Breakthrough Yields a Deal; Focus Turns to Credit Repair
- AEP: Contracted Renewables Sale Above Our Expectations
- LNT: Cleanup in Aisle 4? PSCW's Damage Control Proves Effective: Upgrading to NEUTRAL
- PSCW: Conversation with Chair Valcq Strikes a Balanced Tone
- D: Halftime in Richmond as Multiple Bills Advance
- D: SB1265 Amended Ahead of Crossover Deadline Tomorrow
- FE – The Same Board Who Set The Current Strategic Plan Is Also Picking The CEO… Follow-Up Thoughts Post Our Mgmt. Call
- FE – Rebase Coming? No. Asset Sale Delay? No. New CEO Strategy Shift? No. Balance Sheet Concerns? No. More Growth Opps? Yes. FE Remains '23 Best Idea
- D: General Assembly Sausage-Making Enters Full Swing as Lawmakers Continue to Cement the Bid-Ask
- D: Key Bills Pass Out of Senate Committee
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D: New Legislation Proposes Novel Option for OSW Stake Sale – Mosaic Pieces Continue to Form a Clearer Picture
- ETR – LPSC Votes on Modified Settlement Proposal with Customer Benefits, but Recognition of Hurricane Cost Prudency
- D: Opening Move in Richmond: Evolutionary Legislation Lays Path Forward

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GUGGENHEIM

May 3, 2023

NI: Straight Down the Fairway; 1Q23 in Line; 2023 Guidance Reiterated; NIPSCO Sale Still Expected to Close by YE23

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NI BUY

NiSource Inc.
Sector: Power & Utilities

Earnings Release

Share Price	$28.12
Price Target	$31.00

EPS ($) (FY DEC)	1Q	2Q	3Q	4Q	FY
2023	0.77	0.13E	0.13E	0.54E	1.57E
Prior	*0.76*	—	—	*0.55E*	—
P/E					17.9x
2024	0.86E	0.15E	0.11E	0.56E	1.68E
P/E					16.7x
2025	0.93E	0.18E	0.13E	0.58E	1.82E
P/E					15.5x

Market Data

52-Week Range	$23.78 - $32.08
Dividend	$1.02
Dividend Yield	3.6%
Market Cap (M)	$11,615
Enterprise Value (M)	$21,092
Shares Out (M)	413.1
ADV (3 mo; 000)	3,731

Key Message: Solid results; "annual" guidance maintained – NIPSCO sale on track; mgmt. not interested in organic LDC acquisitions. Reiterate BUY on value, strong growth, and NT catalysts.

Overall thoughts - NI's 1%+ outperformance vs. peers (+0.75% on the day vs. -0.38% for UTY) was driven less, in our view, by EPS results or guidance and more by the clear and unwavering reiteration that a NIPSCO minority stake sale transaction will close by YE23. On the quarter, NI delivered a penny beat vs. Gugg/consensus expectations and maintained its current FY23 guidance after previously raising full-year 2023 EPS guidance (by +$0.035/sh at the midpoint) in order to fully put to rest any remaining confusion some investors had about NI's 6-8% annual EPS growth rate. The highly anticipated but still unannounced NIPSCO minority stake sale transaction remains a key catalyst, if not the primary focus for investors right now, in our view. Because of this, we highlight mgmt.'s clarity and lack of caveats when reiterating both its confidence in a sale process occurring as well as that it will close by the end of 2023. Finally, we still believe NI is well equipped and has the right plan to meaningfully offset much of the O&M-related inflationary pressures it faces, even as these factors seem to weigh on all small cap utilities and many larger ones as well. For more on our expectations of which utilities are most and least likely to be impacted, please click HERE to visit our January 2033 Annual Outlook piece. We see NI as somewhere between the larger cap utilities it is beginning to more closely resemble and the LDCs "peers" that it is most commonly still grouped with despite its market cap of ~$11.5bn (vs. many LDCs at ~$3bn-$5bn). **We remain confident that a combination of capex and O&M levers will allow NI to mitigate near-term macroeconomic headwinds in 2023 and 2024** and also model a successful YE23 NIPSCO transaction, which we also see as supporting NI achieving its targeted FFO/debt of range of 14-16%. Overall, NI continues to build confidence in its clear LT EPS growth trajectory, has provided examples of potential incremental capex vs. the current plan (see pg. 2 of our note HERE), and, in our view, continues to demonstrate both regulatory (e.g., recent NIPSCO settlement) and strategic execution (e.g., the reiterated minority stake sale closing date). **We reiterate BUY and our $31 PT.**

Please see our 1Q23 earnings preview note HERE, quarterly weather note HERE, and sector debt note HERE.

NI reported 1Q23 net operating EPS of $0.77, a slight beat vs. Gugg/consensus each at $0.76/$0.76, and maintained its 2023 EPS guidance of $1.54-$1.60 ($1.57 midpoint) vs. Gugg/consensus both at $1.57/$1.57. Investors will recall that NI previously raised its 2023 guidance from its original level of $1.50-$1.57 ($1.54 midpoint) in order to remove any concerns some investors had surrounding what the company intended to imply about its EPS growth trajectory. Along with LT EPS growth, NI reiterated its **8-10% annual rate base growth rate** and **9-11% total shareholder return target**. Mgmt. also reaffirmed the existing financing plan (unchanged since the investor day), including striking a NIPSCO minority interest deal in the near term and closing it in 2023, which would support the balance sheet without the need for block or ATM equity in 2023/2024. In 2025 and beyond, mgmt. expects to use NI's ATM to support the company's current investment grade credit ratings and may also use it to redeem outstanding preferred stock of $900m. Mgmt. also maintained the company's existing 14-16% FFO/debt target.

Mgmt. once again confirmed that the NIPSCO minority stake sale process had kicked off in 1Q23 as planned but still had few details to share at this point regarding buyer interest. However, and most important, in our view, there seemed to be no debate around whether the targeted YE23 closing date could potentially shift. We believe investors should recall that this sale is unique in that: **1)** it does not require any regulatory approvals, **2)** management has expressed an expectation of having minimal tax leakage at the 19.9% stake level, and **3)** it has a successful recent precedent for the company to point to in the form of **DUK**'s transaction, where it sold a similar 19.9% stake of its Duke Energy Indiana (DEI) utility subsidiary to Singapore-based GIC. We await further updates from the company on how the transaction is progressing.

We have rebalanced our quarterly estimates to reflect the company's reported Q1 actual results and have maintained our 2023–2027 EPS estimates. We reiterate BUY and our $31 PT.

NI EPS: Guggenheim and consensus forecasts

EPS($)	1Q	2Q	3Q	4Q	FY	*Cons*
2023E	0.77A	0.13E	0.13E	0.54E	**1.57E**	*1.57E*
Prior	*0.76E*	*0.13E*	*0.13E*	*0.55E*	*1.57E*	
2024E					**1.68E**	*1.67E*
Prior					*1.68E*	
2025E					**1.82E**	*1.79E*
Prior					*1.82E*	
2026E					**1.95E**	*1.95E*
Prior					*1.95E*	
2027E					**2.07E**	*2.08E*
Prior					*2.07E*	

Source: Company reports, Bloomberg, and Guggenheim Securities, LLC estimates.

Valuation

We value NI as a regulated utility, arriving at our $31 price target using our regulated group multiple of 17x, with a premium applied to the electric business to reflect top-quartile rate base growth through the forecast period as well as incremental growth opportunities and strategic initiatives that aren't currently being captured in our estimates, and applying those multiples to 2025 fundamentals. We value the company via SOTP and (1) attribute a 2.0x premium on NIPSCO Electric, reflecting strong renewable-driven rate base growth, and (2) do not apply a discount to the gas business due to NI's guidance of zero O&M increases from 2022-2027 despite ongoing inflation. Applied together to our 2025 $1.82 EPS estimate and discounted back by 1 year, we arrive at our 12-month $31 PT.

Risks

Primary risks to our thesis include an underwhelming valuation for NIPSCO's minority stake sale or no sale at all as well as traditional risk factors inherent with all regulated utilities, including: (1) rate case risk, (2) potential for a lower capex outlook, and (3) interest rate changes above/below what we account for in our regression model.

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NEUTRAL	114	31.40%	6	5.26%
SELL	9	2.48%	0	0.00%

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From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: ES, NI, AEP, ETR, SRE, FE, VA/RGGI - Guggenheim Securities, LLC
Date: Thursday, June 8, 2023 9:22:33 AM

The Guggenheim Daily Transmission: ES, NI, AEP, ETR, SRE, FE, VA/RGGI

Power & Utilities June 8, 2023

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Access This Report

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our DTE NDR, PCG NDR, ES NDR, SMR NDR, SRE NDR, LNT NDR, PNW NDR, AWK NDR, ED NDR, CMS NDR, SO NDR, POR NDR, CEG NDR, PEG NDR, and other events, scroll down...

ES: Potential Gillett Renomination Another Piece in a Deteriorating CT Regulatory Mosaic (see our note HERE)

NI — NIPSCO minority stake sale apparently approaching final innings

AEP — Kentucky PSC continues to ramp up for Kentucky Power rate case

AEP — Final PUCT order denying Texas' participation in proposed 999 MW renewables project issued; all eyes turn to AR/LA

ETR – LPSC votes to advance proposal for review of ratepayer funded political spending

SRE – Port Arthur files comments regarding the supplemental environmental assessment for Port Arthur Phase II Expansion at FERC

FE — Maryland Office of People's Counsel files for rehearing in HB6-related docket

VA/RGGI — VA Air Pollution Control Board votes to repeal RGGI

NI — NIPSCO minority stake sale apparently approaching final innings

- According to four sources cited by Inframation, the minority stake sale process for NI's Indiana utility NIPSCO is in advanced stages.
- Interested parties are purported to include: The Blackstone Group [NYSE:BX], Abu Dhabi Investment Authority sovereign wealth fund [PRIVATE], and KKR & Co. [NYSE:KKR].
- Recall that on its 1Q23 earnings call in early May, NI affirmed 2023 guidance and LT growth commitments, while also reaffirming that the NIPSCO minority interest sale was still expected to occur in 2023.
- More HERE

Guggenheim takeaway: *As we wrote in our recent AGA write-up following a meeting with NI's full senior mgmt. team (see HERE for more), we continue to believe that the NIPSCO sale remains on track for 2023, and also note that mgmt. suggests that NI's post-sale FFO-to-debt is likely to be towards the higher end of the targeted 14%-16% range initially, before of course beginning to migrate down from there.*

AEP — Kentucky PSC continues to ramp up for Kentucky Power rate case

- The Kentucky Public Service Commission issued a standard procedural order authorizing the Office of Rate Intervention (Attorney General) to intervene as a party in the rate case.
- "The Attorney General is entitled to the full rights of a party and shall be served with the Commission's Orders and with filed testimony, exhibits, pleadings, correspondence, and all other documents submitted by parties after the date of this Order." – PSC Order (link HERE)
- Docket 2023-00159

Guggenheim takeaway: *Minor procedural FYI as the docket gets underway. See our NDR note HERE. We will closely monitor this case despite its smaller sized utility vs. the total enterprise, as a proxy for rate case execution in a relatively challenged state from a bill headroom perspective.*

AEP — Final PUCT order denying Texas' participation in proposed 999 MW renewables project issued; all eyes turn to AR/LA

- As we previously published (see our note HERE) following the PUCT's vote, the commission rejected the proposal for decision (PFD), denied the requested CCN amendment, and found that acquiring the selected facilities is not in the public interest.
- Docket 53625

Guggenheim takeaway: *Given Texas' decision not to proceed, the fate of the project falls to Arkansas and Louisiana. Recall last week's approval in Arkansas of their originally allocated 20% portion of the total proposed 999 MW project, as well as a flex-up pending Louisiana's decision. Assuming that Louisiana ultimately approves their portion of the project, we see two potential paths from here: (1) if Louisiana approves the project with a flex-up, Arkansas will not flex-up and the full 999 MW project is approved; (2) however, if Louisiana approves the project without a flex-up, Arkansas would then flex-up and between the two states (AR/LA), 600 MWs of the* *initially proposed 999 MWs would be approved. Again, similar to a rate case in KY, this will be a closely followed process as investors are trying to assess regulatory risk and execution.*

ETR – LPSC votes to advance proposal for review of ratepayer funded political spending

- The LPSC voted to advance the proposal for reviews of ratepayer funding for political spending among investor-owned utilities, namely Entergy.
- While the commissioners made an argument that adequate mechanisms already exist to review such spending within customer rates, a 3-2 majority approved the measure to increase transparency.
- The LPSC secretary noted that there is no specific audit rule nor a policy on disallowance of such spending, but ETR noted that any spending for advocacy has been typically removed from ratepayer funds (i.e. not funded from customer bills).

Guggenheim takeaway: *FYI. While mechanically there may not be any direct ratepayer funding for advocacy, ETR did note that the company advocates for issues including customer savings. The proposal does demonstrate an increasing level of tension at the LPSC feeling inadequate levels of oversight on specific issues, which follows a series of debates around the commission actions on generation approval and securitization. For ETR there are few tangible datapoints on adverse outcomes, but we acknowledge the risk of an adversarial commission.*

SRE – Port Arthur files comments regarding the supplemental environmental assessment for Port Arthur Phase II Expansion at FERC

- Port Arthur filed comments addressing a wide selection of stakeholder concerns on the supplemental environmental assessment for Port Arthur Phase II expansion.
- Intervenors previously filed comments questioning various aspects of the project design and administrative process (Intervenors ranged from individuals to local agencies and the EPA).
- The Port Arthur responses are 160+ pages long.
- EPA in particular disagreed with or questioned certain practices used in the EA, including recommending an upstream/downstream GHG impacts analysis as part of FERC's obligations for the EA.
- FERC has been working on supplemental environmental assessments for PA phase 2.
- FERC Docket: CP20-55

Guggenheim takeaway: *FYI. Update on FERC process as SRE pursues further LNG expansions. There is strong local pushback on environmental impacts, but SRE has been focused on lowering environmental impacts through electrification and CCS opportunities (relative to other LNG developers). While the plans for FID on PA development are largely completed, the expansion project is still in the earlier stage of development. The co-location for the expansion project could provide an opportunity to accelerate development timelines.*

FE — Maryland Office of People's Counsel files for rehearing in HB6-related docket

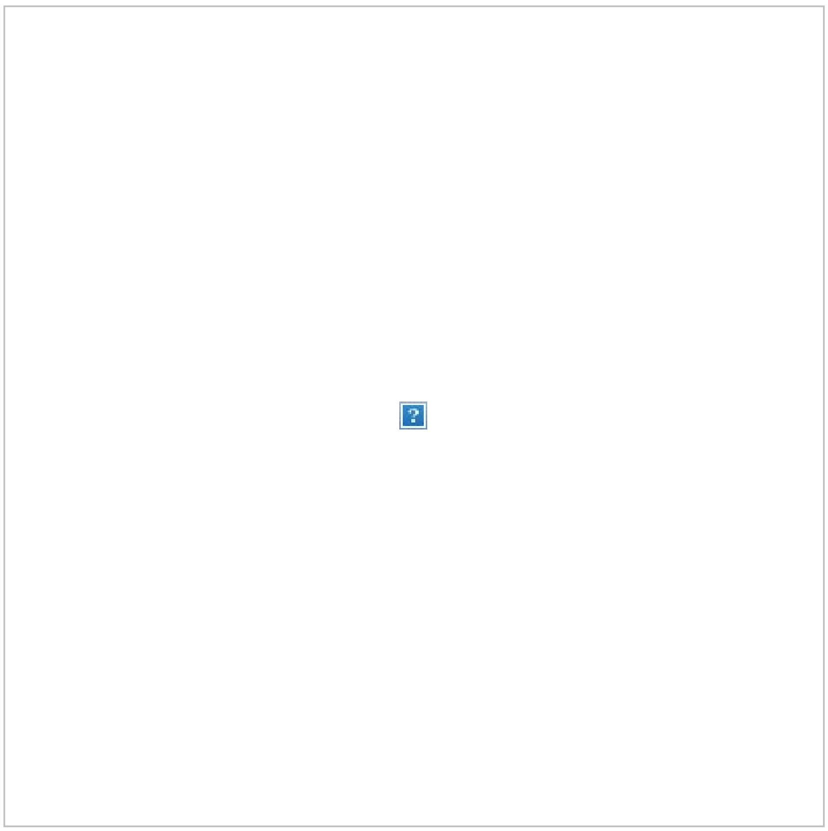
- The MD OPC has requested a rehearing following the PSC's May 5, 2023 final order, which had otherwise closed the proceeding.
- As per the OPC: "*The Office of People's Counsel requests that the Commission grant rehearing of Order No. 90615, in which the Commission terminated its investigation into the impacts of FirstEnergy's "HB6 scandal" on Potomac Edison and its ratepayers.*"
- Case No. 9667

Guggenheim takeaway: *Flagging for your awareness as we await the PSC's decision to either entertain or deny the request. Recall that in its May 5th order, the PSC had concluded that insufficient evidence existed to justify the basis to proceed with a further investigation.*

VA/RGGI – VA Air Pollution Control Board votes to repeal RGGI

- The State Air Pollution Control Board voted 4-3 to repeal/exit RGGI, according to reports
- Youngkin statement HERE
- More HERE

Guggenheim takeaway: *Flagged for your awareness. As media has repeatedly indicated, opponents of the move have made substantial noise over the legality of the Board's actions – setting up a potentially lengthy court process.*



Guggenheim 2023 Client and Corporate Access Utility Events

Guggenheim Comp Sheet

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

Generation and Mix

Generation and Mix (continued)

Weather

YTD Peak Load

Regulatory Calendar

Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- PNW – Staff Files Constructive Testimony, Just Like Last Rate Case; All Eyes on Aug/Sept ACC Hearings While We Remain More Constructive on AZ Overall
- FE – Meeting with FE's New CEO Reinforces Our Confidence in the Existing Plan, No Rebasing Ahead – Bear Calls Won't Likely Work, Remains Our Best Idea
- CEG/NRG: STP Transaction Embodies the Tectonic Rift in IPP Strategies – Deal Supports Our BUY Stance on CEG; Neutral Stance on NRG
- PCG Analyst Day: Digging for Gold in All the Right Places; Investor Day Highlights Tangible Risk Reduction and Stakeholder Buy-In
- ES: Gets Offshore Sale Process in Motion
- AGA 2023 Recap: Acquisitions, Guidance and Growth Dominate Discussion
- AEP – Now TX?? Yes, EPS Trajectory Intact but These Misses Are Becoming Hard to Digest for Anyone –

Questions Surround Regulatory Affairs Naiveté

- AEP NDR: Death By 1,000 Cuts? No. Despite Some Stumbles Out of the Gate, CEO Very Honed In; Focus on Execution and B/S Dominates Conversations
- EXC NDR: Post-AEE Selloff Gets Interesting as the Pathway to a Boring Story Runs Through Illinois
- NRG: Hotel NRG - You Can Check Out Anytime You Like but You Can Never Leave… Activist Points Make Sense to Us but Pathways Forward Unclear
- IL: Staff Direct Testimony Sets Disappointing Floor in MYP Bid-Ask vs. Investor Expectations
- ETR – ETR-TX Settlement Filed Resolving Most Issues; 9.57% ROE, 51.21% ER and Full Rate Base Approval
- NEP: NEP Announces Strategic Steps to Minimize Equity; LT Platform Positioning
- Quarterly Weather Review: Cloudy With a Chance of Lower EPS
- Rising Debt Costs a Problem? Nah, Fake It Till You Make It
- AEP: No Surprise, KY Deal Breaks – Clearing Event
- Guggenheim Nuclear Conference Wrap: If You Build It, They Will Come?
- NEP: CEPF and Near-Term Financing Drilldown – Headwinds? Yes. Distribution Reset? Unlikely. Share Weakness Unwarranted; Bear Calls Flawed
- ERCOT: Policy Call Reinforces Uphill View on Repricing as TX Legislature Mulls Resource Adequacy Tweaks
- AEE NDR: Bread and Butter Utility Update Underscores Ameren's Premium Attributes
- NEE NDR: Management Continues to Chop Through IRA Upside Opportunities but Baseline Remains Conservative; Headline Hurdles Require Time
- ES: What Are the Bears Playing for Now? The Dislocation to Group Getting Out of Hand
- SRE: Port Arthur Reaches FID, Few Holdovers with Project Equity, but Economics Are Broadly Accretive
- SMR: 2023 to See Slightly Heightened Cash Usage as Focus Remains on Execution
- HE – Making Sense of Banking Turbulence; HE's ASB Remains Well Insulated From Isolated Liquidity Issues
- DUK: CEO NDR – How to Strengthen the Balance Sheet Without a "Rip-the-Band-Aid-Off" Equity Scenario? Patience.
- PEG Analyst Day – Straight Talking with PEG; Mgmt. Backs Up Sustainable 5-7% EPS Growth with Room to Exceed
- SRE: PUCT Modifies Oncor PFD, Approves Oncor Rate Case; 9.7% ROE and 42.5% Equity Ratio – Above Our Expectation
- Arizona Regulation: Taking a Deep Dive in the Desert — New Commissioners Bring a Wealth of Experience, Insights, and Planned Improvements to the ACC
- PNW: APS Wins Appeal of 2019 Rate Case's Penalty ROE and SCR Disallowance — Arizona Supreme Court May Be Next
- VST: Sensible Transaction and Organizational Realignment Look to Freeze the Melting Ice Cube Argument
- Deal or No Deal? Taking the Pulse of Fuel Deferrals Across Our Coverage Universe
- PJM: How Low Can You Go? Residualization of the BRA Marches On…
- D: Legislative Breakthrough Yields a Deal; Focus Turns to Credit Repair
- AEP: Contracted Renewables Sale Above Our Expectations

- LNT: Cleanup in Aisle 4? PSCW's Damage Control Proves Effective: Upgrading to NEUTRAL
- PSCW: Conversation with Chair Valcq Strikes a Balanced Tone
- D: Halftime in Richmond as Multiple Bills Advance
- D: SB1265 Amended Ahead of Crossover Deadline Tomorrow
- FE – The Same Board Who Set The Current Strategic Plan Is Also Picking The CEO… Follow-Up Thoughts Post Our Mgmt. Call
- FE – Rebase Coming? No. Asset Sale Delay? No. New CEO Strategy Shift? No. Balance Sheet Concerns? No. More Growth Opps? Yes. FE Remains '23 Best Idea
- D: General Assembly Sausage-Making Enters Full Swing as Lawmakers Continue to Cement the Bid-Ask
- D: Key Bills Pass Out of Senate Committee
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D: New Legislation Proposes Novel Option for OSW Stake Sale – Mosaic Pieces Continue to Form a Clearer Picture
- ETR – LPSC Votes on Modified Settlement Proposal with Customer Benefits, but Recognition of Hurricane Cost Prudency
- D: Opening Move in Richmond: Evolutionary Legislation Lays Path Forward

From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: NI: Healthy Multiple for NIPSCO 19.9% Sale in Line with Consensus Expectations; Questions Remain Around Equity Needs & Blackstone Equity Contributions - Guggenheim Securities, LLC
Date: Tuesday, June 20, 2023 1:45:28 PM

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NI: Healthy Multiple for NIPSCO 19.9% Sale in Line with Consensus Expectations; Questions Remain Around Equity Needs & Blackstone Equity Contributions

Power & Utilities June 20, 2023

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Key Message: Today's transaction came in at an attractive valuation in our view, as well as that of consensus, at multiples of 32.5x LTM P/E (as of 1Q23) and 1.85x 2022A rate base. **In 2023 terms, we estimate that the transaction implies a ~26.5x 2023E P/E, and ~1.5x 2023E rate base.** Despite mgmt.'s comments clearly reaffirming zero equity needs until 2025, investors still had questions this morning around how to think about the $250m equity commitment letter from Blackstone – i.e., this lack of clarity persists beyond 2025, with investors asking how to model Blackstone's ongoing capex-driven equity infusions and what impact they have on NI's equity needs going forward and should it be accretive to the valuation metrics – i.e., if mgmt. would have previously mentioned a potential elimination of equity needs beyond '25, the incremental value created from Blackstone's equity infusion would have been more clear and certainly accretive vs. our model. How does this compare vs DUK's DEI transaction in January 2021? Fairly favorable especially given the changes to capital market conditions.

What's implied for 2023?... Taking NIPSCO's $7.7bn YE 2022A rate base, the ~$2.1bn of capex guided to in today's slides, and incorporating incremental depreciation of just under $400m, **we see the potential for NIPSCO's 2023 rate base to come in at ~$9.4bn as of YE23**. Using the company's provided figure of ~$333m LTM Non-GAAP net income as of March 31, 2023, and the $10.8bn equity value implied by the deal ($14.3bn EV minus $3.5bn of debt) results in the 32.5x 2022A P/E and 1.85x 2022A rate base multiples presented in the company's slides. For comparison's sake, using **our $9.4bn 2023E YE rate base estimate** and maintaining the same implied ROE, **we estimate that the transaction implies a ~26.5x 2023E P/E, and ~1.5x 2023E rate base, *as below***.

NIPSCO 2022 Transaction Multiples & Guggenheim's 2023 estimates

Source: Company slides, Guggenheim Securities, LLC analysis.

How does this compare vs DUK's DEI transaction in January 2021? Fairly favorable especially given the changes to capital market conditions (i.e. higher rate environment vs. when DUK announced their deal)... We highlight that when DUK announced its minority interest stake sale to GIC in January 2021, it presented an implied valuation of **27.7x DEI P/E multiple (LTM P/E as of 9/30/2020)**. This transaction also valued DEI at a $10.3bn equity value and $14.5bn firm value on a 100% basis, with a DEI net debt balance of $4.2bn as of 9/30/2020 (source HERE).

What does this deal mean for equity needs?.. Investors continued to have questions regarding Blackstone's $250m equity commitment letter (which is intended to address NIPSCO's capex). Specifically, there appears to be a lack of clarity as to whether Blackstone's NIPSCO capex contributions should be treated effectively as equity-offsets which reduce NI's equity needs in

2025 and beyond. Meanwhile, NI spoke with the three ratings agencies yesterday and expects them to comment in the days and weeks ahead. **In our view, this transaction appears constructive from a financing and balance sheet perspective, as mgmt. was clear that it will push NI's FFO/debt to the top end of its 14%-16% FFO/debt range soon after closing.** As that credit metric begins to drift back down, mgmt. expects to start using ATM equity in 2025+ to maintain its 15% midpoint FFO/debt target and support its current investment grade credit ratings.

What happened?... This morning, NI announced that Blackstone (NYSE:BX) will invest $2.15bn of cash for a 19.9% stake in NIPSCO, with closing expected by year-end 2023 (pending FERC approval). NI intends to use the proceeds from the partial sale of its natural gas and electric company to pay down debt and fund capital needs related to its renewable generation transition. NI will continue to own an 80.1% stake in NIPSCO, and going forward, **Blackstone will maintain its 19.9% stake through funding its corresponding allocation of NIPSCO's capex spending.** To facilitate its ongoing capex contributions, Blackstone will issue a $250m equity commitment letter for its pro rata share of funding, including the next few years of renewable-driven capex at NIPSCO. **NI reaffirmed its adjusted NOEPS guidance** of $1.54-$1.60 ($1.57 midpoint) for 2023, as well as its 6%-8% annual NOEPS growth guidance through 2027. The company also **reiterated overall 8%-10% annual utility rate base growth guidance**, with NIPSCO clearly positioned as the main growth driver due to its significant planned renewable investments — **NIPSCO's $7.7bn 2022A year-end rate base is expected to ~$15bn+ by the end of 2027 (a ~13%-14% CAGR).**

From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: The Guggenheim Daily Transmission: EIX, PEG, OGS, EXC, NI, ALE, SR, AVA, SMR, MA/Wind, Policy, SPP, PCG, CAISO, WEC, AEP/DUK/NI - Guggenheim Securities, LLC
Date: Wednesday, May 3, 2023 10:14:50 AM

The Guggenheim Daily Transmission: EIX, PEG, OGS, EXC, NI, ALE, SR, AVA, SMR, MA/Wind, Policy, SPP, PCG, CAISO, WEC, AEP/DUK/NI

Power & Utilities May 3, 2023

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Access This Report

SAVE THE DATE: We are hosting a dinner with CNP's COO, new CFO, and others on May 22nd...

For our AGA conference (May 20-23) meeting schedule, please scroll down...

SAVE THE DATE: Our 2nd Annual Guggenheim Georgia Field Trip: Southern Company (SO), Racing Porsches & GA Commissioner Meetings, will take place July 11 & 12 in Atlanta...

For details on our Guggenheim-hosted client Utility events including our EXC NDR, AEP NDR, ETR NDR, DTE NDR, PCG NDR, ES NDR, SMR NDR, LNT NDR, PNW NDR, AWK NDR, CMS NDR, SO NDR, POR NDR, CEG NDR, PEG NDR, and other events, scroll down...

EIX: 1Q23 EPS Beat; All Quiet on the Western Front, Regulatory Activity Spikes Mid-May but More Tailwinds, in Our View (see our note HERE)

PEG – 1Q EPS Beat; Quiet Quarter Emblematic of Lower Risk Business Mix; Electrification for the Long-Haul Upside (see our note HERE)

OGS: Calm Despite Stormy Weather — 1Q23 In Line & 2023 Guidance Maintained (see our note HERE)

EXC reports 1Q23 earnings

NI 1Q23 in line; reiterates all guidance, including YE23 anticipated NIPSCO minority interest sale closing date

ALE reports 1Q23 earnings

SR reports fiscal Q2 2023 NEEPS beat; narrows guidance around unchanged midpoint

AVA reports large miss for 1Q23; maintains annual guidance

EXC/IL — ComEd trial results in 4 guilty verdicts

SMR — NuScale continues to pursue opportunities in SE Asia; news release correction clarifies SMR's role

MA/Wind — MA DOER and other agencies issue RFP for up to 3.6GWs of offshore wind

Policy — Senator Manchin advances efforts on permitting reform in Senate

SPP — Grain Belt developers update on phasing of HVDC work

PCG — PCG CEO makes constructive comments on company culture in media interview

CAISO — CA transmission RTO bill is referred to Appropriations committee

WEC — S&P Revises WEC Energy Group Outlook to Negative

AEP/DUK/NI — Indiana legislation signed into law this week protects utilities' control over building power lines

EXC reports 1Q23 earnings

- EXC reported $0.70 vs. Gugg/Cons of $0.67/0.66
- Reaffirmed 2023 EPS guidance of $2.30-2.42 vs. Gugg/Cons $2.36/2.37
- Results for the quarter featured ($0.04) of weather at PECO, ($0.01) at PHI
- Key long term outlook messages unchanged from 4Q22 update (EPS and DPS growth/payout ratio commentary)
- Key parameters of financing plan unchanged ($425m equity by '25), 80% of debt financing needs executed in 1Q
- Call at 10am – register HERE
- Slides HERE

NI reports 1Q23 in line net operating EPS of $0.77 vs Gugg/consensus at $0.76/$0.76; maintains 2023 guidance of $1.54-$1.60 ($1.57 midpoint) vs Gugg/consensus at $1.57/$1.56

- **Asset sale update:** NI reports being "on track" with regard to strengthening its balance sheet via a successful minority interest sale of its NIPSCO utility
  - Company still expects a **close in 2023**

- **Credit:** continuing to target 14%-16% FFO/debt post-sale of NIPSCO minority interest
- **EPS CAGR:** reiterates 6%-8% expected annual NOEPS growth through 2027 (illustrated clearly on slide 5)
- **Cost management:** reiterates guidance of flat O&M
- **Capex:** $15bn 2023–2027 capex plan reiterated, along with 2023 capital investment guidance
- **Rate Base:** reiterated 8%-10% expected annual rate base growth; recall that FY22 projected rate base was estimated at ~$16.6bn
- **Credit:** ~$11.6bn of total debt as of March 31, 2023; ~$10.3bn of LT debt; ~13yr weighted average maturity; 3.83% weighted average interest rate
    - Committed to maintaining current investment-grade credit ratings: S&P (BBB+), Moody's (Baa2), and Fitch (BBB)
- **Financing:** maintains 2023–2027 financing plan; equity plans (excluding the remarketed equity units of $863m) are to restart the company's ATM equity in 2025+, to support current investment grade credit ratings; may also be used to redeem o/s preferred stock ($900m)
- **TSR:** continuing to target 9%-11% total shareholder return
- **Dividend:** reiterated 60%–70% payout target.
- Call is at **11:00am at 1-888-330-2391... Passcode: 28323**

ALE reports 1Q23 earnings

- ALE reported $1.02 vs. Gugg/Cons of $1.22/1.18
- Reaffirmed 2023 EPS guidance of $3.55 to $3.85 vs. Gugg/Cons of $3.70/3.71
- Weather was ($0.10) impact on the quarter
- "Sales to residential, commercial and municipal customers decreased from 2022 primarily due to warmer weather in 2023 compared to 2022. Sales to municipal customers also decreased as a result of a new contract entered into with Hibbing Public Utilities in April 2022 with sales under the new contract classified under other power suppliers." - Q
- ACE 'below expectations' on lower wind and availability of assets
- ACE O&M up 25% (+$2.9m)
- Higher O&M also dragged on MN Power (+$10.4m vs. 1Q22)
- 1Q23 contribution of $4.5mm from New Energy
- Still planning next MN Power case in 4Q23
- Call at 10am – register HERE
- Slides to be posted HERE

SR reports 2FQ23 beat of $3.70 in NEEPS vs Gugg/consensus at $3.44/$3.50; narrows FY23 NEEPS guidance to $4.20–$4.30 (from $4.15–$4.35), maintaining $4.25 midpoint, vs Gugg/consensus at $4.25/$4.25

- Reiterates confidence in 5-7% long-term EPS growth off of a base of the midpoint of the company's original fiscal 2023 earnings guidance of $**4.15**

- Following fiscal Q2 2023 results, SR has updated its segment guidance as below:
  - **Gas Utility:** $210m–$220m, **down** from $225m–$235m, previously
  - **Gas Marketing:** $43m–$48m, **up** vs $25m–$30m, previously
  - **Midstream**: $10m–$12m **a minor tweak upwards** vs $9m–$11m, previously
  - **Corporate & Other:** $-25m–$-30m vs $-20m–$-25m, previously
  - *Notable offsets to the strength at Marketing and Midstream were the impacts of lower margins during the winter of the Gas Utilities, as well as high interest expenses (impactful at both Gas Utilities and Corporate costs).*
- **Capex:** targeted 10-year capital investment plan remains $7bn, and expected capex for fiscal 2023 remain $700m, including the company's Midstream expansion for Spire Storage, which it reports "remains on plan".
- **Rate Base growth:** Capex is anticipated to drive 7%–8% utility rate base growth
- *Presentation and accompanying details not yet released*
- Earnings call will be held today at 9**:00 AM ET**… Dial-in: **844-824-3832**…(**no access code**)

AVA reports large miss for 1Q23 of $0.73 vs Gugg/consensus at $1.23/$1.16 and 1Q22 EPS of $0.99; maintains 2023 annual guidance of $2.27–$2.47 ($2.37 midpoint) vs Gugg/consensus at $2.28/2.34

- $–0.11 of EPS decline was driven primarily by inflationary pressures resulting in increased labor and benefits costs, among other operating expenses.
- $–0.09 came from timing-driven changes to AVA's effective tax rate; EFT was –13.7% in 1Q23 vs –17.8% in 1Q22.
- $–0.08 was a direct result of higher interest rates.
- $–0.02 at "other businesses", due to net investment losses recognized in 2023 compared to net investment gains recognized in 2022.
- **Margins:** compared to 1Q22, electric utility margin was flat, while natural gas utility margin increased EPS by $0.06 in 1Q23
- **"***We expect lower net power supply costs for the remainder of the year, resulting in a benefit under the ERM***" —** Dennis Vermillion, President and CEO
  - AVA booked a $7.6m pre-tax expense under the Energy Recovery Mechanism (ERM) in Washington, compared to a $1.9m pre-tax benefit in 1Q22
- **Capex:** 2023 capex guidance at Avista Utilities was reiterated at $475m; AEL&P capex is expected to be $19m vs $15m previously.
- **Debt Financing:** AVA issued $250m of long-term debt in 1Q23 (vs prior guidance of $200m for 2023) and does not expect to issue further LT debt this year.
  - The company ***does however*** expect to increase the capacity of its $400m credit facility to $500m in 2Q23.
- **Equity Financing:** $30m of equity was issued in 1Q23, and common stock issuance guidance was maintained at $120m for 2023.

EXC/IL — ComEd trial results in 4 guilty verdicts

- Michael McClain, former ComEd CEO Anne Pramaggiore, ex-ComEd lobbyist John Hooker and former City Club President Jay Doherty were convicted on all counts following 27 hours of deliberation
- More HERE

Guggenheim takeaway: *The case has been a constant point of media noise in IL in recent weeks, so good to see resolution in our view ahead of the second phase (former speaker Madigan). As a reminder, this matter was the driver of the July 2020 deferred prosecution agreement between the utility and the US Attorney's Office for the Northern District of Illinois. More recently, the case had tangential readthrough to the ICC given certain linkages (see HERE).*

SMR — NuScale continues to pursue opportunities in SE Asia; news release correction clarifies SMR's role

- Alongside a state visit of the Philippine president to DC, the president's office initially indicated in a release that the company would invest ~$7bn in the country to build a 430MW plant
- The language around the meeting with NuScale executives was subsequently amended yesterday to clarify that the company is working on a study and potentially with a local developer
- More HERE

Guggenheim takeaway: *The headline of NuScale potentially investing several times its market cap in the country generated some noise yesterday, with the subsequent clarifications helping to underscore that this is a normal outreach process for the country – similar to what we have seen to date in eastern Europe. We continue to monitor for additional data points on leads like these.*

MA/Wind — MA DOER and other agencies issue RFP for up to 3.6GWs of offshore wind

- The blockbuster RFP will set in motion a ~8 month response period in which projects of varying sizes may be bid in
- "If approved, the draft RFP will invite submittals for offshore wind generation to procure up to 3,600 MW, which represents 25 percent of the state's annual electricity demand and a significant increase over the previous procurement, which sought approximately 1,600 MW of offshore wind." - release
- "The procurement team would have flexibility to evaluate bids ranging from 400 MW to 2,400 MW in size, and to select a project or projects that bring significant benefits to the Commonwealth." - release
- Bids are due 31 January 2024
- More HERE

Guggenheim takeaway: *Flagged for your awareness as MA joins NY in seeking additional procurements of wind. The latest request is the first to come after last summer's modifications to the process and is the first to be lead by the DOER. The solicitation includes a weighting towards economic development and other social considerations, which was a point of interest in the state during last year's session. While we would not be* *surprised to see ES' JV bid into this latest RFP, we continue to expect an exit in the coming quarters, with an announcement potentially by the 2Q call. The state is also grappling with the ongoing fallout around the technical default for the Commonwealth project.*

Policy — Senator Manchin advances efforts on permitting reform in Senate

- The Senator's office has re-released his prior legislation on permitting reform to serve as a starting point in Senate and Congressional negotiations
- "Today, U.S. Senator Joe Manchin (D-WV), Chairman of the Senate Energy and Natural Resources Committee, introduced the *Building American Energy Security Act of 2023*, the text of the National Defense Authorization Act (NDAA) amendment that was supported by 47 Senators (40 Democrats and 7 Republicans) in a tied floor vote in December 2022. This legislation will serve as a starting point for upcoming conversations in the Senate around reforming energy permitting to ensure American energy security and independence." – Manchin's office
- More HERE

Guggenheim takeaway: *Heads up as the process begins to heat up on both sides of the Hill – the successful passage of a budget package (with permitting items) by Republicans sets up further conversations on this specific topic, and we continue to see the area as ripe for bipartisanship in the coming weeks.*

SPP — Grain Belt developers update on phasing of HVDC work

- The developers continue to analyze potential impacts of the line and its second phase into IL for impacts on energy and capacity pricing in MISO and potentially PJM
- "Preliminary design has begun. Detailed design is required to start Q4 2023, in order to meet 2028 COD. Results of SPP TWG studies are needed to start detailed design in Q4 2023." - presentation
- More HERE

Guggenheim takeaway: *We continue to monitor Grain Belt as a both a resource adequacy option for adjacent utilities, and for its potential impact on energy and capacity pricing in MISO Zone 4 and beyond.*

PCG – PCG CEO makes constructive comments on company culture in media interview

- PCG CEO Patti Poppe made comments in a Press Democrat interview on transformation progress.
- Commentary directly addressed the ongoing culture change and PG&E.
- More here.

Guggenheim takeaway: *FYI. Transparent and open commentary on PG&E legacy issues.*

CAISO – CA transmission RTO bill is referred to Appropriations committee

- CA Legislature re-referred the bill addressing CAISO expansion into a western RTO to the appropriations committee.

- CA introduced an assembly bill (AB538) that would look for CAISO to become an expanded western RTO with increased governance and multistate jurisdiction.
- The CAISO would be able to submit a plan to the CEC for expanded governance and multistate inclusion of resources into the RTO structure.
- Lawmakers believe this would be a solution to the resource adequacy constraints that CAISO has felt in recent years and would open up more availability of clean energy resources aligned with CA policy goals.
- Bill text here: AB538.

Guggenheim takeaway: *FYI. Resource adequacy work continues in CA.*

WEC — S&P Revises WEC Energy Group Outlook to Negative

- S&P highlighted at the top of its report that WEC reaffirmed its expectation to fund its capital plan without any new equity issuance, a plan which incorporates $12.4bn of investments through 2025.
- S&P further states that WEC's negative operating cash flow has grown in recent years primarily from high capital spending and large nonutility acquisitions, and that S&P believes the company is disproportionately funding this cash deficit with incremental debt, weakening financial measures, in the rating agency's view.
- As a result, S&P believes its consolidated FFO- to-Debt could reside below S&P's downgrade threshold for the next three years.
- Bloomberg link to S&P release HERE

Guggenheim takeaway: *We caught up with the company following this release. WEC stated that from their perspective, S&P hasn't looked at the longer term, and highlighted that the outlook on WEC's utilities remains stable. The company does not expect this will materially impact its ability to access the capital markets, a view which we agree with, while also explicitly clarifying that WEC remains confident in its outlook.*

AEP/DUK/NI — Indiana legislation signed into law this week protects utilities' control over building power lines

- Governor Eric Holcomb, a Republican, signed legislation Monday that will give utilities the right to build and operate transmission projects that connect to their existing systems. Utilities owned by NiSource Inc. and AES Corp. also stand to benefit.
- Indiana Energy Association President Danielle McGrath hailed the new law as "sound policy," in response to an email sent to Duke for comment. AEP, AES and NiSource also referred to McGrath for comments.
- We note that transmission costs have apparently increased by an average of ~63% in Indiana over the preceding five years, as per the Electricity Transmission Competition Coalition, an advocacy group representing manufacturers and others who opposed the bill.
- Utilities will have to competitively bid to build projects and have the advantage of having crews on hand to make timely repairs after storms, according to McGrath.
- More HERE

Guggenheim takeaway: *From our coverage universe, we see AEP, DUK, and NI, as best positioned to benefit* *from this new law.*

Guggenheim 2023 Client and Corporate Access Utility Events

Guggenheim Comp Sheet

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

Generation and Mix

Generation and Mix (continued)

Weather

YTD Peak Load

Regulatory Calendar

Key Research

Guggenheim's Forward Commodity Curves

- Forward Power Curves, GenCo MtM, and Weekly Commentary

Key Research

- Utility and IPP 1Q23: Valuation and Estimate Adjustments
- Quarterly Weather Review: Cloudy With a Chance of Lower EPS
- Rising Debt Costs a Problem? Nah, Fake It Till You Make It
- AEP: No Surprise, KY Deal Breaks – Clearing Event
- Guggenheim Nuclear Conference Wrap: If You Build It, They Will Come?
- NEP: CEPF and Near-Term Financing Drilldown – Headwinds? Yes. Distribution Reset? Unlikely. Share Weakness Unwarranted; Bear Calls Flawed

- ERCOT: Policy Call Reinforces Uphill View on Repricing as TX Legislature Mulls Resource Adequacy Tweaks
- AEE NDR: Bread and Butter Utility Update Underscores Ameren's Premium Attributes
- NEE NDR: Management Continues to Chop Through IRA Upside Opportunities but Baseline Remains Conservative; Headline Hurdles Require Time
- ES: What Are the Bears Playing for Now? The Dislocation to Group Getting Out of Hand
- SRE: Port Arthur Reaches FID, Few Holdovers with Project Equity, but Economics Are Broadly Accretive
- SMR: 2023 to See Slightly Heightened Cash Usage as Focus Remains on Execution
- HE – Making Sense of Banking Turbulence; HE's ASB Remains Well Insulated From Isolated Liquidity Issues
- DUK: CEO NDR – How to Strengthen the Balance Sheet Without a "Rip-the-Band-Aid-Off" Equity Scenario? Patience.
- PEG Analyst Day – Straight Talking with PEG; Mgmt. Backs Up Sustainable 5-7% EPS Growth with Room to Exceed
- SRE: PUCT Modifies Oncor PFD, Approves Oncor Rate Case; 9.7% ROE and 42.5% Equity Ratio – Above Our Expectation
- Arizona Regulation: Taking a Deep Dive in the Desert — New Commissioners Bring a Wealth of Experience, Insights, and Planned Improvements to the ACC
- PNW: APS Wins Appeal of 2019 Rate Case's Penalty ROE and SCR Disallowance — Arizona Supreme Court May Be Next
- VST: Sensible Transaction and Organizational Realignment Look to Freeze the Melting Ice Cube Argument
- Deal or No Deal? Taking the Pulse of Fuel Deferrals Across Our Coverage Universe
- PJM: How Low Can You Go? Residualization of the BRA Marches On…
- D: Legislative Breakthrough Yields a Deal; Focus Turns to Credit Repair
- AEP: Contracted Renewables Sale Above Our Expectations
- LNT: Cleanup in Aisle 4? PSCW's Damage Control Proves Effective: Upgrading to NEUTRAL
- PSCW: Conversation with Chair Valcq Strikes a Balanced Tone
- D: Halftime in Richmond as Multiple Bills Advance
- D: SB1265 Amended Ahead of Crossover Deadline Tomorrow
- FE – The Same Board Who Set The Current Strategic Plan Is Also Picking The CEO… Follow-Up Thoughts Post Our Mgmt. Call
- FE – Rebase Coming? No. Asset Sale Delay? No. New CEO Strategy Shift? No. Balance Sheet Concerns? No. More Growth Opps? Yes. FE Remains '23 Best Idea
- D: General Assembly Sausage-Making Enters Full Swing as Lawmakers Continue to Cement the Bid-Ask
- D: Key Bills Pass Out of Senate Committee
- Commissioners Roundtable Recap: Regulators Remain Level-Headed Amid Rate Volatility and the Grid Transition
- 2023 Utility Outlook: Magic Mirror on the Wall, Who Is the Fairest One of All?
- D: New Legislation Proposes Novel Option for OSW Stake Sale – Mosaic Pieces Continue to Form a Clearer Picture
- ETR – LPSC Votes on Modified Settlement Proposal with Customer Benefits, but Recognition of Hurricane

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J.P.Morgan

NiSource Inc.

1Q Lands Just Ahead; NIPSCO Sale Process Tracking Expectations; Transmission ROFR Legislation Stands Out

Overweight

NI, NI US
Price (02 May 23):$27.91

North American Utilities

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- **1Q23 lands just ahead of estimates; 2023 guidance reaffirmed.** NI reported 1Q23 adj EPS of $0.77, just ahead of the $0.75/$0.76 JPM/Street median estimates. The company also reaffirmed its 2023 guidance range of $1.54-1.60 (JPMe/Street median $1.56), plus long-term growth targets. Management spent meaningful time on the call outlining active O&M efficiency efforts, continuing a significant topic since the company's fall investor day. On balance, targeted flat O&M through 2027 remains on track, and NI intends to offer further details on efficiencies as the latest cost effort progresses.
- **NIPSCO transaction remains on track.** NI offered no new information on the NIPSCO minority stake sale process, but framed the transaction as on track for its 2023 targets (mid-year announcement and 2023 completion). Overall tone remains positive, in our view, with management noting broad interest and a straightforward process to close. While investor attention remains firmly focused on the prospects for a favorable deal valuation and overall execution on this key element of NI's long-term plan, we did not anticipate any significant update into the quarter and instead await a targeted mid-year announcement as the next sale update.
- **IN transmission ROFR legislation further underpins plan upside.** Recently signed Indiana transmission ROFR legislation received notable enthusiasm from management, with the impacts framed as solidifying NI's transmission upside within the 2028+ outlook. To quantify this, NI pointed to MISO's ongoing LRTP work, where we expect tranche 2 potential to start emerging into the end of 2023 and early 2024. Securing clearer leverage to this long-dated theme is a positive starting point, in our view, and we look to further updates as MISO's process unfolds.
- **Other takeaways: Gas M&A, IN rate case settlement.** On gas M&A, topical given recent media reports around LDC assets hitting the market, management emphasized the current focus on organic growth and executing NI's investor day plan. We see no surprises in this response, although note this topic has been a source of recent investor questions. Separately, the company highlighted positive regulatory progress in reaching a settlement in NIPSCO's electric rate case, and we expect closing out the final case hurdles will further showcase NI's declining regulatory risk.

See page 3 for analyst certification and important disclosures.

Table 1: NI 1Q23 Results

Income Statement:	Actual 1Q22	Actual 1Q23	JPM 1Q23E	% Chg Y/Y	% Chg vs JPMe	YoY Drivers
Operating Earnings	494	563	533	14%	6%	New base and infra replacement program rates, customer growth/usage, lower O&M, higher D&A
Net Income	329	343	336	4%	2%	Favorable COLI impacts, higher interest expense and non-service pension costs
Share Count	441	447	448	1%	0%	
Operating EPS	**$0.75**	**$0.77**	**$0.75**	**3%**	**3%**	

Source: Company reports and J.P. Morgan estimates.

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

Date	Rating	Price ($)	Price Target ($)
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26
29-Jan-21	OW	22.17	25
22-Feb-21	OW	22.84	24
22-Apr-21	OW	26.03	28
31-Aug-21	OW	24.76	29
14-Oct-21	OW	24.69	28
04-Jan-22	OW	27.52	31
26-Jan-22	OW	27.14	30
03-Mar-22	OW	29.19	32
18-Apr-22	OW	31.75	34
11-May-22	OW	29.32	33
25-Jul-22	OW	28.44	31
05-Sep-22	OW	29.55	34
24-Oct-22	OW	24.49	30
09-Dec-22	OW	27.77	31
13-Mar-23	OW	26.71	30
24-Apr-23	OW	28.64	31

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North American Utilities

March Madness: Examining the Elite Eight Themes

Focus on: Quieter Regulatory Backdrops, Green Tailwinds Amidst Volatility

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What's Inside:

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Examining Top Utility Themes

Elite Eight Themes for 2023

1. Where We Stand: Turbulent Start to 2023
2. Regression Reveals
3. Natural Gas LDCs Spotlight: Near-Term Risks Receding
4. Learnings from 4Q Earnings
5. Customer Bill Pressures: Focusing on State-level Dynamics
6. Regulatory Roundup: Little Push Back to System Investment Cases
7. Green Rules Everything Around Me (GREAM): Green Forced Ranker
8. Top Picks: CMS and NI

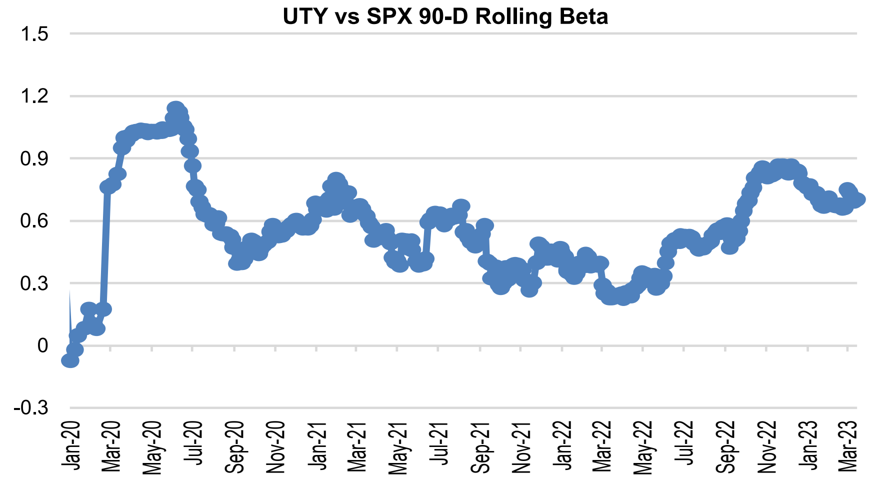
1) Where We Stand

Turbulent Start to 2023

Defensive Outperformance Unwind to Start 2023

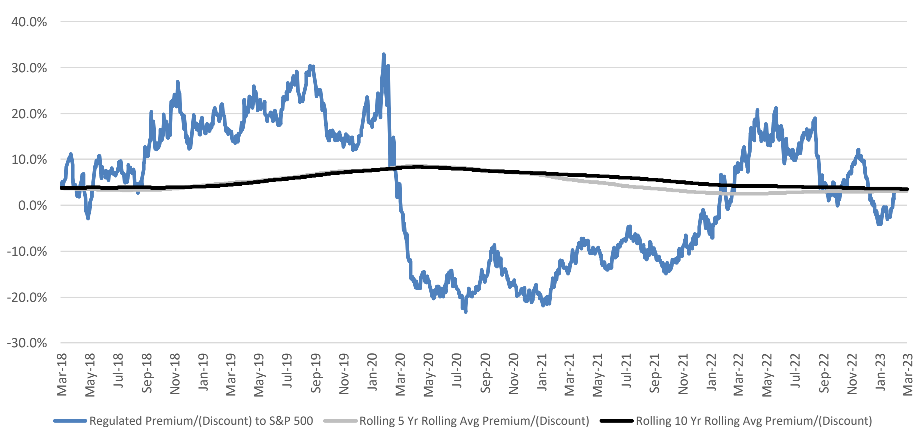
- Utilities have regressed in 2023, following 2022 outperformance
  - Though 3/16, utilities have underperformed ~7% YTD
  - This follows utilities outperforming the S&P by ~20% in 2022
- Early 2023 reversal rotation weighed on utilities
  - Hawkish outlook also weighed on utility yields
  - Heightened financials uncertainty fed recent utility strength
  - Higher macro uncertainty could drive a utilities rebound if investor de-risk
- ~18.0x NTM regulated utilities P/E = a +2.7% premium to the S&P 500
  - Historical +3.1% and +3.5% 5yr and 10yr average premiums
  - S&P 500 downward revisions and/or 10-yr falling would favor utilities
- Relative safe haven + robust electrification + green tailwinds support outlook
  - Utilities have performed better when 10yr <3.5%

UTY vs SPX 90-day Rolling Beta



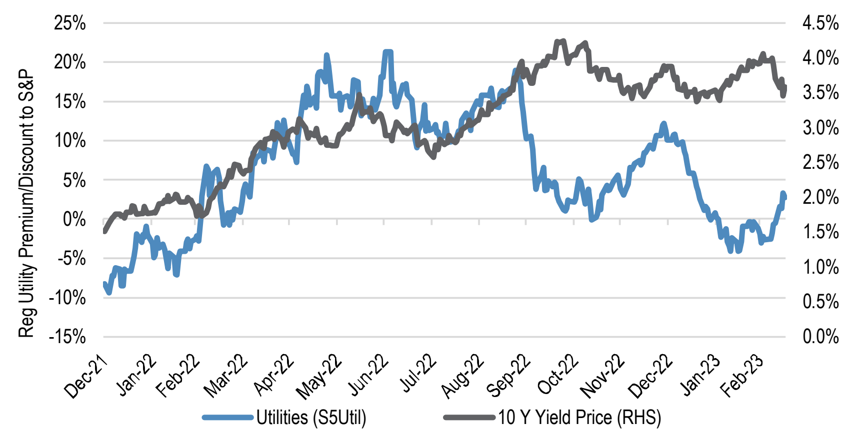
Source: Bloomberg Finance L.P.

Utilities Back to a Premium vs. S&P 500



Source: Bloomberg Finance L.P.

Utilities Prem/Disc (LHS) vs 10-year Yield (RHS)



Source: Bloomberg Finance L.P.

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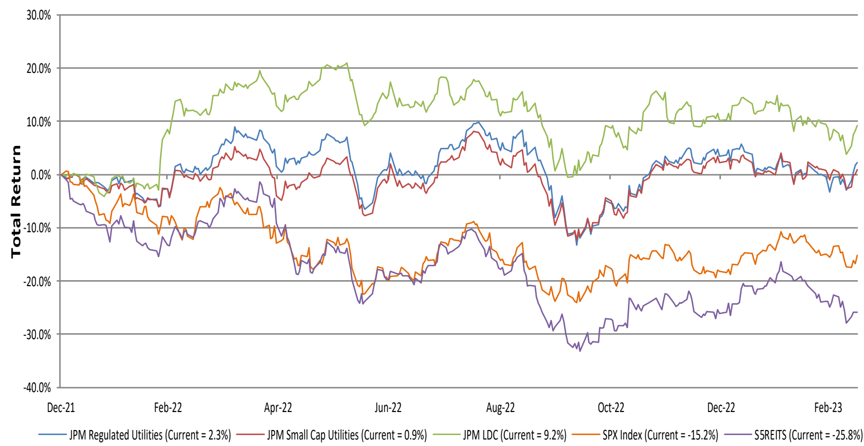
1) Where We Stand

No School Like the Old School - Pivot to Regulated, Fundamentals Strong

Clear Shift to Regulated w/ Robust Capex Backdrop Fueling Growth

- Multi-year trend to pure play regulated business models has continued
- But, transaction valuation questions increase amidst higher interest rates
  - ES' extended OSW process, multiple renewables processes competing
  - Regulated operations not immune either, as skepticism emerges from the narrowing of SWX's strategic review and mixed feedback on some minority stake sale processes
- Still, we see greater value in focusing on rate base growth
  - Regulated utilities' strong electrification tailwinds
  - Clear investor preference for regulated
  - Renewables, transmission, reliability investments lifting capex

Returns by Different Sectors



Coverage Universe Total Return by Subsector

	Total Return (%)																
Symbol	**2019**	**1Q20**	**2Q20**	**3Q20**	**4Q20**	**2020**	**1Q21**	**2Q21**	**3Q21**	**4Q21**	**2021**	**1Q22**	**2Q22**	**3Q22**	**4Q22**	**2022**	**2023 TD**
Relevant Indices																	
SPX	31.5%	-19.6%	20.5%	8.9%	12.1%	18.4%	6.2%	8.5%	0.6%	11.0%	28.7%	-4.6%	-16.1%	-4.9%	7.5%	-18.1%	3.5%
SPX Energy	11.8%	-50.5%	30.5%	-19.7%	27.8%	-33.7%	30.8%	11.3%	-1.7%	7.9%	54.4%	39.0%	-5.2%	2.3%	22.7%	65.4%	-10.9%
SPX Utilities	26.3%	-13.5%	2.7%	6.1%	6.6%	0.5%	2.8%	-0.4%	1.8%	12.9%	17.7%	4.8%	-5.1%	-6.0%	8.6%	1.6%	-4.1%
UTY	26.8%	-12.3%	2.6%	7.1%	6.6%	2.7%	2.5%	-0.6%	2.2%	13.5%	18.2%	3.8%	-4.9%	-6.1%	8.5%	0.6%	-4.6%
Regulated Utilities	31.4%	-13.7%	-0.5%	5.8%	3.5%	0.2%	2.4%	-1.2%	-0.2%	11.9%	12.4%	6.4%	-3.1%	-9.2%	11.5%	3.0%	-2.3%
Diversified Utilities	21.4%	-20.9%	9.1%	10.4%	10.1%	-3.4%	5.2%	0.0%	0.5%	9.5%	18.9%	7.8%	-6.7%	-6.4%	5.6%	-1.9%	-6.7%
LDC Utilities	13.0%	-9.9%	-2.9%	-7.9%	5.2%	-16.7%	13.0%	-1.3%	-7.6%	15.0%	19.4%	12.8%	-2.1%	-13.9%	10.7%	9.6%	2.9%
Canadian Utilities	33.7%	1.5%	-4.0%	6.4%	0.1%	1.3%	4.6%	1.5%	3.1%	9.7%	21.8%	2.3%	-1.7%	-11.4%	-6.1%	-14.3%	8.7%
Water Utilities	34.0%	-10.3%	8.1%	5.7%	10.4%	13.2%	-5.4%	2.1%	7.5%	11.7%	16.2%	-8.2%	-9.7%	-9.7%	29.7%	-2.2%	-5.6%
Average	**25.6%**	**-16.6%**	**7.3%**	**2.5%**	**9.2%**	**-1.9%**	**6.9%**	**2.2%**	**0.7%**	**11.5%**	**23.1%**	**7.1%**	**-6.1%**	**-7.2%**	**11.0%**	**4.9%**	**-2.1%**
Median	**26.8%**	**-13.5%**	**2.7%**	**6.1%**	**6.6%**	**0.5%**	**4.6%**	**0.0%**	**0.6%**	**11.7%**	**18.9%**	**4.8%**	**-5.1%**	**-6.4%**	**8.6%**	**0.6%**	**-4.1%**

Source: Bloomberg Finance L.P. Priced 3/16/2023

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2) Regression Reveals

Regression Reveals Current Valuations Now Closer to Implied Fair Value

Downside Narrowing Relative to Initial 2023 Outlook

- Our 20-year regression versus the US 10-yr implies utilities a touch rich
  - Current regression implies fair value at +0% premium (~3% downside)
  - Defensive bias could drive further multiple expansion on a relative basis
- Rate hikes remain the key question mark
- Closer to fair value than recent past
  - Closer to fair value than recent past
  - Near 20% premium from 5/18/22 through 7/14/22
  - Utilities traded well above rate implied levels from 6/14/18 to 4/2/20
  - 20 yr peak on 3/9/2020 at 35% and peak discount of -23% on 9/1/2020
- High dividend growth stocks typically outperform in rising rate environment
  - Best positioned large cap regulated electrics
    - AEE, CMS, CNP, WEC, and XEL
    - Each offer top tier 6-8% div growth and 2.6-3.7% 2023e yields

J.P. Morgan 20 yr Regression Implied Utility P/E Multiple

Current 10 Year Treasury Yield	3.58%
Current Relative Forward Premium	2.73%
Time Length of Analysis	**20 Years**
Regression Equations Regulated/S&P500 Forward P/E =	= -0.022 (10 Year Yield) + 0.0788
Regression Input	**Output: Implied Utility/SPX Forward Premium**
Current 10 Year Treasury Yield	0.0%
JPM Q2 2023 10 Year Treasury Yield Forecast (3.90%)	-0.3%
JPM Q4 2023 10 Year Treasury Yield Forecast (3.40%)	0.4%

Source: Bloomberg Finance L.P.; Forecasted Premiums based on JPM Yield Forecasts Priced 3/16/2023; Utility Peer Group = 21 regulated electric companies

Spread Between Actual and 20 yr Regression Implied Utilities P/E Signals Expensive Sector Valuation

Source: Bloomberg Finance L.P. Forecasted Premiums based on JPM Yield Forecasts in Table 1.
Priced 3/16/2023; Utility Peer Group = 21 regulated electric companies.

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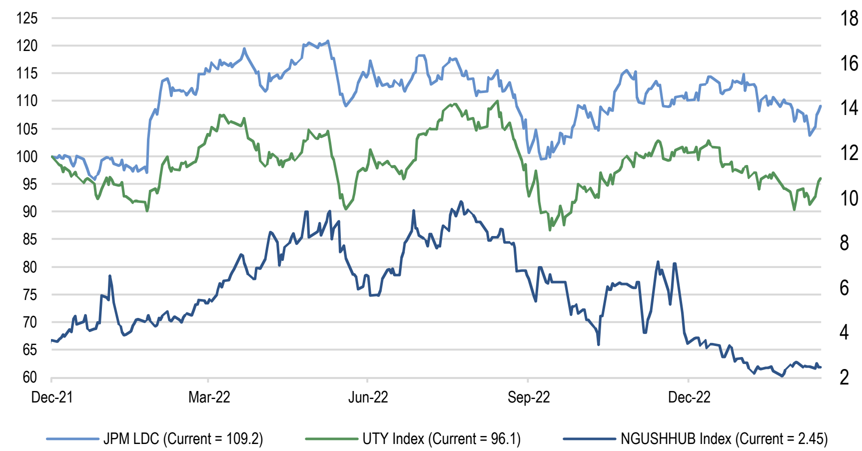
3) Near-Term LDC Risks Receding

Group Set to Emerge from Winter Relatively Unscathed

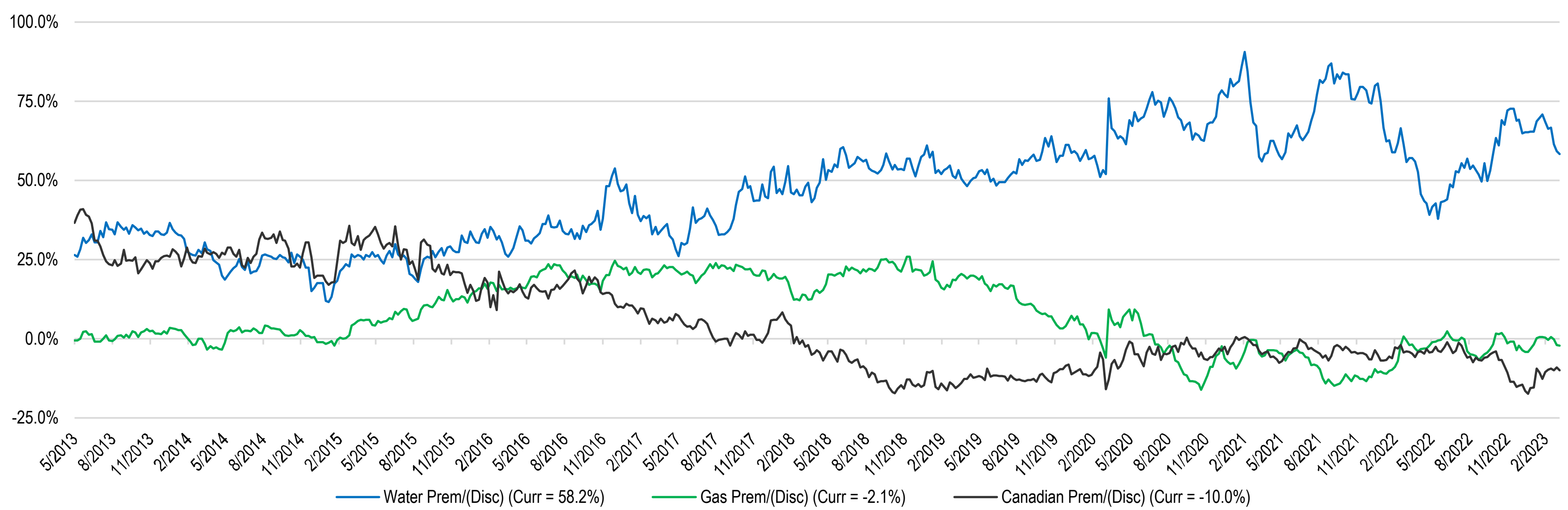
LDCs weathered heating season risks

- Outsized attention on higher rates this winter, as first heating season with elevated commodities prices flowing through customer bills
- However, headline and sentiment risk appears to be receding with the recent decline in natural gas. This decline also creates an opportunity to procure at lower prices for the next heating season should levels hold
  - Some of the group did incur high purchased gas balances this winter
- Over the past 1.5mo, the LDC prem/disc to electrics has ranged from +1.9% to -2.6%, versus a peak 2H22 discount of -6.6%
- Group discount currently stands at -2.1%; some upside potential against this backdrop, but expect relative value will be rangebound
  - See downside as relatively limited given commodity move and calendar
  - That said, the LDCs have yet to sustain more than a 0-2% premium since de-rating in 2020

2Y Sector Price (Normalized) versus Henry Hub Natural Gas



Sector Relative Valuation vs. JPM Regulated Electric Utilities



Source: Bloomberg Finance L.P. Prices as of 3/16/23 close.

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4) Learnings from Earnings

4Q22 Earnings Summary

Majority of Utilities Beat the Street

- Utilities vs Street Median: 56% Beat, 15% In-line, 29% Miss

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%

Post Earnings Performance

	% Beat/Miss vs. Street median est.	1-Day Perf	1-Day XLU Perf	Relative 1-Day Perf	Since Reporting to 3/15 Close
NJR	61%	5%	0%	4.7%	-1%
EIX	6%	4%	0%	4.2%	-1%
ALE	-28%	2%	-1%	3.0%	6%
SRE	31%	3%	0%	2.6%	-6%
EXC	0%	2%	0%	2.5%	0%
EMA	9%	2%	-1%	2.2%	0%
AGR	0%	2%	0%	2.0%	-3%
NWE	-5%	3%	1%	1.7%	-3%
ETR	9%	1%	-1%	1.4%	-3%
FTS	1%	3%	2%	1.3%	2%
ATO	-2%	0%	-2%	1.3%	-2%
AES	4%	-1%	-2%	0.9%	-7%
AEE	11%	0%	-1%	0.8%	-1%
ED	2%	2%	1%	0.7%	3%
SJW	6%	0%	-1%	0.7%	-1%
AEP	7%	0%	-1%	0.4%	2%
DTE	7%	0%	-1%	0.1%	-3%
XEL	1%	0%	0%	0.0%	-2%
FE	-6%	-1%	0%	-0.1%	-1%
PEG	3%	-1%	0%	-0.2%	-4%
WEC	8%	0%	0%	-0.2%	0%
CMS	2%	0%	0%	-0.2%	-3%
DUK	3%	-2%	-1%	-0.3%	-1%
NI	4%	-1%	0%	-0.3%	3%
AWK	7%	-1%	-1%	-0.4%	-5%
CNP	0%	1%	1%	-0.5%	0%
SO	6%	-1%	-1%	-0.6%	3%
PCG	0%	-2%	-1%	-1.0%	4%
ES	-2%	-2%	0%	-1.3%	-3%
SRE	18%	-3%	-2%	-1.4%	-2%
D	1%	-3%	-2%	-1.6%	-6%
SWX	-28%	-5%	-2%	-3.5%	1%
NEE	3%	-9%	-1%	-7.4%	-1%

Source: Bloomberg Finance L.P. Prices as of 3/15/23 close.

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4) Learnings from Earnings: One-Liners

4Q22 Earnings Summary

Learnings from Earnings

Ticker	Top earnings takeaways
	Regulateds
AEE	Positive MISO transmission and renewables capex additions now drive expected 8% rate base growth (prior 7%); regulatory execution in progress across MO/IL
AEP	Despite unregulated renewables sale, AEP declined to crystallize equity needs, holding off until FERC review of KY Power; debate focused on execution of 4/26 deadline
ALE	Another capex raise after the surprise 3Q update now points to an 11% rate base CAGR, but MN Power's disappointing rate case outcome is weighing on 2023 EPS
AWK	With equity now completed and moving into an execution focused year with declining regulatory risk, AWK is now a relatively quiet story after attention on last fall's update
CMS	With limited 2023 regulatory risk and LT earnings growth tailwinds, post-earnings debates have mostly focused on the 6-8% range's high end versus 7% rate base CAGR
CNP	TX backdrop in spotlight given Oncor rate case's final stages vs upcoming CEHE rate case; mgmt declined to speak to legislative prospects, potential 1Q update instead
D	Minimal business review updates, with instead likely partial 2Q updates for the VA outcome & 3Q investor day; $1.5bn solar impairment in focus as segment investments stop.
DUK	$1.3bn impairment and delay (2H vs mid-2023) of $4.0bn commercial renewables sale overshadows quarter; NCUC Carbon Plan & SC in focus
ED	CECONY rate case settlement drive LT plan update with 5-7% EPS CAGR, $1bn share repo, $900mm 2025 equity; attention on risks to final order when PSC considers
EIX	An accelerated TKM recovery filing to 3Q provides some green shoots but interest expense headwinds are limiting near-term growth & remain source of variances debate
EMA	Balance sheet remains top question, with risk of incremental equity or other steps to bolster credit metrics set to persist over the medium term until 2023 execution unfolds
ES	Another quarter delay to the OSW process, now expecting 2Q announcements potentially in three deals, has further lowered deal valuation sentiment
ETR	2023 guide formalized as expected, plus 2023-25 capex +$500mm vs preliminary; dueling positive (renewables) & negative (SERI) questions underpin ongoing ETR debate
EXC	Rolled forward CAGR maintaining 6-8% EPS growth despite less favorable PECO rate cycle, settling investor questions on the matter; initial IL MYP process in focus
FE	FET sale signals execution strength, with proceeds allocated to debt repayments and 2024+ capex; pending CEO succession update still the primary focus
FTS	Spotlight is on AZ regulatory execution for now; expect MISO's LRTP tranche 2 process will eventually drive capex upside discussions similar to 2022
NWE	2023 guidance awaiting the crictical Montana rate case; Colstrip acquisition, zero upfront capital costs.
PCG	Capital outlook remains robust with 2027 addition to plan (9.5% rate base CAGR), but undergrounding represents a key 2023 regulatory effort alongside GRC & PacGen sale
SJW	Awaiting CPUC CoC order as a key plan input; new 5-7% LT EPS CAGR underscores growing stability of SJW's underlying business, though rate cycle makes "non-linear"
SO	Guidance in-line w/ lowerd expectations, but Vogtle Units 3 & 4 timeline in focus; GA commission elections & future composition in focus
WEC	Broad defense of rate case outcome, limited reopener, and state regulatory backdrop offered, but outcomes under the new PSC composition remain key question
XEL	RFPs issued for 6GW of new renewables target 2H decisions, plus additional MN/CO RFPs to come in 2023-24; MN elec rate case remains top regulatory proceeding
	Diversifieds
AES	Potential 10c 2023 EPS swing depends on Dec solar CODs (600MW), representing 2024 upside vs growth rate if delayed; broader plan updates await upcoming analyst day
AGR	PNM deal process appears finally set for consideration under the new PRC; other large 2023 items include NECEC construction resumption and multiple OSW efforts
AQN	Narrowing window to April 26 outside date for KY Power; asset sale commentary remains high level for now, including potential impacts from AY review
DTE	Following the adverse MPSC electric regulatory outcome, DTE reaffirmed 2023 guide and 6-8% growth, with attention on one-time cost initiatives; storm response in focus
NEE	FPL review & FPL CEO resignation received sizeable airtime, though any FEC impact seen as non-material (awaiting DoJ risk to fade away); NEER renewables build raised
PEG	Strong PTC tailwinds underpin PEG's decision to hold onto nuclear fleet; outlined options to sell 50% Garden State stake, highlighting strategic exodus on OSW
SRE	Port Arthur FID appears imminent under 1Q23 target, but Oncor's rate case is a key regulatory question for 2024+ outlook; plan update targeted for after the PUCT final order
	LDCs
ATO	Well positioned to capture the benefit of lower gas prices for customers next heating season; potential state support on Uri recovery could drive an additional customer benefit
NI	Regulatory risk is rapidly declining with NI's IN settlement, turning attention to 2023 NIPSCO minority stake sale process as the next plan execution hurdle
NJR	Big marketing beat made for a strong 2023 start, with potential additional benefits into F2Q. Solar progress key to watch off advancing PJM and NJ solar successor efforts
SR	Marketing beat has created cushion even with SR's guidance raise; focus is on execution after 2022 MO rate case, particularly storage expansion progress
SWX	Final spin structure is the next expected update after 4Q cap structure discussion and subsequent equity raise; 2023 execution in question as well given disappointing guidance

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4) Learnings from Earnings

4Q22 Earnings Takeaways

Uncompleted delays under scrutiny; Renewables timing too

- **ES** pushed back expected OSW transaction announcements to 2Q23 from 1Q23, raising questions over prospective market value and execution timeline
- Open renewables sales processes in focus:
  - **DUK** recorded a ~$1.3bn impairment on the 2.7GW Commercial Renewables business
  - Transaction timing close slid slightly to 2H23 (prior mid-year)
  - **D** announced a similar impairment
- **AES** cited 600MW of its 3.4GW new renewables in 2023 may drag into 2024 due to interconnection timing and easement issues

Growth rates reaffirmed in wake of idiosyncratic headwinds

- **EXC** in concert with new management changes, reiterated and extended a 6-8% EPS growth rate through 2026
  - Quashed looming speculation of a potential downward revision
  - MD/DC MYP reconciliation process, PECO rate cycle, ComEd MYP filing, and CMT-related equity create 2023 non-linearity
- **DTE** upheld its 6-8% CAGR and 2023 guidance following the MPSC's 90% haircut on rate increases and rejection for a rehearing
  - Outlined a $120mm one-time O&M cost reduction plan to meet guidance, based on hiring delays and maintenance deferrals
  - Storm costs & scrutiny another headwind
- **FE's** mitigation plan on track to address 38c pension headwind, with management sticking to 6-8% EPS growth story
  - 25% of offsets derived from 2022 opex pull-forwards; rest attributed to Signal Peak earnings (~10% of total EPS)
  - Attention shifts to new CEO, Signal Peak's earnings quality and cyclicality

Completed asset rotations, with most pivoting into regulated

- **AEP** successfully fast tracked its 1.3GW renewables portfolio sale
  - $1.2bn in cash proceeds reduces funding dependence on the KY Power deal, though total equity needs still await confirmation
- **ED** finalized CEB sale in unison with CECONY rate case settlement
  - Outlined $1bn share repo, but up to $900mm in 2025 equity
- **FE** sold 30% transmission stake for 27.0x FY25 P/E, largely in line with the 19.9% interest closed last May
- **SRE** positive FID on PA LNG & sold stake to KKR. SIP midpoint target: $1.55bn investment & receive $410mm/yr EBITDA – a positive outcome
- **SWX** post pipe sale, outlined anticipated funding needs as Centuri spin progresses, subsequently executing on its $250mm 2023 equity

What we're looking for into 1Q

- Uptick in renewables momentum spurred by IRA incentives
  - Progress on **NEE** and **AES** renewables buildouts, with PTC/ITC benefits in focus
  - **ALE** and **XEL** RFPs in 2023, among others
  - **AEE's** fall MO IRP
- Regulatory activity in light of lingering customer bill pressures
  - Rate increases could be more heavily scrutinized
  - Market has focused on state specific risks across CO, CT, MI, TX, and WI. Also high profile rate cases such as **AEE** & **EXC** in IL, **XEL** in MN & CO, **CNP** & **SRE** in TX
- Crucial deal announcements and next steps
  - OSW updates from **ES** & **PEG**, **AEP**/**AQN** KY Power at FERC

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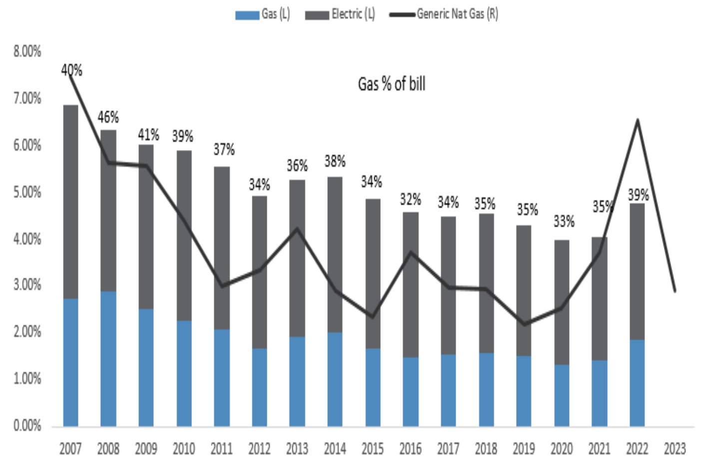
5) Bill Pressures

Bill Headroom Debate Dominates Amid High Supply Rates

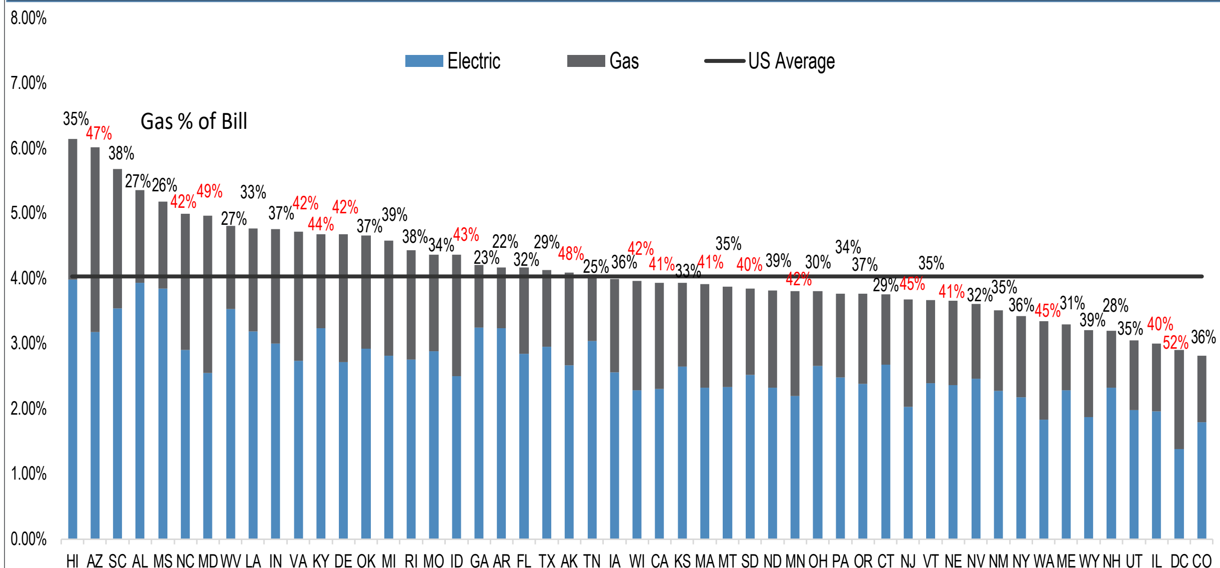
State-level Dynamics Showcase a Wide Range of Outlooks

- Given bill trends, managing controllable O&M remains in focus
  - Recent natural gas price declines could offer some relief, although certain regional challenges remain in focus (New England, MISO/SPP)
- As % per capita disposable income: HI, AZ, SC highest vs CO, DC, IL lowest ute bills
  - 5.5%+ highest, 4.0% US average, lowest at ≤3.0%; 5% avg vs 4% last year
- Bill exposure does not capture relative differences in the commodity portion of bills
- **JPM Commodities Research forecasts lower** NYMEX natural gas prices vs 2022
  - $2.83/MMBtu and $3.31/MMBtu averages in 2023 and 2024
  - Supply growth vs limited incremental demand until new LNG export in 2025
  - Implies a favorable outlook for supply cost portion of bill
- We analyzed bill headroom data, historical cost structure analysis and drag sensitivities in: **Cost Structure Analysis**

Historical Electric and Gas Utility Bill as a Percentage of Per Capita Disposable Income, US Average 2007-2023 YTD



Electric & Gas Utility Bill as a % of Per Capita Disposable Income by State 2021



Source: EIA, BEA, J.P. Morgan estimates, J.P. Morgan Utilities Credit Research Team

State-Level Bill Pressure Metrics – Most Stressed

State	2021 Per Capita Disposable Income	Electric+ Gas Bill as % of per capita disposable income	Gas % of the bill	Regulatory Environment (Commision Ranking)	Frequency of fuel adjustment
Arizona	$ 49,555	4.1%	47%	Below Average	Undefined
Delaware	$ 52,481	4.2%	42%	Average	1-2x / year
Hawaii	$ 53,600	5.8%	35%	Average	2x+ / year
Indiana	$ 50,557	4.4%	37%	Average	2x+ / year
Kansas	$ 52,489	4.1%	33%	Below Average	2x+ / year
Michigan	$ 50,214	4.4%	39%	Above Average	1-2x / year
Montana	$ 50,436	3.6%	40%	Below Average	2x+ / year
New Mexico	$ 46,051	3.5%	35%	Below Average	2x+ / year
North Carolina	$ 49,787	4.4%	42%	Above Average	1-2x / year
Oklahoma	$ 49,155	4.3%	37%	Average	2x+ / year
South Carolina	$ 46,994	4.9%	38%	Average	2x+ / year
West Virginia	$ 44,085	5.2%	27%	Below Average	1-2x / year
National Average	*$ 56,130*	*4.0%*	*35%*		

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6) Regulators & Policy in Focus

Takeaways from NARUC Winter Policy Summit Meetings

Key Regulatory Themes

- Meetings with 23 state utility commissioners at the Winter NARUC conference, where bill pressure and contributing supply factors from elevated commodity prices loomed over discussions
  - Although the recent decline in natural gas prices underpinned the basis of some expected relief over the balance of the year
- Among other key topics:
  - Growing concern over energy transition costs stood out as a ratepayer risk, particularly northeastern to mid-Atlantic states
  - Resource flexibility represented a newer emerging theme
  - Observed little push back to the system investment cases underpinning utility capex, even amid this bill pressure backdrop

NARUC Winter '23 Policy Summit – Additional Takeaways

- We see a positive backdrop for **SO** (GA), **NI** (IN), and **FTS**/**SWX** (AZ), versus concerns for **ED**/**AGR** (NY). Additionally, mixed updates landed for **XEL**, **WEC**, and **EXC**
- **AZ:** new commission intent for more consistent rulings
- **CO:** political/stakeholder pressure has followed gas rate increases
- **IL:** emphasis on fair & considered reading of record for new MYPs
- **MN:** rate pressure topical; PUC seeking balance in Uri recovery
- **MS:** mixed messages surround Grand Gulf across SERI settlement (positive) & recent performance (negative)
- **NY:** rate case risks screen as elevated under potential scrutiny
- **WI:** more considered than initially feared in WEC's rate case
- Additional conference takeaways published in note here

NARUC One-Liners Table

State	Key Takeaways
AZ	New commission aims for more collaboration and consistent rulings; SWX and FTS see positive commentary
CO	Notable political+stakeholder pressure post gas rate increases in a perfect storm of factors; alignment question; electric rates more stable by contrast
DC	Key battle around the future of gas (WGL fed franchise), though PSC appears pragmatic; limited bill pressure concern as electrification debate overshadows
GA	Solar generation top priority as GA Power flexes resistance to net metering; rates set to increase for fuel recovery; elections+Vogtle key focuses
IL	Spotlight on ratemaking changes, with an emphasis on fair and considered reading of the record; transmission backdrop complex, MISO concerns central
IN	Rates holding up regionally, generation flexibility supports affordability; coal could see extension; NIPSCO in focus after positive DUK transaction feedback
MD	New governor, PSC turnover forefront; Climate Solutions Now Act raises cost, electification, and other questions; defence of natural gas
MN	Rate pressure topical, with PUC seeking balance in 60mo Uri recovery; MISO support, but granular planning needed; spotlight on MN Power ROE increase
MS	Mixed messages on Grand Gulf across SERI settlement (+), recent performance (-); rates at plateau; MISO cost allocation in focus; MISO/TVA/SEEM hub
NJ	Nuclear, natural gas stand out within NJ energy mix; mixed solar commentary; offshore wind transmission nimbleness
ND	CCS in focus, though eminent domain and voluntary easement issues cloud timeline; state seeks more flexibility through coal extensions
NY	Road to decarbonization quite costly; gas oultook at a crossroads as a result; PUC vs DEC key governonr; rate case risks elevated under potential scrutiny
OK	Bill pressure drives heightened scrutiny after Uri recovery; high renewables penetration highlighted, with an eye towards IRA benefits and hydrogen
OR	OR feeling bill pressure despite hydro resources; state transition seeking to optimize renewables and costs
RI	Cold NE winters contribute to bill volatility, with attention on future offshore wind benefits; energy transition costs & pathway (gas hookup ban?) in focus
UT	Natural gas welcomed in LT energy mix; official transmission policy remains neutral on RTO membership; ROE influenced by rates
WA	Progressive energy goals encourage creative energy mix, excluding natural gas (though reliability a governor); MYP reflections in focus
WI	More considered than the market initially feared in unpacking WEC's rate case settlement, but the next nomination is still top of mind for 2023

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7) All Things Green: Electric Green Ranker

Green Rules Everything Around Me (G.R.E.A.M.)

- We rank covered electric utilities by their "green" attributes, both present & future lens
- Establishes individual rankings in six categories and utilizes two weighting scales
  - Calculates Composite, "Green Now" and "Green Rate of Change" rankings
- Lack of data and judgement calls represents certain limitations of our analysis
  - Lack of full transparent disclosures complicates the process
- **Green Ranker Sixth Sense Sees Acceleration, but Cognizant of Regulatory Ghosts**: We update our proprietary green ranker.
- **AES** screens top under "Green Rate of Change" analysis
- Commercial onshore/offshore efforts in flux or recently changed across AEP, AGR, D, DUK, ED, ES, and PEG

Rankings Based on Six Categories

Two categories consider current progress

- Current carbon emissions – based on EEI/AGA sustainability template data and company sustainability reports
- Rate base breakdown – utilizes JPM scoring with FERC Form 1 and SNL data

Four categories consider future progress

- Future emissions goals – company reports
- Green capex – based on company capital plan
- Coal plant retirements – utilizes S&P data
- Coal plant opportunity

Category Weightings Scale

Ranking System	Carbon Emissions Intensity	Future Emissions Goals	Green Rate Base	Green Capex	Coal Plant Retirements	Coal Plant Opportunity	Total
Green Now	50%	0%	50%	0%	0%	0%	100%
Green Rate of Change	0%	25%	0%	50%	20%	10%	105%

US Electric Utilities Forced Ranker

Composite Ranking

Ticker	Carbon Emissions	Future Emissions Goals	Green Rate Base	Green Capex	Coal Plant Retirements	Coal Plant Opportunity	Total
AGR	20	20	18	18	2	1	18.8
NEE	18	17	22	22	2	1	17.4
ES	22	20	14	9	2	1	15.7
EIX	17	14	17	10	2	1	14.8
WEC	8	13	20	20	15	1	14.8
CMS	7	18	21	15	19	1	14.6
PEG	19	20	16	13	2	1	14.3
XEL	9	10	23	8	16	21	13.8
PCG	21	8	19	1	2	1	13.4
D	14	5	8	21	13	17	13.1
ETR	13	4	15	12	2	22	11.7
DUK	12	2	6	19	12	22	11.5
ED	15	20	9	6	2	1	11.4
AEP	6	14	5	17	14	20.7	11.4
EXC	22	1	12	1	2	1	10.1
DTE	5	7	7	14	18	19	10.0
CNP	2	19	10	11	17	1	9.8
SRE	16	3	11	5	2	1	9.6
AES	1	8	2	23	19	1	9.2
ALE	9	10	4	16	2	1	8.5
AEE	4	6	13	1	15	18	7.7
SO	11	10	3	7	2	16	7.6
FE	3	16	1	4	2	1	4.5

Green Now Ranking

Ticker	Total
NEE	20.0
PCG	20.0
AGR	19.0
ES	18.0
PEG	17.5
EXC	17.0
EIX	17.0
XEL	16.0
CMS	14.0
ETR	14.0
WEC	14.0
SRE	13.5
ED	12.0
D	11.0
DUK	9.0
AEE	8.5
SO	7.0
ALE	6.5
CNP	6.0
DTE	6.0
AEP	5.5
FE	2.0
AES	1.5

Green Rate of Change Ranking

Ticker	Total
AES	17.0
AEP	16.1
D	15.9
NEE	15.8
WEC	15.7
CMS	15.0
DUK	14.5
DTE	13.8
AGR	13.5
CNP	12.7
XEL	11.3
PEG	11.0
ALE	10.5
ETR	9.4
ES	9.0
EIX	8.3
SO	7.5
ED	7.5
AEE	6.6
FE	5.7
SRE	3.6
PCG	2.6
EXC	1.2

Source: J.P. Morgan estimates.

7) All Things Green: Accelerating Emissions Reduction, Coal Retirement

Pace Continues to Pick Up; Acceleration a Key Differentiator

Significant Attention on Utilities Looking to Exit Coal

- Market attention on timing/trajectory of full coal exits has intensified
- CMS's IRP settlement enables a full exit by 2025
  - This first VIU exit represents the platinum standard
- Key coal plant retirement pull forwards during 2022 include
  - AEE's Rush Island plant (2025 from 2039)
  - DTE's Monroe plant (2028 - 2040)
- Expect trend to continue post a potential brief pause due to capacity and solar supply chain constraints
  - AEE, WEC, FE, and DUK have most coal overhang and remain top of mind for incremental accelerations

The Future Emission Reduction Target Ain't What it Used to Be

- Recently, we have seen a pull forward in net zero timelines
  - Utilities strive to differentiate the time and scope of their 'greenness'
  - 2045 = 'new 2050' as ~50% of our IOUs cite 100% reduction by 2045
- AGR accelerated emissions reduction goal to 100% by 2030
  - with Scope 1 and 2 carbon neutrality
- Expect future focus on emissions by Scope & science-based targets
- We expect these emissions reduction pull-forwards to continue as IOUs sharpen pencils on emissions reductions paths

Coal Summary Across Large US Electric Utilities

Ticker	Total Coal MW	% of Coal Capacity retired by 2026	Coal Retirements by 2026 in MW	Coal Opportunity %	Coal Opportunity Total (MW)	Coal Post 2030? Y/N	Coal Built After 2005? Y/N
AEE	5,807	37%	2,163	9%	532	Y	N
AEP	12,657	4%	559	21%	2,600	Y	Y
AES	5,076	98%	4,969	0%	0	N	N
AGR	0	0%	0	0%	0	N	N
ALE	820	0%	0	0%	0	Y	N
CMS	1,916	100%	1,916	0%	0	N	N
CNP	1,038	39%	400	9%	90	Y	N
D	5,482	25%	1,374	4%	222	Y	Y
DTE	5,715	28%	1,595	13%	762	Y	N
DUK	14,945	3%	426	48%	7,105	Y	Y
ED	0	0%	0	0%	0	N	N
EIX	0	0%	0	0%	0	N	N
ES	0	0%	0	0%	0	N	N
ETR	2,389	0%	0	33%	793	N	N
EXC	0	0%	0	0%	0	N	N
FE	3,159	0%	0	0%	0	Y	N
NEE	721	0%	0	0%	0	N	N
PCG	0	0%	0	0%	0	N	N
PEG	0	0%	0	0%	0	N	N
SO	9,400	0%	0	2%	160	Y	N
SRE	0	0%	0	0%	0	N	N
WEC	3,312	34%	1,118	0%	0	Y	Y
XEL	6,468	32%	2,064	24%	1,578	Y	Y

JPM Green Capex Estimates and Future Opportunities

Company	Current	Previous (01/22)	Difference	Future opportunities to increase Green Capex
AEE	0%	3%	-3%	Additional renewables from AEE's MO IRP (including Rush Island retirement)
AEP	22%	26%	-4%	Achieving higher renewables ownership on current and future regulated RFPs
AES	67%	67%	0%	Continued execution at 5GW+ versus 3-4GW+ annual target
AGR	23%	40%	-17%	Additional onshore and offshore projects from development pipeline
ALE	20%	25%	-5%	ACE's expanding pipeline; New Energy renewables development; MN Power IRP
CMS	20%	18%	1%	Higher demand for VGP program
CNP	7%	8%	-1%	Additional IN generation decarbonization; Houston opportunities
D	56%	36%	21%	VCEA investment runway provides substantial opportunities into 2030+
DTE	15%	16%	0%	Execution of CleanVision IRP's 15 GW renewable projects and accelerated coal retirements
DUK	27%	9%	18%	Carbon Plan finalization, execution
ED	2%	9%	-7%	Achieving NY approval for utility owned solar & storage
EIX	5%	4%	2%	Increased utility owned storage
ES	5%	7%	-2%	Direct investment limited by contracted/third party ownership
ETR	9%	6%	3%	Lower use of tax equity financing, improve RFP win rate >50%, industrial green tariff demand
EXC	0%	0%	0%	Direct investment limited by contracted/third party ownership
FE	1%	1%	0%	Receiving approval for further solar investments in WV
NEE	62%	35%	28%	Increasing NEER renewables targets, regulated solar in FL
PCG	0%	0%	0%	Direct investment limited by contracted/third party ownership
PEG	11%	13%	-2%	Disclosing capex on current offshore wind projects; further offshore wind project wins
SO	3%	4%	-1%	GA Power IRP with more renewables/coal retirements
SRE	1%	1%	1%	Targeting further renewables projects at Ienova; LNG decarbonization opportunities
WEC	36%	31%	6%	Opportunities span both regulated and infrastructure businesses
XEL	3%	6%	-3%	Upcoming plant retirements, PPA expirations, PPA buyouts

Source: *S&P Capital IQ, J.P. Morgan Estimates

8) Top Picks

CMS & NI

Bottom Up & Top Down Analysis for Top Picks

- Utilities trade at an 18.0x NTM P/E, but very few individual names trade near this multiple
- We believe the six factors identified in our valuation framework drive this divide (See Appendix)
  - Regulatory backdrop, DPS growth/payout, ESG leverage, financial flexibility, mgmt track record, growth from regulated operations
- When these factors change for individual names we see potential to move between groups
- **Identifying positive/negative changes to these factors prior to group migration represents the greatest alpha opportunity**

See Quality with Minimal Regulatory Risk as Clearest Path to Outperformance

- Fall regulatory risk questions have led to recent "sell first, ask questions later" reactions to several state PUC actions
- We do not expect investor appetite to shift despite easing commodity price inputs that should help customer bills
  - Although we acknowledge that winter was higher risk, particularly for gas LDC bills and regional northeast rates
- Only a small group carries minimal 2023 regulatory risk at this point in the calendar
  - Regulatory risk includes negative sentiment from peer utilities facing commission actions or active non-rate proceedings
- **In consideration of this backdrop, we highlight CMS and NI as top picks**

Our Top Picks

CMS Energy Corporation (CMS): OW, PT: $69

- Catbird seat positioning given clean regulatory outlook following electric rate case order, particularly versus heightened market angst over regulatory risk
- 7.9% 2025 P/E premium screens below peers AEE, WEC, and XEL at 8.5-14.7%
- Non-regulated adders (DIG, Heartland, NorthStar, renewables) could propel growth to high end of 6-8% EPS CAGR, beyond the utility's 7% rate base growth
- Extended capital runway with solar and grid hardening needs
- Qualitative differentiation includes a full coal exit by 2025

NiSource Inc. (NI): OW, PT: $30

- Declining regulatory risk as 2022-23 rate cycle across major jurisdictions winds down
  - YTD progress includes OH order and IN electric settlement
- NIPSCO minority stake sale represents a 2023 catalyst to highlight value of a premium jurisdiction with an attractive generation transition and other investment opportunities
- Currently trades at a -2.7% 2025 P/E discount to electrics; favorable ratemaking and capex runway deserve a premium
- Plan refresh and O&M targets consider current inflationary environment, leaving an execution story going forward

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Key Recent Reports

Policy & Corporate Updates: Recent Access Events

Expert Access

- **NARUC 2023 Winter Summit Takeaways, 2/28/23:** Industry and state specific takeaways from 23 Commissioner Meetings we hosted in D.C.
- **CMS Management Meeting Takeaways, 2/12/23:** Investment backdrop, regulatory environment, attractive outlook
- **LDES Fireside Chat Series I, 2/21/23**: 1x1 chats with LDES Council, Brenmiller Energy, and Malta Inc.
- **Meeting with NREL, 1/13/23:** Discussion across strategies to decarbonize the last mile of the grid and the role various roles for alternatives energy
- **Meeting with RI Commissioner, 12/5/22:** Discussion across state environmental policy and associated system needs, offshore wind amidst the current supply backdrop, and the post-transaction landscape for PPL/Narragansett Electric
- **Nuclear Energy Series Takeaways: Part V, 9/28/22**: Fireside chats with GE, BWXT, and Terrestrial Energy; **Part IV, 6/12/22**: TerraPower, DOE Loan Programs, and Ontario Power Generation; **Part III, 4/27/22:** MIT, X-Energy, and Westinghouse; **Part II, 3/31/22**: Pillsbury, Oklo, Public Service Enterprise Group; **Part I, 1/31/22**: DOE Office of Nuclear Energy, CATF, and NuScale Power
- **Meeting with NJ BPU Commissioner, 5/30/22**: Clean energy goals, system reliability, inflationary pressures, offshore wind
- **CCS Part 4, 6/19** & **CCUS Compilation of 12 Fireside Chat, 5/30/22**: Key CCUS takeaways from chats with DOE, IEA, 8 Rivers, Navigator, Summit, GaffneyCline, CATF, Columbia University, Rice University, University of Houston, & CEM. **Part 1, 6/2/22**; **Part 2, 6/17/22**; **and Part 3, 7/27/22**
- **CEBA Fireside Chat, 2/16/22:** We hosted a fireside chat with Adrienne Mouton-Henderson for a discussion on transmission unlocking renewables
- **Meeting with Senator Whitehouse, 11/24/21:** We hosted a fireside chat with Senator Whitehouse (D, RI) for a discussion on Energy Transition
- **Commissioner Danly Meeting Takeaways, 9/12/21:** Future Pipeline Reviews, Resource Adequacy, and Transmission All in Focus.
- **Meeting with Senator Heinrich, 7/26/21:** We hosted a fireside chat with Senator Martin Heinrich (D, NM) for a discussion on T&D legislative issues.
- **Grid Transformation and Renewables Series Takeaways, 6/9/21.** Our speaker series featuring The Brattle Group, IRENA, and Grid Strategies have given us increasing optimism regarding renewables and associated transmission investment opportunities.
- **Meeting with FERC Commissioner Chatterjee, 4/23/21:** We hosted a virtual meeting with FERC Commissioner Neil Chatterjee discussing high-profile issues, including the pipeline regulatory approval process, transmission incentives, and the future of the PJM MOPR.

Corporate Access

- **EEI Conference 2022 Takeaways, 11/17/22:** Takeaways from our meetings with 27 companies at the 2021 EEI Financial Forum.
- **JPM EEI Question Bank, 11/11/22:** Compiled list of key questions for companies that we met with at EEI
- **JPM Energy, Power, and Renewables Conference Takeaways, 6/26/22**: We cover industry-wide takeaways as well as compile our company specific takeaways from the J.P Morgan Energy, Power, and Renewables Conference.
- **Surveying the RNG Landscape II, 6/2/2022**: Updated company responses to a set of five RNG questions for an overview of RNG assets, capital investments, system activity, regulatory backdrop, and customer trends
- **AGA Conference 2022 Takeaways, 5/23/22:** Takeaways from our 22 company meetings at the 2022 AGA Financial Forum.
- **NDRs with: ETR, CMS, SRE, EIX, DTE, D, CNP**

Appendix

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All Things Green: IRA Catalysts vs Supply Chain Constraints

Weighing IRA Benefits Against Panel Access (As of 12/2022)

IRA Momentum to Grow in 2023, with More PTC Clarification

- The US tariff delay + IRA have increased near and long-term solar enthusiasm from spring 2022 lows following DoC uncertainty
- We expect the market to continue digesting IRA impacts into 2023, given the industry awaits key guidance on AMT/nuclear PTC/etc
- Transferability appears set to reduce cost/friction of tax equity
- NEE, AES, ETR, and PEG stand out as IRA winners given renewables exposure and nuclear PTC benefits
  - ETR offers direct exposure to nuclear and solar PTCs, as well as secondary exposure to hydrogen and CCS tax credits

Solar Supply Chain Scares Challenge Implementation

- Border congestion from UFLPA likely challenges panel access into 2023, contributing to utility in-service timing uncertainty across 2024
- This dynamic could add to ongoing reliability concerns exacerbated by spring project delays amid capacity constraints and coal exits
- NEE and AES remain well positioned to navigate supply chain bottlenecks due to size and scale, despite high solar exposure
- D, AGR, WEC, AEP, and CMS heavily incorporate renewables into near term capital plans, and remain most exposed in our coverage
  - NI and WEC both announced coal retirement delays

IRA Takeaways One-Liners

	Regulateds
AEE	Expects Tranche 2 to be larger, did not quantify comparison of how much might go to AEE
AEP	Cited strong buyer interest for the unregulated contracted renewable assets
ALE	Added ~$1bn in capex as part of its plan roll forward through 2027 driven by transmission and wind/solar; we see IRA bolstering MN Power's ownership case
CMS	Noted meaningful cost saves for customers and the potential for increasing regulated renewables ownership levels to strengthen and lengthen the EPS CAGR guidance
ES	Delayed the process for 45 days following the IRA to provide more clarity to prospective buyers on the package's impacts and help maximize value
ETR	Near term, PTC could be a meaningful positive, though ETR awaits clarity from treasury/IRS; long term sees hydrogen and CCS as beneficial; no AMT impact until 2026
FTS	Anticipates exploring acceleration of its AZ coal transition in consideration of IRA benefits; active RFP efforts will feed into 2023 IRP with long duration storage key factor
SO	Cited solar PTC as most important from IRA; tax credits notably benefiting batteries with possibility of nuclear tax credit benefits; incremental support for coal retirements
WEC	Highlighted meaningful new solar optionality with PTCs and a credit positive; +$2.4bn step-up in 5yr capex plan driven by transmission and renewables
XEL	Significant storage opportunities for current wind farms and need to pull forward transmission expansion; 3.5GW of owned wind could translate into >$4bn of opportunities
	Diversifieds
DTE	Affirmed majority of new IRP's $1.4bn in cost savings stem from IRA benefits; With a 45Q credit step-up, also a focus on CCS, targeting smaller projects to gain expertise
NEE	NEER highlighted potential upside given the improved applicability through co-location with existing solar and wind assets; solar PTC from ITC drives $400mm in savings

Source: J.P. Morgan

Solar Supply Chain Commentary

- **WEC** noted solar availability in select instances, hopeful supply chain will improve post-election
  - Announced coal retirement delays as result of stalled renewables development
- **XEL** expressed challenges remain at border crossings, with anecdotes of highly detailed timeline documentation requirements
- **AES** ~2/3 of 2023 panels are in warehouses or on site, with portion of remaining ~1/3 carrying indirect UFLPLA exposure
- **CNP** cited ~6-month impact from Spring 2022 DoC investigation
- **NEE** remains optimistic on improvements, though border crossings continue to slow movements

O&M Reduction Track Record, Inflation Scenario Analysis

O&M Represents an Important Component to Utility Flexibility

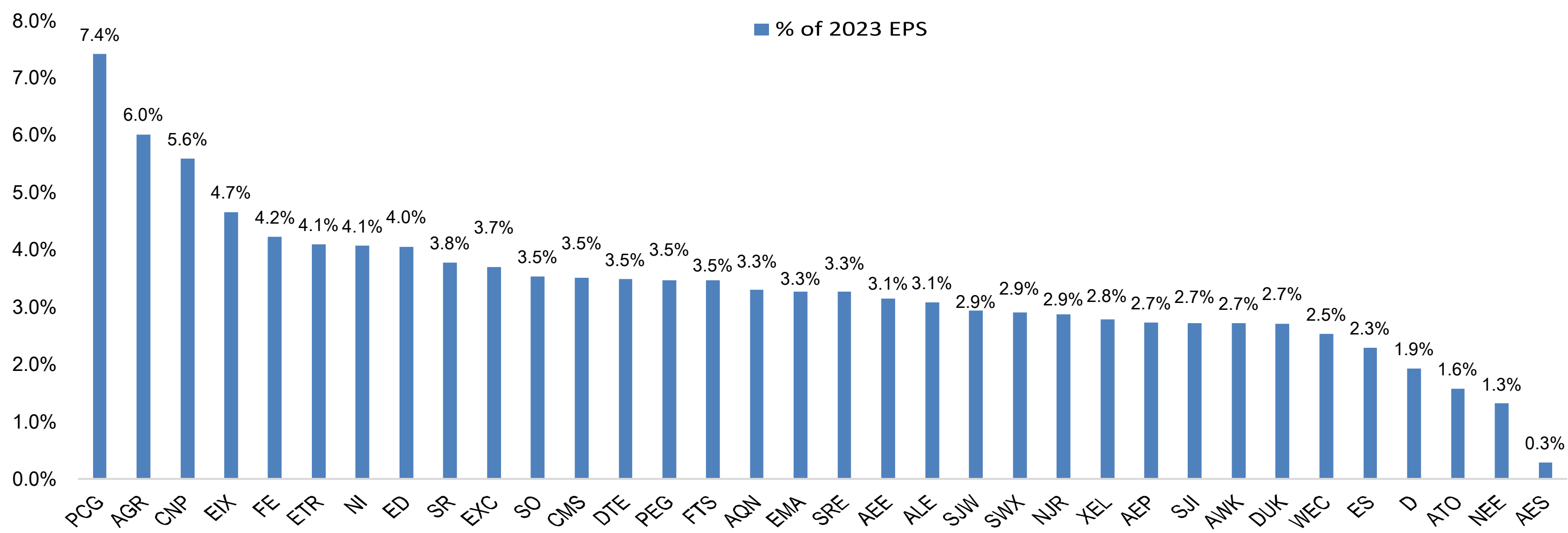
Measuring O&M Sensitivities in Our Utility Coverage Universe

- As high supply costs flow through bills, regulatory fatigue complicates rate recovery of higher O&M
- To screen prospective 2023 O&M drag risk, we apply 2.5% cost inflation to 3Q22 TTM O&M
- Jurisdictions with comparatively lower bill pressure should receive less attention on rate proceedings
- CNP, FE, ETR, and NI screen as more work to mitigate
  - Prospective earnings impacts of 4.1% (NI) to 5.6% (CNP)
- We use FERC Form 1 data to analyze electric utility cost trends over the past 5 years (now 2016-21)
  - Analyzed on a per customer basis, we compares utilities based on changes over a 3 & 5yr periods
- NEE and WEC stand out both screen as best-in-class
  - D and EXC made notable improvements across several metrics

Top Electric Utilities by Category

Non-fuel O&M	Adjusted non-fuel O&M	SG&A	Adjusted SG&A
	Top Over 3 years		
PCG	NEE	PCG	EMA
NEE	EMA	FE	WEC
AES	AES	EMA	AES
	Top Over 5 years		
AES	NEE	FE	AES
NEE	AES	AES	WEC
D	D	WEC	EXC

O&M Sensitivities by Ticker



Source: Bloomberg Finance L.P., J.P. Morgan estimates. Inputs reflect reported GAAP or non-GAAP O&M with minimal exceptions. AES and SWX disclosures limit analysis to reported G&A and utility O&M, respectively. ATO, NJR, SR calculations are based on FY22.

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Rotation from Unregulated into Regulated Continues

Asset Sales: Following Elevated Activity Levels in 2022, Expect Pace to Continue in 2023

Favorable Spread in Public/Private Regulated Valuations Incentivizes Continued Portfolio Rotation

- The market has rewarded exiting non-utility businesses in favor of regulated growth, such as **ED**
- However, recent renewables impairments, notably to **D** and **DUK**’s assets, plus delays to the **ES** OSW process have increased investor scrutiny and lowered valuation expectations
  - This has extended to regulated assets as well, with mixed signals surrounding potential LDC asset monetizations
- **AEP** announced the sale of its 1,365MW unregulated renewable assets with an expected 2Q23 close
- **DUK** now expects a 2H23 commercial renewables transaction close (prior mid-2023) as market awaits an announcement
- **ES** pushed back its expected offshore wind update to 2Q23 from 1Q23, following prior 2022 delays to sale process
- **FE** raised $2.4bn by selling a 20% interest in FirstEnergy Transmission and announced an additional 30% sale for $3.5bn by early 2024
- **NI** expects to sell up to a 20% stake in NIPSCO with a 1Q23 transaction launch and targeted 2H23 close
- **PCG** plans to form a regulated genco, Pacific Generation, and sell a minority stake, likely to unfold in 2023
- **SWX** recently completed its $1.5bn sale of MountainWest and continues to work towards a 4Q23/1Q24 spin of Centuri

SWX Standalone Value Analysis

SWX SOTP	Standalone		Notes
	P/E Multiple	Segment Value	
Southwest Gas	14.2x	40	-15% P/E discount
	EV/EBITDA Multiple	Segment Value	
Centuri	9.6x	26	+/- 1x change assumed EV/EBITDA multiple drives a $4-5 impact to total value
COLI		2	
Value Per Share		**67**	

Source: J.P. Morgan estimates.

Potential Sellers: D & AQN May Join Asset Sale Efforts

- **AQN** reiterated at its Jan 2023 business update that a sale of commercial renewables assets in 2023 is on the table
- **D:** many investors have tapped the remaining Cove Point stake as a logical sale, potentially alongside separate contracted renewables or other transactions
- **AQN:** outlined a $1bn asset sale target in the company’s January business update, likely targeting renewables assets although questions remain around impacts from the KY Power acquisition and Atlantica’s strategic review

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Advanced Nuclear

Fireside Chat Series Underscores Technological Evolution, Changing Sentiment

Top Takeaways from 15 Expert Fireside Chats Regarding Advanced Nuclear Energy

- Changing nuclear sentiment evident with widespread acknowledgement over the long-term need for nuclear to meet clean energy goals
  - Dr. Ralph Izzo of PSEG discussed the importance of energy security especially with nuclear producing 40% of carbon free energy in the US
  - **CATF** highlighted nuclear's recognition in the EU draft green taxonomy as important to facilitating the next generation of new nuclear technologies
    - An acknowledgement of the need to utilize all available tools to decarbonize the global energy economy
- SMRs build in passive safety, allowing widespread deployment, and seek efficiencies with standardized designs. SMRs come in all shapes and sizes!
  - **NuScale** 77 MW light water reactor offers tangible benefits versus traditional nuclear plants and is first to receive NRC design approval
  - **Oklo** 1.5 MW fast reactor can recycle nuclear waste for fuel, improving economics even further as input costs lower
  - **X-Energy** Xe-100, is an 80MWe/200MWt high temperature gas cooled reactor requiring 1/10th of the components as a traditional nuclear plant
  - **Westinghouse** 5MW eVinci micro reactor, which is transportable, scalable, and employs a passive cooling system in a compact unit
  - Dr. Huff of the DOE looks for a grid-connected SMR by 2029 with smaller scale reactors potentially even sooner
- See our accompanying notes **Series I**, **Series II**, **Series III**, **Series IV** and **Series V**

Individual Call Takeaways

- **BWXT:** positioned as a components and fuel supplier for advanced reactors
- **CATF:** cost competitiveness and licensing requirements improvements in focus
- **DOE:** enthusiasm stands out in existing reactors, advanced tech, and spent fuel initiatives
- **DOE Loan Programs:** analysis includes repurposing old coal/natgas for SMR use
- **GE Hitachi:** notable BWRX momentum with OPG, TVA, SaskPower, and int'l partnerships
- **MIT:** first of a kind issues for large-scale projects are increasingly well understood
- **NuScale:** target efficiencies in mature LWR tech and asset light business model
- **Oklo:** pushing a new paradigm to advanced reactor licensing versus traditional process
- **OPG:** focused on US/Canada industry coordination, driving alliance around BWRX option
- **PEG:** positive nuke sentiment continues to grow amid global energy security focus
- **Pillsbury:** reg improvements will mitigate advanced tech, life extension licensing friction
- **TerraPower:** Natrium design includes a storage system for ramp between 100-500MW
- **Terrestrial:** industrial applications in focus as a zero carbon cogen solution
- **Westinghouse:** micro reactor targets off-grid/remote community and military solutions
- **X-energy:** proprietary TRISO-X fuel underpins safety and flexible operational use cases

Favorable nuke sentiment feeds into our PEG OW

PEG Thesis:

- Revamped business features a low risk T&D utility
  - Potential meaningful upside leverage to offshore wind transmission
- Attractive discounted valuation
- Nuclear PTCs in the Inflation Reduction Act supports PEG's 3.8GW nuclear fleet
  - Significantly de-risk non-regulated cash flows
  - Provides greater line of sight to support versus NJ's current three year ZEC authorization

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RNG in Focus

We Expect RNG Activity to Continue Ramping in Coming Years

RNG Survey Overview

- We analyzed company responses to five RNG questions, covering company goals, current activity levels, and overall differentiation
- Customer demand, system decarbonization targets, and policy initiatives drive increased RNG investment opportunities
- Involvement varies across the value chain, particularly as regulated capital opportunities remain relatively limited
- RNG stands to benefit from federal tax credit initiatives, including a potential ITC
- **Surveying the RNG Landscape (2021 Survey; 2022 Survey):** Analysis and presentation of company responses to a set of five RNG questions, providing an overview of individual company goals, current activity levels, and overall differentiation.

RNG Standouts in the Utility Space

- Our 2nd annual survey highlighted significant regulatory work still to come. Activity levels have increased since last year's survey, with numerous projects approaching in-service dates into next year
- CNP, D, DTE, SJI, and SRE stand out within utilities through current RNG engagement and opportunity
- CNP pursued MN legislation to expand its decarbonization opportunities, resulting in the Natural Gas Innovation Act
- D pursues non-reg investments plus long-term targets to decarbonize its gas system as regulatory support grows
- DTE's P&I segment targets RNG initiatives, capturing mid-teens unlevered returns
- SJI's RNG leverage differentiates itself through a unique scope
- SRE's SoCalGas targets 20% RNG deliveries by 2030, the most aggressive under our coverage, largely driven by aggressive CA emissions targets and LCFS market

RNG One-Liners for Our Coverage (Utilities & Midstream)

Company	Key Takeaways
AEE	No RNG capex in current plan, but sees opportunity in the landfill, agrictultural, and livestock industries
AGR	Pilot projects continue, with in service dates through 4Q22; actively working on RNG strategy
AQN	Regulated: first RNG deliveries in late 2022. Non-reg: Sandhill acquisition set to close in 1H22, w/ 4 projects under dev
ATO	30 opportunities under evaluation; transports 8 Bcf/yr across the system
CMS	Pursuing a small pilot to build a biodigester facility, subject to regulatory approval (expects an order by Oct 2022)
CNP	Planning to file incremental investments under MN's NGIA later this year
D	Plans to spend $2bn on non-reg RNG through 2035; several utility programs either active or proposed
DTE	<50% of $1.0-1.5bn capex plan over next 5 years going to RNG
DUK	Minority investment in RNG developer SustainRNG; two announced NC landfill projects; CNG stations
EMA	PGS has three projects under contruction and NMGC is pursuing dairy farm RNG projects
ENB	<0.2% of current system moves RNG; seven operating/under construction utility projects & eight GTM projects planned
ES	Seeking authority to procure RNG and connect on-system projects for RNG injection (DPU 20-80 Future of Gas docket)
FTS	<1% RNG currently, but tracking to meet or exceed 15% by 2030; High customer interest given provincial policy
KMI	4.0 bcf of total annual capacity across four facilities by YE22; $146mm non-reg RNG capex
NI	Exploring potential opportunities from recent VA legislation enabling utility ownership of RNG assets
NJR	$35-39mm in its FY23 capital plan; RNG projects are in early stages and involve NJ landfills
SO	Growing RNG opportunities across the footprint include Nicor's new opt-in program
SRE	4% RNG deliveries in 2021 versus 20% by 2030 target; meaningful CPUC rulemaking work set to boost efforts
SWX	Voluntary NV procurement targets run 2025-2035; assets support AZ/CA facilities
TRP	Facilities support 20 Bcf/yr in the US, with an additional 14 Bcf/yr from future projects; transports 4 Bcf/yr in Canada
UGI	Active across the entire RNG value chain; $1.00-1.25bn 2021-2025 non-reg renewables capex includes RNG
WEC	Expects a 1-2% RNG blend from its project portfolio; meaningful WI supply opportunity from dairy herds
WMB	$200mm RNG capex through 2025; anticipates RNG to play meaningful role in decarbonization

Source: J.P. Morgan

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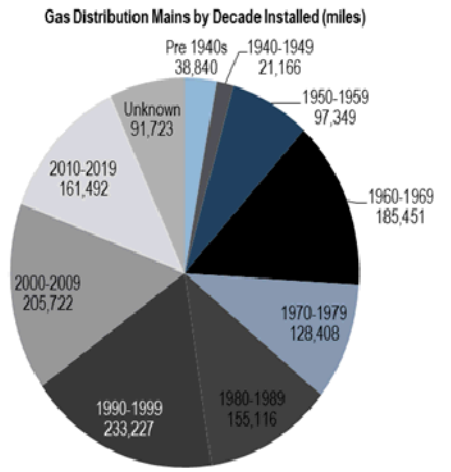
Natural Gas in Focus

NatGas Infrastructure – Location Matters

Negative Gas Sentiment Offsets Above Avg Growth

- Modernizing underpins solid growth
  - Half nation's distribution pipe originating before 1970 or unknown
  - Increasingly stringent safety and integrity standards target aggressively replacing aging bare steel & cast iron pipes
  - Low natgas prices have incentivized switching from heating oil & propane
- Select pushback with certain localities favoring electrification that leverages renewables rather than future gas consumption
  - San Jose and Oakland residential and commercial gas bans
  - MA DPU investigating LDC role in achieving emissions targets
  - NY forcefully denied pipeline solutions
  - Investor fears of diminished growth outlooks,
    - if not potential stranded asset risk
- Electric & gas multi-utility valuations show resilience
- Hydrogen and RNG can decarbonize the gas system

Gas Distribution Mains by Decade Installed

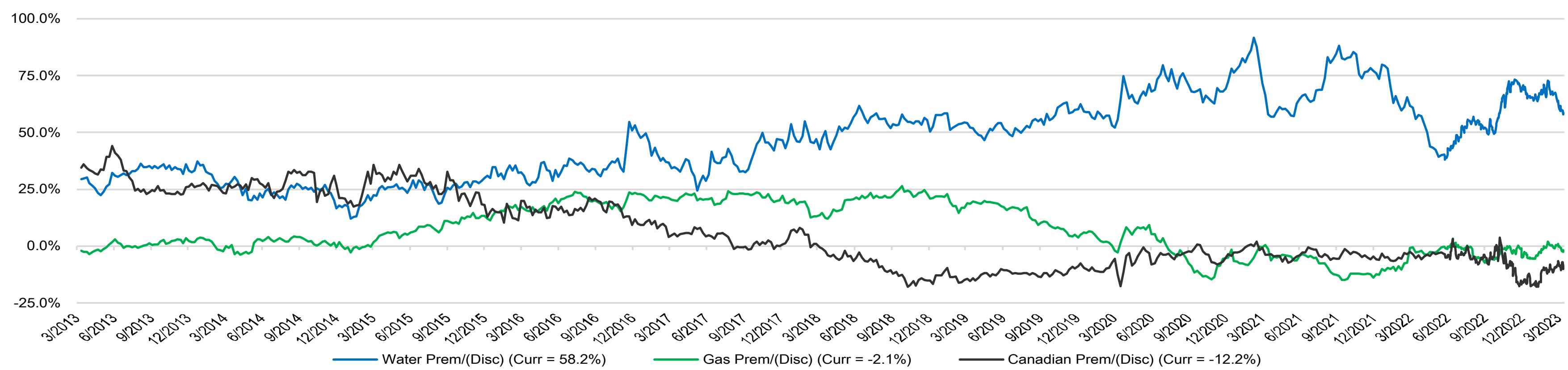


Source: U.S. Department of Transportation, Pipeline and Hazardous Materials Safety Administration.

Relevant Utilities

Ticker	Rating
ATO	OW
CNP	OW
NI	OW
NJR	UW
SRE	N
SR	N
SWX	N

Historical Gas LDC Premium to Regulated Utilities Has Eroded



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

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G.R.E.A.M. (Green Rules Everything Around Me)

The ESG Investment Opportunity and Utilities

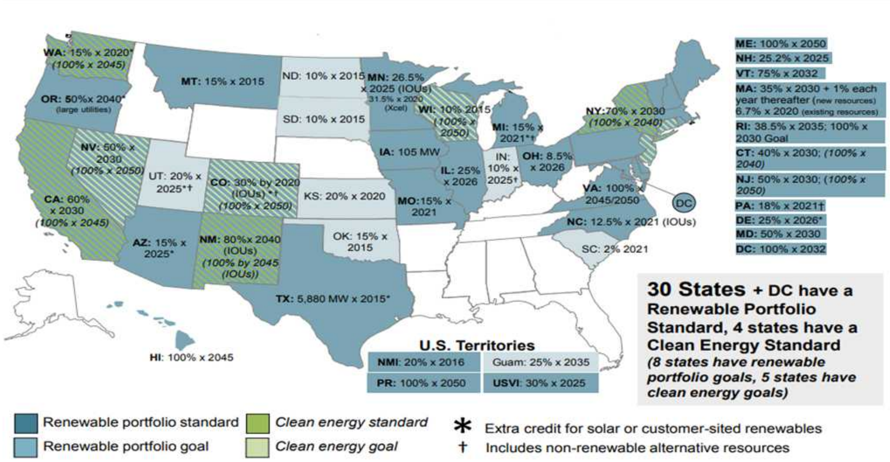
Green Investment Opportunity

- US utilities can represent an investment in environmental change
  - Ideally positioned to capitalize on state environmental policies that continue increasing and accelerating renewable energy initiatives
- More investment leads to growing rate base and utility returns
  - Augmented by replacing fossil fuel commodity pass-through expenses
- Economics of renewable energy increasingly competitive
  - Federal climate legislation could help improve the economics for renewables/EVs
- C&I customer desire to decrease their carbon footprint feed into renewable generation demand

An Investment in Clean Energy Future

- ESG influenced funds an increasing % of incremental AUM
  - One of the primary drivers of premium utility valuations
- ESG Sustainable Strategies:
  - Negative/exclusionary strategy – excludes certain sectors, companies or practices (ex fossil fuels)
  - ESG integration – focuses on systematic/explicit consideration of ESG in investment analysis and decisions
- Impact Investing represents an interesting opportunity for utilities
  - Could benefit rate of change stories
- Represent the best expression of decarbonization for investors given that their market cap dwarfs the Alt Energy space, with value flowing down to the end asset owner
- **Identifying names with "Green" attributes or gaining these attributes can drive alpha**

State Policy Supports Energy Transition



Source: Database of State Incentives of Renewable Energy.

- **Zero emissions credit subsidies**
  - IL, NY, and NJ provide subsidy payments to at-risk nuclear facilities based on carbon-free energy attributes
- **Energy efficiency standards**
  - Require utilities to reduce customer usage
  - Almost always receive compensation for lost load
- **Electric vehicles**
  - Pilot programs for charging stations and vehicle buyers receive subsidies
- **Battery investments**
  - Federal and state efforts encourage investment, including an important recent policy investigation by the FERC

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Valuation Framework

A Combination of Quantitative and Qualitative Factors

- **Our approach to individual company valuation and process for considering P/E premiums/discounts to peer average multiples:**
- **Regulatory backdrop leveraging RRA rankings:**
  - More constructive ratemaking typically featuring riders and trackers to mitigate lag, future test years or post-test year adjustments, multi-year plans or formula rates, above-average ROEs, and consistent regulatory rulings, among other factors
  - Overall, favorable regulation ultimately translates into an ability to consistently earn returns at or close to authorized levels
  - Our analysis quantitatively compares our utility coverage universe based on weighted rate base avg jurisdictional exposure, leveraging RRA
- **DPS growth within the context of EPS payout ratio:**
  - We use a 5% average 3-year dividend CAGR as our anchor, with relative premium/discounts assigned accordingly
  - We adjust dividend growth credit based on payout ratio relative to 65%, as well as change in payout ratio over the corresponding 3-year period
- **Financial flexibility:**
  - Credit metric headroom provides meaningful flexibility to limit equity needs, cushion against unexpected events, opportunistically seek out M&A
  - We believe mid-BBB sets the minimum threshold for investor comfort on HoldCo leverage. We assign relative premiums/discounts vs BBB.
- **ESG leverage:**
  - ESG influenced funds represent an increasing percentage of the incremental AUM dollars
    - Those utilities actively seeking to meet negative screening and ESG integration stand better positioned to attract that dollar and outperform
  - Rest of the market could focus on this dynamic, possibly creating something of a self-fulfilling prophecy
    - Attracting capital to those names exhibiting a green hue
    - Those names ascending into the ‘green' group could capture the greatest positive rerating opportunity
- **Management track record:**
  - Valuation premiums for consistency
  - Even the perception of aggressive assumptions or capex plan “white space” can both weighing on multiples
- **Growth from regulated operations:**
  - Given regulated utilities’ strong operating fundamentals & investor preferences, we see greater value in growing rate base vs non-reg biz
  - Historically management track record and firm contracting could mitigate these deltas, but not apparent in the current market
    - Do not see the catalyst to reverse this dynamic going forward, which feeds into our favorable bias towards regulated growth

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O&M Analysis Metrics

Summary of Different Metrics Utilized in Our Cost Structure Analysis

- **Electric Non-Fuel O&M Calculation:** We start with total electric O&M and adjust out all fuel and purchased power costs. We then compare this output on a per retail customer basis.
- **Adjusted Electric Non-Fuel O&M Calculation:** We start with total electric O&M and adjust out all fuel and purchased power costs. Additional adjustments include employee pensions and benefits, injuries and damages, and transmission of electricity by others. We then compare this output on a per retail customer basis.
- **SG&A Calculation:** For our SG&A metric, we add 1) total customer accounts expenses, 2) total customer service and information expenses, 3) total sales expenses, and 4) total administrative and general expenses. We then compare this output on a per retail customer basis.
- **Adjusted SG&A Calculation:** For our adjusted SG&A metric, we add 1) total customer accounts expenses, 2) total customer service and information expenses, 3) total sales expenses, and 4) total administrative and general expenses. Subsequently, we remove employee pensions & benefits and injuries & damage expenses. We then compare this output on a per retail customer basis.

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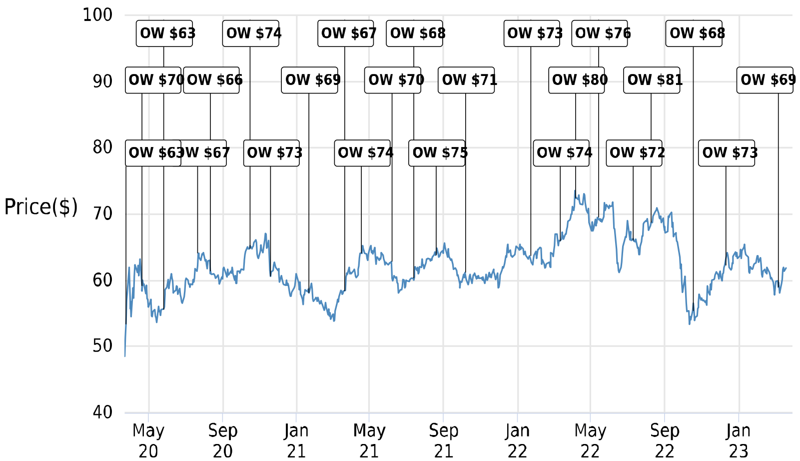

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Oct 20, 2004. All share prices are as of market close on the previous business d

Date	Rating	Price ($)	Price Target ($)
26-Mar-20	OW	53.32	63
21-Apr-20	OW	59.19	70
26-May-20	OW	55.59	63
23-Jul-20	OW	64.08	67
13-Aug-20	OW	61.40	66
16-Oct-20	OW	64.77	74
20-Nov-20	OW	60.58	73
22-Jan-21	OW	58.11	69
22-Mar-21	OW	58.35	67
19-Apr-21	OW	64.08	74
08-Jun-21	OW	62.80	70
13-Jul-21	OW	60.36	68
19-Aug-21	OW	63.82	75
07-Oct-21	OW	61.22	71
24-Jan-22	OW	63.74	73
13-Mar-22	OW	65.96	74
08-Apr-22	OW	72.36	80
16-May-22	OW	69.45	76
11-Jul-22	OW	66.02	72
10-Aug-22	OW	68.69	81
18-Oct-22	OW	55.36	68
12-Dec-22	OW	62.22	73
08-Mar-23	OW	58.93	69

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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.
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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
13-Mar-23	OW	26.71	30

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"Other Disclosures" last revised February 04, 2023.

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North American Utilities

Model Updates: AGR, ALE, NI, NJR, SR & SWX

We are updating our models for recent reports and filings. Please see our changes below.

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Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price ($)	Rating Cur	Rating Prev	Price Target Cur	Price Target End Date	Price Target Prev	Price Target End Date
Avangrid, Inc	AGR US	11,946.15	38.66	UW	n/c	36.00	Dec-23	40.00	n/c
Allete Inc.	ALE US	3,389.68	60.53	N	n/c	62.00	Dec-23	66.00	n/c
NiSource Inc.	NI US	11,214.85	27.38	OW	n/c	30.00	Dec-23	31.00	n/c
New Jersey Resources	NJR US	4,588.48	47.49	UW	n/c	48.00	Dec-23	49.00	n/c
Spire Inc	SR US	3,314.18	63.49	N	n/c	72.00	Dec-23	74.00	n/c
Southwest Gas Holdings Inc.	SWX US	3,692.74	64.11	N	n/c	71.00	Dec-23	67.00	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 16 Jun 23.

See page 15 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**
Avangrid, Inc	AGR US	2.21	2.08	(5.69%)	2.30	2.22	(3.42%)
Allete Inc.	ALE US	3.72	3.61	(3.04%)	4.05	4.11	1.45%
NiSource Inc.	NI US	1.56	1.57	0.36%	1.67	1.67	0.21%
New Jersey Resources	NJR US	2.72	2.70	(0.89%)	2.74	2.78	1.18%
Spire Inc	SR US	4.22	4.31	2.24%	4.31	4.35	1.02%
Southwest Gas Holdings Inc.	SWX US	3.22	3.14	(2.49%)	3.86	3.84	(0.46%)

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

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Investment Thesis, Valuation and Risks

Avangrid, Inc *(Underweight; Price Target: $36.00)*

Investment Thesis

Company growth with its T&D and renewables focuses is attractive relative to peers and thematically consistent with the increasing value placed on ESG-driven regulated or contracted earnings. That said, PNM accretion, large project timing, the trajectory of earned ROEs, and potential asset sales all significantly impact growth and remain subject to varying degrees of execution risk following the company's recent analyst day update. We see higher risk to AGR's outlook as a result, notably above that of peers.

Valuation

We decrease our Dec 23 price target to $36/share from $40, utilizing a sum-of-the-parts valuation approach. We apply an average 16.4x multiple across the Networks and Renewables businesses. The valuation multiple represents a discount to regulated utility peers due to large project uncertainty and lower visibility to earning peer average returns, among other factors. The lower price target is due to decreased peer average multiples.

Risks to Rating and Price Target

The company may execute on additional regulated M&A following its PNM acquisition, consistent with management commentary and emphasis. Transactions could drive earnings above our expectations.

The company is the second largest wind owner in the U.S., and should it pursue a more aggressive renewable growth strategy, growth could be greater than our estimate.

Involvement in the nascent US offshore wind industry could see project returns deviate from company expectations.

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Investment Thesis, Valuation and Risks

Allete Inc. *(Neutral; Price Target: $62.00)*

Investment Thesis

For years, structural growth limitations at MN Power have forced ALE to focus on outsized non-reg earnings growth to drive consolidated EPS. While the rate sensitivity of MN Power's large industrial customers remains unchanged, we incorporate new data points from the company's 3Q22/EEI updates and see growing tailwinds to the regulated outlook. Among benefits, these investments may drive sustainable growth into the next decade that carries greater line of sight than recent non-reg growth. Additionally, expanding transmission and regulated renewables opportunities either drive minimal MN Power ratepayer impact given broader MISO recovery or carry MPUC approval following the commission's IRP settlement approval, giving us greater confidence in ultimate execution versus prior outlooks. As a result, ALE now expects an 11% rate base CAGR through 2027. While additional execution hurdles remain to ultimately land projects in future RFPs, we anticipate greater utility competitiveness from the Inflation Reduction Act will improve MN Power's probability of success.

Valuation

We lower our Dec 23 price target to $62 from $66, based on our 2024 EPS estimate and an average P/E multiple of 15.1x. The multiple is a discount to regulated electric peers on account of MN Power's outsized exposure to large power sales, and remaining execution to secure renewables growth opportunities, among other factors. Decreased peer average multiples contribute to our revised price target.

Risks to Rating and Price Target

- The company's regulated utility is uniquely exposed to a large concentration of industrial customers. Should certain large industrial sales land below expectations, earnings growth could be lower than we expect.
- Overall results are highly sensitive to renewables development, and both the timing of project in-service dates as well as incremental project announcements may have a substantial impact on the company's earnings from year to year.
- Upside capital opportunities include incremental transmission and regulated renewables investments currently outside of ALE's capital plan. Execution on these projects could drive growth higher than expected.

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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 trade-offs 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 decrease our Dec 23 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 18.0x and 18.5x 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 rate making 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: $48.00)*

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 Dec 23 price target to $48/share, from $49, using a 17.1x P/E multiple on our 2024 estimate. The multiple reflects a discount to natural gas LDC peers on account of ongoing solar development risk while PJM and NJ market changes remain in flux and exposure to non-utility transportation & storage and energy services earnings. 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: $72.00)*

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 decrease our Dec 23 price target to $72/share from $74. We base our price target on a P/E multiple of 16.6x 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: $71.00)*

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 Mountain West 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 raise our Dec 23 price target of $71/share from $67, 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 14.5x P/E multiple. This multiple reflects a discount to gas utility peers on account of below-average AZ rate making mechanics and a longer-dated path to demonstrating operational improvement at the utility. Additionally, we include $29/share of value for Centuri, based on an in-line 9.9x EV/EBITDA multiple. Our SOTP also includes $2/share of COLI value. We exclude COLI mark-to-market and future payouts from our 2024-25 EPS estimates. Higher construction peer multiples more than offset lower LDC peer multiples to drive the increased price target.

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 historically utilized meaningful incremental equity issuances to fund growth. 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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Avangrid, Inc: Summary of Financials

Income Statement - Annual	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	**6,974**	**7,923**	**8,391**	**8,758**	**8,942**
COGS	(1,666)	(2,456)	(2,688)	(2,692)	(2,692)
Gross profit	**5,308**	**5,467**	**5,703**	**6,066**	**6,250**
SG&A	(3,300)	(3,502)	**(3,601)**	**(3,581)**	**(3,581)**
Adj. EBITDA	**2,068**	**1,995**	**2,264**	**2,508**	**2,692**
D&A	(1,014)	(1,085)	(1,148)	(1,236)	(1,317)
Adj. EBIT	**1,054**	**910**	**1,116**	**1,272**	**1,375**
Net Interest	(298)	(303)	(412)	(498)	(535)
Adj. PBT	**756**	**607**	**704**	**774**	**840**
Tax	(47)	(28)	17	1	(12)
Minority Interest	71	322	85	85	85
Adj. Net Income	**780**	**901**	**806**	**860**	**913**
Reported EPS	2.18	2.33	2.08	2.22	2.36
Adj. EPS	**2.18**	**2.33**	**2.08**	**2.22**	**2.36**
DPS	**1.76**	**1.76**	**1.76**	**1.76**	**1.76**
Payout ratio	80.9%	75.6%	84.5%	79.2%	74.6%
Shares outstanding	359	387	387	387	387

Income Statement - Quarterly	1Q23A	2Q23E	3Q23E	4Q23E
Revenue	**2,466A**	**1,795**	**1,922**	**2,208**
COGS	(973)A	(440)	(535)	(740)
Gross profit	**1,493A**	**1,355**	**1,387**	**1,468**
SG&A	(944)A	(828)	(921)	(909)
Adj. EBITDA	**574A**	**531**	**470**	**689**
D&A	(280)A	(281)	(289)	(297)
Adj. EBIT	**294A**	**250**	**181**	**392**
Net Interest	(95)A	(100)	(106)	(112)
Adj. PBT	**199A**	**150**	**75**	**280**
Tax	17A	5	17	(22)
Minority Interest	32A	30	2	22
Adj. Net Income	**248A**	**184**	**94**	**280**
Reported EPS	0.64A	0.48	0.24	0.72
Adj. EPS	**0.64A**	**0.48**	**0.24**	**0.72**
DPS	**0.44A**	**0.44**	**0.44**	**0.44**
Payout ratio	68.7%A	92.4%	181.0%	60.9%
Shares outstanding	387A	387	387	387

Balance Sheet & Cash Flow Statement	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	1,477	72	0	0	0
Accounts receivable	1,280	1,742	1,671	1,671	1,671
Other current assets	1,020	1,396	1,513	1,668	1,773
Current assets	**3,777**	**3,210**	**3,184**	**3,339**	**3,444**
PP&E	28,866	30,994	32,753	34,629	35,412
Other non current assets	6,861	6,919	7,101	7,193	7,193
Total assets	**39,504**	**41,123**	**43,037**	**45,161**	**46,049**
Short term borrowings	533	980	2,311	3,087	3,226
Payables	1,647	2,046	1,578	1,578	1,578
Other short term liabilities	1,149	1,390	1,286	1,286	1,286
Current liabilities	**3,329**	**4,416**	**5,175**	**5,951**	**6,090**
Long-term debt	7,922	8,223	9,169	10,339	10,843
Other long term liabilities	8,292	8,142	8,135	8,134	8,146
Total liabilities	**19,543**	**20,781**	**22,480**	**24,424**	**25,080**
Shareholders' equity	19,961	20,342	20,558	20,737	20,969
Minority interests	-	-	-	-	-
Total liabilities & equity	**39,504**	**41,123**	**43,037**	**45,161**	**46,049**
BVPS	**51.64**	**52.61**	**53.17**	**53.63**	**54.23**
y/y Growth	*0.8%*	*1.9%*	*1.1%*	*0.9%*	*1.1%*
Net debt/(cash)	6,978	9,131	11,481	13,426	14,070
Cash flow from operating activities	**1,561**	**1,035**	**1,480**	**1,847**	**2,137**
o/w Depreciation & amortization	1,014	1,085	1,148	1,236	1,317
o/w Changes in working capital	(137)	(564)	(377)	(156)	(105)
Cash flow from investing activities	**(2,440)**	**(2,548)**	**(3,191)**	**(3,113)**	**(2,100)**
o/w Capital expenditure	(2,976)	(2,519)	(3,208)	(3,113)	(2,100)
as % of sales	*42.7%*	*31.8%*	*38.2%*	*35.5%*	*23.5%*
Cash flow from financing activities	**889**	**108**	**1,034**	**490**	**(155)**
o/w Dividends paid	(613)	(681)	(680)	(680)	(680)
o/w Net debt issued/(repaid)	(2,471)	426	922	1,170	525
Net change in cash	**10**	**(1,405)**	**(677)**	**(776)**	**(118)**
Adj. Free cash flow to firm	**(1,136)**	**(1,195)**	**(1,326)**	**(768)**	**565**
y/y Growth	*(5.3%)*	*5.2%*	*10.9%*	*(42.1%)*	*(173.5%)*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	76.1%	69.0%	68.0%	69.3%	69.9%
EBITDA margin	29.7%	25.2%	27.0%	28.6%	30.1%
EBIT margin	15.1%	11.5%	13.3%	14.5%	15.4%
Net profit margin	11.2%	11.4%	9.6%	9.8%	10.2%
ROE	4.4%	4.5%	3.9%	4.2%	4.4%
ROA	2.0%	2.2%	1.9%	1.9%	2.0%
ROCE	3.6%	3.0%	3.5%	3.8%	3.9%
SG&A/Sales	47.3%	44.2%	42.9%	40.9%	40.0%
Net debt/equity	0.3	0.4	0.6	0.6	0.7
P/E (x)	17.8	16.6	18.6	17.4	16.4
P/BV (x)	0.7	0.7	0.7	0.7	0.7
EV/EBITDA (x)	3.4	4.6	5.1	5.4	5.2
Dividend Yield	4.6%	4.6%	4.6%	4.6%	4.6%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	6.9	6.6	5.5	5.0	5.0
Operating leverage	109.2%	(100.4%)	384.2%	318.1%	384.6%
Revenue y/y Growth	10.3%	13.6%	5.9%	4.4%	2.1%
EBITDA y/y Growth	7.8%	(3.5%)	13.5%	10.8%	7.3%
Tax rate	6.2%	4.6%	2.4%	0.2%	1.4%
Adj. Net Income y/y Growth	24.8%	15.5%	(10.6%)	6.7%	6.2%
EPS y/y Growth	7.7%	7.0%	(10.5%)	6.7%	6.2%
DPS y/y Growth	0.0%	0.0%	0.0%	0.0%	0.0%

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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Allete Inc.: Summary of Financials

Income Statement - Annual	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	**1,419**	**1,571**	**1,789**	**1,839**	**1,870**
COGS	(631)	(728)	(903)	(903)	(903)
Gross profit	**788**	**842**	**886**	**936**	**967**
SG&A	(335)	(396)	**(409)**	**(415)**	**(422)**
Adj. EBITDA	**412**	**418**	**460**	**503**	**529**
D&A	(232)	(242)	(249)	(252)	(258)
Adj. EBIT	**180**	**175**	**211**	**251**	**271**
Net Interest	(69)	(75)	(76)	(77)	(82)
Adj. PBT	**111**	**100**	**136**	**175**	**189**
Tax	27	31	13	5	1
Minority Interest	31	58	59	59	59
Adj. Net Income	**170**	**189**	**207**	**238**	**249**
Reported EPS	3.22	3.38	3.61	4.11	4.24
Adj. EPS	**3.23**	**3.38**	**3.61**	**4.11**	**4.24**
DPS	**2.52**	**2.60**	**2.71**	**2.82**	**2.93**
Payout ratio	78.2%	76.9%	75.1%	68.5%	69.1%
Shares outstanding	53	56	57	58	59

Income Statement - Quarterly	1Q23A	2Q23E	3Q23E	4Q23E
Revenue	**565A**	**379**	**395**	**451**
COGS	(329)A	(185)	(175)	(214)
Gross profit	**236A**	**194**	**220**	**237**
SG&A	(106)A	(98)	(105)	(100)
Adj. EBITDA	**121A**	**102**	**105**	**132**
D&A	(62)A	(62)	(62)	(62)
Adj. EBIT	**58A**	**40**	**43**	**70**
Net Interest	(19)A	(19)	(19)	(19)
Adj. PBT	**39A**	**21**	**24**	**51**
Tax	(2)A	6	6	2
Minority Interest	21A	17	7	15
Adj. Net Income	**58A**	**44**	**37**	**68**
Reported EPS	1.02A	0.76	0.64	1.19
Adj. EPS	**1.02A**	**0.76**	**0.64**	**1.19**
DPS	**0.68A**	**0.68**	**0.68**	**0.68**
Payout ratio	66.7%A	89.1%	105.5%	57.0%
Shares outstanding	57A	57	57	58

Balance Sheet & Cash Flow Statement	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	48	40	50	50	50
Accounts receivable	124	138	120	120	120
Other current assets	120	540	421	453	488
Current assets	**291**	**718**	**591**	**623**	**658**
PP&E	5,100	5,004	5,018	5,396	5,843
Other non current assets	1,044	1,124	1,159	1,164	1,169
Total assets	**6,435**	**6,846**	**6,768**	**7,183**	**7,670**
Short term borrowings	214	273	211	411	678
Payables	111	103	85	85	85
Other short term liabilities	218	341	203	203	203
Current liabilities	**543**	**716**	**499**	**699**	**966**
Long-term debt	1,763	1,648	1,751	1,841	1,931
Other long term liabilities	1,182	1,133	1,113	1,108	1,106
Total liabilities	**3,489**	**3,497**	**3,363**	**3,648**	**4,004**
Shareholders' equity	2,413	2,692	2,763	2,892	3,024
Minority interests	533	656	642	642	642
Total liabilities & equity	**6,435**	**6,846**	**6,768**	**7,183**	**7,670**
BVPS	**45.36**	**47.06**	**48.01**	**49.53**	**51.07**
y/y Growth	*3.0%*	*3.8%*	*2.0%*	*3.2%*	*3.1%*
Net debt/(cash)	1,930	1,881	1,913	2,202	2,560
Cash flow from operating activities	**264**	**221**	**402**	**454**	**470**
o/w Depreciation & amortization	230	243	250	252	258
o/w Changes in working capital	6	(177)	(27)	(32)	(35)
Cash flow from investing activities	**(485)**	**(384)**	**(303)**	**(635)**	**(710)**
o/w Capital expenditure	(473)	(221)	(295)	(630)	(705)
as % of sales	*33.3%*	*14.0%*	*16.5%*	*34.3%*	*37.7%*
Cash flow from financing activities	**204**	**155**	**(105)**	**(19)**	**(28)**
o/w Dividends paid	(132)	(146)	(156)	(164)	(173)
o/w Net debt issued/(repaid)	180	(92)	26	90	90
Net change in cash	**(18)**	**(8)**	**(6)**	**(200)**	**(267)**
Adj. Free cash flow to firm	**(157)**	**53**	**176**	**(102)**	**(153)**
y/y Growth	*(57.9%)*	*(133.4%)*	*235.0%*	*(157.8%)*	*50.5%*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	55.5%	53.6%	49.5%	50.9%	51.7%
EBITDA margin	29.0%	26.6%	25.7%	27.4%	28.3%
EBIT margin	12.7%	11.2%	11.8%	13.7%	14.5%
Net profit margin	11.9%	12.1%	11.6%	13.0%	13.3%
ROE	7.2%	7.4%	7.6%	8.4%	8.4%
ROA	2.7%	2.9%	3.0%	3.4%	3.4%
ROCE	3.2%	2.7%	4.1%	4.9%	5.0%
SG&A/Sales	23.6%	25.2%	22.8%	22.6%	22.5%
Net debt/equity	0.7	0.6	0.6	0.6	0.7
P/E (x)	18.7	17.9	16.8	14.7	14.3
P/BV (x)	1.3	1.3	1.3	1.2	1.2
EV/EBITDA (x)	19.2	20.3	18.7	18.0	18.2
Dividend Yield	4.2%	4.3%	4.5%	4.7%	4.8%
Sales/Assets (x)	0.2	0.2	0.3	0.3	0.3
Interest cover (x)	6.0	5.6	6.1	6.6	6.4
Operating leverage	(19.2%)	(24.5%)	147.8%	675.3%	480.2%
Revenue y/y Growth	21.4%	10.7%	13.9%	2.8%	1.7%
EBITDA y/y Growth	1.5%	1.4%	10.2%	9.3%	5.1%
Tax rate	24.3%	31.2%	9.4%	2.8%	0.8%
Adj. Net Income y/y Growth	(6.9%)	11.6%	9.4%	15.1%	4.6%
EPS y/y Growth	(8.0%)	4.7%	6.7%	14.0%	3.2%
DPS y/y Growth	2.0%	3.2%	4.2%	4.0%	4.0%

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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North America Equity Research
20 June 2023

J.P.Morgan

NiSource Inc.: Summary of Financials

Income Statement - Annual	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	**4,901**	**5,834**	**5,780**	**5,996**	**6,236**
COGS	(1,392)	(2,111)	(1,800)	(1,760)	(1,760)
Gross profit	**3,509**	**3,723**	**3,979**	**4,236**	**4,476**
SG&A	(1,696)	(1,754)	**(1,772)**	**(1,800)**	**(1,826)**
Adj. EBITDA	**1,852**	**2,010**	**2,209**	**2,436**	**2,650**
D&A	(748)	(821)	(856)	(913)	(969)
Adj. EBIT	**1,104**	**1,189**	**1,352**	**1,523**	**1,681**
Net Interest	(341)	(362)	(453)	(456)	(515)
Adj. PBT	**763**	**828**	**900**	**1,067**	**1,166**
Tax	(132)	(137)	(156)	(199)	(219)
Minority Interest	(59)	(43)	(43)	(75)	(72)
Adj. Net Income	**571**	**648**	**700**	**793**	**875**
Reported EPS	1.37	1.46	1.57	1.67	1.80
Adj. EPS	**1.37**	**1.46**	**1.57**	**1.67**	**1.80**
DPS	**0.88**	**0.94**	**1.00**	**1.06**	**1.12**
Payout ratio	64.3%	64.2%	63.9%	63.5%	62.3%
Shares outstanding	417	443	447	475	485

Income Statement - Quarterly	1Q23A	2Q23E	3Q23E	4Q23E
Revenue	**1,998A**	**1,159**	**1,021**	**1,601**
COGS	(765)A	(313)	(222)	(500)
Gross profit	**1,233A**	**846**	**799**	**1,101**
SG&A	(463)A	(441)	(420)	(448)
Adj. EBITDA	**772A**	**405**	**379**	**653**
D&A	(207)A	(212)	(216)	(221)
Adj. EBIT	**565A**	**193**	**162**	**432**
Net Interest	(109)A	(111)	(118)	(115)
Adj. PBT	**456A**	**82**	**44**	**317**
Tax	(94)A	(13)	(0)	(49)
Minority Interest	(19)A	(3)	(12)	(10)
Adj. Net Income	**343A**	**66**	**33**	**258**
Reported EPS	0.77A	0.15	0.07	0.58
Adj. EPS	**0.77A**	**0.15**	**0.07**	**0.58**
DPS	**0.25A**	**0.25**	**0.25**	**0.25**
Payout ratio	32.6%A	168.2%	343.6%	43.3%
Shares outstanding	447A	447	447	447

Balance Sheet & Cash Flow Statement	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	95	75	0	0	0
Accounts receivable	826	1,042	923	923	923
Other current assets	1,000	1,467	1,395	1,532	1,695
Current assets	**1,921**	**2,584**	**2,318**	**2,455**	**2,618**
PP&E	17,882	19,843	22,166	24,002	26,283
Other non current assets	4,354	4,310	2,290	2,290	2,290
Total assets	**24,157**	**26,737**	**26,773**	**28,747**	**31,190**
Short term borrowings	560	1,762	344	1,198	1,944
Payables	698	900	642	642	642
Other short term liabilities	1,488	1,999	1,953	1,953	1,953
Current liabilities	**2,746**	**4,661**	**2,939**	**3,793**	**4,539**
Long-term debt	9,183	9,524	11,101	11,776	12,626
Other long term liabilities	4,954	4,651	4,740	4,939	5,158
Total liabilities	**16,884**	**18,835**	**18,780**	**20,508**	**22,323**
Shareholders' equity	7,273	7,902	7,993	8,239	8,867
Minority interests	-	-	-	-	-
Total liabilities & equity	**24,157**	**26,737**	**26,773**	**28,747**	**31,190**
BVPS	**17.94**	**19.17**	**17.87**	**17.15**	**18.09**
y/y Growth	*20.4%*	*6.8%*	*(6.8%)*	*(4.0%)*	*5.5%*
Net debt/(cash)	9,649	11,210	11,445	12,974	14,570
Cash flow from operating activities	**1,218**	**1,409**	**1,623**	**1,768**	**1,901**
o/w Depreciation & amortization	748	821	856	913	969
o/w Changes in working capital	(260)	(285)	(58)	(138)	(163)
Cash flow from investing activities	**(2,205)**	**(2,570)**	**(1,315)**	**(2,750)**	**(3,250)**
o/w Capital expenditure	(1,838)	(2,203)	(3,145)	(2,750)	(3,250)
as % of sales	*37.5%*	*37.8%*	*54.4%*	*45.9%*	*52.1%*
Cash flow from financing activities	**956**	**1,141**	**555**	**128**	**603**
o/w Dividends paid	(400)	(437)	(430)	(509)	(547)
o/w Net debt issued/(repaid)	31	1,488	1,062	675	850
Net change in cash	**(31)**	**(20)**	**862**	**(854)**	**(746)**
Adj. Free cash flow to firm	**(338)**	**(492)**	**(1,148)**	**(611)**	**(931)**
y/y Growth	*(3.7%)*	*45.4%*	*133.4%*	*(46.7%)*	*52.3%*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	71.6%	63.8%	68.9%	70.7%	71.8%
EBITDA margin	37.8%	34.5%	38.2%	40.6%	42.5%
EBIT margin	22.5%	20.4%	23.4%	25.4%	27.0%
Net profit margin	11.7%	11.1%	12.1%	13.2%	14.0%
ROE	8.7%	8.5%	8.8%	9.8%	10.2%
ROA	2.5%	2.5%	2.6%	2.9%	2.9%
ROCE	5.6%	5.5%	5.8%	6.1%	6.1%
SG&A/Sales	34.6%	30.1%	30.7%	30.0%	29.3%
Net debt/equity	1.3	1.4	1.4	1.6	1.6
P/E (x)	20.0	18.7	17.5	16.4	15.2
P/BV (x)	1.5	1.4	1.5	1.6	1.5
EV/EBITDA (x)	9.2	9.3	8.8	8.9	8.8
Dividend Yield	3.2%	3.4%	3.7%	3.9%	4.1%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	5.4	5.6	4.9	5.3	5.1
Operating leverage	87.0%	40.8%	(1474.5%)	337.0%	258.9%
Revenue y/y Growth	4.3%	19.0%	(0.9%)	3.7%	4.0%
EBITDA y/y Growth	1.4%	8.5%	9.9%	10.3%	8.8%
Tax rate	17.4%	16.5%	17.3%	18.7%	18.8%
Adj. Net Income y/y Growth	12.6%	13.5%	8.1%	13.2%	10.4%
EPS y/y Growth	3.7%	7.0%	7.0%	6.6%	8.0%
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**	**2,690**	**2,721**	**2,747**
COGS	(1,352)	(1,949)	(1,656)	(1,656)	(1,656)
Gross profit	**805**	**957**	**1,035**	**1,065**	**1,091**
SG&A	(367)	(362)	**(390)**	**(394)**	**(399)**
Adj. EBITDA	**400**	**536**	**591**	**617**	**639**
D&A	(111)	(129)	(153)	(169)	(186)
Adj. EBIT	**288**	**406**	**438**	**448**	**453**
Net Interest	(79)	(86)	(121)	(128)	(134)
Adj. PBT	**234**	**343**	**336**	**346**	**353**
Tax	(33)	(76)	(74)	(80)	(80)
Minority Interest	(83)	8	3	3	3
Adj. Net Income	**208**	**240**	**261**	**269**	**276**
Reported EPS	2.16	2.50	2.70	2.78	2.85
Adj. EPS	**2.16**	**2.50**	**2.70**	**2.78**	**2.85**
DPS	**1.33**	**1.45**	**1.56**	**1.67**	**1.78**
Payout ratio	61.7%	58.0%	57.8%	60.1%	62.5%
Shares outstanding	96	96	97	97	97

Income Statement - Quarterly	1Q23A	2Q23A	3Q23E	4Q23E
Revenue	**724A**	**644A**	**548**	**775**
COGS	(416)A	(319)A	(393)	(528)
Gross profit	**307A**	**326A**	**155**	**247**
SG&A	(80)A	(99)A	(90)	(121)
Adj. EBITDA	**209A**	**203A**	**56**	**122**
D&A	(37)A	(38)A	(39)	(40)
Adj. EBIT	**173A**	**165A**	**17**	**83**
Net Interest	(29)A	(30)A	(30)	(31)
Adj. PBT	**148A**	**140A**	**(8)**	**56**
Tax	(33)A	(31)A	2	(13)
Minority Interest	1A	1A	1	1
Adj. Net Income	**110A**	**112A**	**(5)**	**44**
Reported EPS	1.14A	1.16A	(0.06)	0.45
Adj. EPS	**1.14A**	**1.16A**	**(0.06)**	**0.45**
DPS	**0.39A**	**0.39A**	**0.39**	**0.39**
Payout ratio	34.1%A	33.6%A	NM	85.9%
Shares outstanding	96A	97A	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	240	240	240
Other current assets	406	519	364	396	427
Current assets	**636**	**756**	**604**	**636**	**668**
PP&E	4,214	4,650	5,058	5,524	5,969
Other non current assets	873	855	724	541	315
Total assets	**5,722**	**6,261**	**6,387**	**6,701**	**6,951**
Short term borrowings	450	499	387	474	545
Payables	395	392	199	199	199
Other short term liabilities	206	213	173	173	173
Current liabilities	**1,051**	**1,104**	**759**	**846**	**916**
Long-term debt	2,162	2,485	2,712	2,753	2,751
Other long term liabilities	878	855	952	1,032	1,113
Total liabilities	**4,091**	**4,444**	**4,424**	**4,632**	**4,780**
Shareholders' equity	1,631	1,817	1,963	2,069	2,172
Minority interests	-	-	-	-	-
Total liabilities & equity	**5,722**	**6,261**	**6,387**	**6,701**	**6,951**
BVPS	**16.90**	**18.87**	**20.26**	**21.36**	**22.41**
y/y Growth	*(12.1%)*	*11.7%*	*7.3%*	*5.4%*	*4.9%*
Net debt/(cash)	2,606	2,983	3,100	3,228	3,295
Cash flow from operating activities	**391**	**323**	**455**	**486**	**510**
o/w Depreciation & amortization	111	129	153	169	186
o/w Changes in working capital	10	(78)	(58)	(32)	(32)
Cash flow from investing activities	**(622)**	**(591)**	**(574)**	**(635)**	**(630)**
o/w Capital expenditure	(625)	(598)	(575)	(635)	(630)
as % of sales	*29.0%*	*20.6%*	*21.4%*	*23.3%*	*22.9%*
Cash flow from financing activities	**118**	**263**	**69**	**161**	**152**
o/w Dividends paid	(117)	(128)	(151)	(163)	(174)
o/w Net debt issued/(repaid)	(18)	442	234	140	100
Net change in cash	**(113)**	**(5)**	**(49)**	**12**	**33**
Adj. Free cash flow to firm	**(166)**	**(208)**	**(25)**	**(51)**	**(16)**
y/y Growth	*(13.3%)*	*25.2%*	*(87.9%)*	*101.1%*	*(67.9%)*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	37.3%	32.9%	38.5%	39.1%	39.7%
EBITDA margin	18.5%	18.4%	22.0%	22.7%	23.3%
EBIT margin	13.4%	14.0%	16.3%	16.5%	16.5%
Net profit margin	9.6%	8.3%	9.7%	9.9%	10.0%
ROE	12.0%	13.9%	13.8%	13.3%	13.0%
ROA	3.7%	4.0%	4.1%	4.1%	4.0%
ROCE	5.8%	7.0%	6.9%	6.7%	6.5%
SG&A/Sales	17.0%	12.5%	14.5%	14.5%	14.5%
Net debt/equity	1.6	1.6	1.6	1.6	1.5
P/E (x)	22.0	19.0	17.6	17.1	16.7
P/BV (x)	2.8	2.5	2.3	2.2	2.1
EV/EBITDA (x)	15.3	12.1	11.2	11.0	10.7
Dividend Yield	2.8%	3.1%	3.3%	3.5%	3.7%
Sales/Assets (x)	0.4	0.5	0.4	0.4	0.4
Interest cover (x)	5.1	6.2	4.9	4.8	4.8
Operating leverage	320.2%	117.9%	(104.4%)	209.5%	111.7%
Revenue y/y Growth	10.4%	34.7%	(7.4%)	1.1%	1.0%
EBITDA y/y Growth	18.9%	34.0%	10.4%	4.4%	3.5%
Tax rate	14.2%	22.2%	22.2%	23.1%	22.8%
Adj. Net Income y/y Growth	5.8%	15.7%	8.7%	3.0%	2.5%
EPS y/y Growth	4.2%	15.9%	7.9%	2.9%	2.5%
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**	**2,494**	**1,964**	**2,011**
COGS	(946)	(924)	(1,110)	(539)	(539)
Gross profit	**1,289**	**1,275**	**1,384**	**1,425**	**1,471**
SG&A	(629)	(638)	**(663)**	**(641)**	**(641)**
Adj. EBITDA	**660**	**637**	**721**	**783**	**830**
D&A	(213)	(237)	(251)	(263)	(277)
Adj. EBIT	**447**	**400**	**470**	**521**	**553**
Net Interest	(107)	(120)	(188)	(204)	(214)
Adj. PBT	**340**	**280**	**282**	**316**	**340**
Tax	(69)	(59)	(53)	(55)	(60)
Minority Interest	-	-	-	-	-
Adj. Net Income	**251**	**201**	**228**	**246**	**264**
Reported EPS	4.86	3.86	4.31	4.35	4.54
Adj. EPS	**4.86**	**3.86**	**4.31**	**4.35**	**4.54**
DPS	**2.60**	**2.74**	**2.88**	**3.02**	**3.18**
Payout ratio	53.5%	71.0%	66.8%	69.5%	70.0%
Shares outstanding	52	52	53	57	58

Income Statement - Quarterly	1Q23A	2Q23A	3Q23E	4Q23E
Revenue	**814A**	**1,123A**	**319**	**237**
COGS	(419)A	(587)A	(61)	(43)
Gross profit	**395A**	**537A**	**258**	**194**
SG&A	(177)A	(207)A	(147)	(132)
Adj. EBITDA	**218A**	**330A**	**111**	**62**
D&A	(62)A	(63)A	(63)	(64)
Adj. EBIT	**156A**	**267A**	**48**	**(2)**
Net Interest	(44)A	(47)A	(47)	(50)
Adj. PBT	**113A**	**220A**	**1**	**(51)**
Tax	(22)A	(41)A	0	9
Minority Interest	-	-	-	-
Adj. Net Income	**81A**	**195A**	**(2)**	**(46)**
Reported EPS	1.55A	3.71A	(0.05)	(0.85)
Adj. EPS	**1.55A**	**3.71A**	**(0.05)**	**(0.85)**
DPS	**0.72A**	**0.72A**	**0.72**	**0.72**
Payout ratio	46.6%A	19.4%A	NM	NM
Shares outstanding	53A	53A	53	54

Balance Sheet & Cash Flow Statement	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	11	21	0	0	0
Accounts receivable	596	623	579	579	579
Other current assets	709	949	532	565	598
Current assets	**1,317**	**1,592**	**1,111**	**1,144**	**1,177**
PP&E	5,610	5,950	6,479	6,877	7,245
Other non current assets	2,430	2,542	2,929	2,933	2,937
Total assets	**9,356**	**10,084**	**10,519**	**10,954**	**11,359**
Short term borrowings	1,608	2,354	1,558	1,655	1,720
Payables	-	-	-	-	-
Other short term liabilities	0	0	0	0	0
Current liabilities	**1,608**	**2,354**	**1,558**	**1,655**	**1,720**
Long-term debt	2,939	2,959	4,034	4,019	4,194
Other long term liabilities	2,141	1,940	1,925	1,980	2,041
Total liabilities	**6,688**	**7,252**	**7,517**	**7,655**	**7,955**
Shareholders' equity	2,668	2,832	3,002	3,300	3,405
Minority interests	-	-	-	-	-
Total liabilities & equity	**9,356**	**10,084**	**10,519**	**10,954**	**11,359**
BVPS	**-**	**-**	**-**	**-**	**-**
y/y Growth	-	-	-	-	-
Net debt/(cash)	4,536	5,292	5,592	5,674	5,914
Cash flow from operating activities	**250**	**55**	**226**	**527**	**565**
o/w Depreciation & amortization	213	237	251	263	277
o/w Changes in working capital	(319)	(470)	(305)	(33)	(32)
Cash flow from investing activities	**(622)**	**(547)**	**(936)**	**(661)**	**(645)**
o/w Capital expenditure	(625)	(552)	(728)	(661)	(645)
as % of sales	*27.9%*	*25.1%*	*29.2%*	*33.6%*	*32.1%*
Cash flow from financing activities	**379**	**501**	**282**	**36**	**15**
o/w Dividends paid	(148)	(157)	(158)	(171)	(185)
o/w Net debt issued/(repaid)	538	610	322	(15)	175
Net change in cash	**7**	**9**	**(428)**	**(97)**	**(65)**
Adj. Free cash flow to firm	**(290)**	**(403)**	**(350)**	**35**	**96**
y/y Growth	*281.6%*	*38.9%*	*(13.1%)*	*(110.0%)*	*172.7%*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	57.7%	58.0%	55.5%	72.5%	73.2%
EBITDA margin	29.5%	29.0%	28.9%	39.9%	41.3%
EBIT margin	20.0%	18.2%	18.8%	26.5%	27.5%
Net profit margin	11.2%	9.2%	9.1%	12.6%	13.2%
ROE	9.7%	7.3%	7.8%	7.8%	7.9%
ROA	2.9%	2.1%	2.2%	2.3%	2.4%
ROCE	5.2%	4.1%	4.6%	4.9%	5.0%
SG&A/Sales	28.2%	29.0%	26.6%	32.7%	31.9%
Net debt/equity	1.7	1.9	1.9	1.7	1.7
P/E (x)	13.1	16.4	14.7	14.6	14.0
P/BV (x)	-	-	-	-	-
EV/EBITDA (x)	11.1	12.5	12.3	11.7	11.4
Dividend Yield	4.1%	4.3%	4.5%	4.8%	5.0%
Sales/Assets (x)	0.3	0.2	0.2	0.2	0.2
Interest cover (x)	6.2	5.3	3.8	3.8	3.9
Operating leverage	568.0%	639.6%	131.5%	(50.8%)	263.5%
Revenue y/y Growth	20.5%	(1.7%)	13.4%	(21.2%)	2.4%
EBITDA y/y Growth	63.4%	(3.5%)	13.3%	8.6%	6.0%
Tax rate	20.1%	21.1%	18.8%	17.5%	17.8%
Adj. Net Income y/y Growth	30.2%	(19.9%)	13.4%	8.1%	7.3%
EPS y/y Growth	29.2%	(20.5%)	11.6%	1.0%	4.2%
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**	**5,168**	**5,350**	**5,604**
COGS	(431)	(799)	(1,000)	(993)	(993)
Gross profit	**4,161**	**4,169**	**4,357**	**4,611**	**0**
SG&A	(2,512)	(3,721)	**(3,255)**	**(3,325)**	**(3,500)**
Adj. EBITDA	**737**	**440**	**914**	**1,032**	**1,111**
D&A	(371)	(470)	(427)	(439)	(450)
Adj. EBIT	**366**	**(31)**	**487**	**593**	**661**
Net Interest	(119)	(243)	(270)	(243)	(247)
Adj. PBT	**247**	**(273)**	**217**	**350**	**415**
Tax	(40)	76	(59)	(68)	(83)
Minority Interest	(6)	(6)	(6)	(6)	(6)
Adj. Net Income	**247**	**197**	**222**	**276**	**326**
Reported EPS	3.39	(3.10)	2.15	3.84	4.50
Adj. EPS	**4.17**	**3.01**	**3.14**	**3.84**	**4.50**
DPS	**2.36**	**2.46**	**2.48**	**2.56**	**2.66**
Payout ratio	69.5%	NM	115.5%	66.5%	59.0%
Shares outstanding	59	66	71	72	73

Income Statement - Quarterly	1Q23A	2Q23E	3Q23E	4Q23E
Revenue	**1,603A**	**1,105**	**1,084**	**1,376**
COGS	(508)A	(147)	(100)	(245)
Gross profit	**1,117A**	**1,012**	**1,040**	**1,188**
SG&A	(830)A	(768)	(812)	(845)
Adj. EBITDA	**266A**	**190**	**172**	**285**
D&A	(113)A	(98)	(106)	(111)
Adj. EBIT	**154A**	**93**	**66**	**174**
Net Interest	(77)A	(68)	(62)	(62)
Adj. PBT	**76A**	**24**	**4**	**112**
Tax	(29)A	(5)	(4)	(21)
Minority Interest	(2)A	(1)	(1)	(1)
Adj. Net Income	**116A**	**18**	**(2)**	**90**
Reported EPS	0.67A	0.25	(0.02)	1.25
Adj. EPS	**1.69A**	**0.25**	**(0.02)**	**1.25**
DPS	**0.62A**	**0.62**	**0.62**	**0.62**
Payout ratio	92.4%A	248.4%	NM	49.5%
Shares outstanding	68A	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	903	903	903
Other current assets	685	2,718	1,303	1,342	1,382
Current assets	**1,615**	**3,708**	**2,206**	**2,246**	**2,285**
PP&E	7,594	7,025	7,405	7,763	8,110
Other non current assets	3,556	2,464	2,295	2,015	2,035
Total assets	**12,765**	**13,197**	**11,906**	**12,024**	**12,430**
Short term borrowings	2,206	1,587	1,309	1,531	1,731
Payables	353	662	311	311	311
Other short term liabilities	552	529	790	790	790
Current liabilities	**3,112**	**2,779**	**2,410**	**2,632**	**2,832**
Long-term debt	4,116	4,403	3,870	3,555	3,496
Other long term liabilities	2,387	2,796	2,230	2,298	2,381
Total liabilities	**9,615**	**9,979**	**8,510**	**8,485**	**8,708**
Shareholders' equity	3,151	3,218	3,396	3,539	3,722
Minority interests	0	0	0	0	0
Total liabilities & equity	**12,765**	**13,197**	**11,906**	**12,024**	**12,430**
BVPS	**53.17**	**49.09**	**48.02**	**49.24**	**51.28**
y/y Growth	*5.0%*	*(7.7%)*	*(2.2%)*	*2.5%*	*4.1%*
Net debt/(cash)	6,099	5,868	5,179	5,086	5,226
Cash flow from operating activities	**111**	**407**	**371**	**1,023**	**799**
o/w Depreciation & amortization	371	470	427	439	450
o/w Changes in working capital	(443)	(240)	(473)	(40)	(40)
Cash flow from investing activities	**(3,036)**	**(839)**	**238**	**(797)**	**(797)**
o/w Capital expenditure	(716)	(859)	(817)	(797)	(797)
as % of sales	*19.4%*	*17.3%*	*15.8%*	*14.9%*	*14.2%*
Cash flow from financing activities	**3,063**	**356**	**(1,077)**	**(371)**	**(112)**
o/w Dividends paid	(138)	(161)	(175)	(184)	(193)
o/w Net debt issued/(repaid)	1,208	568	(7)	(238)	31
Net change in cash	**139**	**(75)**	**(468)**	**(145)**	**(110)**
Adj. Free cash flow to firm	**(504)**	**(142)**	**(250)**	**422**	**200**
y/y Growth	*351.8%*	*(71.8%)*	*76.1%*	*(268.8%)*	*(52.6%)*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	113.1%	84.0%	84.3%	86.2%	0.0%
EBITDA margin	20.0%	8.9%	17.7%	19.3%	19.8%
EBIT margin	9.9%	(0.6%)	9.4%	11.1%	11.8%
Net profit margin	6.7%	4.0%	4.3%	5.2%	5.8%
ROE	8.2%	6.2%	6.7%	8.0%	9.0%
ROA	2.3%	1.5%	1.8%	2.3%	2.7%
ROCE	4.0%	(0.4%)	4.0%	5.5%	6.0%
SG&A/Sales	68.3%	75.0%	63.0%	62.2%	62.5%
Net debt/equity	1.9	1.8	1.5	1.4	1.4
P/E (x)	15.4	21.3	20.4	16.7	14.3
P/BV (x)	1.2	1.3	1.3	1.3	1.3
EV/EBITDA (x)	14.4	24.6	11.5	10.2	9.7
Dividend Yield	3.7%	3.8%	3.9%	4.0%	4.1%
Sales/Assets (x)	0.3	0.4	0.4	0.4	0.5
Interest cover (x)	6.2	1.8	3.4	4.2	4.5
Operating leverage	(104.2%)	(311.7%)	(40290.5%)	621.1%	242.5%
Revenue y/y Growth	11.6%	34.8%	4.2%	3.5%	4.8%
EBITDA y/y Growth	(1.5%)	(40.3%)	107.7%	12.9%	7.7%
Tax rate	16.1%	(27.7%)	27.4%	19.6%	19.9%
Adj. Net Income y/y Growth	6.2%	(20.1%)	12.5%	24.4%	18.2%
EPS y/y Growth	0.5%	(27.8%)	4.3%	22.5%	17.1%
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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North America Equity Research
22 June 2023

NiSource Inc.

J.P. Morgan Energy Conference Takeaways

Overweight

NI, NI US
Price (20 Jun 23):$27.22

North American Utilities

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Today, we met with NiSource management at the J.P. Morgan Energy, Power, & Renewables Conference. Please see below for some quick takeaways.

Net takeaway: With the NIPSCO transaction announcement now in hand, company messaging screens positively on NIPSCO's now illuminated value, progress against NI's investor day commitments, and growth optionality stemming from the company's incremental capital opportunities. While framed as on plan, the transaction appears supportive of upside capital deployment as NI evaluates incremental capex in the near to medium term. For now, we highlight this week's update as supportive of NI's work towards diminishing regulatory and financing risk plus realizing O&M efficiency tailwinds that boost ratepayer value.

- **NIPSCO transaction marks positive execution progress in the company's plan.** This week's NIPSCO minority stake sale represents key progress against NI's 2022 investor day plan, delivering an attractive $2.15bn capital raise (at NI's quoted 32.5x LTM P/E and 1.85 EV/rate base multiples) for a 19.9% interest plus further commitments from new NIPSCO partner Blackstone in the form of a $250mm equity commitment letter. While we estimate a more modest ~20x P/E multiple on 2024 earnings, the deal still screens attractively versus our $2bn pre-transaction assumption and NI's current 16.5x 2024 P/E multiple. The company's long-term growth and financing plan remains unchanged for the deal, which removes a potential upside catalyst (higher EPS guidance or lower plan equity) that we had ascribed low probability to before the announcement. As such, the transaction screens as more of a positive execution milestone against NI's plan as the company progresses towards diminishing regulatory and financing risk with an outlook baked for inflation and high interest rates, plus O&M efficiency tailwinds that boost ratepayer value. That said, recent discussions have focused on incremental capital opportunities, and we see the transaction as supporting deployment here. With the combination of crystallizing NIPSCO value, lower natural gas prices, and evolving IN generation transition needs, we expect NI will evaluate this incremental capex in the near and medium term, potentially layering in for higher growth and modest guidance raises over time.

See page 2 for analyst certification and important disclosures.

North American Utilities

Thoughts from the 2023 JPM Energy, Power & Renewables Conference

North American Utilities

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The 8th annual J.P. Morgan Energy, Power & Renewable Conference included ~162 corporate participants (26 utilities) that presented and/or conducted investor meetings. Across all 162 corporate attendees, **NEE** received the seventh most investor requests, with **ETR** and **AES** the next two most requested utilities. After extensive company conversations throughout the conference, capex headroom and balance sheet fortification stood out among dominant topics, where utilities weighed a plethora of robust energy transition opportunities against financing needs and customer bill affordability. Here, **CMS**, **CNP**, **FE**, **NI**, and **PEG** drilled into opex efficiencies as a means to soften bill pressures and increase capex upside. In this note, we cover industry-wide themes and our company-specific takeaways from the conference. Over the course of an action-packed two and a half days, presentations, panels, fireside chats, and meetings across our coverage highlighted strong investor interest and robust participation. As a final note on the conference, **equity investors attendance jumped +29% YoY**, filling up rooms and infusing the conference with tangible energy.

- **Stand out presentations.** Stellar sunset views from JPM's 42nd floor dinners were only eclipsed by the beauty of **CNP's** potential 4-5 year regulatory light, top-tier growth runway after executing on its upcoming 2023-2024 rate cases. **WEC** Executive Chairman Gale Klappa's fireside chat commentary landed as smooth on stage as Giannis on the court, with WEC remaining bullish on incremental generation and transmission opportunities (particularly MSFT related) and delivering constructive regulatory commentary. With Vogtle Unit 3 effectively done, **SO** CFO Dan Tucker methodically walked through the company's 'boring is beautiful' pathway to deliver solid risk-adjusted growth, competitive with best in breed utilities, while also calling out the importance of nuclear to America's future (and giving a shout out to our nuclear fireside chat series). Additionally, **CMS** CFO Rejji Hayes' crisp, concise, confident, and cool as ice messaging clearly outlined the key growth principles and ratepayer benefits from CMS' robust energy transition and T&D investments, all executed with CE Way cost savings.
- **Additional top company takeaways.** We highlight **NI** as a top meeting, where the company's NIPSCO minority stake sale appears supportive of upside capital deployment in the near to medium term, with the transaction also representing key progress against NI's 2022 investor day plan. **FE** yielded enthusiasm over formally rolling out new CEO Brian Tierney's strategic vision, with the potential for incremental business disclosures and decentralization that brings select decision-making responsibilities and P&L accountability closer to the end customer. **CMS** exuded confidence in the ability to capitalize on a constructive Michigan regulatory construct and steady

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economic growth, leaving us comfortable in CMS's catbird positioning. Conversely, **ES** provided little defense to calm emerging angst over OSW timing and execution as deal time line continues to slip.

- **Asset sales continue spring trends to grab conference attention, particular with hot-off-the-press NIPSCO update**. With **NI's** NIPSCO transaction announcement landing at the start of conference week, the minority stake sale captured significant attention throughout the event. Here, company messaging screens positively on NIPSCO's now illuminated value, progress against NI's investor day commitments, and growth optionality stemming from the company's incremental capital opportunities. For now, we highlight the the company's overall conference update as supportive of NI's work towards diminishing regulatory and financing risk plus realizing O&M efficiency tailwinds that boost ratepayer value. Similarly top of mind after the acreage sale, investors put **ES** under a microscope for transaction messaging, where an offshore wind sale will likely arrive post-2Q23. In the wake of recent $220-280mm impairment charges and Sunrise PPA recontracting demands, management indicated incremental negotiations between the prospective buyer and Orsted will likely transpire post-sale, while acknowledging a scenario where ES could participate assuming certain stipulations. **AEP's** pending NMRD, Retail, and OnSite Partners sales remain the company's cleanest path to reduce future equity needs and improve FFO/Debt metrics, while the ongoing non-core JV transmission review would offer additional balance sheet upside. Across other efforts, 1) **AQN** continues to explore alternatives for its Renewable Energy Group in its strategic review (reaffirming expectations for 2Q23 update), including a potential separation of the business from AQN's regulated operations, 2) **SWX** continues to face questions around pre-spin Centuri deleveraging needs given the prospects of incremental holdco debt, and 3) **AGR** appears to be examining material asset rotation opportunities through seeking an onshore renewables unit partner, where notable confidence remains despite recent valuation trends across other parties' asset sales.
- **Opex efficiencies represent cornerstone for building capex headroom**. As decarbonization goals continue to ignite incremental capex opportunities, we track increased utility attention on finding ways to balance robust capex plans with customer affordability. Here, structural opex savings appear to resonate as the most constructive pathway for enhancing bill headroom, following the wave of short-term O&M flex plans outlined in 1Q23 to address weather headwinds (for those impacted). **CMS** continues to lead the industry through its tried-and-true CE Way program, where the company expounded that each $1 opex cut should generate incremental bill headroom for $6-8 of capex, critical to maintaining affordability. Similarly, **FE** expressed a vision to keep O&M expenses flat through its FE Forward program, where incremental cost savings could help increase capex ceilings on DER and offshore wind transmission related investments. Looking into PSE&G's next rate case, **PEG** affirmed O&M and interest expense have remained relatively flat compared to 2018's test year, largely driven by AMI and favorable debt issuance. Additionally, PEG noted a strong outcome in labor negotiations, locking in 3-4% annual 2023-2026 wage increases. **NI** also continues to highlight the prospective customer value of its O&M efficiency efforts, representing a core component of last year's plan refresh with new flat O&M outlook, with Project Apollo teed up as a culture push for a safer, better, low cost organization. For **CNP**, resiliency stood out with renewed attention in its TX legislative update, with the company focusing on capital and O&M efficiency opportunities enabled by regulatory improvements that should boost CNP's earned return profile over the full life of the DCRF cycle.

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Figure 1: Key Company Commentary

Ticker	Key Takeaways from JPM Energy, Power, and Renewables Conference
	Regulateds
AEE	IL elec rate base rebuttal strategy outlined to firm up capex & other responses to Staff; IL ROFR legislation question could extend into fall veto session
AEP	APCo WV fuel securitization set for 9/5 evidentiary hearing; LA PSC to review SWEPCO package, potentially flexing up to 700 MW; guide reaffirmed
ALE	Upcoming RFPs represent key inputs to current 11% rate base CAGR; solar expected to launch in 3Q and wind close to YE23
AWK	PFAS in focus across 1) risking capital into the fall update, where some spend could push out, 2) M&A tailwinds from compliance, 3) litigation benefits
CMS	Drilled into LT growth thesis with +7% rate base growth and unregulated opportunities; remains cautiously optimistic on gas settlement
ED	NY decarbonization needs to drive net capex increase; increasingly more projects to receive approval outside ot traditional rate case process
ETR	Despite local noise, regulatory progress continues (ie Staff's proposed rulemaking); Gulf Coast economic trends intact, with IRA amplifying outlook
ES	OSW update likely slips into 3Q23, with market focused on potential contingencies; NYSERDA PPA recontracting decision set for 10/30
FE	Looking for more formalized strategy on 2Q call, likely featuring decentralization, with accountability closer to ground level; incremental disclosures likely
FTS	Constructive AZ regulatory take puts focus on forthcoming ALJ rec in TEP's rate case; ITC's outlook topical across MISO upside, IA ROFR challenge
PCG	Reinforced investor day takeaways: 1) wildfire risk reduction progress, 2) high 2028-2032 capital needs, 3) PCG's approaching dividend reinstatement
POR	Initial reactions to Staff testimony outlined, with settlement track record highlighted overall
SJW	Raised 5yr capex by $200mm for forthcoming PFAS investments; potential CPUC cost of capital upside under the WCCM (~50bp versus PD ROE)
SO	Boring is beautiful, with highly stable 5-7% EPS CAGR in constructive jurisdictions with solid eonomic growth; Vogtle Unit 4 tracking well
WEC	Spotlight on economic activity with new data center campus; regulatory commentary lands with a constructive theme
XEL	Constructive commentary on CO settlement, pointing to local considerations versus MN rate case outcome disappointment; MN next steps topical
	Diversifieds
AES	Hydrogen panel takeaways: 1) end-market targets vary across dev pipeline, 2) offtake is a top issue, 3) flexibility important to reach hourly matching
AGR	PNM process and PNM financing/asset rotation stand out with merger deadline now extended; onshore renewables highlighted for latter
AQN	Continues to explore alternatives for its Renewable Energy Group, reaffirming expectations for a 2Q23 update
CNP	Resiliency in focus following constructive TX legislative session; multi-year stayout potential notable after 2023-2024 rate cases
NEE	Under transferabiliy, low 90c ITC/PTC realization to move higher, possibly upper 90c/dollar; does not appear concerned on potl FLSC retruning rate case
PEG	Awaiting further Treasury guidance on hedging, price, and other nuclear PTC considerations; rulemaking does not appear imminent
	LDCs
NJR	NJ solar solicitation timing questions continue, with PJM interconnection and TREC application backlogs also relevant to eventual CEV capex clarity
NI	Positive messaging on NIPSCO's now illuminated value, progress against investor day commitments, and growth optionality from upside capex
SWX	2025 earnings in the spotlight relative to rate case strategy; $300mm Centuri debt reduction target remains key question ahead of spin
SR	Midstream messaging remains positive in light of Spire Storage expansion progress and the recent $175mm MoGas and Omega pipeline acquisition

Source: J.P. Morgan commentary

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AES Corp. (AES)

Andres Gluski, Chief Executive Officer
Susan Harcourt, VP Investor Relations

Net Takeaway: Joining a discussion on the conference hydrogen panel, key points include 1) end-market targets vary across the company's hydrogen development pipeline, 2) but hydrogen offtake remains a top issue, particularly with nascent markets such as transportation yet to develop, and 3) flexibility in expanding hydrogen interest appears critical to ultimately reaching hourly matching, with additionality and regionality also representing considerations.

- **End-market targets vary in securing hydrogen offtake.** Highlighting the benefits of AES's $4bn TX JV with Air Products, one key element includes a take-or-pay structure with Air Products as the offtaker. Further AES development appears predicated on securing similar arrangements to drive a risk profile consistent with the company's current renewables development activity featuring long-term PPAs and high-quality counterparties. US hydrogen hub participation stands out (LA & Houston), particularly with the potential to ultimately burn hydrogen in AES gas plants in CA. Similarly, decarbonization of Chile's mining sector may create the opportunity for a modular green hydrogen buildout to match production with incremental mining consumption as that sector transitions. Conversely, Brazil's wind resources underpin an attractive production opportunity for export to Europe, although this project stands as the least developed across AES's efforts. Expanding demand could benefit from cost parity with diesel to tackle the transportation sector, which the company sees as a significant opportunity over time. However, our discussion continued to emphasize the offtake question as a key development hurdle at this juncture.
- **Flexibility critical to expanding hydrogen interest.**While emphasizing hourly matching as an element of AES's TX JV, the discussion touched on the debate between hourly and annual matching, describing flexibility in transitioning from yearly matching, to monthly matching, to eventual hourly matching as a potential compromise for the industry's development. Additionality also stood out as a key theme, with the importance of meeting green hydrogen demand with new renewables instead of displacing grid supply from existing renewables framed against progress against long-term decarbonization goals. Similarly, regionality appears to represent a gating near-term hurdle given transmission constraints create siting limitations that require more localized renewables development for now.

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Brian Chin, VP Investor Relations

Net Takeaway: AQN continues to explore alternatives for its Renewable Energy Group, today reaffirming expectations for a 2Q23 update. The company emphasized the wide-ranging nature of this review, including a potential separation of the business from AQN's regulated operations, and a key objective in improving cost of capital clarity across the business. Messaging also touched on opportunities within AQN's portfolio to rationalize assets and recycle capital after the company's long history as a buyer, representing a key consideration in meeting the $1bn asset sale target (separately and distinct from the Renewable Energy Group strategic review).

- **Renewable Energy Group strategic review on track for 2Q earnings update.** Last quarter, AQN announced the commencement of a strategic review exploring alternatives for its Renewable Energy Group, and today's discussion reaffirmed company expectations for a process update on 2Q earnings. On 1Q, management outlined the view that AQN's assets are undervalued and cost of capital could be reduced. J.P. Morgan is advising on the review.
- **Asset sale opportunity also topical within wide ranging discussion.** While the discussion touched on regulatory diversity benefits of AQN's utilities portfolio, cross-business renewables development capabilities, and the company's experience managing through the full renewables development cycle, AQN in particular highlighted the value crystallized in last year's capital recycling transactions as indicative of the opportunity underpinning its active $1bn asset sale effort. Asset sale pace and overall commitment has generated a significant line of questioning from investors recently, and we sense that company attention remains focused on this process to capture similar benefits outlined for last year's moves.

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Net Takeaway: ALE's upcoming RFPs stand out as key inputs to the company's current 11% rate base CAGR target, with attention on 1) securing sufficient projects to de-risk ALE's 5-7% EPS growth outlook, 2) implied growth upside should the company land all investments in the current capital plan, and 3) rider recovery benefits of renewables and transmission, especially at a time when receiving constructive rate case outcomes in the state has proved challenging. Management expects to launch the solar RFP in 3Q and wind RFP close to year-end, with bids back 6-8 weeks after each launch, and sees some potential advantages in the overall process to land company-owned projects.

- **Financing also in focus alongside RFP process.** While ALE carries no significant equity needs until late 2024, investor attention is also firmly focused on this financing consideration given the prospects of heavy 11% rate base growth. Tax credit transferability screens as a notable benefit, potentially $150mm over the plan period, as well as other options and offsets that the company is exploring.
- **Upcoming rate case filing approaches this fall.** With ALE's next rate case application tapped for a November filing, management offered new thinking that a strategy of extended stayouts is no longer the preferred approach. We have witnessed similar sentiment elsewhere, particularly given the risk in this current macro backdrop that large headline rate increases are a non-starter regardless of the underlying fact pattern or implied annual rate increase since last filing. Capturing inflation impacts in the latest test year screens as one important aspect of the case. Additionally, a sales true up mechanism remains a larger regulatory goal for MN Power.

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Ameren Corporation (AEE)

Theresa Shaw, Senior VP, Finance & Chief Accounting Officer
Andrew Kirk, Director, Investor Relations & Corporate Modeling
Megan McPhail, Manager, Investor Relations & Corporate Modeling

Net Takeaway: Management outlined the company's rebuttal strategy as the IL electric rate case continues to advance through the procedural schedule. Here, AEE's rebuttal focused on the notably lower than expected ROE, $700mm capital discrepancy, and $100mm+ medical OPEB overfunded balance that caught attention out of Staff testimony. We highlight mid-July intervenor rebuttal testimony as the next case milestone, which may provide new datapoints to gauge traction of AEE's arguments. Additionally, despite Gov. Pritzker's announced intention to veto IL ROFR legislation, AEE continues to work to educate lawmakers on the issue. Noting that the ROFR law could speed IL transmission projects by up to two years and labor's support for this legislation, both factors could ultimately influence the Governor's action. The situation appears somewhat fluid as a result, and we expect market attention to continue until final clarity with either no veto or a final legislative vote in the fall.

- **IL rebuttal represents latest rate case step to address Staff testimony issues.** After Staff testimony dominated AEE's update at AGA last month, management outlined the company's rebuttal strategy as the IL electric rate case continues to advance through the procedural schedule. Here, AEE's rebuttal focused on the notably lower than expected ROE, $700mm capital discrepancy, and $100mm+ medical OPEB overfunded balance that caught attention out of Staff testimony. Noting 700 pages of testimony, key points include linking between the digital projects to AEE's clean energy transition plan and further background on ratepayer and shareholder OPEB funding. We highlight mid-July intervenor rebuttal testimony as the next case milestone, which may provide new datapoints to gauge traction of AEE's arguments.
- **More to come on IL ROFR legislation.** Despite Gov. Pritzker's announced intention to veto IL ROFR legislation, AEE continues to work to educate lawmakers on the issue. If passed, the legislation would apply to MISO LRTP Tranche 1 and 2 projects before sunsetting, assuming tranche 2 approvals land before YE24. Noting that the ROFR law could speed IL transmission projects by up to two years and labor's support for this legislation, both factors could ultimately influence the Governor's action. From here, the Governor has ~60 days to sign, veto, or decline to act on the legislation. Additionally, legislative support covers any veto in the senate, with house prospects less clear due to missing votes among 20 members. As such, the legislature has some potential to override the Governor's opposition in the late October veto session, if necessary. The situation appears somewhat fluid, and we expect market attention to continue until final clarity with either no veto or a final legislative vote in the fall.

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American Electric Power (AEP)

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Darcy Reese, Vice President, Investor Relations

Net Takeaway: On APCo's WV fuel securitization process, management continues to view September 5fth's evidentiary hearings as a stage to further retort April's prudency review. Here, messaging indicates scrutiny over prudency author credibility, particularly over the consultant's familiarity and knowledge with PJM. Assuming WV PSC approval, AEP intends to issue bonds to securitize a combination of deferred fuel balance ($553mm as of 3/31), storm costs, and legacy coal plant balances (~$1.2bn), altogether totaling ~$1.84bn in 1H2024. Should AEP not receive PSC fuel recovery or securitization approval, management reiterated operating earnings and FFO/Debt guidance would remain unchanged. Finally, we see AEP engaging on a regulatory listening tour to strengthen regulatory relationships.

- **SWEPCO renewables deal considerations contingent on LA appetite, following TX departure.** Ahead of SWEPCO's ~$2.2bn 999 MW project approval, AEP outlined a variety of potential scenarios given recent TX withdrawal. Here, SWEPCO project implications largely depend on the LA PSC's final approval and appetite to assume TX's ~350 MW position. Under the most straightforward scenario, LA would approve 700 MW for the project, with AR maintaining 200 MW and 100MW under FERC jurisdiction. However, should LA decide to not flex up, AR holds the ability to flex up and AEP could move forward with the 598 MW Wagon Wheel. Under a less than 999 WM SWECPO scenario, AEP would seek to shift more capital into transmission and/or distribution capex to maintain the company's guidance. Management highlighted a significant portion of the total $8.6bn 5yr renewables plan is already underway, excluding SWEPCO, which represents a significant portion of the longer term 16,000 MW potential owned capacity need. Here, the next step for SWEPCO rests in AEP's upcoming confidential meeting with the LA PSC (scheduled June 29), where customer affordability and PPAs remain the focal point of consideration.
- **Balance sheet renovations in queue with pending transactions and strategic review.** AEP’s NMRD, Retail & OnSite Partners sales remain on track for a YE23 and 1H2024 close, respectively. With a consolidated book value of ~$650mm, management continues to point to the transactions as a straight forward pathway to reduce future equity needs and edge FFO/Debt closer to the 14-15% target range (1Q23 came in at 11.2%). Additionally, the Prairie Wind Transmission, Pioneer Transmission, and Transource Energy businesses (contributing 5c in 2023 EPS) also could offer incremental balance sheet upside, though execution and timing remain key assumptions.

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American Water Works (AWK)

Susan Hardwick, Chief Executive Officer
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Aaron Musgrave, Vice President Investor Relations

Net Takeaway: PFAS expectations continue to dominate, with investor attention on potential $1bn capital needs to comply with new EPA regulations. On capex, management emphasized that normal planning is proceeding on schedule in advance of the company's standard fall outlook update, and a risk analysis will likely determine how much capital is incremental to the current plan versus displaces existing projects. Customer affordability remains the overarching guardrail, with AWK looking to roll out a plan that continues to meet its share of average household income threshold. As such, some more discretionary capex could shift later in the plan to accommodate PFAS compliance. Enforcement also screens topically amid investor questions on M&A tailwinds from PFAS regulations, where market hope for increased public system sales to the water IOUs stands against a checkered EPA enforcement history and potential state pushback to enforcement mandates should the EPA push down this responsibility onto states (particularly with state testing levels standing higher than proposed EPA thresholds). This dynamic, coupled with potentially disparate reactions from systems (where there is a possibility of some choosing to comply, some choosing to ignore) makes for modest uncertainty on the M&A backdrop, although we see little debate that higher compliance costs are directionally positive for AWK's M&A outlook. Finally, the company highlighted litigation questions following several large settlements with manufacturers. Mechanics appear unclear for how to channel this ultimate benefit to customers, which management expects will take meaningful time to determine (though are positive overall for the industry in driving ratepayer benefits given pending compliance costs expected to hit customer bills).

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Avangrid (AGR)

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Alvaro Ortega, Vice President of Finance, Investor and Shareholder Relations
Michelle Hanson, Manager Investor Relations

Net Takeaway: With the PNM merger deadline now extended, we highlight AGR commentary on New Mexico's backdrop, where the NM Supreme Court's decision to continue through the full court proceeding has now muted concentrated process noise. Relevant data points include, 1) the recent El Paso decision likely supports AGR's procedural arguments in the PRC's acquisition review, 2) upcoming September hearings should give some indication of the court's view (which a decision ~1-3mo after will ultimately outline), and 3) this process should yield definitive instructions for the PRC to implement. Company commentary remains pragmatic overall, focusing on process points and related items such as the deal financing.

- **Spotlight on PNM financing/asset rotation overlay.** Management attention appears focused on capital recycling to cover AGR's equity needs (required financing if the PNM deal closes), with onshore renewables representing a significant opportunity after recent unit tweaks, contract revisions, and in consideration of the post-IRA growth outlook. This IRA benefit also stands out, with AGR highlighting the need to revise segment plans for these impacts. Regardless, the company appears to be examining material asset rotation opportunities through seeking an onshore renewables unit partner, where notable confidence remains despite recent valuation trends across other parties' asset sales.

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CenterPoint Energy (CNP)

Chris Foster, Executive Vice President, Chief Financial Officer
Ben Vallejo, Director, Investor Relations

Net Takeaway: CNP emphasized its extended capital deployment runway underpinning peer-leading LT growth visibility, a near-term focus through 2024 on several large pending rate cases that should position the company for multi-year stayouts (possibly 4-5 years), plus ongoing base plan and efficient operations work. Across these elements, the company framed recently completed TX legislative outcomes as setting up a resiliency opportunity to boost current capital deployment efficiency and earned returns, with the potential for capital upside. Successful execution along these initiatives should further enhance CNP's status as a new sheriff in town amidst the premium crowd.

- **Resiliency in focus following constructive TX legislative session.** Among legislative changes, incentive compensation, DCRF, and resiliency language revisions screen positively for the potential to reduce regulatory lag. Here, resiliency stood out with renewed attention, with the company focusing on capital and O&M efficiency opportunities enabled by regulatory improvements that should boost CNP's earned return profile over the full life of the DCRF cycle. Final language depends on a forthcoming PUCT rulemaking but carries the potential to cover wide swaths of capital (such as IT investments for resiliency) and O&M (vegetation management highlighted in particular). In consideration of this, the company spoke to ongoing preparation in advance of rulemaking to enable a resiliency filing when prompted by the PUCT (potentially alongside CEHE's rate case or in a separate proceeding). Outcomes appear at a minimum likely to increase the efficiency of CNP's current base plan but could extend to capital upside over time. This resiliency theme dominated discussions overall, with CNP expecting the commission to remain focused on this theme regardless of makeup. Additionally, following the upcoming TX gas, MN gas, IN electric, and TX electric rate case applications over the next 6-9 months, CNP sees a potential 4-5 year stayout opportunity upon late 2024 case conclusions to utilize these prospective TX benefits.
- **Regulatory outlook around the horn; M&A message intact. TX gas rate case.** CNP now expects to file in the fall, versus earlier expectations of July. **Upcoming rate cases:** the company continues to expect largely flat-to-reduced revenue requirements in each filing, seeing as a differentiated position versus utility peers. **IN electric rate case:** local affordability screens as a likely theme, where CNP has improved its relative rate position within the state. **LDC M&A:** capital redeployment upside appears to be a late-2024 topic at best, which we see potentially limiting near-term LDC sale appetite absent management confidence in navigating CNP's upcoming rate cases with capex addition optics also in focus. However, we witnessed no change in commentary outlining perceived favorable market dynamics for small asset valuations that do not require a significant equity check from infrastructure buyers.

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CMS Energy Corp (CMS)

Rejji Hayes, Chief Financial Officer and Executive Vice President
Nick Watson, Senior Financial Analyst

Net Takeaway: CMS drilled into key components to its LT growth thesis, including +7% rate base growth and attractive non-regulated opportunities. On the regulatory front, CMS remains cautiously optimistic on a gas settlement (potentially in August) and final decision in October 2023. Here, the company highlighted that constructive staff positioning in DTE's pending rate case serves as a reaffirmation of Michigan's constructive backdrop (recommending $380mm of the $600mm ask), seeing DTE's last poor rate order as a non-recurring exception to the norm. Rejji's confident reaffirmation of CMS's ability to capitalize on a constructive Michigan regulatory construct and steady economic growth leaves us comfortable in CMS's catbird positioning.

- **Cost savings at the forefront of execution story, complementing a constructive regulatory backdrop and capex backlog.** CMS drilled into the utility's sustainable cost saving initiatives, affirming that a $1 opex reduction roughly translates to $6-8 of incremental capex headroom. The CE Way continues to shine as CMS's key driver for long-term cost savings, coupled with episodic savings derived from remaining coal retirements. Additionally, messaging continued to emphasize Michigan as a top-tier regulatory environment, enabling authorized ROEs higher than the national average. Moreover, Michigan delivers solid economic benefit, with emerging load growth from new industrial entrants in the region. Here, management highlighted EV battery manufacturer Gotion's $2.4bn investment (+2,000 jobs), Hemlock Semiconductor's ~$375mm investment (~170 jobs), SK Siltron's > $300mm investment (~150 jobs) as the latest testaments to surging industrial activity.
- **Natural gas remains a valued resource, embedded in state climate goals.** CMS reiterated its net zero Scope 3 plan by 2050 with a continued interest in natural gas investments. Here, CMS emphasized its 1.1GW acquisition of natural gas baseload capacity will keep the company on track for net zero goals by 2040 (acknowledging longer-term use cases become murkier). Additionally, CMS highlighted the state's ~100 degrees of weather variation, combined with relatively cold winter temperature would likely impede the possibility for a mass-scale heat pump adoption (given inefficiencies below 27 degree weather). Lastly, management voiced that switching to a winter electric peak would require ~3x capacity needs, with the bulk derived from natgas and coal (both increasing the carbon footprint).

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Consolidated Edison (ED)

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Net Takeaway: The discussion emphasized pragmatism in addressing NY decarbonization needs, expected to drive a net capex increase as higher electric T&D spend more than offsets likely gas investment declines, with offshore wind-related transmission, thermal energy networks, and broader electrification projects positioned to represent a growing portion of CECONY's investments. In order to execute on these goals, ED forecasts $65-68bn of capital investments over the next decade, with increasingly more projects to receive approval outside of the traditional ratemaking process (i.e. $810mm Brooklyn Clean Energy Hub and $1.1bn JFK Airport project). Lastly, despite NY gas bans in effect by the end of the decade, ED sees continued investments in the gas delivery system (investing $1bn in current rate plan) and the steam system, acknowledging difficulties in fully electrifying older buildings and some energy-intensive applications.

- **CECONY rate case final order in sight.** With the suspension period running to late July, management expects a final order approving CECONY's settlement in the PSC's June or July sessions. The company sees delays as primarily stemming from high PSC workload, reiterating an expectation of minimal regulatory risk at this juncture.
- **Shared thermal energy networks in the spotlight.** ED drilled into recent NY state law that enables the possibility for thermal energy network development. Here, ED spoke to three pilot programs at CECONY and two pilots at O&R (combined totaling ~$300mm), with expectations to commence construction in 1Q24, pending NY PSC approval. ED continues to see heat pumps as an efficient tool to enable electrification.
- **Steam system value emphasized with ongoing rate case.** The discussion highlighted electrification difficulties faced by CECONY's steam customers, noting high conversion expense as likely requiring decarbonization of steam production instead. This screens as a clear company focus in increasing the financial viability of CECONY's steam business, in part through the currently active steam rate case. In the rate case, clarity on steam remains dependent upon a more constructive outcome, where sales levels/decoupling represent a key sticking point in negotiations.

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Entergy Corp. (ETR)

Andrew Marsh, Chairman of the Board and Chief Executive Officer
Kimberly Fontan, Chief Financial Officer
Rod West, Group President of Utility Operations
William Abler, Vice President, Investor Relations

Net Takeaway: ETR continues to make system-wide investments, including new lines and towers rated to wind speeds of 175mph, in anticipation of future storms. Pointing to historical LPSC securitization support and efforts to protect ETR's balance sheet integrity and liquidity to handle initial storm costs, ETR expects this support to continue. Despite market attention on local noise, management highlighted positive trends with Staff's proposed rulemaking landing consistent with ETR's assessment of resiliency, namely looking at societal and economic costs of storm disruption in addition to the actual storm costs. Work continues around stakeholder engagement, and challenges primarily screen around pacing/scaling resiliency work to minimize bill shock. That said, front loading resiliency work can achieve 80% of total benefits at 2/3 of the cost, and ETR has focused its education around these points.

- **Overall growth message remains a USGC industrial sales-fueled growth and renewables opportunity.** Management offered a strong defense of ETR's USGC leverage, seeing industrial sales opportunities as intact and the IRA as additive, especially when considering local hydrogen and CO2 infrastructure potential for industrial customers. While renewables expectations remain unchanged and accelerated resiliency still to unfold, the company also highlighted SERI as grinding forward. With goals to gain clarity around the resiliency filings and LA rate case offering near-term opportunities to bolster regulatory certainty, coupled with eventual SERI resolution over the medium-term, management sees a path to greater investor line-of-sight to growth.

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Eversource Energy (ES)

John Moreira, Executive Vice President, Chief Financial Officer, and Treasurer
Jeffrey Kotkin, Vice President, Investor Relations
Bob Becker, Director, Investor Relations

Net Takeaway: Days ahead of the quarter end, ES noted that the offshore wind sale could now slip beyond its 2Q23 deadline as the due diligence process drags on. In the wake of recent $220-280mm impairment charges and Sunrise PPA recontracting demands, management indicated incremental negotiations between the prospective buyer and Orsted will likely transpire post-sale, given OSW execution and technical factors fall outside of ES's domain. Nevertheless, ES reaffirmed full commitment to the pending sale, highlighting that ~92% of costs remain locked in, embedded with contingencies to cover some cost overruns. With NYSERDA's recontracting decision set for 10/30, PPA upside sharing (and potential timing) remains a speculation at the moment, though management acknowledged a scenario where ES could participate assuming certain stipulations. We see any near term transaction likely containing notable contingencies given the aforementioned risks.

- **Aquarion and SB 7 continue to cloud CT regulatory backdrop.** Aquarion's approved stay from the CT Supreme Court should offer some breathing room for ES from PURA's revenue decrease while the legal process plays out, though a constructive outcome remains uncertain. Nevertheless, Aquarion's rate order likely foreshadows CT's changing backdrop, where SB 7 continues to ignite debate with its focus on utility performance and reallocating risks between ratepayers and shareholders.
- **OSW proceeds allocated to debt repayments; FFO/Debt target contingent on sale execution.** Preliminary commentary on OSW proceeds continues to indicate a prioritization for repayment of short-term debt and some portion of the $2bn+ upcoming 2023-2024 holdco debt maturities, although transaction timing remains a key input. Here, ES outlined work to increase rating agency comfort on ES' leverage metrics, predicated on execution of the $625mm lease sale and meeting certain valuation thresholds on its remaining OSW project portfolio sale.

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First Energy (FE)

Brian Tierney, President & Chief Executive Officer
Jon Taylor, Senior Vice President & Chief Financial Officer
Irene Prezeli, Vice President, Investor Relations & Communications

Net Takeaway: With Brian Tierney's CEO succession now complete, FE continues to highlight 2Q23 as the most opportune stage to formally roll out strategic insights. Here, we see the potential for incremental business disclosures and messaging to highlight a level of geographic decentralization, with a focus on shifting select decision-making responsibilities and P&L metrics closer to the business line, driving accountability to the regions. We also see bolstering the management bench as a key focus, with the potential for new operation executive appointments following naming FE's new Chief Risk Officer, ex-PSEG Continuous Improvement Director Abigail Phillip, and new VP of External Affairs, Amanda Mertens. Finally, we also look for updated strategic thoughts on Signal Peak's future, which could include a sale or other means to highlight FE's core value proposition without coal earnings.

- **Current under-earning offers higher future delta under new system**. Acknowledging FE currently holds lower bills and reliability than in-state peers, management spoke to the opportunity to transition from a break/fix model to a more proactive reliability-focused utility. Here, management emphasized the importance of re-engaging with various stakeholders to build rapport and constructive relationships, which FE intends to leverage with a more decentralized model. NJ continues to demonstrate robust growth potential given FE's ROE upside potential coupled with favorable clean energy mandates. Lastly, FE expressed a vision to keep O&M expenses flat through its FE Forward program, where incremental cost savings could help increase capex potential for DER and offshore wind transmission related investments.
- **LT growth story contemplates both coal and non-coal assumptions.** Signal Peak earnings quality remains a focal consideration for FE, where management continues to weigh its simplified long-term growth story against earnings quality factors. Here, the company discussed potentially selling Signal Peak asset and/or stripping out coal earnings from FE's LT earnings guidance in an attempt to focus on FE's core value proposition.

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Fortis Inc. (FTS)

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Linda Apsey, President & CEO, ITC Holdings
Stephanie Amaimo, Vice President Investor Relations

Net Takeaway: A constructive take on AZ's regulatory backdrop stood out, with recent commission actions demonstrating progress in improving utility outcomes. With FTS expecting the ALJ recommended order and opinion in TEP's rate case shortly, this dynamic appears positive for the overall case prospects and screens as a proceeding to watch. Separately, ITC's investment opportunity remains topical, with MISO upside in focus amid investor attention on the IA ROFR challenge. Here, the discussion featured a defense of the industry's project development speed (versus longer competitive processes) amid a needed national transmission build-out to enable incremental renewables, which FTS sees as a clear argument for a federal ROFR.

- **AZ regulatory backdrop improving at a critical juncture in TEP rate case.** FTS expects the ALJ recommended order and opinion in TEP's rate case shortly, and against this offered a constructive take on AZ's regulatory backdrop. The discussion highlighted recent commission actions on SWX's settlement and PPA/fuel adjustment clause decisions as important signals on progress in improving utility outcomes after recent commissioner changes. This message of pragmatism and balance screens positively for overall case prospects.
- **ITC's outlook balances transmission upside with questions on the ROFR challenge.** ITC's investment runway stood out, with MISO tranche 1 project capex extending beyond the company's current planning period through 2030 and the prospects of significantly higher tranche 2 spend also in sight. That said, significant attention remains on the challenge to Iowa's transmission ROFR, which has introduced some uncertainty into ITC's outlook. On 1Q, FTS emphasized its expectation that ITC's MISO LRTP tranche 1 projects are not impacted, with awards to ITC under the ROFR already made prior to the injunction. Today, the discussion featured a defense of the industry's project development speed (versus longer competitive processes) amid a needed national transmission build-out to enable incremental renewables, which FTS sees as a clear argument for a federal ROFR.

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New Jersey Resources (NJR)

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Adam Prior, Director of Investor Relations

Net Takeaway: Confidence remains in the low end of CEV's capex range, with acceleration of both NJ and regional efforts required to achieve the high end for now. NJ solicitation process questions continue, including the cadence of announcements across the state's 300MW procurement (serial announcements or a single large update) or potential timing. PJM additionally continues to work through submissions, with expectations to commence its new queue review process beginning in July. As such, we are uncertain if any capital revisions will land this year, with the company having previously committed to revising ranges as new datapoints emerge. For now, NJR is awaiting an initial announcement on NJ solicitation results and monitoring progress on legacy TREC project applications, where the state has a large backlog after a flood of submissions at the TREC program's final deadline.

- **RNG and hydrogen potential is topical, but unclear when fully baked for an update.** RNG and hydrogen interest remains high, although the urgency and timing of any announcements are unclear at this time. For RNG, the NJ landfill opportunity appears in focus alongside a clear state prioritization of hydrogen in the latest energy policy outlook. However, management does not expect NJ's legislature to prioritize any RNG-specific legislation at this time, instead pointing to investments under RGGI as a potential path.

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NextEra Energy Inc. (NEE)

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Kelly Polander, Principal Investor Relations Analyst

Net Takeaway: Questions over the specifics of IRA tax credit use and transferability drove the conversation, with the company currently receiving low 90s cents on the dollar for renewable energy ITCs and PTCs (implied cost of tax equity). NEE hopes this will increase to the high 90s under transferability as the IRA continues to roll out and the tax market credit grows and increases liquidity. With regards to the supply chain, domestic sources remain notably higher than Asian suppliers. With regards to the potential for the Florida Supreme Court to remand the rate case to the Florida PSC, NEE does not appear overly concerned (has been done before) and sees the potential for the PSC to tighten documentation, without material changes (NEE remains confident in the PSC's RSAM authority). Separately, utility M&A does not appear high on NEE's agenda, with utility acquisitions not needed for NEE to remain within the targeted regulated/non-regulated business mix. Additionally, the company provided updates on its energy transition strategy, highlighting value in RNG and LDES, with the conversation sprawling into AI.

- **Renewable energy tax credits and IRA transferability in focus.** NEE currently receives low 90s cents on the dollar when monetizing renewable energy tax credits (implied cost of tax equity). The company expects IRA transferability to eventually reduce this discount to the high 90s. NEE will look to sell additional renewable energy credits, eventually also working down the $3-4bn of tax credits already on its balance sheet, but not eligible for transferability, over time. Separately, work continues across stakeholders to secure ratings agency classifications for these sales to benefit FFO metrics . NEE expects outreach to continue, noting that more work remains on this front.
- **Gas vs RNG commentary, ongoing TX vs potential PA pipeline sale garner interest.** The inflationary environment has increased costs overall, but the company notes that renewables still remain the most competitive energy source. NEE remains focused on building out RNG assets and six hour utility-scales batteries as backup peaking for renewables. NEE has been pleasantly surprised by the level of interest in its pipeline assets and notes that the TX sale process has proceeded to plan.

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NiSource Inc. (NI)

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Net Takeaway: With the NIPSCO transaction announcement now in hand, company messaging screens positively on NIPSCO's now illuminated value, progress against NI's investor day commitments, and growth optionality stemming from the company's incremental capital opportunities. While framed as on plan, the transaction appears supportive of upside capital deployment as NI evaluates incremental capex in the near to medium term. For now, we highlight this week's update as supportive of NI's work towards diminishing regulatory and financing risk plus realizing O&M efficiency tailwinds that boost ratepayer value.

- **NIPSCO transaction marks positive execution progress in the company's plan.** This week's NIPSCO minority stake sale represents key progress against NI's 2022 investor day plan, delivering an attractive $2.15bn capital raise (at NI's quoted 32.5x LTM P/E and 1.85 EV/rate base multiples) for a 19.9% interest plus further commitments from new NIPSCO partner Blackstone in the form of a $250mm equity commitment letter. While we estimate a more modest ~20x P/E multiple on 2024 earnings, the deal still screens attractively versus our $2bn pre-transaction assumption and NI's current 16.5x 2024 P/E multiple. The company's long-term growth and financing plan remains unchanged for the deal, which removes a potential upside catalyst (higher EPS guidance or lower plan equity) that we had ascribed low probability to before the announcement. As such, the transaction screens as more of a positive execution milestone against NI's plan as the company progresses towards diminishing regulatory and financing risk with an outlook baked for inflation and high interest rates, plus O&M efficiency tailwinds that boost ratepayer value. That said, recent discussions have focused on incremental capital opportunities, and we see the transaction as supporting deployment here. With the combination of crystallizing NIPSCO value, lower natural gas prices, and evolving IN generation transition needs, we expect NI will evaluate this incremental capex in the near and medium term, potentially layering in for higher growth and modest guidance raises over time.

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NuScale Power (SMR)

John Hopkins, Chief Executive Officer
Scott Kozak, Director, Investor Relations

Net Takeaway: SMR emphasized energy security and growing awareness over nuclear's important role in decarbonization. The company sees nuclear as providing one part of a multi-technology solution to climate change, noting that NuScale would like to see other advanced nuclear progress forward to help develop the nuclear market. SMR also noted that having an up and running advanced U.S. reactor could drive additional partnerships, and the company expects its light water reactor design to more easily secure regulatory approval and customer acceptance than newer advanced nuclear technology.

- **Ongoing project updates, global outlook.** While the company's global outlook for additional projects remains constructive, SMR also notes that many potential partners first want to see an up and running model in the U.S. before signing onto further commitments. Specifically, international leaders, multiple South Korea companies (Doosan, Samsung) and institutions have expressed interest in deploying the technology. Additionally, the company maintains a dialogue with the Ukraine and noted international leaders would also like to see SMRs help rebuild the Ukrainian power grid after the war.
- **Regulatory updates and supply chain and workforce commentary.** With numerous light water reactors already in-service around the world, SMR expects regulatory approval for their new version of an existing technology to proceed more smoothly than regulatory approval for emerging advanced nuclear technology. Hopkins noted that securing uranium supplies as a key focal point, but he sees significant upside to recycling used uranium as 96% of the potential energy currently remains unused. Finally, SMR emphasized the need for nuclear workforce development, and NuScale's efforts to recruit former navy nuclear personnel.

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Susan Hunter, Director, Investor Relations

Net Takeaway: Management reinforced key takeaways from the recent investor day across 1) new improvements in wildfire risk reduction progress (now standing at 94% for 2023), 2) high 2028-2032 capital needs (totaling $67bn) underpinning a long-term investment runway, and 3) PCG's approaching dividend reinstatement, expected on 3Q. We also highlight modest developments since the investor day that include settling 2020 Zogg Fire charges and securing $1bn in interim rate relief for the 2022 WMCE filing.

- **Investor day themes of wildfire risk reduction and long-term system capital needs continue to stand out.** Last month, PCG hosted its 2023 investor day. Headline updates were wildfire risk reduction (now standing at 94% for 2023) and 2028-2032 capital needs (totaling $67bn), marking a relatively quiet presentation that largely focused on operational progress on wildfire risk and cost efficiencies, plus stakeholder relations locally in CA. On wildfire risk, management touted this new 94% risk reduction outlook for 2023 relative to 90% prior, driving improvement with new/expanded efforts across downed conductor detection, partial voltage force out, transmission operational controls, and transmission pole clearing. Fire season screens as ever topical, with winter rains now in the rearview mirror, although we note broader market expectations for a delayed start given above average rain over the past six months. On capital, management sees 2028-2032 spend of $67bn, up from $52bn in PCG's current five-year plan, representing a significant uptick in average annual investment to $13bn from $10bn currently. Here, an emphasis remains on the system's seeming endless capital needs, which PCG looks to layer in alongside efficiencies and load growth over time to manage bill inflation. Separately, with PCG on track to re-commence its dividend and expecting a GRC decision both later this year, we expect these near-term catalysts will remain topical over 2H23.

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Portland General Electric (POR)

Maria Pope, President and Chief Executive Officer
Nick White, Investor Relations

Net Takeaway: POR provided initial reactions to recent Staff testimony in its OR rate case, walking through positions across ROE, potential PCAM modifications, Staff's Faraday disallowance, and other current case considerations and dynamics. Management pointed to a track record of settlements against this backdrop, and we sense there is a balance of progress in the case. Here, we note significant investor attention amid somewhat of a wait-and-see case dynamic, where progress on narrowing issues could begin increasing market comfort with the case asks overall. As highlighted in our POR initiation, key case elements include, 1) requested PCAM modifications to limit the mechanism's earnings volatility, 2) clarify if battery storage is recoverable in Renewable Adjustment Clause filings, and 3) recover the company's $168mm Faraday repowering cost (delayed under COVID and stripped out of POR's prior rate case due to its later in service date).

- **Wildfire risk management in focus.** Follow recent events in the region, investor questions also honed in on wildfire risk, where lower PNW precipitation and snowpacks could set up a more complicated OR wildfire summer than 2022. In addition to shutting off the power if necessary, POR has invested in early detection (cameras) and vegetation management to further work on mitigating wildfire risk, all part of efforts after learning from prior fires.

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Public Service Enterprise Group (PEG)

Ralph LaRossa, Chair, President, and Chief Executive Officer
Dan Cregg, Executive Vice President and Chief Financial Officer
Carlotta Chan, Vice President, Investor Relations
Brian Reighn, Manager, Investor Relations

Net Takeaway: Management emphasized Treasury's nuclear PTC engagement, although rulemaking conclusion time line remains uncertain (possibly, but not definitively this year). The company's prefers flexibility that allows both merchant and regulated owners to adequately achieve likely differing goals. This remains a key input into hedging strategy, which PEG continues to moderately advance given Treasury does not appear to be in the final stages of publishing its nuclear PTCs rulemaking. Messaging reaffirmed the Analyst Day's 'boring is beautiful' message, with PEG benefitting from decoupling, roughly half formula rates, notable NJ infrastructure modernization needs, strong Union relations, and lower bills than peers (benefitting from Marcellus shale proximity).

- **Nuclear PTCs remain in focus, still awaiting clarity from Treasury.** Since the March 2023 Analyst Day and our conversation at AGA, attention remains on Treasury's rulemaking time line (uncertain overall, with the possibility of landing this year but no definitive commitment here), where PEG expects incremental clarity on hedge treatment, transition rules, and other factors before credits commence in 2024. Issues remain complex across spot versus hedge price inputs, national average or local prices, hedge assignments for mixed fuel fleets, and treatment of existing hedges and post-rulemaking hedges, among other items. Management emphasized Treasury's engagement on nuclear PTCs to listen to issues.
- **Rate case backdrop screens favorably.** PEG continues to focus on minimizing headline noise in its upcoming electric and gas rate cases, with a strong appetite for reaching a settlement. Here, management highlighted that PSE&G's affordability metrics remain among the top nationally. Also helpful, PEG affirmed O&M and interest expense have remained relatively flat compared to 2018's test year, largely driven by AMI and favorable debt issuance. Additionally, PEG noted a strong outcome in labor negotiations, locking in 3-4% annual 2023-2026 wage increases. Separately, the company's pension work to smooth out residual earnings volatility from utility results remains remains a key item for this next PSE&G rate case.

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SJW Group (SJW)

Eric Thornburg, Chairman, President, Chief Executive Officer
Andrew Walters, Chief Financial Officer and Treasurer
Daniel Meaney, Director of Corporate and External Communications

Net Takeaway: The company's growth updates stood out, raising five-year capex to $1.6bn for forthcoming PFAS investments (prior $1.4bn plan) and pointing to potential CPUC cost of capital upside under the WCCM (~50bp versus the PD ROE). This, combined with a positive take on the sector's M&A opportunities across muni, private, and other systems, rounded out a discussion focused on the benefits of SJW's multi-state footprint.

- **PFAS capex now reflected in plan.** Since 1Q earnings, we have witnessed close attention on developing EPA regulations, against which SJW had outlined initial PFAS treatment capex estimates of $170-190mm. On the quarter, management framed this investment as incremental to the current capital plan while acknowledging standard regulatory pushback/customer rate risks as offsets. With the raise of five-year capex to $1.6bn from prior $1.4bn, we see this formal step toward inclusion as a modest positive, particularly given the investment carries underlying compliance drivers versus a more discretionary deployment case.
- **CPUC CoC PD + WCCM = ROE upside.** Last month, SJW received its long-awaited CPUC cost of capital proposed decision, indicating an 8.8% ROE and 54.55% CE layer (currently 8.9% and 53.28%, respectively). While subject to CPUC final order expected on 6/29, today's discussion focused on upside through the Water Cost of Capital Mechanism's (WCCM) continued use (as authorized in the PD). Here, the WCCM points to an indicative 9.31% ROE upon trigger for higher interest rates, which would increase SJW's CPUC ROE from both current and PD levels. Having previously taken a negative trigger that lowered SJW's ROE, we view the upside here as consistent with formula design and the symmetric risk inherent in the WCCM. Additionally, this upside would offset an otherwise below-average authorized ROE under the current PD terms.

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The Southern Company (SO)

Dan Tucker, Chief Financial Officer and Executive Vice President
Ashley Black, Investor Relations Manager

Net Takeaway: SO re-emphasized its 'boring is beautiful' messaging, leaving potential big bets off the table. Specifically, the company aims to offer the best risk-adjusted growth opportunity, with a highly stable (but not necessarily industry-leading) 5-7% long-term EPS growth rate. As previously disclosed, Vogtle Unit 3 appears effectively complete, with Unit 4 tracking well. The company sees incremental capex opportunities and GA economic trends as supporting this stable growth. In a post Vogtle world, Southern noted a keen focus on demonstrating premium utility characteristics, including strong balance sheet metrics, credibility, competitive growth, meaningful regulated renewable growth, and benefitting from constructive regulatory environments. Overall, SO has exceeded our expectations, and we must give credit where credit is due.

- **Capital plan, GA economic growth offers multiple paths for incremental upside.** Other than maintenance, SO's $43bn 5-year capital plan does not include any unregulated growth investments. However, the company could deploy up to $3bn in incremental unregulated growth capex. Additionally, the plan also does not include any capex from competitive projects, which will be included after bids have been secured. Furthermore, the $43bn does not include any energy storage solutions, a key component of the company's energy transition strategy. SO noted that economic trends in its service territories, particularly GA, remain robust. Specifically, the Port of Savannah is now the fourth busiest port in the U.S., driving the construction of a regional logistics corridor and incremental power demand. Additionally, Governor Kemp's focus on bringing EV and clean tech investments to GA could also drive additional power demand growth and ease the company's energy transition.
- **Nicor, GA elections, and other considerations.** SO intends to appeal the IL Nicor Gas decision, noting that it occurred on the former commissioner's last day. However, even if unsuccessful, the company estimates that the impact of the IL decision would only reach $2mm per year. SO also continues to await the 11th Circuit's ruling on the GA voting rights case, noting that the recent SCOTUS ruling in AL does not (yet) appear to have applied to the GA case. Finally, SO described 2Q weather as very pleasant.

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Southwest Gas Holdings (SWX)

Rob Stefani, Chief Financial Officer
Justin Brown, President, Southwest Gas Corporation

Net Takeaway: 2025 earnings remain in the spotlight given 1) this is likely the earliest period where SWX can capture inflation pressures in new AZ and NV rates, 2) it represents a potentially clean look at earnings power around which to base SWX's post-Centuri dividend level/payout ratio, and 3) the demonstration of O&M management and improving utility performance should begin in this window. Separately, Centuri's deleveraging also continues to draw questions, with a $300mm/1x debt reduction target still the gating hurdle to watch. Here, prospective 2023 Centuri outperformance underpins the clearest opportunity for lowering near-term financing needs, and management offered a constructive take on 1Q results and work balance for the remainder of 2023.

- **Next rate cases are critical to 2025 earnings.** 2025 earnings remain in company and investor spotlights given 1) this is likely the earliest period where SWX can capture inflation pressures in new AZ and NV rates (previously falling outside of most recent historical test years despite active rate cases during spiking inflation), 2) it represents a potentially clean look at earnings power around which to base SWX's post-Centuri dividend level/payout ratio, and 3) the demonstration of O&M management and improving utility performance should begin in this window. Optimization efforts are intertwined with SWX's rate case strategy, with a focus on solidifying test years to capture recent cost increases in historicals, while identifying longer-term opportunities for execution. However, management pointed to 100bp of structural lag under historical test years, where there is also focus on securing new trackers to mitigate an otherwise need for frequent rate filings. We witnessed no new message on SWX's dividend, which was also topical in our AGA discussion around 2025 regulated earnings power and holdco debt considerations from Centuri's leverage paydown.
- **$300mm debt reduction target is a key question to Centuri spin.** Centuri's deleveraging continues to draw questions, with a $300mm/1x debt reduction target still the gating hurdle to watch. Here, prospective 2023 Centuri outperformance underpins the clearest opportunity for lowering near-term financing needs, and management offered a constructive take on 1Q results and work balance for the remainder of 2023. If incurred, ultimate debt paydown will somewhat depend on the tax considerations for various spin options around a retained stake absent a path forward via IPO or sponsored spin. However, we still see the guardrails as wide, particularly when considering the potential interest expense drag associated with incremental SWX parent debt.

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Spire Inc (SR)

Steve Lindsey, Executive Vice President Chief Operating Officer
Adam Woodard, Treasurer and Chief Financial Officer, Gas Utilities
Scott Dudley, Managing Director of Investor Relations

Net Takeaway: Midstream messaging remains positive in light of Spire Storage expansion progress and the company's recent $175mm MoGas and Omega pipeline acquisition, amid a backdrop where the company's broader energy platform has covered performance highs and lows to normalize results on a consolidated basis.

- **Spire Storage expansion touted amid overall storage value…**We highlight positive messaging on market interest in the first open season for Spire Storage's expansion, which is exceeding company expectations. Overall confidence here covers both the broader macro dynamics underpinning this opportunity and the project's time line/budget. Additionally, the discussion pointed to higher storage rates despite lower natural gas prices, given intact expectations for future volatility and the growing value placed on securing storage.
- **...alongside MoGas supply benefits in expanding the company's overall platform.** Last month, SR announced its $175mm MoGas and Omega pipeline acquisition, which featured prominently in today's discussion. Here, the company outlined similarities to its STL Pipeline ownership across deep integration into SR utility supply (including existing contracts on the pipeline) as one of the main feeder pipes into its system plus diversification benefits, all with a risk profile benefitting from the asset's highly contracted nature under long-term agreements. This extended to the Omega system, described as LDC-like in servicing a local military base (also under a long-term contract). Here, the company expects these newest portfolio additions (subject to deal close) to contribute to a portfolio mix targeting regulatory and business diversification for the benefit of consolidated results, such as recent marketing strength offsetting weather headwinds at the utilities. Separately, M&A remains topical amid heightened investor attention on potential LDC asset sales, consistent with discussion points at last month's AGA conference meeting.

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WEC Energy Group (WEC)

Gale Klappa, Executive Chairman

Net Takeaway: WEC remains bullish on incremental generation and transmission opportunities from Microsoft's potential initial $1bn investment in Foxconn's technology park, with the first data center expected to be in operation before additional possible AI-focused, highly energy intensive data center investments likely follow. Regulatory commentary also stood out, with the company describing IL Staff's gas ROE recommendation as a reasonable starting point and highlighting new WI PSC commissioner Summer Stand's positive bipartisan, energy, and private sector experience.

- **Spotlight on economic activity with new data center campus.** The discussion touched on early stage Microsoft efforts to develop a large scale data center campus in Foxconn's technology park, which is site ready for build, plus upcoming Foxconn discussions on an EV battery operations buildout. WEC remains bullish on incremental generation and transmission opportunities from this, with the first data center expected to be in operation before additional potential AI-focused data center investments likely follow. We highlight that these investments could eventually require a 1,000MW of incremental generation by 2030, along with associated transmission build out, and AGA commentary suggested that planning work likely needs to commence shortly. Here, we expect investor attention into the company's November capital plan roll forward.
- **Regulatory commentary lands with a constructive theme.** Regulatory commentary also stood out, with the company describing IL Staff's gas ROE recommendation as a reasonable starting point and highlighting new WI PSC commissioner Summer Stand's positive bipartisan, energy, and private sector experience. This also follows recent company optimism for new IL Chair, Doug Scott, given his track record, tenure, and potential as a stabilizing voice.
- **2023 guidance also topical.**WEC also reiterated that 2H22 included 15-18c of non-recurring expenses (O&M, charitable contributions), underscoring confidence in their maintained 2023 guidance despite realizing a -12c weather headwind in 1Q.

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XEL Energy (XEL)

Brian Van Abel, Executive Vice President and Chief Financial Officer
Adrian Rodriguez, President SPS
Roopesh Aggarwal, Senior Director of Investor Relations

Net Takeaway: XEL offered relatively constructive commentary on the recently announced CO rate case settlement, emphasizing 1) the company will only enter into settlements consistent with its financial plan, 2) non-earnings item adjustments impact comparisons of revenue ask to the settled-upon rate increase, and 3) O&M flex messaging is limited to its MN rate case outcome, with no incremental cost management required out of the CO settlement. Separately, the company elaborated on its planned request for reconsideration of the MN rate case decision, outlining the view that the order's prepaid pension treatment creates problematic precedent by retaining ratepayer benefits from the pension asset, while disallowing the expense portion. Should the commission take no action on this request for reconsideration, which is typically the response to these requests, a full court appeal likely remains, subject to other considerations.

- **CO rate case settlement modestly encouraging versus MN decision.** XEL offered relatively constructive commentary on the recently announced CO rate case settlement, emphasizing 1) the company will only enter into settlements that are consistent with its financial plan (although investor questions remain as to the strength of XEL's negotiating position after a disappointing MN rate order), 2) there are non-earnings item adjustments impacting comparisons of revenue ask to the settled-upon rate increase, plus ROE and test year account for a ~$120-130mm revenue delta, and 3) O&M flex messaging is limited to its MN rate case outcome, with no incremental cost management required out of the CO settlement. Following the CO settlement, the company reaffirmed guidance and made no changes to language around the full five-year plan's growth outlook, pointing to long-term EPS upside from higher renewables project wins than the 50% guidance assumption, plus transmission investment upside as potential CO/MN offsets. Unlike the recent MN rate case, XEL does not expect to flex O&M in response to the CO settlement. However, 2023 likely includes only four months of CO rates, reducing the CO settlement's impact on this year's results. Still, wild fire noise likely weighs on XEL until greater clarity emerges.
- **MN rate case next steps point to a request for reconsideration.** The company elaborated on its planned request for reconsideration of the MN rate case decision, outlining the view that the order's prepaid pension treatment creates problematic precedent by retaining ratepayer benefits from the pension asset, while disallowing the expense portion (XEL previously won a similar CO situation in court). Management also highlighted ROE as a disappointment, unsurprisingly, though noted the low probability of any commission revision here out of the request for reconsideration (with the company set to file after receiving a written order in the case). Should the commission take no action on this request for reconsideration, which is typically the response to these requests, a full court appeal likely remains subject to other considerations.

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Companies Discussed in This Report (all prices in this report as of market close on 26 June 2023, unless otherwise indicated)
AES Corp.(AES/$20.71/OW), Algonquin Power & Utilities Corp.(AQN.TO/C$10.92/N), Allete Inc.(ALE/$59.12/N), Ameren Corporation(AEE/$81.98/OW), American Electric Power(AEP/$83.78/OW), American Water Works Company, Inc.(AWK/ $140.23/N), Avangrid, Inc(AGR/$37.71/UW), CMS Energy Corporation(CMS/$59.59/OW), CenterPoint Energy, Inc.(CNP/ $28.92/OW), Consolidated Edison Inc.(ED/$91.68/UW), Entergy Corp.(ETR/$98.95/OW), Eversource Energy(ES/$70.82/N), FirstEnergy(FE/$38.77/N), Fortis Inc.(FTS.TO/C$56.02/N), New Jersey Resources(NJR/$46.21/UW), NextEra Energy Inc.(NEE/ $74.29/OW), NiSource Inc.(NI/$27.25/OW), PG&E Corp.(PCG/$16.86/N), Portland General Electric(POR/$47.02/OW), Public Service Enterprise Group(PEG/$62.15/OW), SJW Group(SJW/$69.37/N), Southwest Gas Holdings Inc.(SWX/$62.19/N), Spire Inc(SR/$62.98/N), The Southern Company(SO/$71.73/UW), WEC Energy Group(WEC/$88.92/N), Xcel Energy(XEL/$62.86/N)

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Changes to Interbank Offered Rates (IBORs) and other benchmark rates: Certain interest rate benchmarks are, or may in the future

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North American Utilities

1Q23 Previews: EMA, NI, & SWX

North American Utilities

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Please find below our thoughts on EMA, NI, and SWX into the quarter.

- **EMA: Balance sheet remains the leading question.** Featuring heavily across EMA's spring investor day, progress against credit metric improvement screens as the top topic on the quarter. Adjusted for deferrals and FX translation impacts to debt, the company estimates 11% CFO/debt for 2022 relative to its 12% threshold and >12% target, with +50bp improvement expected into 2023 under known rate increases and the start of LIL cash earnings plus a +50bp uplift annually thereafter. The investor day highlighted 2023 opportunities that include capex deferrals, working capital optimization, potential business outperformance, and a pref share offering. As such, we look to updates across these initiatives, plus the potential for benefits from outperformance at Emera Energy on the quarter itself. Investor attention remains heavily focused on balance sheet, which we see representing a material overhang on EMA despite YTD stock outperformance. On the quarter, we estimate 1Q23 EPS of $0.94, +2c YoY. This includes the impact of mild 1Q FL weather.
- **NI: NIPSCO sets the stage for 2H updates.** With NI's NIPSCO minority stake sale targeting a midyear announcement, we expect minimal company updates on the active process, although investor attention remains firmly focused on the prospects for a favorable deal valuation and overall execution on this key element of NI's long-term plan. As such, NIPSCO's rate case settlement stands as the other large update into the quarter, representing significant progress on near-term regulatory goals and de-risking the overall regulatory risk. We look to management commentary around remaining procedural steps towards an ~August final order and potential timing sensitivity (both for an earlier or later rate order). Overall, with NI stripping out weather from its results, 1Q screens as an execution-focused quarter amid heightened weather-driven scrutiny on underlying results elsewhere across the group. We estimate EPS of $0.75, flat YoY on interest expense headwinds.
- **SWX: Await status check on spin considerations.** With SWX targeting a 4Q23/1Q24 spin of Centuri, we look to management's update across technical checkpoints to effect (IRS PLR, ACC application, Form 10) and latest considerations on structure (retained stake versus sponsored spin or other options). The company has emphasized a focus on maintaining flexibility throughout the process to react to changing market conditions, and we expect SWX will reiterate this message on the quarter rather than commit to a specific path forward. While recent underperformance has yielded more attractive

Equity Ratings and Price Targets

Company	Ticker	Mkt Cap ($ mn)	Price CCY	Price	Rating Cur	Rating Prev	Price Target Cur	Price Target End Date	Price Target Prev	Price Target End Date
Emera Inc.	EMA CN	11,595.00	CAD	58.35	N	n/c	57.00	Dec-23	56.00	n/c
NiSource Inc.	NI US	11,730.94	USD	28.64	OW	n/c	31.00	Dec-23	30.00	n/c
Southwest Gas Holdings Inc.	SWX US	3,310.85	USD	57.48	N	n/c	67.00	Dec-23	n/c	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 21 Apr 23.

See page 10 for analyst certification and important disclosures.

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SOTP upside, in our view, we look for further progress towards completing the spin plus some improvement in SWX's underlying earnings results before turning more positive. On the quarter, we estimate 1Q23 EPS of $1.45, inclusive of an assumed +5c COLI benefit.

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Adj. EPS Estimate Changes

			FY23E			FY24E		
Company	**BBG Ticker**	**CCY**	**Prev**	**Cur**	**Δ**	**Prev**	**Cur**	**Δ**
Emera Inc.	EMA CN	CAD	3.24	3.17	(0.08)	3.40	3.35	(0.05)
NiSource Inc.	NI US	USD	1.56	1.56	(0.00)	1.67	1.67	(0.00)
Southwest Gas Holdings Inc.	SWX US	USD	3.10	3.22	0.11	3.86	3.86	(0.00)

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

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Investment Thesis, Valuation and Risks

Emera Inc. *(Neutral; Price Target: C$57.00)*

Investment Thesis

Favorable FL regulation and a strong local economic backdrop underpin an appealing investment opportunity in the state across storm hardening and solar, and we see these elements as durable themes for Emera's core (with FL representing ~60% of rate base, including Peoples Gas). However, last year's Nova Scotia legislation capping NSPI's rate increase through 2024 introduced new headwinds into EMA's backdrop. Additionally, the company's above-average leverage, weak credit metrics, and stretched ~85% dividend payout ratio remain an overhang. In consideration of these factors, we remain Neutral rated.

Valuation

We raise our YE23 price target to C$57/share from C$56, based on a sum-of-the-parts valuation using our 2024 segment forecasts. We apply an average 17.0x P/E multiple across the company's segments, representing a discount to US regulated electric peers due to limited balance sheet flexibility and lower authorized returns in Canada, among other factors. Higher peer average multiple drive our revised price target.

Risks to Rating and Price Target

Any change to the regulatory environment may cause future earnings power to fall short of our expectations at the regulated utility business.

Meaningful decarbonization investments remain outside of EMA's current capital plan. Execution on these investments could increase earnings versus expectations.

With a large portion of assets located in the US, EMA is exposed to FX risk as financial results and adjusted earnings are reported in CAD. Any material FX appreciation or depreciation can cause future results to differ from current expectations.

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Investment Thesis, Valuation and Risks

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

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 trade-offs 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 raise our YE 2023 price target to $31 from $30/share. We base our price target on a sum-of-the-parts analysis using our 2024 electric and gas segment EPS forecasts. We value the gas and electric segments using 19.9x 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 higher price target is due to higher 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

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 maintain our Dec 2023 price target of $67/share, based on an SOTP valuation using our 2024 segment forecasts. Our price target includes $41 of value for SWX's natural gas distribution operations inclusive of parent drag, utilizing a 14.8x P/E multiple. This multiple reflects a discount to gas utility peers on account of below-average AZ ratemaking mechanics and a longer-dated path to demonstrating operational improvement at the utility. Additionally, we include $24/share of value for Centuri, based on an in-line 9.2x EV/EBITDA multiple. Our SOTP also includes $2/share of COLI value. We exclude COLI mark-to-market and future payouts from our 2024-25 EPS estimates.

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 historically utilized meaningful incremental equity issuances to fund growth. 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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Emera Inc.: Summary of Financials

Income Statement - Annual	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	**5,765**	**7,588**	**7,737**	**7,870**	**8,046**
COGS	(2,234)	(3,044)	(3,114)	(3,110)	(3,110)
Gross profit	**3,531**	**4,544**	**4,623**	**4,761**	**4,936**
SG&A	(1,463)	(1,689)	**(1,672)**	**(1,630)**	**(1,644)**
Adj. EBITDA	**2,068**	**2,855**	**2,951**	**3,131**	**3,292**
D&A	(902)	(952)	(1,055)	(1,115)	(1,169)
Adj. EBIT	**1,166**	**1,903**	**1,896**	**2,016**	**2,124**
Net Interest	(611)	(709)	(841)	(858)	(877)
Adj. PBT	**555**	**1,194**	**1,056**	**1,158**	**1,246**
Tax	6	(185)	(122)	(141)	(157)
Minority Interest	(1)	(1)	0	0	0
Adj. Net Income	**723**	**850**	**871**	**954**	**1,027**
Reported EPS	2.81	3.20	3.17	3.35	3.50
Adj. EPS	**2.81**	**3.20**	**3.17**	**3.35**	**3.50**
DPS	**2.58**	**2.68**	**2.79**	**2.90**	**3.02**
Payout ratio	91.6%	83.6%	88.0%	86.5%	86.3%
Shares outstanding	257	266	275	285	294

Income Statement - Quarterly	1Q23E	2Q23E	3Q23E	4Q23E
Revenue	**1,978**	**1,811**	**1,982**	**1,966**
COGS	(765)	(718)	(774)	(857)
Gross profit	**1,213**	**1,093**	**1,207**	**1,109**
SG&A	(431)	(434)	(451)	(356)
Adj. EBITDA	**782**	**659**	**757**	**753**
D&A	(259)	(261)	(265)	(270)
Adj. EBIT	**523**	**398**	**491**	**483**
Net Interest	(208)	(209)	(211)	(212)
Adj. PBT	**315**	**189**	**281**	**271**
Tax	(43)	(13)	(30)	(35)
Minority Interest	0	0	0	0
Adj. Net Income	**255**	**161**	**234**	**220**
Reported EPS	0.94	0.59	0.85	0.79
Adj. EPS	**0.94**	**0.59**	**0.85**	**0.79**
DPS	**0.69**	**0.69**	**0.69**	**0.72**
Payout ratio	73.3%	117.7%	81.4%	90.7%
Shares outstanding	271	274	276	279

Balance Sheet & Cash Flow Statement	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	417	332	0	0	0
Accounts receivable	1,733	2,897	2,897	2,897	2,897
Other current assets	986	1,667	1,822	1,964	2,099
Current assets	**3,136**	**4,896**	**4,719**	**4,861**	**4,996**
PP&E	20,353	22,996	25,041	26,774	28,302
Other non current assets	10,755	11,850	11,385	10,945	10,945
Total assets	**34,244**	**39,742**	**41,145**	**42,580**	**44,243**
Short term borrowings	2,204	3,300	3,394	3,454	3,580
Payables	1,485	2,025	2,025	2,025	2,025
Other short term liabilities	1,189	1,962	1,962	1,962	1,962
Current liabilities	**4,878**	**7,287**	**7,381**	**7,441**	**7,567**
Long-term debt	14,196	15,744	16,252	16,782	17,446
Other long term liabilities	6,442	6,692	6,814	6,955	7,112
Total liabilities	**25,516**	**29,723**	**30,447**	**31,178**	**32,125**
Shareholders' equity	8,669	9,427	10,106	10,810	11,526
Minority interests	59	592	592	592	592
Total liabilities & equity	**34,244**	**39,742**	**41,145**	**42,580**	**44,243**
BVPS	**33.21**	**34.92**	**36.10**	**37.38**	**38.67**
y/y Growth	*0.8%*	*5.2%*	*3.4%*	*3.5%*	*3.5%*
Net debt/(cash)	15,983	18,712	19,646	20,236	21,026
Cash flow from operating activities	**1,185**	**913**	**2,357**	**2,508**	**2,217**
o/w Depreciation & amortization	915	959	1,055	1,115	1,169
o/w Changes in working capital	(152)	(234)	(155)	(142)	(135)
Cash flow from investing activities	**(2,332)**	**(2,569)**	**(3,100)**	**(2,847)**	**(2,697)**
o/w Capital expenditure	(2,359)	(2,596)	(3,100)	(2,847)	(2,697)
as % of sales	*40.9%*	*34.2%*	*40.1%*	*36.2%*	*33.5%*
Cash flow from financing activities	**1,311**	**1,555**	**546**	**453**	**392**
o/w Dividends paid	(443)	(472)	(767)	(825)	(886)
o/w Net debt issued/(repaid)	894	417	738	703	703
Net change in cash	**163**	**(85)**	**(196)**	**113**	**(87)**
Adj. Free cash flow to firm	**(570)**	**(1,084)**	**1**	**413**	**287**
y/y Growth	*18.2%*	*90.3%*	*(100.1%)*	*29675.0%*	*(30.5%)*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	61.2%	59.9%	59.7%	60.5%	61.4%
EBITDA margin	35.9%	37.6%	38.1%	39.8%	40.9%
EBIT margin	20.2%	25.1%	24.5%	25.6%	26.4%
Net profit margin	12.5%	11.2%	11.3%	12.1%	12.8%
ROE	8.5%	9.4%	8.9%	9.1%	9.2%
ROA	2.2%	2.3%	2.2%	2.3%	2.4%
ROCE	4.7%	6.0%	5.8%	5.8%	5.8%
SG&A/Sales	25.4%	22.3%	21.6%	20.7%	20.4%
Net debt/equity	1.8	1.9	1.8	1.8	1.7
P/E (x)	20.8	18.2	18.4	17.4	16.7
P/BV (x)	1.8	1.7	1.6	1.6	1.5
EV/EBITDA (x)	15.4	12.2	12.1	11.8	11.6
Dividend Yield	4.4%	4.6%	4.8%	5.0%	5.2%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	3.4	4.0	3.5	3.7	3.8
Operating leverage	(889.0%)	199.9%	(17.5%)	365.5%	239.6%
Revenue y/y Growth	4.7%	31.6%	2.0%	1.7%	2.2%
EBITDA y/y Growth	(28.3%)	38.1%	3.4%	6.1%	5.2%
Tax rate	1.1%	15.5%	11.5%	12.2%	12.6%
Adj. Net Income y/y Growth	8.7%	17.6%	2.4%	9.6%	7.6%
EPS y/y Growth	4.8%	13.9%	(1.1%)	5.9%	4.3%
DPS y/y Growth	4.0%	4.0%	4.1%	4.0%	4.0%

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

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NiSource Inc.: Summary of Financials

Income Statement - Annual	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)	(506)
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	486

Income Statement - Quarterly	1Q23E	2Q23E	3Q23E	4Q23E
Revenue	**1,928**	**1,174**	**1,036**	**1,616**
COGS	(725)	(313)	(222)	(500)
Gross profit	**1,204**	**861**	**814**	**1,116**
SG&A	(451)	(441)	(420)	(448)
Adj. EBITDA	**753**	**420**	**394**	**668**
D&A	(220)	(225)	(229)	(233)
Adj. EBIT	**533**	**196**	**165**	**435**
Net Interest	(104)	(109)	(116)	(113)
Adj. PBT	**429**	**86**	**49**	**322**
Tax	(74)	(14)	(2)	(50)
Minority Interest	(18)	(3)	(12)	(14)
Adj. Net Income	**336**	**69**	**36**	**258**
Reported EPS	0.75	0.15	0.08	0.58
Adj. EPS	**0.75**	**0.15**	**0.08**	**0.58**
DPS	**0.25**	**0.25**	**0.25**	**0.25**
Payout ratio	33.3%	161.5%	314.4%	43.4%
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**	**4,667**	**5,380**
Long-term debt	9,183	9,524	10,629	11,304	12,154
Other long term liabilities	4,954	4,651	4,791	4,974	5,179
Total liabilities	**16,884**	**18,835**	**19,264**	**20,945**	**22,712**
Shareholders' equity	7,273	7,902	8,114	8,358	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**	**18.31**
y/y Growth	*20.4%*	*6.8%*	*(5.6%)*	*(4.1%)*	*5.5%*
Net debt/(cash)	9,649	11,210	11,604	13,102	14,665
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)	20.9	19.6	18.4	17.2	15.9
P/BV (x)	1.6	1.5	1.6	1.6	1.6
EV/EBITDA (x)	9.2	9.3	8.8	8.8	8.8
Dividend Yield	3.1%	3.3%	3.5%	3.7%	3.9%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	5.4	5.6	5.0	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%	8.3%
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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Southwest Gas Holdings Inc.: Summary of Financials

Income Statement - Annual	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	**3,680**	**4,960**	**4,898**	**5,115**	**5,369**
COGS	(431)	(799)	(789)	(789)	(789)
Gross profit	**4,161**	**4,109**	**4,326**	**4,580**	**0**
SG&A	(2,512)	(3,721)	**(3,171)**	**(3,324)**	**(3,499)**
Adj. EBITDA	**737**	**440**	**938**	**1,002**	**1,081**
D&A	(371)	(470)	(433)	(444)	(455)
Adj. EBIT	**366**	**(31)**	**506**	**558**	**627**
Net Interest	(119)	(243)	(223)	(207)	(210)
Adj. PBT	**247**	**(273)**	**283**	**351**	**416**
Tax	(40)	76	(51)	(69)	(83)
Minority Interest	(6)	(6)	(6)	(6)	(6)
Adj. Net Income	**247**	**197**	**226**	**276**	**328**
Reported EPS	3.39	(3.10)	3.22	3.86	4.52
Adj. EPS	**4.17**	**3.01**	**3.22**	**3.86**	**4.52**
DPS	**2.36**	**2.46**	**2.48**	**2.56**	**2.66**
Payout ratio	69.5%	NM	77.1%	66.2%	58.7%
Shares outstanding	59	66	70	72	72

Income Statement - Quarterly	1Q23E	2Q23E	3Q23E	4Q23E
Revenue	**1,243**	**1,134**	**1,115**	**1,407**
COGS	(297)	(147)	(100)	(245)
Gross profit	**990**	**1,042**	**1,073**	**1,221**
SG&A	(654)	(797)	(842)	(877)
Adj. EBITDA	**292**	**189**	**172**	**285**
D&A	(115)	(99)	(107)	(113)
Adj. EBIT	**177**	**91**	**65**	**173**
Net Interest	(63)	(53)	(54)	(52)
Adj. PBT	**114**	**38**	**11**	**120**
Tax	(14)	(8)	(6)	(23)
Minority Interest	(1)	(1)	(1)	(1)
Adj. Net Income	**98**	**28**	**4**	**96**
Reported EPS	1.45	0.39	0.06	1.34
Adj. EPS	**1.45**	**0.39**	**0.06**	**1.34**
DPS	**0.62**	**0.62**	**0.62**	**0.62**
Payout ratio	42.7%	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**	**3,373**	**3,563**
Long-term debt	4,116	4,403	2,318	2,011	1,953
Other long term liabilities	2,387	2,796	2,847	2,916	3,000
Total liabilities	**9,615**	**9,979**	**8,330**	**8,300**	**8,516**
Shareholders' equity	3,151	3,218	3,517	3,661	3,846
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**	**49.98**	**51.09**	**53.08**
y/y Growth	*5.0%*	*(7.7%)*	*1.8%*	*2.2%*	*3.9%*
Net debt/(cash)	6,099	5,868	4,291	4,192	4,325
Cash flow from operating activities	**111**	**407**	**800**	**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)**	**(220)**	**(143)**	**(108)**
Adj. Free cash flow to firm	**(504)**	**(142)**	**186**	**399**	**177**
y/y Growth	*351.8%*	*(71.8%)*	*(231.1%)*	*114.3%*	*(55.6%)*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	113.1%	82.8%	88.3%	89.5%	0.0%
EBITDA margin	20.0%	8.9%	19.2%	19.6%	20.1%
EBIT margin	9.9%	(0.6%)	10.3%	10.9%	11.7%
Net profit margin	6.7%	4.0%	4.6%	5.4%	6.1%
ROE	8.2%	6.2%	6.7%	7.7%	8.7%
ROA	2.3%	1.5%	1.8%	2.3%	2.7%
ROCE	4.0%	(0.4%)	4.9%	5.7%	6.3%
SG&A/Sales	68.3%	75.0%	64.7%	65.0%	65.2%
Net debt/equity	1.9	1.8	1.2	1.1	1.1
P/E (x)	13.8	19.1	17.9	14.9	12.7
P/BV (x)	1.1	1.2	1.2	1.1	1.1
EV/EBITDA (x)	14.4	24.6	10.3	9.6	9.1
Dividend Yield	4.1%	4.3%	4.3%	4.4%	4.6%
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%)	140744.3%	232.9%	248.4%
Revenue y/y Growth	11.6%	34.8%	(1.2%)	4.4%	5.0%
EBITDA y/y Growth	(1.5%)	(40.3%)	113.3%	6.8%	8.0%
Tax rate	16.1%	(27.7%)	18.0%	19.6%	20.0%
Adj. Net Income y/y Growth	6.2%	(20.1%)	14.8%	22.1%	18.5%
EPS y/y Growth	0.5%	(27.8%)	6.9%	20.0%	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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Emera Inc. (EMA.TO, EMA CN) Price Chart

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Oct 25, 2016. All share prices are as of market close on the previous business day.

Date	Rating	Price (C$)	Price Target (C$)
23-Jul-20	N	54.98	57
16-Oct-20	N	56.00	58
05-Jan-21	N	53.67	56
22-Jan-21	N	52.96	54
17-Mar-21	N	54.15	55
19-Apr-21	N	56.80	59
06-Jun-21	N	56.77	58
22-Jul-21	N	57.69	59
16-Aug-21	N	59.17	62
18-Oct-21	N	58.67	59
01-Dec-21	N	58.69	61
07-Jan-22	UW	61.51	62
18-Jan-22	UW	60.13	59
03-Mar-22	UW	59.43	60
21-Apr-22	UW	64.72	64
24-May-22	UW	64.20	63
25-Jul-22	UW	60.22	59
23-Aug-22	UW	62.56	63
09-Sep-22	N	62.18	66
19-Oct-22	N	54.22	56

NiSource Inc. (NI, NI US) Price Chart

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

Date	Rating	Price ($)	Price Target ($)
01-Jul-20	OW	22.74	26
21-Sep-20	OW	21.98	25
23-Oct-20	OW	24.04	26
29-Jan-21	OW	22.17	25
22-Feb-21	OW	22.84	24
22-Apr-21	OW	26.03	28
31-Aug-21	OW	24.76	29
14-Oct-21	OW	24.69	28
04-Jan-22	OW	27.52	31
26-Jan-22	OW	27.14	30
03-Mar-22	OW	29.19	32
18-Apr-22	OW	31.75	34
11-May-22	OW	29.32	33
25-Jul-22	OW	28.44	31
05-Sep-22	OW	29.55	34
24-Oct-22	OW	24.49	30
09-Dec-22	OW	27.77	31
13-Mar-23	OW	26.71	30

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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 ($)	Price Target ($)
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
13-Mar-23	N	59.29	67

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
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IB clients**	47%	44%	34%
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IB clients**	66%	65%	53%

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Completed 23 Apr 2023 11:50 PM EDT Disseminated 24 Apr 2023 12:15 AM EDT

NiSource Inc NI ★★★★ 25 May 2023 21:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
27.01 USD 25 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.84	11.16 USD Bil 25 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

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Reporting Currency: USD | Trading Currency: USD
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[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

NiSource: Minority Interest Sale Is the Best Option for Investors; Remains Top Utilities Pick

Analyst Note Travis Miller, Strategist, 26 May 2023

We are reaffirming our $32 fair value estimate for NiSource after meeting with management and learning more about the strategic decision to sell a minority stake in its largest subsidiary, NIPSCO. We are reaffirming our narrow moat and stable moat trend ratings.

Management's plan, announced last year, to sell a 19.9% minority stake in its Indiana gas and electric utility raised questions about how NiSource could raise equity to fund its growth and improve its balance sheet. Options included selling one or more of its six gas distribution utilities, raising market equity, or selling a portion of NIPSCO. Management said they chose the NIPSCO sale in part because of the more favorable tax implications. We continue to believe the deal will have no material impact on our fair value estimate.

We think raising market equity at NiSource's current stock price would be unfavorable for shareholders. NiSource trades at a 16% discount to our fair value estimate as of May 25, making it one of the cheapest U.S. utilities in our coverage. The stock's dividend yield has climbed to 3.7% and we forecast 7% average annual earnings growth, offering what we consider an attractive total return during the next five years. Management is targeting 6%-8% annual earnings growth.

After settling its electric rate review in Indiana, NiSource has a light regulatory agenda for the rest of the year. This provides good earnings visibility for 2023 and 2024. Earnings growth in 2024 likely will lag management's target as NiSource works through dilution from the NIPSCO sale.

Financial Summary and Key Statistics

	Actual		Forecast	
	2021	2022	2023	2024
Revenue (USD Mil)	4,900	5,851	6,105	6,385
Revenue Growth %	4.7	19.4	4.4	4.6
Operating Income (Mil)	1,007	1,266	1,305	1,499
Operating Margin %	20.5	21.6	21.4	23.5
Adjusted EBITDA (Mil)	1,755	2,087	2,185	2,459
Adjusted EBITDA Margin %	35.8	35.7	35.8	38.5
Earnings Per Share (Diluted) (USD)	1.27	1.69	1.57	1.60
Adjusted Earnings Per Share (Diluted) (USD)	1.37	1.47	1.57	1.60
Adjusted EPS Growth %	3.8	7.3	6.6	1.8
Price/Earnings	20.2	18.7	17.2	16.9
Price/Book	1.7	1.6	1.5	1.5
EV/EBITDA	12.8	11.2	11.1	9.8
Free Cash Flow Yield %	-5.5	-7.1	5.0	-11.9

Source: Morningstar Valuation Model. Data as of 25 May 2023.

Morningstar Equity Analyst Note | Report as of 26 May 2023 17:31, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 2 of 12

NiSource Inc NI ★★★★ 25 May 2023 21:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
27.01 USD 25 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.84	11.16 USD Bil 25 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

Sector	Industry
Utilities	Utilities - Regulated Gas

Business Description

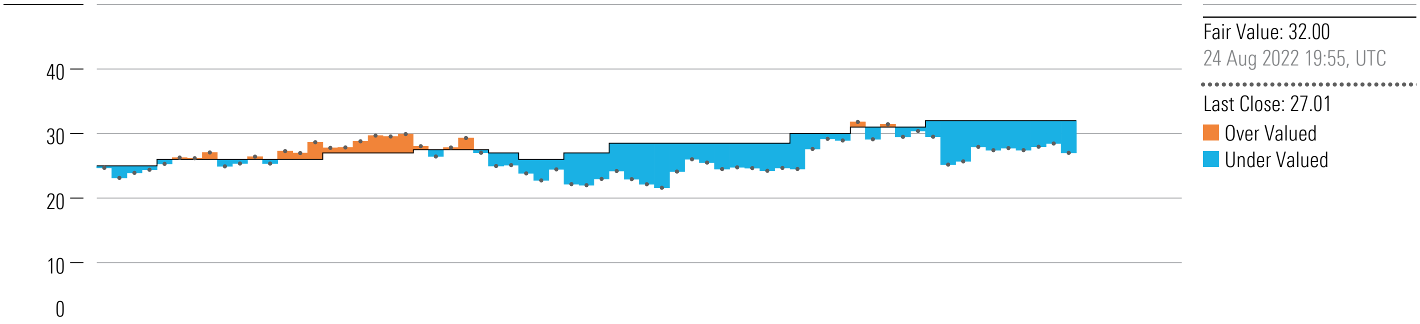
NiSource is one of the nation's largest natural gas distribution companies with approximately 3.2 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NiSource's electric utility transmits and distributes electricity in northern Indiana to about 500,000 customers. The regulated 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.

We estimate proceeds could be as much as $1.5 billion based on current market valuations for electric and gas distribution utilities. This is slightly higher than the equity we estimate NiSource could raise in the market without suffering more dilution. We expect NiSource to use the proceeds to reduce debt and help fund its five-year, $15 billion capital investment plan.

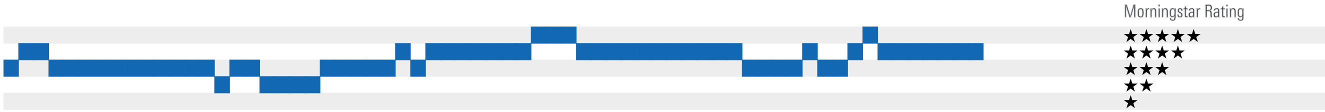
Morningstar Equity Analyst Note | Report as of 26 May 2023 17:31, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 3 of 12

NiSource Inc NI ★★★★ 25 May 2023 21:17, UTC

Price vs. Fair Value

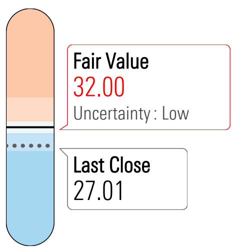


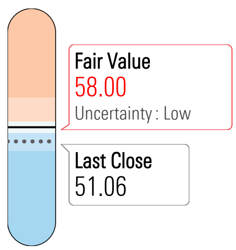
	2018	2019	2020	2021	2022	YTD	
	0.98	1.01	0.80	0.92	0.86	0.84	Price/Fair Value
	1.79	12.98	-14.58	24.19	2.72	0.33	Total Return %

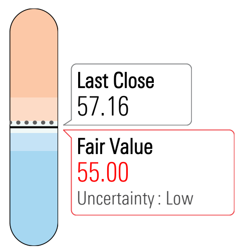


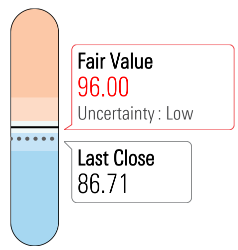
Competitors

	NiSource Inc NI	Alliant Energy Corp LNT	CMS Energy Corp CMS	WEC Energy Group Inc WEC









	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	55.00 20 Mar 2023 19:16, UTC	96.00 5 Dec 2022 16:31, UTC
1-Star Price	40.00	72.50	68.75	120.00
5-Star Price	25.60	46.40	44.00	76.80
Assessment	Under Valued 25 May 2023	Under Valued 25 May 2023	Over Valued 25 May 2023	Under Valued 25 May 2023
Morningstar Rating	★★★★25 May 2023 21:17, UTC	★★★★25 May 2023 21:17, UTC	★★25 May 2023 21:17, UTC	★★★★25 May 2023 21:17, UTC
Analyst	Travis Miller, Strategist	Andrew Bischof, Strategist	Travis Miller, Strategist	Andrew Bischof, Strategist
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	0.84	0.88	1.04	0.90
Price/Sales	2.02	3.05	1.95	2.86
Price/Book	1.82	2.03	2.43	2.35
Price/Earnings	18.37	19.56	24.53	20.31
Dividend Yield	3.59%	3.45%	3.32%	3.48%
Market Cap	11.16 Bil	12.84 Bil	16.67 Bil	27.35 Bil
52-Week Range	23.78—32.08	47.19—64.62	52.41—71.97	80.82—108.20
Investment Style	Mid Core	Mid Core	Mid Core	Mid Core

Morningstar Equity Analyst Note | Report as of 26 May 2023 17:31, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 4 of 12

NiSource Inc NI ★★★★ 25 May 2023 21:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
27.01 USD 25 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.84	11.16 USD Bil 25 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

Morningstar Valuation Model Summary

Financials as of 25 May 2023	Actual			Forecast				
Fiscal Year, ends 31 Dec	2020	2021	2022	2023	2024	2025	2026	2027
Revenue (USD Mil)	4,682	4,900	5,851	6,105	6,385	6,605	6,929	7,119
Operating Income (USD Mil)	551	1,007	1,266	1,305	1,499	1,590	1,784	1,874
EBITDA (USD Mil)	978	1,755	2,087	2,185	2,459	2,640	2,924	3,074
Adjusted EBITDA (USD Mil)	1,277	1,755	2,087	2,185	2,459	2,640	2,924	3,074
Net Income (USD Mil)	-372	530	749	706	724	816	904	963
Adjusted Net Income (USD Mil)	507	572	651	706	724	816	904	963
Free Cash Flow To The Firm (USD Mil)	457	-765	-917	1,482	-1,097	-413	-627	596
Weighted Average Diluted Shares Outstanding (Mil)	384	417	443	450	454	455	461	466
Earnings Per Share (Diluted) (USD)	-0.97	1.27	1.69	1.57	1.60	1.79	1.96	2.07
Adjusted Earnings Per Share (Diluted) (USD)	1.32	1.37	1.47	1.57	1.60	1.79	1.96	2.07
Dividends Per Share (USD)	0.84	0.83	0.86	1.00	1.06	1.12	1.20	1.28

Margins & Returns as of 25 May 2023		Actual			Forecast					
	3 Year Avg	2020	2021	2022	2023	2024	2025	2026	2027	5 Year Avg
Operating Margin %	18.0	11.8	20.5	21.6	21.4	23.5	24.1	25.8	26.3	24.2
EBITDA Margin %	—	20.9	35.8	35.7	35.8	38.5	40.0	42.2	43.2	—
Adjusted EBITDA Margin %	32.9	27.3	35.8	35.7	35.8	38.5	40.0	42.2	43.2	39.9
Net Margin %	5.2	-7.9	10.8	12.8	11.6	11.3	12.4	13.0	13.5	12.4
Adjusted Net Margin %	11.2	10.8	11.7	11.1	11.6	11.3	12.4	13.0	13.5	12.4
Free Cash Flow To The Firm Margin %	-7.2	9.8	-15.6	-15.7	24.3	-17.2	-6.3	-9.0	8.4	0.0

Growth & Ratios as of 25 May 2023		Actual			Forecast					
	3 Year CAGR	2020	2021	2022	2023	2024	2025	2026	2027	5 Year CAGR
Revenue Growth %	4.0	-10.1	4.7	19.4	4.4	4.6	3.4	4.9	2.7	4.0
Operating Income Growth %	12.4	-38.2	82.8	25.7	3.1	14.9	6.1	12.2	5.0	8.2
EBITDA Growth %	0.0	—	—	—	—	—	—	—	—	0.0
Adjusted EBITDA Growth %	9.1	-20.6	37.5	18.9	4.7	12.5	7.4	10.8	5.1	8.1
Earnings Per Share Growth %	3.8	—	—	—	—	—	—	—	—	7.0
Adjusted Earnings Per Share Growth %	3.8	0.3	3.8	7.3	6.6	1.8	12.4	9.4	5.3	7.0

Valuation as of 25 May 2023	Actual			Forecast				
	2020	2021	2022	2023	2024	2025	2026	2027
Price/Earnings	17.4	20.2	18.7	17.2	16.9	15.1	13.8	13.0
Price/Sales	1.9	2.3	1.9	1.8	1.7	1.7	1.6	1.6
Price/Book	1.5	1.7	1.6	1.5	1.5	1.4	1.3	1.3
Price/Cash Flow	-13.7	-18.0	-14.0	20.0	-8.4	-17.0	-11.8	45.6
EV/EBITDA	16.0	12.8	11.2	11.1	9.8	9.2	8.3	7.9
EV/EBIT	37.1	22.3	18.5	18.5	16.1	15.2	13.5	12.9
Dividend Yield %	3.7	3.0	3.1	3.7	3.9	4.2	4.4	4.7
Dividend Payout %	-86.5	65.2	50.9	63.8	66.4	62.5	61.2	62.0
Free Cash Flow Yield %	-7.3	-5.5	-7.1	5.0	-11.9	-5.9	-8.5	2.2

Operating Performance / Profitability as of 25 May 2023	Actual			Forecast				
Fiscal Year, ends 31 Dec	2020	2021	2022	2023	2024	2025	2026	2027
ROA %	-1.7	2.3	2.9	2.6	2.6	2.8	2.9	2.9
ROE %	-7.4	10.3	13.1	11.4	11.1	11.9	12.2	12.0
ROIC %	2.1	4.6	5.3	5.2	5.6	5.4	5.5	5.4

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NiSource Inc NI ★★★★ 25 May 2023 21:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
27.01 USD 25 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.84	11.16 USD Bil 25 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

Financial Leverage (Reporting Currency)	**Actual**			**Forecast**				
Fiscal Year, ends 31 Dec	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Debt/Capital %	62.9	58.5	59.9	61.0	61.0	62.0	62.0	61.6
Assets/Equity	3.8	3.5	3.5	3.5	3.5	3.5	3.5	3.4
Net Debt/EBITDA	9.8	5.5	5.4	4.9	5.1	5.3	5.2	5.1
Total Debt/EBITDA	7.6	5.6	5.4	5.6	5.2	5.3	5.2	5.1
EBITDA/ Net Interest Expense	3.4	5.1	5.8	5.6	5.7	5.5	5.6	5.5

Forecast Revisions as of 26 May 2023	**2023**		**2024**		**2025**	
Prior data as of 19 Apr 2023	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	32.00	32.00	—	—	—	—
Revenue (USD Mil)	6,105	6,105	6,385	6,423	6,605	6,641
Operating Income (USD Mil)	1,305	1,305	1,499	1,498	1,590	1,587
EBITDA (USD Mil)	2,185	2,185	2,459	2,458	2,640	2,637
Net Income (USD Mil)	706	708	724	778	816	836
Earnings Per Share (Diluted) (USD)	1.57	1.57	1.60	1.72	1.79	1.84
Adjusted Earnings Per Share (Diluted) (USD)	1.57	1.57	1.60	1.72	1.79	1.84
Dividends Per Share (USD)	1.00	1.00	1.06	1.06	1.12	1.12

Key Valuation Drivers as of 25 May 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 %	6.0
Stage II Investment Rate %	75.0
Perpetuity Year	15

Additional estimates and scenarios available for download at https://pitchbook.com/.

Discounted Cash Flow Valuation as of 25 May 2023	**USD Mil**
Present Value Stage I	21
Present Value Stage II	3,125
Present Value Stage III	23,019
Total Firm Value	**26,164**
Cash and Equivalents	75
Debt	-11,316
Other Adjustments	660
Equity Value	**14,037**
Projected Diluted Shares	449
Fair Value per Share (USD)	**32.00**

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NiSource Inc NI ★★★★ 25 May 2023 21:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
27.01 USD 25 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.84	11.16 USD Bil 25 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

Income Statement (USD)	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Revenue (Mil)	**4,682**	**4,900**	**5,851**	**6,105**	**6,385**	**6,605**	**6,929**	**7,119**
Cost of Goods Sold (Mil)	1,109	1,392	2,111	2,097	2,085	2,106	2,127	2,148
Gross Profit (Mil)	**3,572**	**3,507**	**3,740**	**4,008**	**4,300**	**4,499**	**4,802**	**4,970**
Selling, General, Administrative & Other Expenses (Mil)	1,586	1,456	1,489	1,539	1,555	1,570	1,586	1,602
Advertising & Marketing Expenses	—	—	—	—	—	—	—	—
Research & Development	—	—	—	—	—	—	—	—
Depreciation & Amortization (if reported separately) (Mil)	726	748	821	880	960	1,050	1,140	1,200
Adjusted Operating Income (Mil)	**551**	**1,007**	**1,266**	**1,305**	**1,499**	**1,590**	**1,784**	**1,874**
Financial Non-Cash (Gains)/Losses (Mil)	0	0	0	0	0	0	0	0
Irregular Cash (Gains)/Losses (Mil)	299	0	0	0	0	0	0	0
Operating Income (Mil)	**252**	**1,007**	**1,266**	**1,305**	**1,499**	**1,590**	**1,784**	**1,874**
Net Interest Expense (Mil)	582	300	309	351	421	427	516	551
Income Tax Expense (Mil)	-17	118	165	181	205	198	216	212
After-Tax Items (Mil)	-55	-55	-55	-62	-65	-65	-65	-65
(Minority Interest) (Mil)	-3	-4	12	-5	-84	-84	-84	-84
Net Income (Mil)	**-372**	**530**	**749**	**706**	**724**	**816**	**904**	**963**
Adjusted Net Income (Mil)	**507**	**572**	**651**	**706**	**724**	**816**	**904**	**963**
Weighted Average Diluted Shares Outstanding (Mil)	384	417	443	450	454	455	461	466
Diluted Earnings Per Share	**-0.97**	**1.27**	**1.69**	**1.57**	**1.60**	**1.79**	**1.96**	**2.07**
Diluted Adjusted Earnings Per Share	**1.32**	**1.37**	**1.47**	**1.57**	**1.60**	**1.79**	**1.96**	**2.07**
Dividends Per Common Share (USD)	0.84	0.83	0.86	1.00	1.06	1.12	1.20	1.28
EBITDA (Mil)	**978**	**1,755**	**2,087**	**2,185**	**2,459**	**2,640**	**2,924**	**3,074**
Adjusted EBITDA (Mil)	**1,277**	**1,755**	**2,087**	**2,185**	**2,459**	**2,640**	**2,924**	**3,074**

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NiSource Inc NI ★★★★ 25 May 2023 21:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
27.01 USD 25 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.84	11.16 USD Bil 25 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

Key Cash Flow Items (USD)	Actual			Forecast as of 25 May				
Fiscal Year, ends 31 Dec	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Cash from Working Capital (K)	-34,400	82,900	57,500	-147,299	182,492	21,455	5,810	-23,930
(Capital Expenditures) (K)	-1,758,100	-1,838,000	-2,203,100	-1,120,000	-3,520,000	-2,870,000	-3,320,000	-2,220,000
Depreciation (K)	725,900	748,400	820,800	880,000	960,000	1,050,000	1,140,000	1,200,000
Amortization (K)	—	—	—	—	—	—	—	—
Net New (Investment), Organic (K)	**-402,300**	**-1,717,600**	**-2,034,800**	**284,501**	**-2,377,508**	**-1,798,545**	**-2,174,190**	**-1,043,930**
(Purchases)/Sales of Companies & Assets (K)	0	700	0	0	0	0	0	0
Net New (Investment), Total (K)	**-402,300**	**-1,716,900**	**-2,034,800**	**284,501**	**-2,377,508**	**-1,798,545**	**-2,174,190**	**-1,043,930**
Other Non-Cash Items, From Cash Flows (K)	653,000	4,900	-99,600	0	0	0	0	0
Free Cash Flow to the Firm (K)	**456,882**	**-764,964**	**-917,249**	**1,482,140**	**-1,097,368**	**-413,101**	**-627,317**	**596,346**

Balance Sheet (USD)	Actual			Forecast				
Fiscal Year, ends 31 Dec	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Assets								
Cash and Equivalents (Mil)	126	95	75	1,567	168	112	25	83
Inventory (Mil)	401	499	752	718	571	577	583	589
Accounts Receivable (Mil)	791	826	1,042	1,004	962	995	1,044	1,073
Net Property, Plant and Equipment (Mil)	16,620	17,882	19,843	20,083	22,643	24,463	26,643	27,663
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)	2,136	2,788	3,063	2,300	2,300	2,250	2,200	2,200
Non-Operating Assets (Mil)	481	582	476	476	476	476	476	476
Total Assets (Mil)	**22,041**	**24,157**	**26,737**	**27,634**	**28,606**	**30,359**	**32,456**	**33,569**
Liabilities								
Accounts Payable (Mil)	589	698	900	1,034	1,028	1,039	1,049	1,060
Debt (Mil)	9,746	9,802	11,316	12,316	12,816	14,016	15,216	15,716
Other Operating Liabilities (Mil)	4,539	4,932	5,599	5,300	5,450	5,600	5,750	5,900
Non-Operating Liabilities (Mil)	1,329	1,452	1,020	1,020	1,020	1,020	1,020	1,020
Total Liabilities (Mil)	**16,203**	**16,884**	**18,835**	**19,670**	**20,314**	**21,675**	**23,035**	**23,695**
Equity								
Shareholders' Equity (Mil)	5,752	6,947	7,575	7,883	8,212	8,604	9,341	9,794
Minority Interest (Mil)	86	326	326	80	80	80	80	80
Total Equity (Mil)	**5,838**	**7,273**	**7,902**	**7,963**	**8,292**	**8,684**	**9,421**	**9,874**

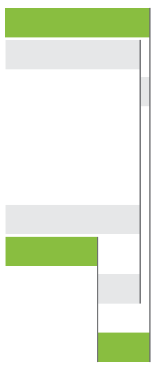
Morningstar Equity Analyst Note | Report as of 26 May 2023 17:31, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 8 of 12

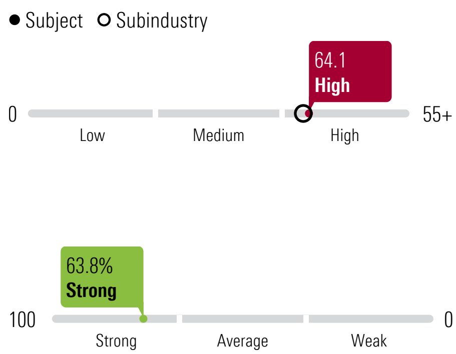
NiSource Inc NI ★★★★ 25 May 2023 21:17, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
27.01 USD 25 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.84	11.16 USD Bil 25 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

ESG Risk Rating Breakdown

Exposure	
Company Exposure[1]	64.1
– Manageable Risk	59.8
Unmanageable Risk[2]	**4.3**
Management	
Manageable Risk	59.8
– Managed Risk[3]	38.2
Management Gap[4]	**21.6**
Overall Unmanaged Risk	**25.9**





- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating

Negligible	Low	Medium	High	Severe
0—9.99	10—19.99	25.89 Medium	30—39.99	40+

ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 63.8% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment[5]

ESG Risk Rating is of May 03, 2023. Highest Controversy Level is as of May 08, 2023. Sustainalytics Subindustry: Multi-Utilities. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 03 May 2023

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure			Management			ESG Risk Rating		
NiSource Inc	64.1 | High	0	55+	63.8 | Strong	100	0	25.9 | Medium	0	40+
Alliant Energy Corp	55.4 | High	0	55+	65.9 | Strong	100	0	21.3 | Medium	0	40+
WEC Energy Group Inc	55.4 | High	0	55+	54.0 | Strong	100	0	27.5 | Medium	0	40+
Xcel Energy Inc	58.1 | High	0	55+	62.2 | Strong	100	0	24.3 | Medium	0	40+
CMS Energy Corp	59.4 | High	0	55+	68.0 | Strong	100	0	21.7 | Medium	0	40+

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

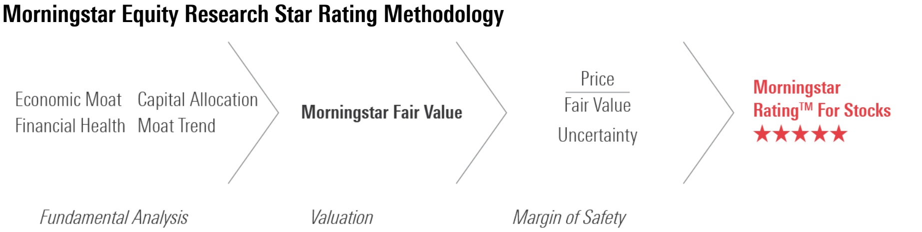
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with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



Morningstar Equity Analyst Note | Report as of 26 May 2023 17:31, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC.

Research Methodology for Valuing Companies

aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

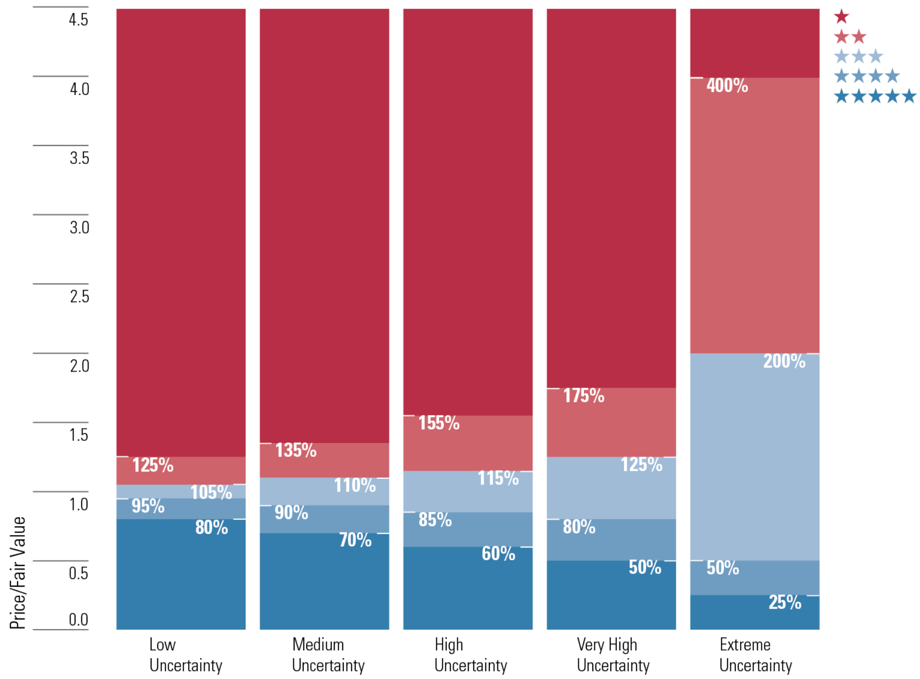
	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

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

Morningstar Equity Research Star Rating Methodology



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

Morningstar Star Rating for Stocks

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

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

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

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

The Morningstar Star Ratings for stocks are defined below:

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

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

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

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

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

Other Definitions

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

Research Methodology for Valuing Companies

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

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

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

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

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

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

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

Risk Warning

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

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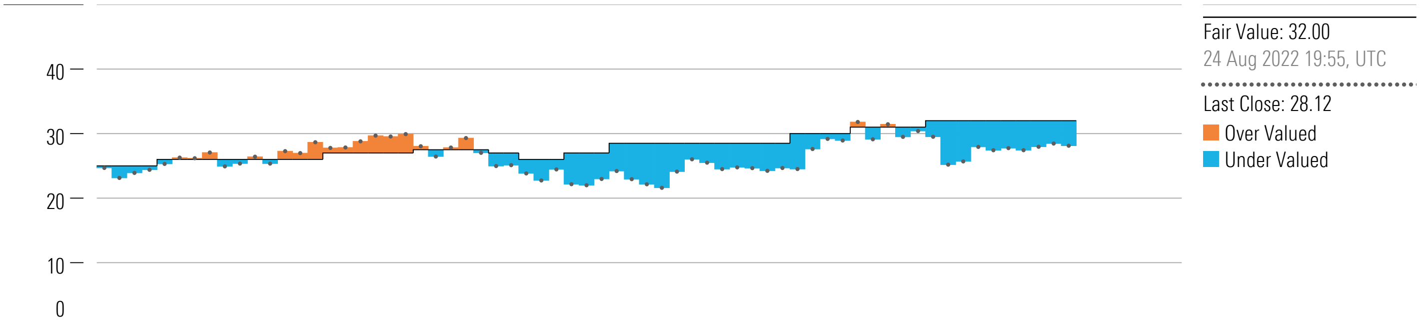
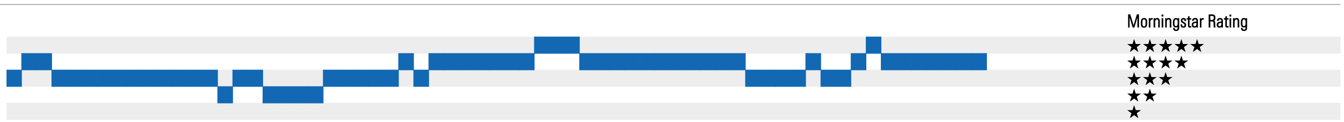
NiSource Inc NI ★★★★ 3 May 2023 21:22, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
28.12 USD 3 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.88	11.53 USD Bil 2 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

Price vs. Fair Value



	2018	2019	2020	2021	2022	YTD
Price/Fair Value	0.98	1.01	0.80	0.92	0.86	0.88
Total Return %	1.79	12.98	-14.58	24.19	2.72	4.38



Total Return % as of 3 May 2023. Last Close as of 3 May 2023. Fair Value as of 24 Aug 2022 19:55, UTC.

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

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

NiSource Earnings: Top-Tier Regulation Supporting Growth in 2023

Analyst Note Travis Miller, Strategist, 3 May 2023

We are reaffirming our $32 fair value estimate for NiSource after the company announced $0.77 per share of operating earnings in the first quarter, up from $0.75 in the first quarter of 2022 despite abnormally warm winter weather that depressed gas demand. Results are on track to meet our full-year expectations. We are reaffirming our narrow moat and stable moat trend ratings.

NiSource is one of our top utilities picks, trading at a 13% discount to our fair value estimate. We think it has better regulation and more long-term investment opportunities than most other utilities relative to its size. The stock's 3.6% dividend yield and our 7% annual earnings growth outlook offer investors what we consider an attractive total return during the next five years.

Management reaffirmed its 6%-8% annual earnings growth rate target through 2027 and $1.54-$1.60 EPS guidance for 2023, both in line with our outlook.

As expected, rate increases were the biggest growth driver in the quarter following several regulatory proceedings last year. A gas rate increase in Ohio and a settlement that will raise electric rates in Indiana later this year will support earnings growth into 2024. We expect Indiana regulators to approve the settlement.

These regulatory developments along with smaller rate increases at its other utilities support our view

Morningstar Equity Analyst Report | Report as of 3 May 2023 21:37, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NEW YORK STOCK EXCHANGE, INC. Page 2 of 19

NiSource Inc NI ★★★★ 3 May 2023 21:22, UTC

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Sector	Industry
Utilities	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.

that NiSource enjoys highly constructive regulation. This gives us confidence that NiSource will receive regulatory support for as much as $15 billion of capital investment during the next five years, driving earnings growth.

NiSource's usage-decoupled rates in four of its six states were a huge benefit for investors during the quarter, offsetting what otherwise would have been a $0.06 EPS drag from the unusually warm weather.

We think the electric rate case settlement will expedite NiSource's plan to sell 19.9% of its Indiana utility, NIPSCO, this year.

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

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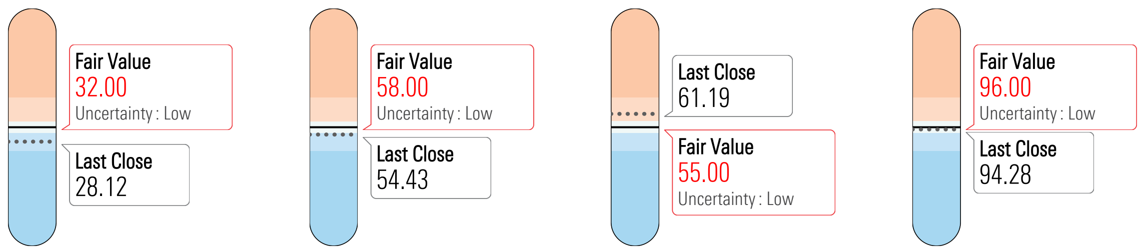
Competitors



	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	55.00 20 Mar 2023 19:16, UTC	96.00 5 Dec 2022 16:31, UTC
1-Star Price	40.00	72.50	68.75	120.00
5-Star Price	25.60	46.40	44.00	76.80
Assessment	Under Valued 2 May 2023	Under Valued 2 May 2023	Over Valued 2 May 2023	Fairly Valued 2 May 2023
Morningstar Rating	★★★★3 May 2023 21:22, UTC	★★★★3 May 2023 21:22, UTC	★★3 May 2023 21:22, UTC	★★★3 May 2023 21:22, UTC
Analyst	Travis Miller, Strategist	Andrew Bischof, Strategist	Travis Miller, Strategist	Andrew Bischof, Strategist
Capital Allocation	Standard	Standard	Standard	Exemplary
Price/Fair Value	0.88	0.94	1.11	0.98
Price/Sales	2.11	3.26	2.10	3.14
Price/Book	1.91	2.18	2.62	2.58
Price/Earning	16.42	19.98	26.39	22.31
Dividend Yield	3.48%	3.23%	3.04%	3.11%
Market Cap	11.53 Bil	13.71 Bil	17.93 Bil	30.05 Bil
52-Week Range	23.78—32.08	47.19—64.62	52.41—71.97	80.82—108.39
Investment Style	Mid Core	Mid Core	Mid Core	Mid Core

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.

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NiSource Inc NI ★★★★ 3 May 2023 21:22, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
28.12 USD 3 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.88	11.53 USD Bil 2 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

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.

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.

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NiSource Inc NI ★★★★ 3 May 2023 21:22, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
28.12 USD 3 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.88	11.53 USD Bil 2 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

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 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

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
28.12 USD 3 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.88	11.53 USD Bil 2 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

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

NiSource Reaches Landmark Settlement in Indiana; Deserves Premium Valuation 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.

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

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
28.12 USD 3 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.88	11.53 USD Bil 2 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

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.

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.

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

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NiSource Inc NI ★★★★ 3 May 2023 21:22, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
28.12 USD 3 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.88	11.53 USD Bil 2 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

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 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.

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NiSource Inc NI ★★★★ 3 May 2023 21:22, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
28.12 USD 3 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.88	11.53 USD Bil 2 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

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.

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.

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Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
28.12 USD 3 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.88	11.53 USD Bil 2 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, UTC

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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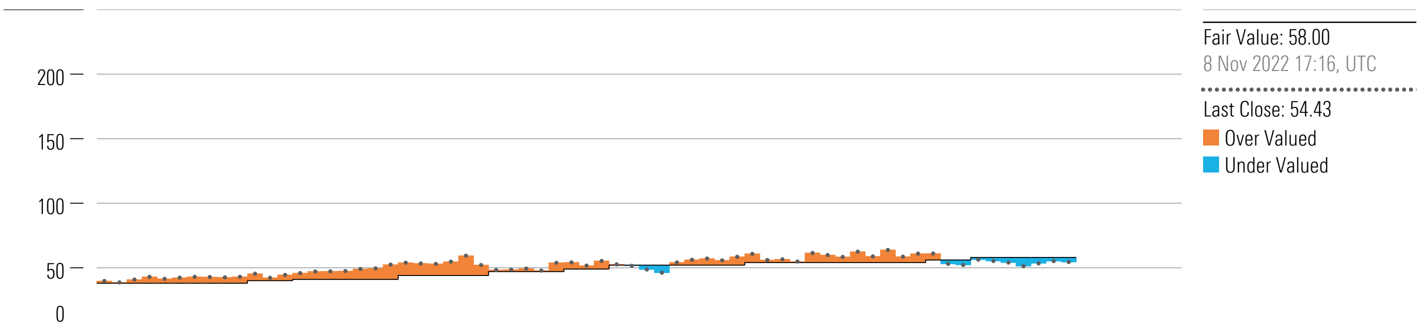
NiSource Inc NI ★★★★ 3 May 2023 21:22, UTC

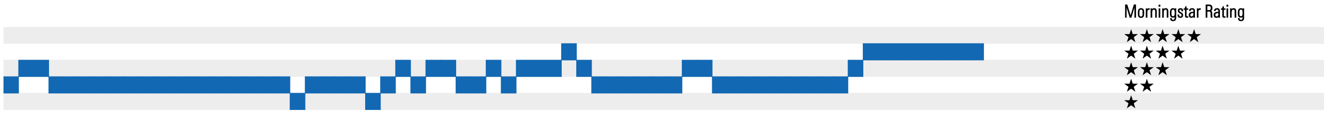
Competitors Price vs. Fair Value

Alliant Energy Corp LNT



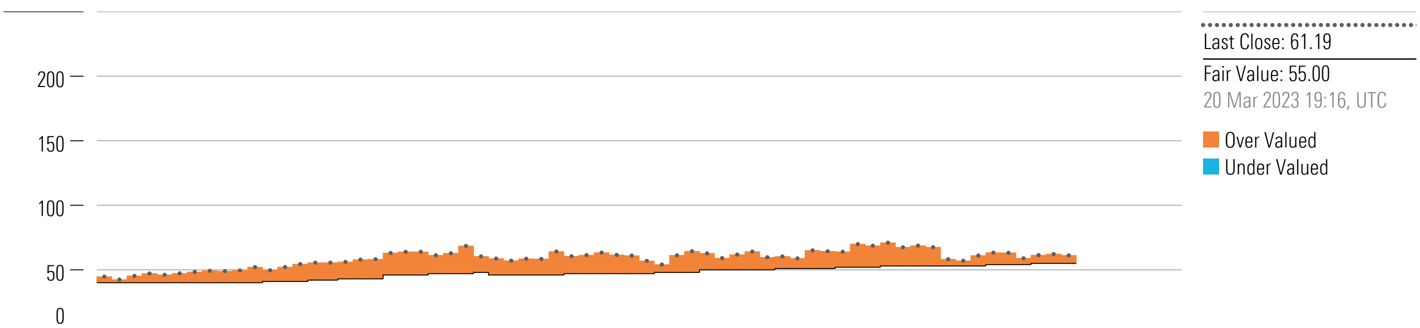
	2018	2019	2020	2021	2022	YTD
Price/Fair Value	1.06	1.24	0.99	1.14	0.95	0.94
Total Return %	2.30	32.88	-3.05	22.41	-7.40	0.23

Morningstar Rating



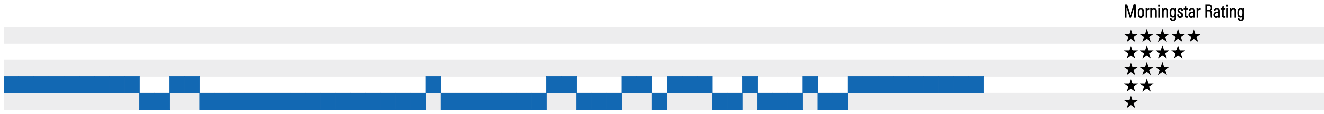
Total Return % as of 3 May 2023. Last Close as of 3 May 2023. Fair Value as of 8 Nov 2022 17:16, UTC.

CMS Energy Corp CMS



	2018	2019	2020	2021	2022	YTD
Price/Fair Value	1.21	1.34	1.30	1.28	1.17	1.11
Total Return %	7.99	29.65	-0.32	9.47	0.18	-2.61

Morningstar Rating



Total Return % as of 3 May 2023. Last Close as of 3 May 2023. Fair Value as of 20 Mar 2023 19:16, UTC.

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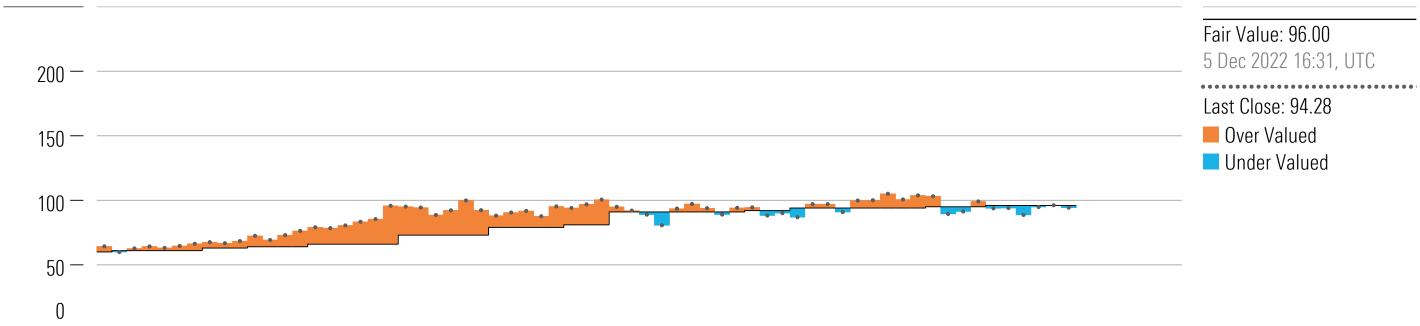
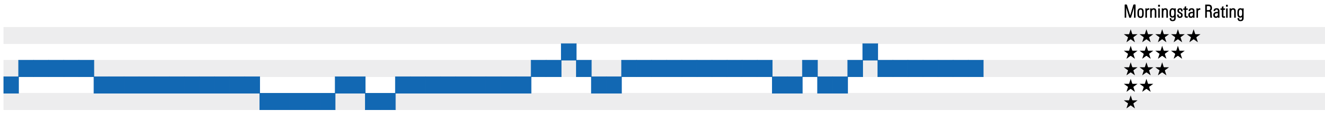
NiSource Inc NI ★★★★ 3 May 2023 21:22, UTC

WEC Energy Group Inc WEC



	2018	2019	2020	2021	2022	YTD	
	1.08	1.26	1.01	1.03	0.98	0.98	Price/Fair Value
	7.59	36.57	2.53	8.42	-0.41	1.39	Total Return %



Total Return % as of 3 May 2023. Last Close as of 3 May 2023. Fair Value as of 5 Dec 2022 16:31, UTC.

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NiSource Inc NI ★★★★ 3 May 2023 21:22, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Moat Trend™	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
28.12 USD 3 May 2023	32.00 USD 24 Aug 2022 19:55, UTC	0.88	11.53 USD Bil 2 May 2023	Narrow	Stable	Low	Standard	3 May 2023 05:00, 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 Apr 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	2.1	2.2
Price/Earnings	21.6	25.3	12.8	23.3	31.3	-87.7	22.6	-29.4	25.3	17.8	16.4	16.8
Price/Cash Flow	7.3	10.8	3.8	9.0	10.5	7.8	12.3	7.2	9.5	9.1	8.8	8.9
Dividend Yield %	2.98	2.4	4.25	2.89	2.73	3.08	2.87	3.66	3.19	3.43	3.42	3.41
Price/Book	1.8	2.2	1.6	1.9	2.0	2.0	2.1	2.0	2.3	2.0	1.9	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 19 Apr 2023

Financials

			Estimates		
Fiscal Year, ends 12-31-2022	2021	2022	2023	2024	2025
Revenue (USD Mil)	4,900	5,851	6,105	6,423	6,641
Revenue Growth %	4.7	19.4	4.4	5.2	3.4
EBITDA (USD Mil)	1,755	2,087	2,185	2,458	2,637
EBITDA Margin %	35.8	35.7	35.8	38.3	39.7
Operating Income (USD Mil)	1,007	1,266	1,305	1,498	1,587
Operating Margin %	20.5	21.6	21.4	23.3	23.9
Net Income (USD Mil)	572	651	708	778	836
Net Margin %	11.7	11.1	11.6	12.1	12.6
Diluted Shares Outstanding (Mil)	417	443	450	454	455
Diluted Earnings Per Share(USD)	1.37	1.47	1.57	1.72	1.84
Dividends Per Share(USD)	0.83	0.86	1.00	1.06	1.12

Forward Valuation

			Estimates		
	2021	2022	2023	2024	2025
Price/Sales	2.3	1.9	1.9	1.8	1.7
Price/Earnings	20.2	18.7	17.8	16.2	15.2
Price/Cash Flow	-18.0	-14.0	-11.1	-7.5	-16.8
Dividend Yield %	3.0	3.1	3.6	3.8	4.0
Price/Book	1.7	1.6	1.6	1.4	1.3
EV/EBITDA	12.8	11.2	11.3	10.0	9.4

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Appendix

Historical Morningstar Rating

NiSource Inc NI 3 May 2023 21:22, 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 3 May 2023 21:22, 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 3 May 2023 21:22, 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 3 May 2023 21:22, 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
★★	★★	★★	★★	★★	★★	★★★	★★★	★★★	★★★	★★★	★★

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

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

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

1. Economic Moat

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

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

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

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

2. Estimated Fair Value

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

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

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

Stage II: Fade

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

Stage III: Perpetuity

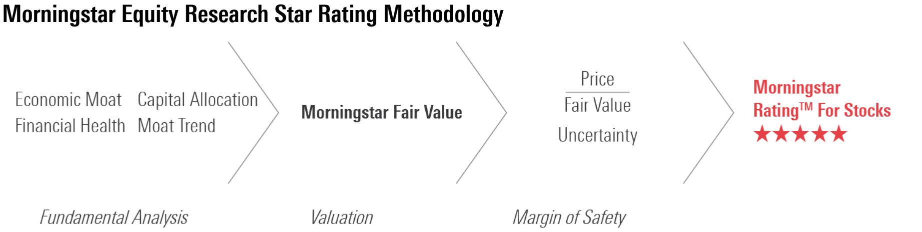
Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with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

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

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is

Morningstar Equity Research Star Rating Methodology



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Research Methodology for Valuing Companies

aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

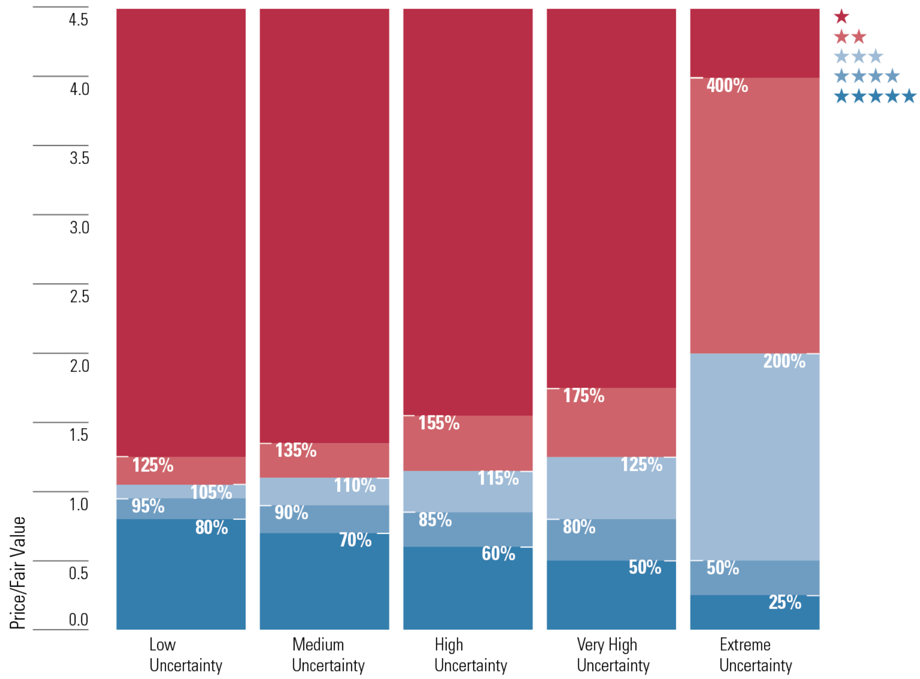
	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

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

Morningstar Equity Research Star Rating Methodology



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

Morningstar Star Rating for Stocks

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

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

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

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

The Morningstar Star Ratings for stocks are defined below:

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

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

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

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

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

Other Definitions

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

Research Methodology for Valuing Companies

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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INDUSTRY PULSE | APRIL 2023

Utilities: Q2 2023

As utilities' valuations have moderated, investors should focus on long-term growth potential.

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Morningstar Equity Research

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Executive Summary

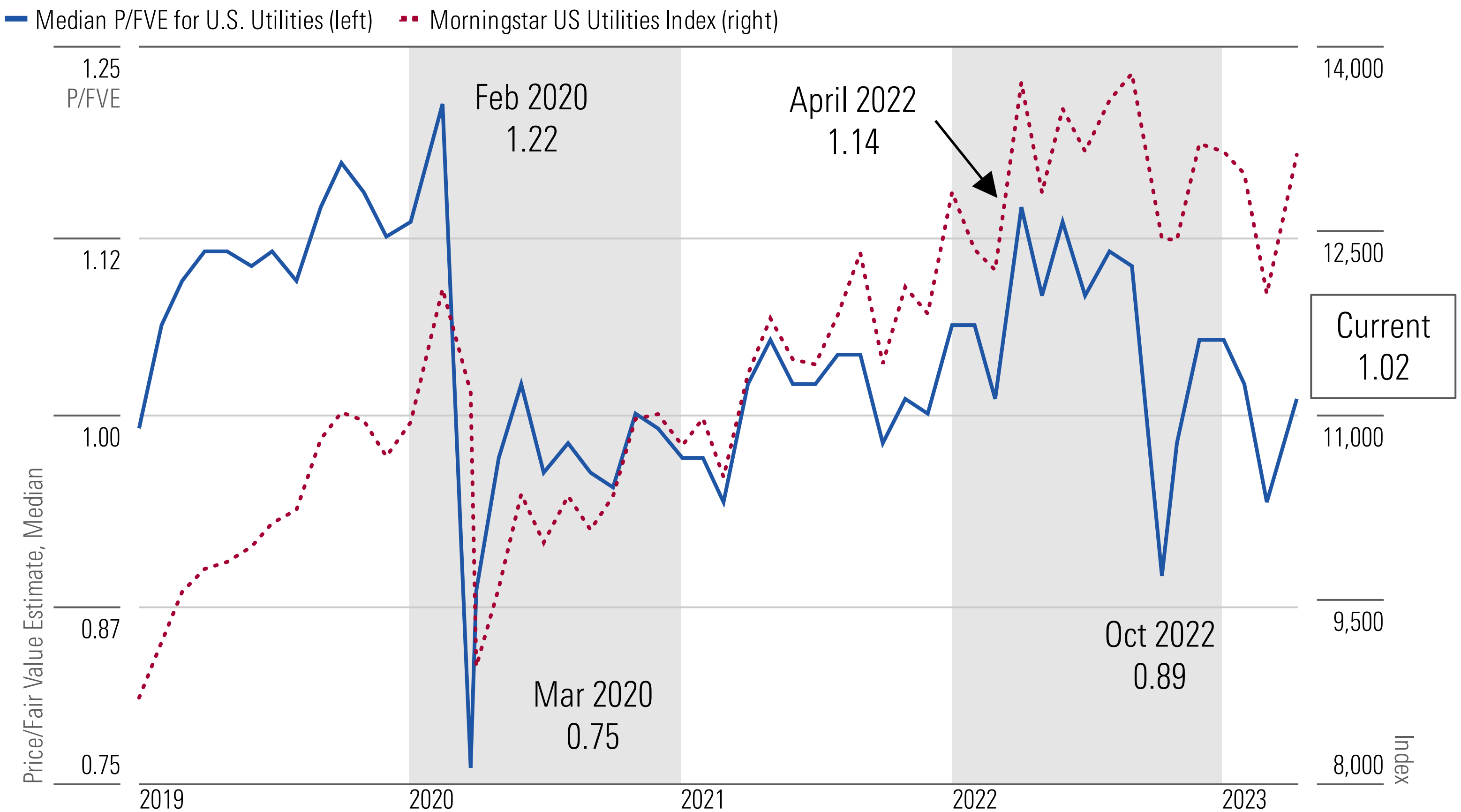
Utilities trading near our fair value estimates and historical norms after suffering from rising interest rates.

Valuation Snapshot: U.S. Utilities Trade Near Fair Value

We consider U.S. utilities slightly overvalued on a median basis as of mid-April. The sector is mostly flat year to date, including dividends. Utilities trail the U.S. total market by 7 percentage points, making it the third-worst performing sector behind healthcare and energy.

- Most utilities trade within 10% of our fair value estimates as of mid-April, one of the tightest valuation spreads in at least 15 years.
- Utilities' valuations have moderated since their recent peak at 1.14 in April 2022. Utilities are down 4%, including dividends, since that peak.
- Utilities have rallied 6% off their October 2022 lows when the sector reached a median 0.89 P/FVE.
- After trading at a premium to our fair value estimates for much of the last decade, utilities' valuations have moderated as the secular decline in interest rates has reversed sharply.

Utilities Slightly Overvalued After Choppy Performance Since 2021



Source: Morningstar. Data as of April 18, 2023.

Valuation Snapshot: Star Ratings and Multiples

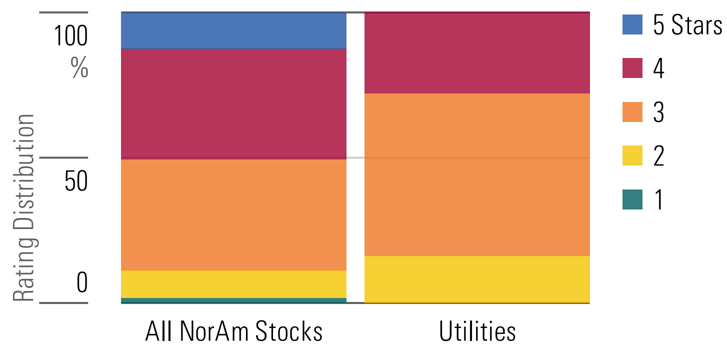
Star Ratings
Utilities are the only sector in Morningstar's North American coverage that has no 5-star-rated stocks. However, 10 utilities had 4-star ratings going into the second quarter, the most since the 2020 market bottom.

Valuation Multiples
Utilities' valuations are down substantially since their February 2020 peak. Flat stock prices and growing earnings since 2021 have brought utilities' P/E and P/B ratios back to near 10-year averages. Growing dividends for most utilities have brought the sector average dividend yield near its 10-year average (3.5%).

Utilities' valuations peaked in early 2020 when the median sector P/E hit 26 and P/B hit 2.4. On a normalized basis, we think utilities today should trade near 17.5 P/E.

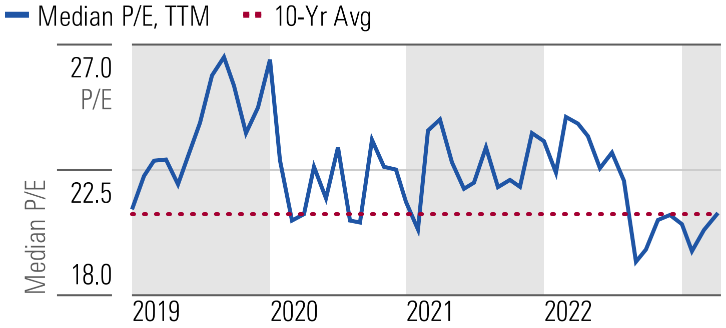
Utilities' dividends are well covered and nearly all U.S. utilities are positioned to grow their dividends for at least the next three years. This should help stabilize the sector dividend yield even if utilities' stocks perform poorly.

Star Rating Distribution



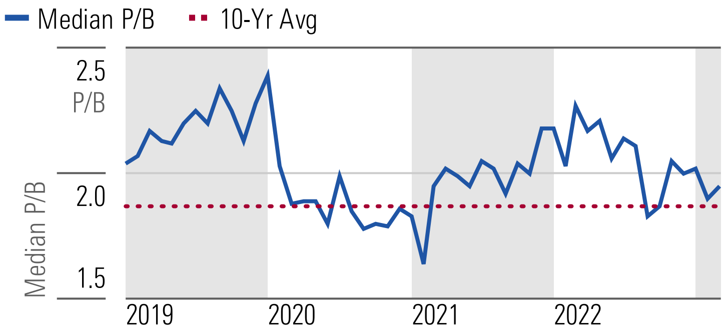
Source: Morningstar. As of April 4, 2023.

Price/Earnings (TTM)



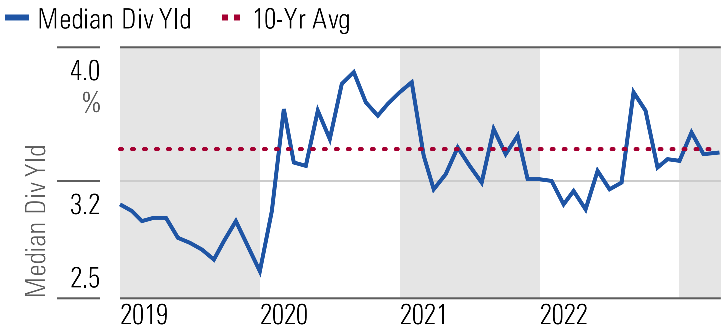
Source: Morningstar. As of April 18, 2023.

Price/Book



Source: Morningstar. As of April 18, 2023.

Dividend Yield

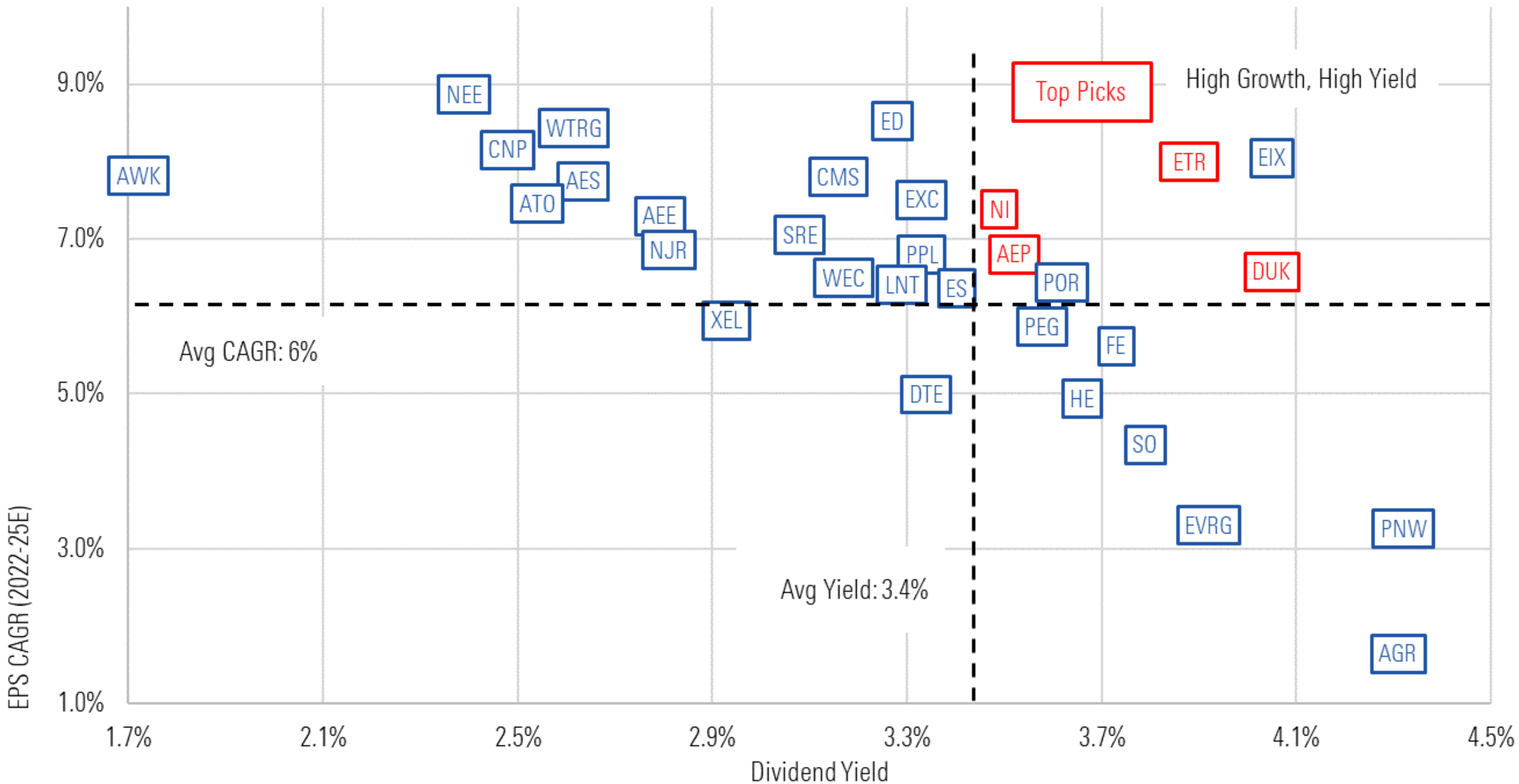


Source: Morningstar. As of April 18, 2023.

EXECUTIVE SUMMARY

Best Investment Opportunities: High Yield and High Growth

Top Utilities Picks Offer Attractive Dividend Yields and Growth Potential



Source: Morningstar. Data as of April 18, 2023.

TOP PICKS

Entergy (ETR)
Dividend Yield: 4.0%
2022-25 EPS CAGR: 8.0%
Price/FVE: 0.90

Duke Energy (DUK)
Dividend Yield: 4.2%
2022-25 EPS CAGR: 6.6%
Price/FVE: 0.93

NiSource (NI)
Dividend Yield: 3.6%
2022-25 EPS CAGR: 7.4%
Price/FVE: 0.88

American Electric Power (AEP)
Dividend Yield: 3.6%
2022-25 EPS CAGR: 6.8%
Price/FVE: 0.95

Rates, ROEs and Inflation

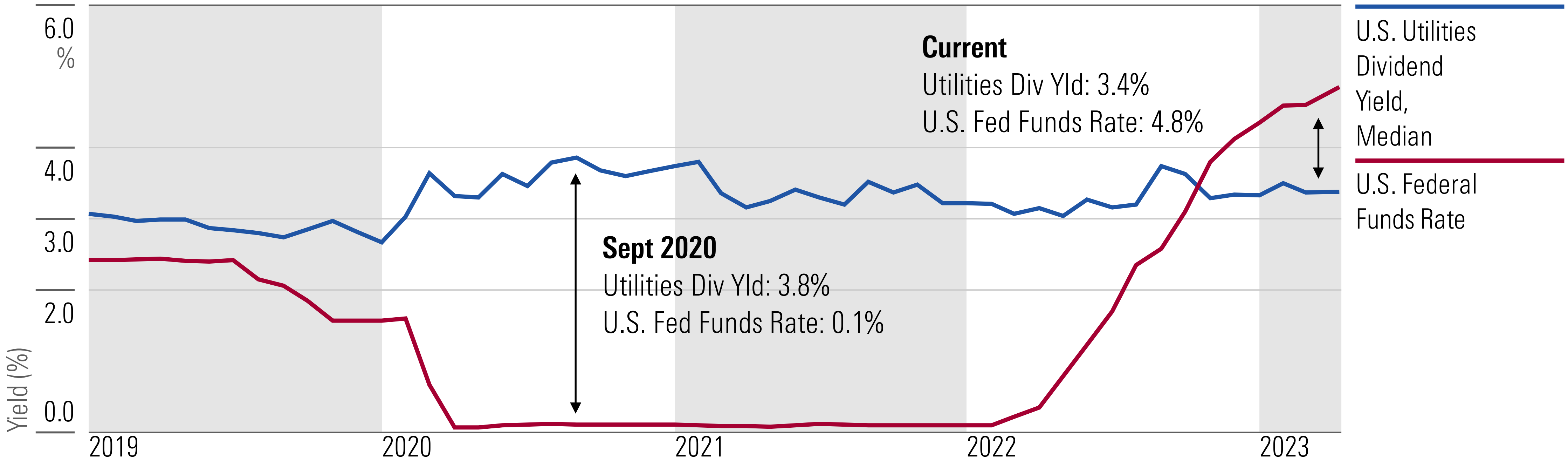
Rising interest rates and inflation make utilities' dividends less attractive, could slow growth.

Interest Rates: Utilities' Dividend Yield Premium Has Disappeared

Interest rates have popped after spending much of the last two years near 0%. The daily average U.S. Federal-Funds Rate topped the median utilities sector dividend yield in November 2022 for the first time since the 2008-09 recession. Utilities' dividend yield premium averaged 150 basis points between 2010 and 2022 and peaked at 375 basis points in September 2020. Our valuations suggest most utilities' dividend yields will remain above 3% for at least the next 12 months.

Interest Rates Higher Than Utilities Dividend Yield For First Time in 14 Years

Dividend growth will support utilities' yields if utilities stocks plateau.



Source: Morningstar, Federal Reserve Bank of New York. Data as of April 18, 2023.

Utility Rate Regulation: Will Regulators Adjust to Higher Interest Rates?

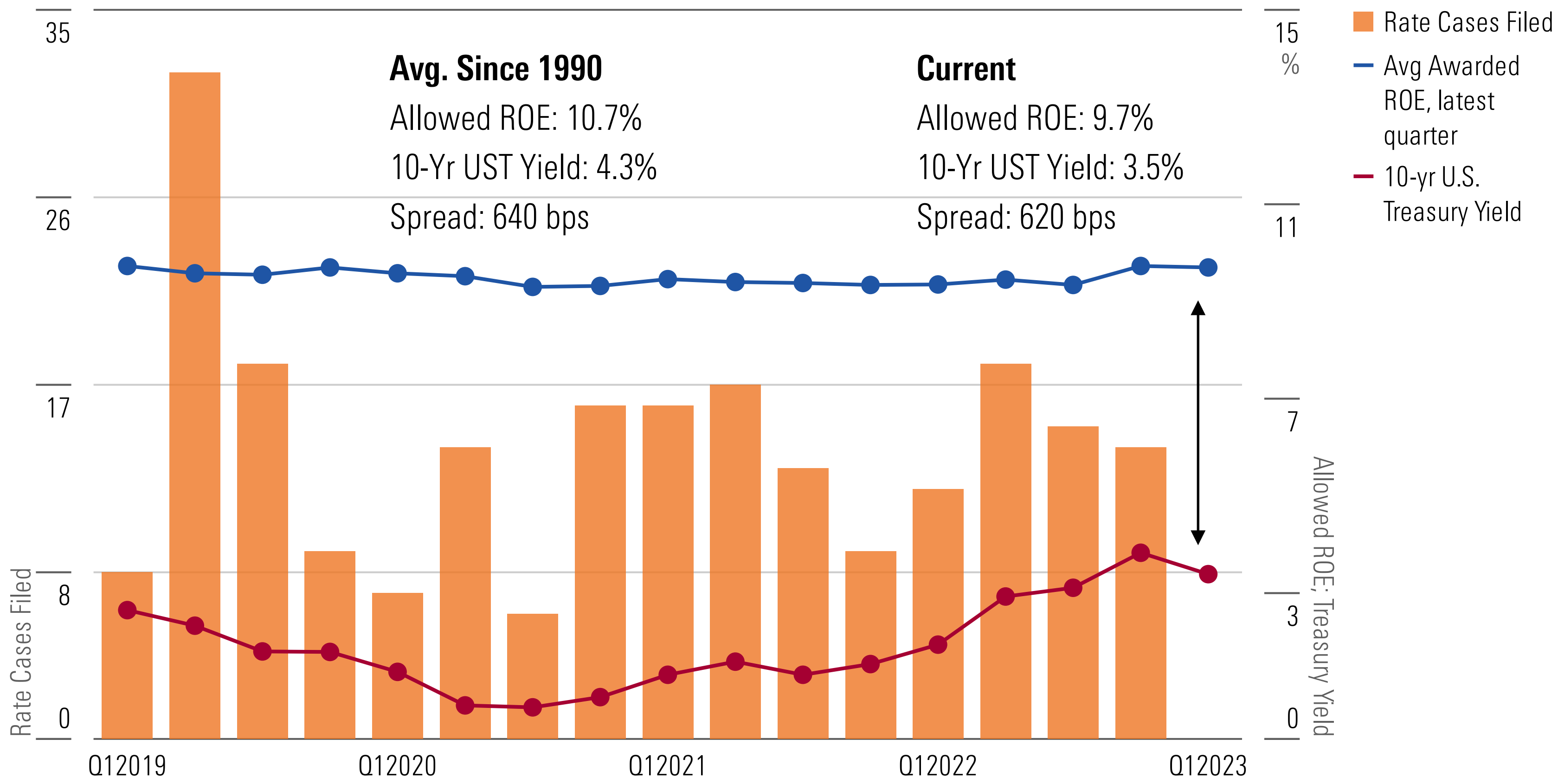
Most utilities face higher interest expense in 2023-24 with little relief from customer rate increases. Average earnings growth could fall to 4% from 6% if the spread between interest rates and allowed ROE closes by 100 basis points.

Key Regulatory Activity

- **WEC Energy:** Received a 9.8% allowed ROE with 53% equity in most recent rate case.
- **Duke Energy:** Filed rate cases at its North Carolina utilities to incorporate recent legislation.
- **NiSource:** Settled its Indiana electric rate case in March, supporting our 7% EPS CAGR estimate in 2023-25.
- **Xcel Energy:** Growth depends on 2023 rate case outcomes in Minnesota, South Dakota, Colorado, and Texas.

Recent Jump in Interest Rates Has Narrowed Spread Between Bond Yields and Allowed ROE

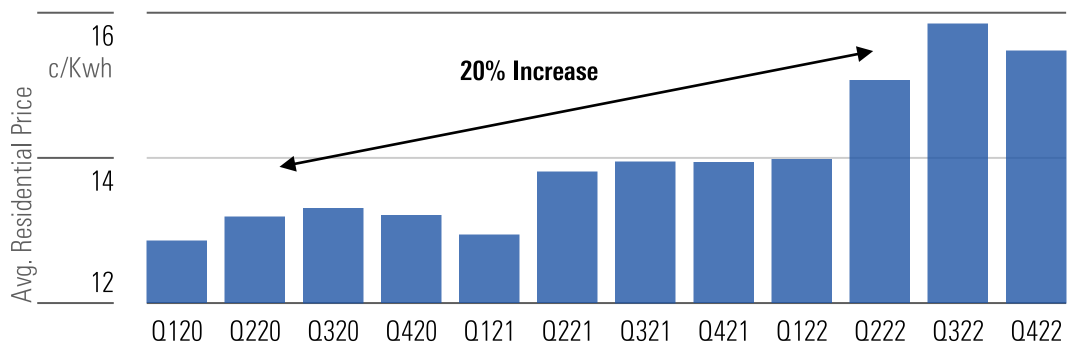
Utilities rate case filings could pick up if interest rates and inflation remain high.



Source: Edison Electric Institute, Morningstar. Data as of April 2023.

Inflation: Rising Consumer Prices Remain a Headwind For Utilities

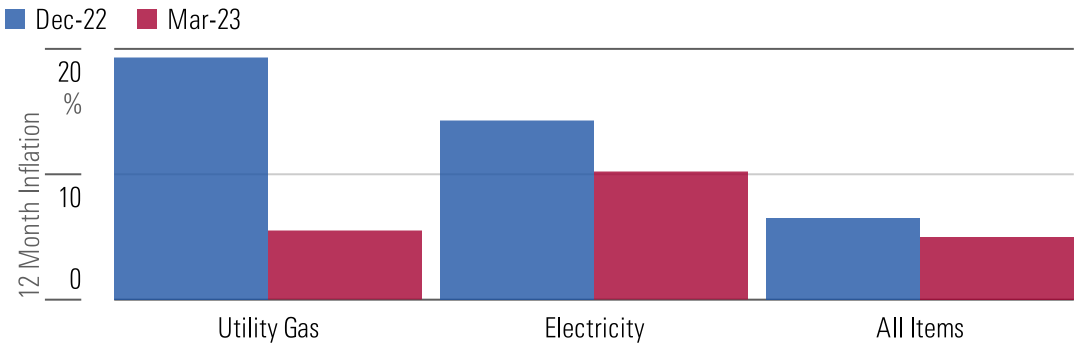
Jump in Electricity Prices Has Pressured Consumer Bills



Source: Energy Information Administration. Data as of March 2023.

- Electricity costs rose less than 1% annually on average from 2010-20. That changed in 2021, when electricity prices began accelerating, putting pressure on customers' utility bills.
- About half of the average customer's bill includes energy costs, taxes, and other fees that utilities incur and pass through to customers with no markup.
- In the fourth quarter of 2022, the average cost per kilowatt-hour for urban U.S. consumers fell 2.3%, but it remains 20.3% above the three-year quarterly low in the first quarter of 2020.

Gas and Electricity Price Inflation Has Eased but Still Above Total Inflation



Source: Bureau of Labor Statistics. Data as of April 2023.

- Electricity and natural gas (piped) cost inflation has significantly outpaced overall inflation during the past 12 months. Electricity was the largest contributor to overall inflation among all major categories in the Bureau of Labor Statistics' U.S. Consumer Price Index March inflation report.
- Delivered natural gas prices were up more than 19% during the trailing 12 months through December. Natural gas prices have declined since then, helping moderate customer bills. However, delivered gas price increases remained 50 basis points above average inflation.

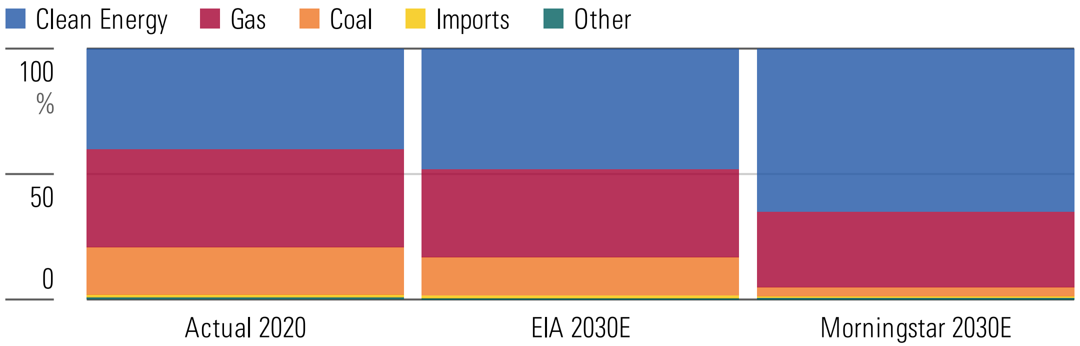
Growth Opportunities

Clean energy and electricity demand are catalysts for utilities' growth.

GROWTH OPPORTUNITIES

Renewable Energy: Morningstar's 2030 Forecast

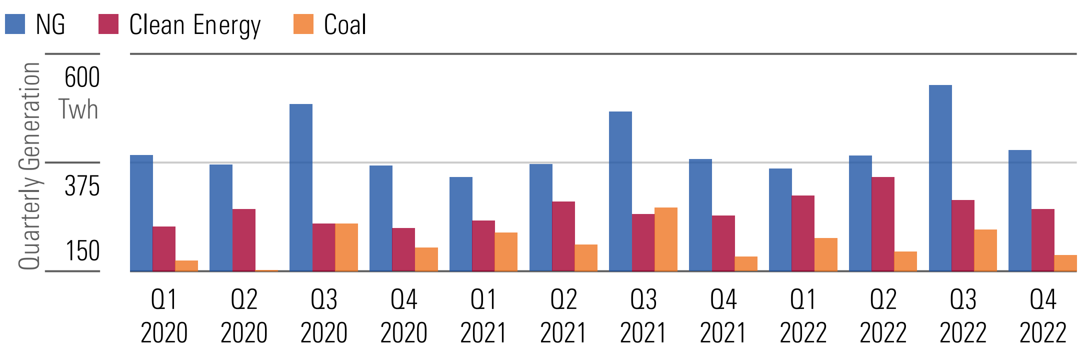
Morningstar's 2030 Clean Energy Outlook



Source: Morningstar, EIA. Data as of April 2023.

- We forecast that clean energy—including renewable energy, hydro, and nuclear—will grow to 65% of U.S. electricity supply, up from 40% today. We expect that utility-scale wind and solar will more than triple to 1,530 terawatt-hours, or 33% of total generation, by 2030.
- Our forecast is higher than EIA's 48% estimate but well short of President Joe Biden's ambitious goal of 80% by 2030 and 100% by 2035.
- We expect solar will be the dominant renewable energy technology due to improving economics, favorable tax policy, and greater solar system efficiencies.

After Resurgence, Coal Resumes Its Decline as Clean Energy Continues Climb



Source: EIA. Data as of April 2023.

- Coal generation peaked in the third quarter of 2021 as natural gas prices spiked, making coal generation relatively more economical. However, coal generation had fallen below 2020 levels by the fourth quarter of 2022, a trend we expect to continue. By 2030, we expect coal generation to be just 6% of total U.S. generation, down from 19.5% currently.
- Clean energy continued to increase as a share of total U.S. generation. In the second quarter of 2022, clean energy was up 23% from 2020. Utility-scale wind and solar accounted for 15% of total generation in 2022. We forecast that utility-scale wind and solar will climb to 33% of total generation by 2030.

Renewable Energy: Trends That Support Growth For Utilities

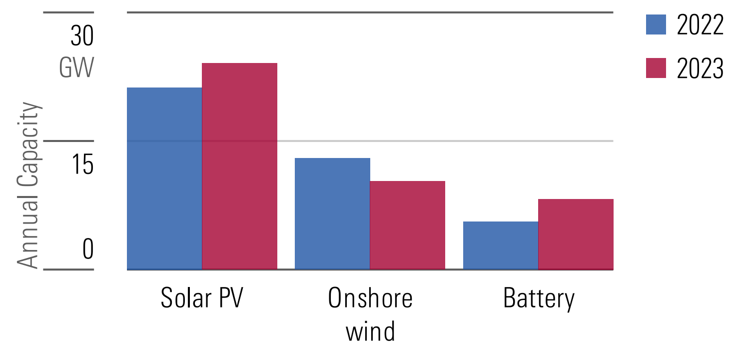
- Solar remains developers' preferred renewable energy technology. Nearly 24 GW of new solar capacity is set to come online, a 14% increase from 2022 installations and more than double expected onshore wind development, according to Rystad forecasts.

- Initial and approved applications for new renewable energy projects remains strong, supporting our view that rapid growth will continue beyond 2023.

- Wind and solar PPA prices in 2024 are set to continue a decade of declines. From 2023-25, solar PPA prices are expected to decline over 30%, based on Rystad forecasts. This will improve solar's relative economic advantage over other renewable energy sources.

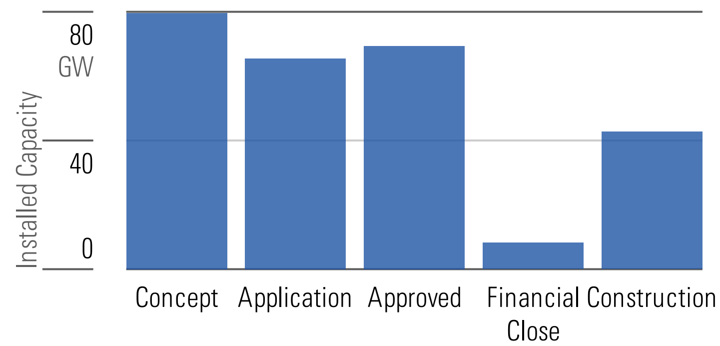
- More than 400 GW of solar, wind and battery storage are in the Regional Transmission Operator interconnection queues. The California (CAISO) and mid-Atlantic (PJM) grid operators have the largest renewable energy queues.

Solar Continues To Be Top Renewable Choice in 2023



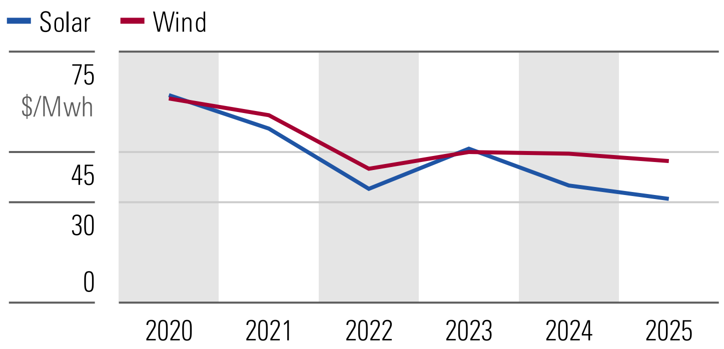
Source: Rystad. Data as of April 2023.

Renewables Development Queue Supports Growth



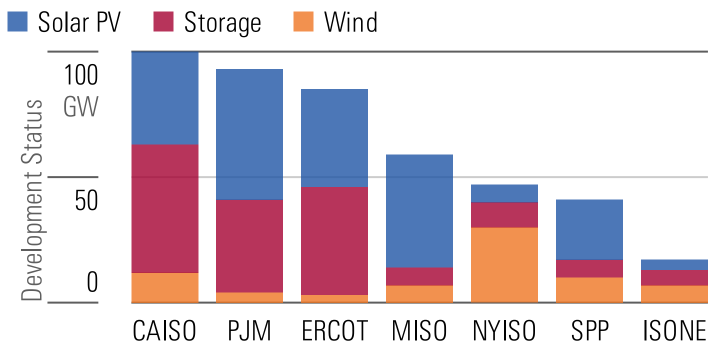
Source: Rystad. Data as of April 2023.

Despite Inflation Renewable Prices Continue Decline



Source: Rystad. Data as of April 2023.

California Remains Renewable Leader Among RTOs



Source: Rystad. Data as of April 2023.

Electricity Demand: Strong Recovery From Pandemic Lows

Total U.S. Electricity Demand

- Electricity demand has recovered from 2020 Covid lows. We estimate 1.4% average annual electricity demand growth through 2030.

- Total electricity demand in 2022 was up 5.1% from 2020. This is the fastest growth since the 2008-09 recession but still below the 2.7% average annual growth rate prior to that recession.

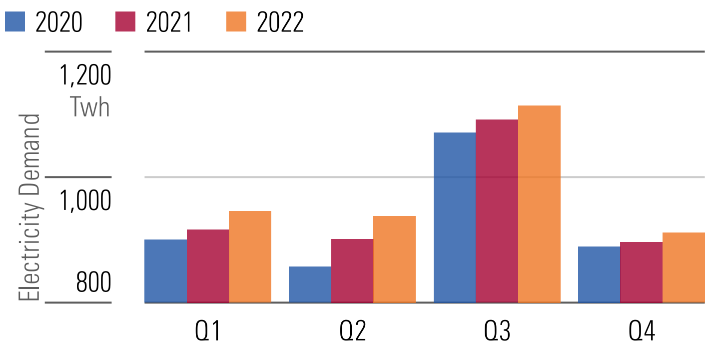
Electricity Demand: Industrial Sector

- We expect industrial electricity demand to continue grow in line with industrial production.
- Industrial electricity demand fell 24% year over year in the second quarter of 2020, one of the sharpest declines ever recorded.
- The industrial production index fell 13% during the same quarter, dipping below 2017 levels. The index has since recovered to prepandemic levels.

Electricity Demand: Residential Sector

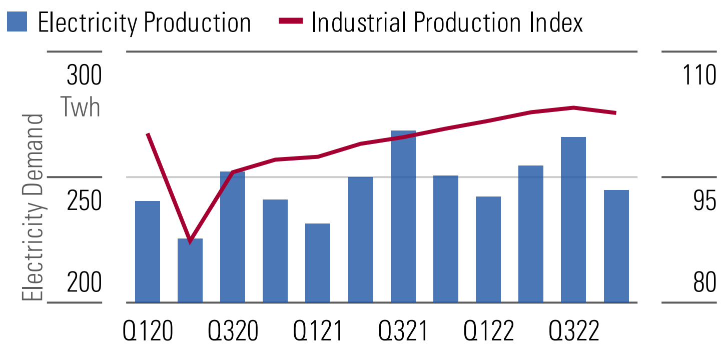
- We expect electricity demand growth to moderate from the post-2020 rebound. Transportation and building electrification support long-term growth.
- Residential electricity demand increased 8% in late 2020 due to COVID-19-related shelter-in-place orders. Residential electricity demand was higher than normal during the fourth quarter of 2022 due to favorable weather and continued work from home.

Electricity Demand Recovers From 2020 Lows



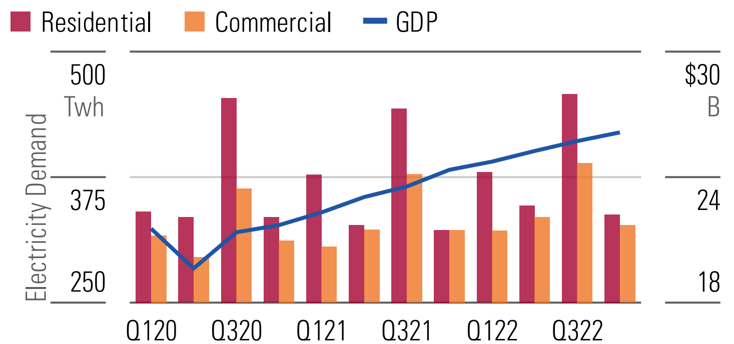
Source: Energy Information Administration. Data as of April 2023.

Industrial Demand Increases as Production Recovers



Source: FRED, EIA. Data as of April 2023.

Residential and Commercial Rebound as GDP Recovers

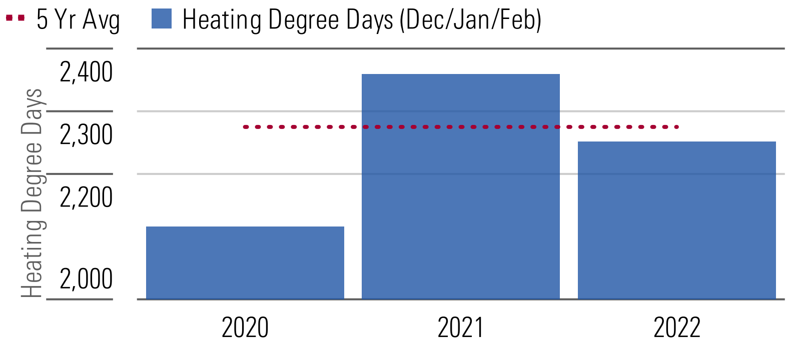


Source: FRED, EIA. Data as of April 2023.

Weather: Remains Near-Term Earnings Driver For Utilities

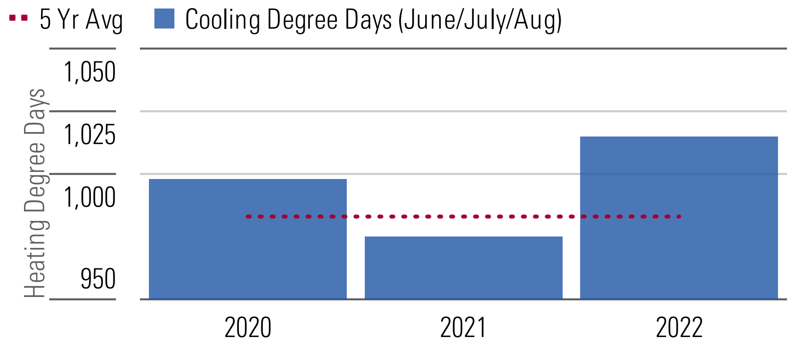
- A warmer than normal 2022 winter was a slight drag on gas utilities' earnings, This will be a modest headwind for gas utilities' earnings in 2023.
- A hotter-than-normal summer in 2022 makes a difficult earnings comp for electric utilities this year.
- Utilities in the southern U.S. should benefit from another favorable warm summer based on the NOAA seasonal temperature outlook forecasting above-average temperatures for that region.
- Northwest snowpack is 200% above average and the second-largest ever behind the 1982-83 winter. California snowmelt runoff could be five times normal based on current reports, likely resulting in near-record hydro generation this summer.

Heating Degree Days Return to Normal After Cold 2021



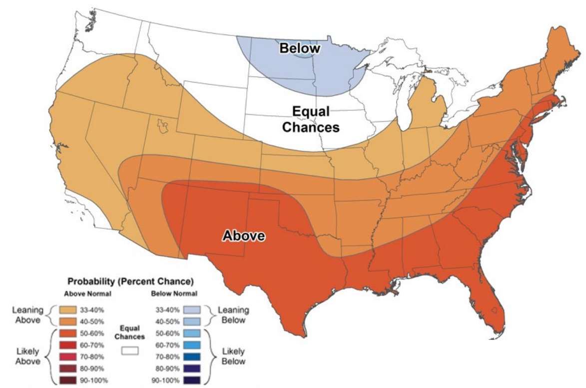
Source: NOAA. Data as of April 2023.

Warm 2022 Summer Provides Difficult 2023 Comp



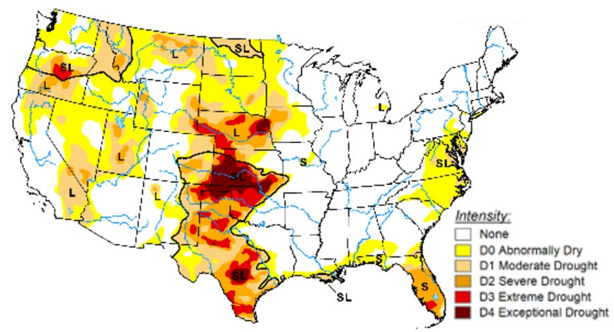
Source: NOAA. Data as of April 2023.

South Forecast to Experience Above Average Temp



Source: NOAA. Data as of March 2023.

Near-Record Snowpack Eases Drought in West



Source: NOAA US Drought Monitor. Data as of April 2023.

Current Topic: Companies File Final Hydrogen Hub Proposals; $8B Grants Determined This Fall

On April 7, more than 20 partnerships in the U.S. filed final hydrogen hub proposals for $8 billion of grants as part of the 2021 Infrastructure, Investment and Jobs Act. The Department of Energy plans to announce the six-10 grant recipients this fall.

We think hydrogen will be a key growth driver for many gas and electric utilities. Green hydrogen will accelerate and increase demand for renewable energy and electric grid infrastructure. Utilities also will be responsible for hydrogen distribution to retail customers and power producers.

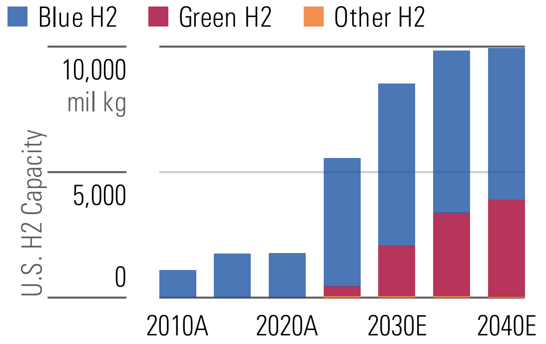
We think each of these could be in line for $1 billion or more of funding:

HyVelocity Hub
- States: Texas, Louisiana
- Utilities involved: AES, Sempra, Orsted, Avangrid, CenterPoint

HALO Hydrogen Hub
- States: Louisiana, Arkansas, Oklahoma
- Utilities involved: NextEra Energy, OGE, American Electric Power, Entergy, Sempra

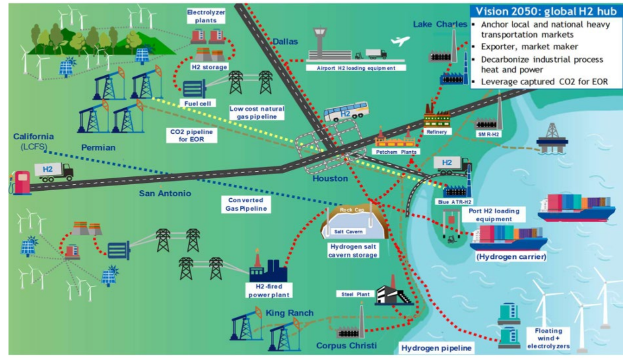
Western Interstate Hydrogen Hub
- States: Colorado, New Mexico, Utah, Wyoming
- Utilities involved: Xcel Energy, Dominion, Avangrid

Green Hydrogen To Grow Rapidly



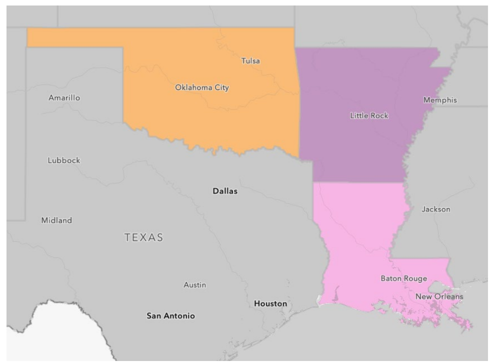
Source: Rystad.

HyVelocity Hub



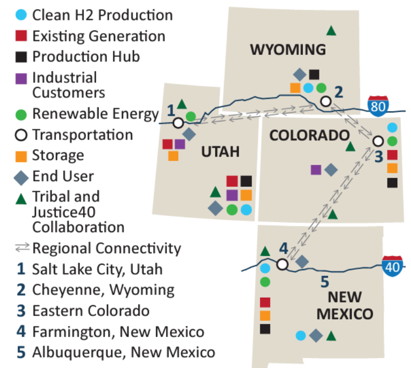
Source: University of Houston.

HALO Hydrogen Hub



Source: HALO Hydrogen Hub.

Western Interstate Hydrogen Hub



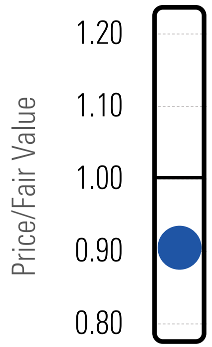
Source: Western Interstate Hydrogen Hub LLC.

Top Picks and Coverage

Investors will find some bargains in the utilities sector.

Utility Sector Top Picks

Entergy (ETR)



Market Cap
$23 Bil

Moat
Narrow

Rating
★★★★

Yield
4.0%

P/FV
0.90

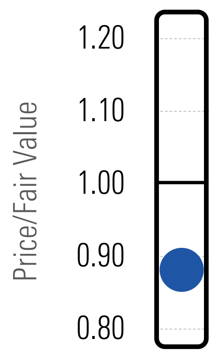
P/E
16.2x

Source: Morningstar. Data as of April 18, 2023.

Entergy's Southeast Service Territory Offers Many Growth Opportunities

- We think Entergy's combination of 4% dividend yield and our outlook for 7% long-term earnings growth represents one of the best total return opportunities in the sector.
- Entergy's 16 P/E is a 10% discount to the median utilities sector P/E as of mid-April.
- Key growth drivers are above-average industrial electricity demand growth in the Gulf Coast, clean energy investments, and reliability/resiliency network investments.
- Entergy is one of the few utilities positioned to help industrial customers reduce carbon emissions, support global energy demand, and develop a leading regional hydrogen network.

NiSource (NI)



Market Cap
$12 Bil

Moat
Narrow

Rating
★★★★

Yield
3.6%

P/FV
0.88

P/E
18.2x

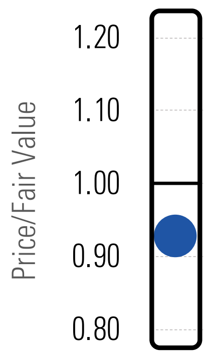
Source: Morningstar. Data as of April 18, 2023.

Market Underappreciates Growth Potential of NiSource's Electric and Gas Businesses

- We think NiSource offers investors an opportunity to buy a high-growth utility trading at the same valuation as its slower-growing peers.
- NiSource's transition away from fossil-fuel power generation to renewable energy at its Indiana electric utility supports a decade of above-average growth. The company plans to close its last coal-fired power plant in 2028 and replace the generation with wind, solar, and energy storage.
- NiSource's gas utilities offer near-term growth from investments in system safety and upgrades.
- We expect NiSource to invest $12 billion over the next five years and as much as $30 billion during the next 10 years, leading to 7% earnings and dividend growth.

Utility Sector Top Picks (Continued)

Duke Energy (DUK)



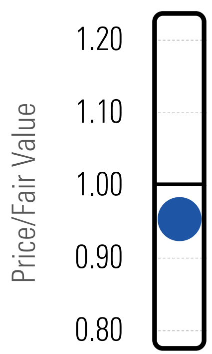
Market Cap	Moat
$76 Bil	Narrow
Rating	**Yield**
★★★★	4.2%
P/FV	**P/E**
0.93	17.3x

Source: Morningstar. Data as of April 18, 2023.

Improved Regulatory Outlook Provides Confidence in Growth Outlook But Management Execution in Spotlight

- After divesting Duke's commercial renewables business, Duke will be a fully regulated utility with a clear pathway to achieving the company's 5% to 7% earnings growth target.
- Duke's $65 billion capital investment plan for 2023-27 is focused on clean energy and infrastructure upgrades, as the company works towards its net-zero carbon emissions' goal by 2050.
- In North Carolina, Duke's most important jurisdiction, regulation has improved significantly through recently passed legislation.
- Duke's 4.2% yield is among the highest in the sector. We expect dividend growth to lag earnings growth given the company's higher payout ratio.

American Electric Power (AEP)



Market Cap	Moat
$48 Bil	Narrow
Rating	**Yield**
★★★★	3.6%
P/FV	**P/E**
0.95	17.5x

Source: Morningstar. Data as of April 18, 2023.

AEP Best Positioned Transmission and Distribution Developer For Clean Energy Transition

- The company is pursuing several strategic initiatives that include divesting its renewable energy business, its Kentucky operations, and likely its retail business.
- These moves would make AEP a fully regulated utility that we think is well-positioned to achieve management's 6%-7% annual earnings growth target.
- Growth is supported by the company's $40 billion capital investment plan in 2023-27 focused on transmission and renewable energy.
- Regulatory ROEs remain depressed, but rate activity across its subsidiaries should help AEP earn closer to its 9.4% year-end target.

U.S. Utilities Coverage

Company	Ticker	Star Rating	Market Cap ($mil)	Stock Price	Price / Fair Value	Fair Value Est.	Economic Moat	Uncertainty Rating	P/E (Forward)	Dividend Yield	Analyst E-mail
NiSource	NI	★★★★	11,791	$ 28.19	**0.88**	$ 32.00	Narrow	Low	17.8	3.5%	travis.miller@morningstar.com
Entergy	ETR	★★★★	23,203	$ 108.58	**0.90**	$ 120.00	Narrow	Low	16.5	3.9%	travis.miller@morningstar.com
Duke Energy	DUK	★★★★	75,832	$ 97.41	**0.93**	$ 105.00	Narrow	Low	17.3	4.1%	andrew.bischof@morningstar.com
NRG Energy	NRG	★★★	8,092	$ 34.66	**0.94**	$ 37.00	None	High	7.9	4.3%	travis.miller@morningstar.com
Alliant Energy	LNT	★★★★	13,899	$ 54.34	**0.94**	$ 58.00	Narrow	Low	18.8	3.3%	andrew.bischof@morningstar.com
Evergy Inc	EVRG	★★★	14,347	$ 61.74	**0.95**	$ 65.00	Narrow	Low	17.0	3.9%	travis.miller@morningstar.com
American Electric Power	AEP	★★★★	48,118	$ 92.47	**0.95**	$ 97.00	Narrow	Low	17.6	3.6%	andrew.bischof@morningstar.com
NextEra Energy	NEE	★★★	159,726	$ 78.30	**0.95**	$ 82.00	Narrow	Medium	25.3	2.4%	andrew.bischof@morningstar.com
DTE Energy	DTE	★★★	23,251	$ 112.04	**0.97**	$ 116.00	Narrow	Low	18.0	3.4%	travis.miller@morningstar.com
Dominion Energy	D	★★★	47,968	$ 57.36	**0.97**	$ 59.00	Narrow	Medium	14.6	4.7%	andrew.bischof@morningstar.com
Public Svc Ent Grp	PEG	★★★	31,946	$ 63.81	**0.98**	$ 65.00	Narrow	Low	18.1	3.6%	travis.miller@morningstar.com
PPL Corp	PPL	★★★	21,153	$ 28.49	**0.98**	$ 29.00	Narrow	Low	18.2	3.3%	andrew.bischof@morningstar.com
Edison International	EIX	★★★	27,832	$ 72.11	**0.99**	$ 73.00	Narrow	Medium	15.1	4.1%	travis.miller@morningstar.com
Portland General Electric	POR	★★★	4,519	$ 49.80	**1.00**	$ 50.00	Narrow	Low	18.7	3.6%	travis.miller@morningstar.com
WEC Energy Group	WEC	★★★	30,515	$ 95.74	**1.00**	$ 96.00	Narrow	Low	20.8	3.2%	andrew.bischof@morningstar.com
Total N. American Utilities coverage (median)			23,251		**1.02**				18.2	3.4%	

Source: Morningstar. Data as of April 18, 2023.

U.S. Utilities Coverage (Continued)

Company	Ticker	Star Rating	Market Cap ($mil)	Stock Price	Price / Fair Value	Fair Value Est.	Economic Moat	Uncertainty Rating	P/E (Forward)	Dividend Yield	Analyst E-mail
Hawaiian Electric Ind.	HE	★★★	4,343	$ 39.04	**1.00**	$ 39.00	Narrow	Low	17.1	3.6%	andrew.bischof@morningstar.com
OGE Energy	OGE	★★★	7,531	$ 37.24	**1.01**	$ 37.00	None	Low	18.3	4.4%	travis.miller@morningstar.com
FirstEnergy	FE	★★★	23,372	$ 40.48	**1.01**	$ 40.00	Narrow	Low	16.1	3.8%	andrew.bischof@morningstar.com
Vistra Energy Corp	VST	★★★	9,214	$ 24.31	**1.01**	$ 24.00	None	High	5.5	3.3%	travis.miller@morningstar.com
Essential Utilities Inc	WTRG	★★★	11,466	$ 42.63	**1.02**	$ 42.00	Narrow	Low	22.8	2.7%	travis.miller@morningstar.com
Pinnacle West Capital	PNW	★★★	9,058	$ 79.01	**1.03**	$ 77.00	Narrow	Low	19.7	4.3%	travis.miller@morningstar.com
Ameren	AEE	★★★	23,436	$ 88.29	**1.03**	$ 86.00	None	Low	20.1	2.8%	andrew.bischof@morningstar.com
Avangrid Inc	AGR	★★★	15,694	$ 40.29	**1.03**	$ 39.00	Narrow	Medium	18.2	4.3%	andrew.bischof@morningstar.com
Fortis Inc	FTS	★★★	28,931	C$ 59.39	**1.04**	C$ 57.00	Narrow	Low	20.1	3.8%	andrew.bischof@morningstar.com
CenterPoint Energy	CNP	★★★	19,252	$ 30.23	**1.04**	$ 29.00	Narrow	Low	20.1	2.5%	andrew.bischof@morningstar.com
Exelon	EXC	★★★	42,795	$ 42.85	**1.05**	$ 41.00	Narrow	Low	18.2	3.4%	andrew.bischof@morningstar.com
Sempra Energy	SRE	★★★	49,712	$ 156.02	**1.05**	$ 149.00	Narrow	Medium	17.0	3.0%	andrew.bischof@morningstar.com
Eversource Energy	ES	★★	27,542	$ 78.38	**1.06**	$ 74.00	None	Low	18.1	3.4%	travis.miller@morningstar.com
The AES Corporation	AES	★★★	16,391	$ 24.42	**1.06**	$ 23.00	None	Medium	13.5	2.7%	andrew.bischof@morningstar.com
Southern Co	SO	★★	79,473	$ 72.58	**1.07**	$ 68.00	Narrow	Low	20.0	3.9%	travis.miller@morningstar.com
Total N. American Utilities coverage (median)			23,251		**1.02**				18.2	3.4%	

Source: Morningstar. Data as of April 18, 2023.

U.S. Utilities Coverage (Continued)

Company	Ticker	Star Rating	Market Cap ($mil)	Stock Price	Price / Fair Value	Fair Value Est.	Economic Moat	Uncertainty Rating	P/E (Forward)	Dividend Yield	Analyst E-mail
Emera Inc	EMA	★★★	15,713	C$ 57.79	**1.07**	C$ 54.00	Narrow	Low	18.1	4.8%	andrew.bischof@morningstar.com
Atmos Energy	ATO	★★	16,578	$ 113.60	**1.07**	$ 106.00	Narrow	Low	18.8	2.6%	andrew.bischof@morningstar.com
CMS Energy	CMS	★★	17,969	$ 60.52	**1.10**	$ 55.00	Narrow	Low	19.5	3.2%	travis.miller@morningstar.com
American Water Works	AWK	★★	29,004	$ 148.10	**1.11**	$ 134.00	Narrow	Low	31.0	1.8%	andrew.bischof@morningstar.com
Consolidated Edison	ED	★★	33,999	$ 97.52	**1.11**	$ 88.00	None	Low	20.0	3.3%	travis.miller@morningstar.com
Xcel Energy	XEL	★★	38,840	$ 69.76	**1.16**	$ 60.00	Narrow	Low	20.8	3.0%	travis.miller@morningstar.com
New Jersey Resources	NJR	★	5,204	$ 53.42	**1.24**	$ 43.00	Narrow	Low	19.8	2.9%	travis.miller@morningstar.com
Hydro One Ltd	H	★	23,919	$ 39.91	**1.29**	$ 31.00	None	Low	21.9	2.8%	andrew.bischof@morningstar.com
PG&E	PCG	★★	33,708	$ 16.90	**1.33**	$ 12.70	None	Medium	14.2	NA	travis.miller@morningstar.com
Total N. American Utilities coverage (median)			23,251		**1.02**				18.2	3.4%	

Source: Morningstar. Data as of April 18, 2023.

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BofA SECURITIES

US Utilities & IPPs

PowerPoints: NIPSCO sale, SO Vogtle, AES, PNM/AGR merger, VST nuclear

Industry Overview

20 June 2023

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Utilities

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NI: stake sale better than expected; key derisking: Buy

NiSource (NI) announced the sale of a 19.9% stake in its subsidiary, Northern Indiana Public Service Co (NIPSCO), to Blackstone. Under the deal terms, Blackstone would acquire a 19.9% noncontrolling stake in NIPSCO for $2.15B in cash and an additional $250m of equity commitments (at the NIPSCO level) to fund ongoing capex over 3 years. We view the print as very positive. Future ATM needs are unchanged (we watch nuances here for ~$0.25Bn/year in 2025+) for now despite future opco investment, keeping its 19.9% stake intact over time. The deal would imply an equity value of $10.8B and an EV of $14.3B at 100%, per the deal announcement. Disclosed multiples are 32.5x trailing EPS and solid 1.85x EV / 2022 year-end rate base of $7.7B. The transaction would take out equity needs in 2023, which we previously estimated at $2B, so deal valuation is slightly better than anticipated. Management reiterated that it expects to keep financial targets unchanged, including growth in NOEPS of 6-8% and cash flow metrics of 14-16% FFO to net debt. Additional equity is not expected until 2025, when management expects to utilize its ATM. Management reaffirmed 2023 EPS guidance of $1.54-1.60. The deal is subject to normal closing conditions, including FERC approval, which management stated is expected by year-end. We maintain our Buy rating; this removes the clearest impediment to shares, affirms balance sheet, in our view.

SO: Vogtle Unit 3 in-service delayed until July

After market close on Friday, June 16, Southern Co (SO) issued an 8-k that disclosed that in-servicing of Unit 3 of Vogtle has been delayed until July from its previous target of June. The delay is attributed to degradation of the hydrogen seals on the generation during final stages at the 100% level. SO is in the process of replacing the seals and expects to return to 100% testing once the replacements are in place. The target timing for returning to 100% level of testing is the end of the month, with two tests remaining to be done after replacement of the seals. Output at Unit 3 dropped to 0% on June 7 and recovered to 32% for several days and was reported as zero from June 12 through 18. SO's 8-k did not specify a date in July when in-servicing is expected to take place and did not include incremental updates on Unit 4. The update is a clear negative, in our view, though ultimately a minor delay, as SO had previously been targeting in servicing the unit by the end of June. We expect weakness in shares as investors digest the news and evaluate the likelihood for additional delays after SO had been one of the better-performing large cap utility stocks thus far year to date. We maintain our Underperform rating given valuation.

AES: New Board member a positive twist

AES announced that Gerard Anderson was elected to the company's Board of Directors, effective July 17. Investors may remember Mr. Anderson from his time as Executive Chairman and CEO of DTE Energy (DTE) and as chairman of EEI. We view the appointment of Mr. Anderson to the Board as a positive considering his extensive experience in the utility space, especially as AES seeks to rapidly grow its own utility businesses over the next several years. We maintain our Buy rating on AES given attractive risk/reward, though note that cautious data points have begun to emerge as head of the renewables business recently resigned and AES acquired 2GW of backlog from a competitor.

Please see details on PNM/AGR merger, PNW staff, VST Comanche.

ATM: at the market program

EEI: Electric Edison Institute

EV: enterprise value

FERC: Federal Energy Regulatory Commission

FFO: funds from operations

GW: gigawatts

NOEPS: non-operating EPS

opco: operating company

NI: Deal suggests just under 24x on 2025 EPS

The disclosed equity in the NIPSCO sale implies just under 24x on our forecast 2025 earnings – see table below. We note that the management team gave 32.5x on a trailing 12-month basis as the deal multiple, which is based on $333m of adjusted net income for the period ending March 31. We previously had a placeholder assumption of $2B in deal proceeds, which would be a 22x 2025 EPS multiple, or 7% below the deal that was announced. We see this as positive for NI directly but also supporting utility valuations for opco level sales overall as a trend. We expect that this could very well still prove a "high water mark" across the year on contemplated sales. On balance, we could see a modest positive to others seeking to sell.

Exhibit 1: Implied EPS multiple
Our $2B assumed about 7% lower 2025 multiple

	2022E	2023E	2024E	2025E	2026E	2027E
Deal price – equity		2150				
BofAe						
Earnings (NIPSCO)	258	296	435	457	521	534
Implied P/E multiple	41.9	36.4	24.8	23.6	20.7	20.2

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH

Management indicated that it expects to "turn on" the ATM issuance at a clip of approximately $250m per annum beginning around 2025 – we note that this is equity at the corporate level, and the additional $250mm equity commitment from Blackstone as part of the deal and additional contributions thereafter required to maintain its 19.9% stake would be incremental.

PNM/AGR: Merger agreement extended to December 31

PNM Resources (PNM) and Avangrid (AGR) mutually agreed to an amendment and extension of their merger agreement through December 31, 2023. Under the amended agreement, AGR and PNM may mutually agree to extend the "end date" to March 31, 2024. The merger agreement was previously extended through July 20, 2023 on April 12. However, the New Mexico Supreme Court (NMSC) recently denied AGR's, PNM's, and New Mexico Public Regulatory Commission's (NMPRC) request to remand the merger appeal case to the NMPRC and scheduled oral hearings for a merger appeal case on September 12, 2023. This implied need for further extension of the merger agreement, as the previous agreement stipulated that the merger may be terminated if closing of the merger does not occur by July 20.

The merger extension update is a slight disappointment given that the amended agreement does not include a "go-shop" period or higher AGR bid for PNM shares versus $50.30/share currently, per our latest PNM deep-dive report: PNM Resources Inc.: Refreshing our view on PNM standalone: Attractive story warrants higher premium 12 June 2023. However, the extension is not a surprise. We monitor key stakeholder positioning at NMSC oral hearings in September. We expect PNM/AGR merger uncertainty to remain until year-end 2023 given the prolonged merger timeline. The merger agreement extension suggests company expectations for potential year-end 2023 or 1Q24 merger resolution. We maintain our Buy rating on shares of PNM given our view that share upside potential remains across all scenarios, including that the existing AGR/PNM merger materializes as is – i.e., without a higher AGR bid or potential third-party bid for PNM shares.

VST: Comanche Peak Unit 1 briefly shut down

A feed water pump issue (non-nuclear related) caused Unit 1 of Vistra's (VST) Comanche Peak nuclear generation facility to automatically shut down over the weekend. According to ERCOT (Electric Reliability Council of Texas) public data, the 1,205 MW (megawatt) unit was reported offline beginning Friday, June 16, at 6:32 p.m. and returned to service Sunday, June 18, at 10:00 a.m. This exposes VST to some potential commercial impacts given elevated prices during the heat wave. The impact is likely modest but emphasizes focus on the need to keep reinvestment in plants to ensure availability. As of this writing, NRC (Nuclear Regulatory Commission) data shows the unit as operating at 78% capacity. We are encouraged by the rapid response by VST to return the unit to operations in a timely manner. With the pending acquisition of Energy Harbor, VST's nuclear fleet is ever more relevant to earnings and valuation. We maintain our Buy rating on VST given attractive risk-adjusted free cash flow yield and growing "green" generation portfolio.

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
US Alternative Energy: Through Silicon, and Beyond: Recapping our latest Solar Technologies Conference	Julien Dumoulin-Smith	20 June 2023
US Alternative Energy: Who Owns What? 3/31/23 HF & LO Trends. Clean Energy Crowding Analysis	Julien Dumoulin-Smith	20 June 2023
Evergy, Inc: Latest resource plans out more focus on reliability, renewables pushed back	Julien Dumoulin-Smith	20 June 2023

Exhibit 2: Primary stocks mentioned in this report
Prices and ratings or primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AES	AES US	AES Corp	US$ 21.34	B-1-7
NI	NI US	NiSource Inc	US$ 27.38	B-1-7
PNM	PNM US	PNM Resources Inc.	US$ 46.16	B-1-7
SO	SO US	Southern Company	US$ 71.76	A-3-7
VST	VST US	Vistra Energy	US$ 25.06	B-1-7

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

AES (AES)

Our price objective is $24 and is based on a sum of the parts analysis applying a blended valuation approach which is the summation of: 1) EV/EBITDA approach for US Renewable Generation using an 10.0x 2025E base for US peer 2.) NPV approach for DevCo using a 15% discount on 5.5GW+ of annual renewables beyond '23 given market dynamics, 3.) EV/EBITDA approach for Legacy Southland (US), 4.) NPV for Warrior Run (US) 5.) P/E approach for US Utilities using a 16.3x 2025E base for US peers plus a premium/discount, 6.) EV/EBITDA approach for LATAM non-public subsidiaries using a 7.0x 2025E base for peers plus a premium/discount, 7.) Mark-to-market value of publicly listed LATAM subsidiaries, 8.) Asia Generation is marked to carrying value while the Asian LNG import facility is valued on EPS accretion relative to total build cost, and 9.) EV/EBITDA 2025E multiple for Europe generation (except Jordan, which we mark to sales price). We also credit the company with its investment in Uplight and Fluence.

Risks are: 1) regulatory, legislative, and political changes, 2) international currencies devaluing against the US dollar, 3) changes in value of Fluence (FLNC) subsidiary stock, 4) overall inability to execute on the renewables plan, 5) ability to control costs, 6) financing needs, and 7) tax policies.

NiSource Inc (NI)

Our $32 PO is based on a sum of the parts valuation. We value each gas and electric utility separately using 2025 forward P/E multiples that are marked-to-market to the latest peer utility multiples of 16.4x for gas and 16.4x for electric. Consistent across our coverage universe, the base electric & gas peer P/E multiples are grossed up by +5% to reflect capital appreciation across the sector. We utilize a +1x premium for NIPSCO Gas/Electric due to generally constructive regulatory outcomes. We subtract the value of excess holding company debt at the parent not supporting the utility subsidiaries.

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

PNM Resources Inc. (PNM)

We value PNM Resources at $51 based on a 2025E sum of the parts valuation methodology utilizing P/E multiples for each business segment. We apply the electric utility average 15.8x 2025E which we grossed up for +5% reflect capital appreciation across the sector. This is a consistent approach for the coverage universe. We apply a +1.0x P/E premium to shares to reflect the visibility into growth and potential upside to the outlook. The regulatory and legislative outlooks have improved in both New Mexico and improved

Risks to the achievement of our price objective and estimates are changes in: 1) regulatory, political, judicial, and legislative outcomes, 2) operating and financing costs, 3) interest rates and asset returns, 4) pending M&A activity, 6) natural disasters and weather, 8) commodity prices, 9) capital expenditures, 10) credit rating agency actions.

Southern Company (SO)

Our $67 PO is derived from a sum-of-the-parts analysis (SOTP). We use a P/E valuation approach on 2025 estimates and use peer multiples of 15.5x for electric and 16.0x for gas, respectively (with dis/prem applied per asset depending on growth/risk): we then gross up these multiples by +5% to account for sector wide EPS growth to derive a 12-month forward PO. We subtract 50% of the 2025 parent interest expense multiple by an electric P/E peer multiple to reflect parent leverage supporting the utilities. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting.

Upside/downside risks to achievement of the PO are: 1) Vogtle construction timing and costs, 2) regulatory, political, and legislative changes, 3) ability to earn the allowed rate of return, 4) changes to the capital expenditure forecast, 5) nuclear incidents, weather, and natural disasters, 6) rate of customer and sales growth, 7) O&M trends, 8) interest rates, 9) environmental policies and regulations, 10) M&A, and 11) interest rates.

Vistra Energy (VST)

Our $30 price objective is based on a 2025E SOTP valuation. For Vistra Vision, we arrive at a 6.0x blended EV/EBITDA. We apply a 6.5x EV/FCF multiple to nuclear, which we believe fairly represents the risk/reward profile of the assets. For Renewables and Storage, we apply a 10x EV/FCF multiple given the accelerating nature of the end markets. For Retail, we apply a 6.5x EV/FCF multiple, consistent with peers. For Vistra Tradition, we arrive at a 3.9x blended EV/EBITDA multiple. We apply a 5.5x EV/FCF multiple to Gas Generation given favorable spark spreads and end market demand dynamics and a 1.0x EV/FCF multiple to Coal Generation which we believe appropriately captures the limited long-term value of the assets.

Downside risks to our PO are: 1) changes to regulatory, political, or legislative standards, 2) wholesale power, natural gas, & capacity prices, 3) competitive & regulatory change to retail businesses, principally in Texas, 4) operational performance, 5) development of new renewables and storage assets, 6) natural disasters, 7) interest rates, 8) nuclear fuel access/cost, and 10) retail market attrition.

From:	Levine, Ryan (Citi)
To:	Weisenburger \ Michael \ V
Subject:	NiSource Inc (NI.N): Favorable NIPSCO Deal Price; IURC Settlement Increasingly Likely
Date:	Tuesday, June 20, 2023 12:20:39 PM
Attachments:	dcm_citiLogo.png eHjlcduDZA%2BIRTamxSVPlIe5eeO%2BVlJolwxSmwlpaAY9bv4h2%2FyRnQ7zvLk53SeP 8oE%2B6kVLEf6W4MlDyJixADtyiqlS1bWLS0hRfeyU5kvS4gtONVag8Nz2jAxz7Svw mI8upRCXBPlTpMquG4F%2Fc8P%2Fao73gjJBGQVN8J24NCg%2BnQshN%2B%2FT3EhKvBJTmZBCWDhAfT1e4dc%3D citivelocitylogo.png

FLASH | NiSource Inc (NI.N) | Neutral

Favorable NIPSCO Deal Price; IURC Settlement Approval Increasingly Likely

CITI'S TAKE

We think today's NIPSCO sale announcement is attractive given the 32.5x LTM P/E and 1.85x rate base multiples, and the merger document language on the IURC settlement was generally constructive, but we note that the $250M equity commitment over 3 years implies $1B of NIPSCO funding needs from NiSource (may come from operating activities). Given the delays we have witnessed for other utility processes YTD, in our view, it is a positive sign around the quality of NIPSCO that this deal was announced at a healthy valuation.

News: NIPSCO announced the 19.9% sale at $10.8B equity value and enterprise value of $14.3B, which is expected by the end of 2023. As part of the transaction, Blackstone is committed to funding its pro rata share of ongoing capital requirements, which is supported by a $250 million equity commitment letter. This deal was quicker than expected and the headline P/E multiple multiple of 32.5x LTM P/E and 1.85x rate base multiples look attractive given non-control stakes.

Commitment Letter, Potential Future Equity Needs?: Blackstone's $250M equity commitment over the next 3 years implies that the business will need about $1.25B of "maintenance" equity to fund NIPSCO over this time period. NiSource continues to indicate it does not need external equity until at least 2025 as the company can utilize internally generated capital to meet its short-term capital needs. In 2025 and beyond, the financing plan may evolve. We note that NiSource hired new operating executive(s) that could help develop new investment opportunities and drive upside to plan (both capex, and funding needs).

Merger Agreement Language Supportive of IURC Settlement: Our view of the disclosed commentary and likely investor diligence is positive formal update on the process. "Neither Parent nor any of its Affiliates has received written notice or any other affirmative indication that the Indiana Utility Regulatory Commission (the "IURC") will not approve that certain March 10, 2023 Settlement Agreement (the "Settlement Agreement") by and between NIPSCO and NIPSCO Industrial Group; NLMK Indiana; United States Steel Corporation; Walmart Inc.; RV Industry User's Group; and the Indiana Office of Utility Consumer Counselor (collectively, the "Settling Parties" and each, a "Settling Party") consistent with the terms provided for in the Settlement Agreement and to the Knowledge of Company, there are not currently any facts or circumstances that would reasonably be expected to cause the IURC not to approve such Settlement Agreement in its entirety without modification of material condition deemed unacceptable to any Settling Party. "

Neutral			
Price (16 Jun 23 16:00)	US$27.38	Expected share price return	9.6%
Target price	US$30.00	Expected dividend yield	3.7%
Market Cap	US$11,310M	Expected total return	13.2%

Read Full Report

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NiSource Inc

Valuation

We average multiple valuation methodologies to derive our $30 target price. Our NAV yields a value of $32. We value regulated assets at a multiple of 1.5x rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at $30 per share. Our P/E and EV/EBITDA analyses yield values of $32 and $29, respectively.

Risks

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

From: Shahriar Pourreza, CFA
To: Weisenburger \ Michael \ V
Subject: NI: Healthy Multiple for NIPSCO 19.9% Sale in Line with Consensus Expectations; Questions Remain Around Equity Needs & Blackstone Equity Contributions - Guggenheim Securities, LLC
Date: Tuesday, June 20, 2023 1:45:28 PM

NISOURCE INC.
BUY

NI: Healthy Multiple for NIPSCO 19.9% Sale in Line with Consensus Expectations; Questions Remain Around Equity Needs & Blackstone Equity Contributions

Power & Utilities June 20, 2023

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Access This Report

Key Message: Today's transaction came in at an attractive valuation in our view, as well as that of consensus, at multiples of 32.5x LTM P/E (as of 1Q23) and 1.85x 2022A rate base. **In 2023 terms, we estimate that the transaction implies a ~26.5x 2023E P/E, and ~1.5x 2023E rate base.** Despite mgmt.'s comments clearly reaffirming zero equity needs until 2025, investors still had questions this morning around how to think about the $250m equity commitment letter from Blackstone – i.e., this lack of clarity persists beyond 2025, with investors asking how to model Blackstone's ongoing capex-driven equity infusions and what impact they have on NI's equity needs going forward and should it be accretive to the valuation metrics – i.e., if mgmt. would have previously mentioned a potential elimination of equity needs beyond '25, the incremental value created from Blackstone's equity infusion would have been more clear and certainly accretive vs. our model. How does this compare vs DUK's DEI transaction in January 2021? Fairly favorable especially given the changes to capital market conditions.

What's implied for 2023?... Taking NIPSCO's $7.7bn YE 2022A rate base, the ~$2.1bn of capex guided to in today's slides, and incorporating incremental depreciation of just under $400m, **we see the potential for NIPSCO's 2023 rate base to come in at ~$9.4bn as of YE23**. Using the company's provided figure of ~$333m LTM Non-GAAP net income as of March 31, 2023, and the $10.8bn equity value implied by the deal ($14.3bn EV minus $3.5bn of debt) results in the 32.5x 2022A P/E and 1.85x 2022A rate base multiples presented in the company's slides. For comparison's sake, using **our $9.4bn 2023E YE rate base estimate** and maintaining the same implied ROE, **we estimate that the transaction implies a ~26.5x 2023E P/E, and ~1.5x 2023E rate base, *as below***.

NIPSCO 2022 Transaction Multiples & Guggenheim's 2023 estimates

Source: Company slides, Guggenheim Securities, LLC analysis.

How does this compare vs DUK's DEI transaction in January 2021? Fairly favorable especially given the changes to capital market conditions (i.e. higher rate environment vs. when DUK announced their deal)... We highlight that when DUK announced its minority interest stake sale to GIC in January 2021, it presented an implied valuation of **27.7x DEI P/E multiple (LTM P/E as of 9/30/2020)**. This transaction also valued DEI at a $10.3bn equity value and $14.5bn firm value on a 100% basis, with a DEI net debt balance of $4.2bn as of 9/30/2020 (source HERE).

What does this deal mean for equity needs?.. Investors continued to have questions regarding Blackstone's $250m equity commitment letter (which is intended to address NIPSCO's capex). Specifically, there appears to be a lack of clarity as to whether Blackstone's NIPSCO capex contributions should be treated effectively as equity-offsets which reduce NI's equity needs in

2025 and beyond. Meanwhile, NI spoke with the three ratings agencies yesterday and expects them to comment in the days and weeks ahead. **In our view, this transaction appears constructive from a financing and balance sheet perspective, as mgmt. was clear that it will push NI's FFO/debt to the top end of its 14%-16% FFO/debt range soon after closing.** As that credit metric begins to drift back down, mgmt. expects to start using ATM equity in 2025+ to maintain its 15% midpoint FFO/debt target and support its current investment grade credit ratings.

What happened?... This morning, NI announced that Blackstone (NYSE:BX) will invest $2.15bn of cash for a 19.9% stake in NIPSCO, with closing expected by year-end 2023 (pending FERC approval). NI intends to use the proceeds from the partial sale of its natural gas and electric company to pay down debt and fund capital needs related to its renewable generation transition. NI will continue to own an 80.1% stake in NIPSCO, and going forward, **Blackstone will maintain its 19.9% stake through funding its corresponding allocation of NIPSCO's capex spending.** To facilitate its ongoing capex contributions, Blackstone will issue a $250m equity commitment letter for its pro rata share of funding, including the next few years of renewable-driven capex at NIPSCO. **NI reaffirmed its adjusted NOEPS guidance** of $1.54-$1.60 ($1.57 midpoint) for 2023, as well as its 6%-8% annual NOEPS growth guidance through 2027. The company also **reiterated overall 8%-10% annual utility rate base growth guidance**, with NIPSCO clearly positioned as the main growth driver due to its significant planned renewable investments — **NIPSCO's $7.7bn 2022A year-end rate base is expected to ~$15bn+ by the end of 2027 (a ~13%-14% CAGR).**

J.P.Morgan

North American Utilities

Model Updates: AGR, ALE, NI, NJR, SR & SWX

We are updating our models for recent reports and filings. Please see our changes below.

North American Utilities

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Equity Ratings and Price Targets

		Mkt Cap		Rating		Price Target			
Company	Ticker	($ mn)	Price ($)	Cur	Prev	Cur	End Date	Prev	End Date
Avangrid, Inc	AGR US	11,946.15	38.66	UW	n/c	36.00	Dec-23	40.00	n/c
Allete Inc.	ALE US	3,389.68	60.53	N	n/c	62.00	Dec-23	66.00	n/c
NiSource Inc.	NI US	11,214.85	27.38	OW	n/c	30.00	Dec-23	31.00	n/c
New Jersey Resources	NJR US	4,588.48	47.49	UW	n/c	48.00	Dec-23	49.00	n/c
Spire Inc	SR US	3,314.18	63.49	N	n/c	72.00	Dec-23	74.00	n/c
Southwest Gas Holdings Inc.	SWX US	3,692.74	64.11	N	n/c	71.00	Dec-23	67.00	n/c

Source: Company data, Bloomberg Finance L.P., J.P. Morgan estimates. n/c = no change. All prices as of 16 Jun 23.

See page 15 for analyst certification and important disclosures.

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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 trade-offs 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 decrease our Dec 23 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 18.0x and 18.5x 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 rate making 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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NiSource Inc.: Summary of Financials

Income Statement - Annual	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	**4,901**	**5,834**	**5,780**	**5,996**	**6,236**
COGS	(1,392)	(2,111)	(1,800)	(1,760)	(1,760)
Gross profit	**3,509**	**3,723**	**3,979**	**4,236**	**4,476**
SG&A	(1,696)	(1,754)	**(1,772)**	**(1,800)**	**(1,826)**
Adj. EBITDA	**1,852**	**2,010**	**2,209**	**2,436**	**2,650**
D&A	(748)	(821)	(856)	(913)	(969)
Adj. EBIT	**1,104**	**1,189**	**1,352**	**1,523**	**1,681**
Net Interest	(341)	(362)	(453)	(456)	(515)
Adj. PBT	**763**	**828**	**900**	**1,067**	**1,166**
Tax	(132)	(137)	(156)	(199)	(219)
Minority Interest	(59)	(43)	(43)	(75)	(72)
Adj. Net Income	**571**	**648**	**700**	**793**	**875**
Reported EPS	1.37	1.46	1.57	1.67	1.80
Adj. EPS	**1.37**	**1.46**	**1.57**	**1.67**	**1.80**
DPS	**0.88**	**0.94**	**1.00**	**1.06**	**1.12**
Payout ratio	64.3%	64.2%	63.9%	63.5%	62.3%
Shares outstanding	417	443	447	475	485

Income Statement - Quarterly	1Q23A	2Q23E	3Q23E	4Q23E
Revenue	**1,998A**	**1,159**	**1,021**	**1,601**
COGS	(765)A	(313)	(222)	(500)
Gross profit	**1,233A**	**846**	**799**	**1,101**
SG&A	(463)A	(441)	(420)	(448)
Adj. EBITDA	**772A**	**405**	**379**	**653**
D&A	(207)A	(212)	(216)	(221)
Adj. EBIT	**565A**	**193**	**162**	**432**
Net Interest	(109)A	(111)	(118)	(115)
Adj. PBT	**456A**	**82**	**44**	**317**
Tax	(94)A	(13)	(0)	(49)
Minority Interest	(19)A	(3)	(12)	(10)
Adj. Net Income	**343A**	**66**	**33**	**258**
Reported EPS	0.77A	0.15	0.07	0.58
Adj. EPS	**0.77A**	**0.15**	**0.07**	**0.58**
DPS	**0.25A**	**0.25**	**0.25**	**0.25**
Payout ratio	32.6%A	168.2%	343.6%	43.3%
Shares outstanding	447A	447	447	447

Balance Sheet & Cash Flow Statement	FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	95	75	0	0	0
Accounts receivable	826	1,042	923	923	923
Other current assets	1,000	1,467	1,395	1,532	1,695
Current assets	**1,921**	**2,584**	**2,318**	**2,455**	**2,618**
PP&E	17,882	19,843	22,166	24,002	26,283
Other non current assets	4,354	4,310	2,290	2,290	2,290
Total assets	**24,157**	**26,737**	**26,773**	**28,747**	**31,190**
Short term borrowings	560	1,762	344	1,198	1,944
Payables	698	900	642	642	642
Other short term liabilities	1,488	1,999	1,953	1,953	1,953
Current liabilities	**2,746**	**4,661**	**2,939**	**3,793**	**4,539**
Long-term debt	9,183	9,524	11,101	11,776	12,626
Other long term liabilities	4,954	4,651	4,740	4,939	5,158
Total liabilities	**16,884**	**18,835**	**18,780**	**20,508**	**22,323**
Shareholders' equity	7,273	7,902	7,993	8,239	8,867
Minority interests	-	-	-	-	-
Total liabilities & equity	**24,157**	**26,737**	**26,773**	**28,747**	**31,190**
BVPS	**17.94**	**19.17**	**17.87**	**17.15**	**18.09**
y/y Growth	*20.4%*	*6.8%*	*(6.8%)*	*(4.0%)*	*5.5%*
Net debt/(cash)	9,649	11,210	11,445	12,974	14,570
Cash flow from operating activities	**1,218**	**1,409**	**1,623**	**1,768**	**1,901**
o/w Depreciation & amortization	748	821	856	913	969
o/w Changes in working capital	(260)	(285)	(58)	(138)	(163)
Cash flow from investing activities	**(2,205)**	**(2,570)**	**(1,315)**	**(2,750)**	**(3,250)**
o/w Capital expenditure	(1,838)	(2,203)	(3,145)	(2,750)	(3,250)
as % of sales	*37.5%*	*37.8%*	*54.4%*	*45.9%*	*52.1%*
Cash flow from financing activities	**956**	**1,141**	**555**	**128**	**603**
o/w Dividends paid	(400)	(437)	(430)	(509)	(547)
o/w Net debt issued/(repaid)	31	1,488	1,062	675	850
Net change in cash	**(31)**	**(20)**	**862**	**(854)**	**(746)**
Adj. Free cash flow to firm	**(338)**	**(492)**	**(1,148)**	**(611)**	**(931)**
y/y Growth	*(3.7%)*	*45.4%*	*133.4%*	*(46.7%)*	*52.3%*

Ratio Analysis	FY21A	FY22A	FY23E	FY24E	FY25E
Gross margin	71.6%	63.8%	68.9%	70.7%	71.8%
EBITDA margin	37.8%	34.5%	38.2%	40.6%	42.5%
EBIT margin	22.5%	20.4%	23.4%	25.4%	27.0%
Net profit margin	11.7%	11.1%	12.1%	13.2%	14.0%
ROE	8.7%	8.5%	8.8%	9.8%	10.2%
ROA	2.5%	2.5%	2.6%	2.9%	2.9%
ROCE	5.6%	5.5%	5.8%	6.1%	6.1%
SG&A/Sales	34.6%	30.1%	30.7%	30.0%	29.3%
Net debt/equity	1.3	1.4	1.4	1.6	1.6
P/E (x)	20.0	18.7	17.5	16.4	15.2
P/BV (x)	1.5	1.4	1.5	1.6	1.5
EV/EBITDA (x)	9.2	9.3	8.8	8.9	8.8
Dividend Yield	3.2%	3.4%	3.7%	3.9%	4.1%
Sales/Assets (x)	0.2	0.2	0.2	0.2	0.2
Interest cover (x)	5.4	5.6	4.9	5.3	5.1
Operating leverage	87.0%	40.8%	(1474.5%)	337.0%	258.9%
Revenue y/y Growth	4.3%	19.0%	(0.9%)	3.7%	4.0%
EBITDA y/y Growth	1.4%	8.5%	9.9%	10.3%	8.8%
Tax rate	17.4%	16.5%	17.3%	18.7%	18.8%
Adj. Net Income y/y Growth	12.6%	13.5%	8.1%	13.2%	10.4%
EPS y/y Growth	3.7%	7.0%	7.0%	6.6%	8.0%
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

UBS

First Read

NiSource Inc.

NIPSCO Minority Sale Announced

Equities
Americas
Electric Utilities

12-month rating	Buy
12m price target	US$31.00
Price (16 Jun 2023)	US$27.38
RIC: NI.N BBG: NI US	

Trading data and key metrics

52-wk range	US$31.71-24.15
Market cap.	US$12.2b
Shares o/s	447m (COM)
Free float	99%
Avg. daily volume ('000)	1,052
Avg. daily value (m)	US$29.1
Common s/h equity (12/23E)	US$6.31b
P/BV (12/23E)	1.9x
Net debt to EBITDA (12/23E)	6.3x

EPS (UBS, diluted) (US$)

	12/23E	
	UBS	Cons.
Q1	0.77	0.77
Q2E	0.13	0.15
Q3E	0.11	0.15
Q4E	0.56	0.50
12/23E	1.57	1.57
12/24E	1.68	1.67
12/25E	1.80	1.80

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What Happened?

This morning, Nisource announced a 19.9% minority interest sale of its NIPSCO utility to Blackstone for equity proceeds of $2.15bn. The company had been actively marketing the asset and a sale was expected. The rate base multiple was 1.85x based on year-end '22 rate base at NIPSCO of $7.7bn and NI estimates 32.5x trailing P/E. Blackstone will also provide an equity commitment letter of $250mm to support it's pro rata share of NIPSCO's capital plan. The company expects the $250mm to be drawn down over the next three years. The transaction requires FERC approval and is targeting to close by year-end 2023.

What's Our Take?

We believe investors should view the transaction favorably. The $2.15bn is modestly more than our expectations of $1.95bn and fully supportive of the current guidance plan of 6-8% EPS growth through 2027. This was a catalyst for the stock and helps to further de-risk the story. The sale will help improve the balance sheet metrics for Nisource and ensure they can achieve the 14-16% FFO/Debt targeted range. The company should initially be at the higher end of the range post-close and it will moderate lower within the range over the coming years. For more details, see our 6/6/23 upgrade note here: Upgrade to Buy - Path Clearing For Re-Rate Higher

How is the Company's Outlook Impacted?

Reaffirmed. The company reiterated the guidance for 2023 of $1.54-$1.60, long term EPS growth of 6-8% and FFO/Debt target of 14-16%. Management also reaffirmed that post close, no common equity issuances will be needed until at least 2025, at which point the company expects to utilize the ATM program to fund maintenance equity needs.

Valuation:

We maintain our Buy rating and $31 target.

Highlights (US$m)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Revenues	4,697	4,900	5,851	5,977	6,271	6,531	6,781	7,006
EBIT (UBS)	1,031	1,046	1,162	1,145	1,337	1,483	1,634	1,760
Net earnings (UBS)	507	573	649	698	752	807	874	956
EPS (UBS, diluted) (US$)	1.32	1.37	1.46	1.57	1.68	1.80	1.91	2.03
DPS (net) (US$)	0.88	0.90	0.96	1.02	1.08	1.14	1.20	1.20
Net (debt) / cash	(10,501)	(11,253)	(12,821)	(13,068)	(14,486)	(16,197)	(17,020)	(17,692)
Profitability/valuation	**12/20**	**12/21**	**12/22**	**12/23E**	**12/24E**	**12/25E**	**12/26E**	**12/27E**
EBIT (UBS) margin %	22.0	21.3	19.9	19.2	21.3	22.7	24.1	25.1
ROIC (EBIT) %	7.5	7.4	7.4	6.6	7.3	7.4	7.5	7.6
EV/EBITDA (UBS core) x	9.9	10.4	11.3	11.2	10.1	9.7	9.2	8.8
P/E (UBS, diluted) x	18.6	17.9	19.6	17.5	16.3	15.2	14.3	13.5
Equity FCF (UBS) yield %	(6.0)	(6.2)	(7.2)	(14.1)	(7.5)	(10.5)	(5.3)	(3.6)
Dividend yield (net) %	3.6	3.6	3.3	3.7	3.9	4.2	4.4	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$ 27.38 on 16-Jun-2023

Forecast returns

Forecast price appreciation	+13.2%
Forecast dividend yield	3.8%
Forecast stock return	+17.1%
Market return assumption	9.7%
Forecast excess return	+7.3%

Company Description

NI is a fully regulated gas and electric utility serving customers in six states in the Midwest and Mid-Atlantic. NI is a gas distribution utility with 3.2 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NI is an integrated electric utility serving 0.5 million customers in Indiana. NI's mix of operating earnings is 60% gas and 40% electric.

Valuation Method and Risk Statement

We apply a 10% premium valuation for NI, which reflects +5% for overall group attractiveness, +3% for second quartile regulation and +2% for second quartile EPS growth. This drives a target multiple of 17.25x and a $31 target price.

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.

From: Sarah Akers
To: Weisenburger \ Michael \ V
Subject: NI: Equity Stake Sale Represents Another Execution Check Mark—Reiterate Overweight
Date: Tuesday, June 20, 2023 10:14:24 AM
Attachments: 4092b79f-b27c-4e5a-ba9f-766450f83d7e@bluematrix.png
9b92bbe2-a72e-44c9-8847-b4aeffa6a5c7@bluematrix.png

WELLS FARGO

Thank you for voting Sarah Akers and Neil Kalton five stars in the 2023 *Institutional Investor* All-America Survey.

Request Ballot* | Analyst Roster

*Voting opens May 30, 2023

Equity Research

Earnings Revised

June 20, 2023

Natural Gas LDCs

NiSource Inc. (NI)

NI: Equity Stake Sale Represents Another Execution Check Mark—Reiterate Overweight

Rating	Overweight
Price	$27.38
Market Cap (MM)	$11,310
Price Target	$33.00

View Full Report

Our Call

The NIPSCO equity stake sale increases our confidence in the growth and balance sheet outlook and represents an important milestone as NI rebuilds the execution track record. Reiterate Overweight.

Announcement. NI and Blackstone Infrastructure Partners agreed to a 19.9% equity stake sale in NIPSCO for up-front proceeds of $2.15B. Blackstone will continue to provide funding consistent with the 19.9% ownership including a $250mm commitment expected to be infused over the next few years. NI affirmed 2023 EPS guidance along with the LT 6-8% growth target and 14-16% FFO/Debt target. The deal is expected to close by YE'23 pending FERC approval.

The price implies an EV/rate base multiple of 1.80-1.85X using YE'22 RB of $7.7-7.8B and an EV (100%) of $14.3B. While this is lower than the 2.0-2.5X for CNP's AR/OK LDC and D's Hope Gas, those were controlling positions in a lower interest rate environment. On a P/E basis, the deal represents a 32.5X multiple on TTM earnings, which compares with NI's 2022 company-wide P/E of 18.5X (in line with peers). We view the price favorably, particularly given the current economic/interest rate backdrop.

Reiterate Overweight. Beyond increasing our confidence in the growth and balance sheet outlook, we view the announcement as an important milestone in the company's path toward rebuilding the track record. The timing of the announcement was in line with our mid-year expectation and the price was healthy despite a challenging macro backdrop. We think this is a meaningful step in NI's re-rating story (currently trades at a 3% P/E discount).

Our forward price target remains $33/sh (19X — 5-7% premium to blended gas/electric peers — on our '24E EPS of $1.69) combined with our dividend discount analysis.

Continue Reading…

Sarah Akers, CFA

Neil Kalton, CFA

Amanda Bersing

From: Steve Fleishman
To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 6/20/23 - NI, SO, AGR/PNM, ERCOT/VST, AES, CAL Watch, Polls, OKE/MMP, ENB, Midstream & Green Weeklies
Date: Tuesday, June 20, 2023 9:09:35 AM

Wolfe banner

June 20, 2023

THE FLEISHMAN DAILY 6/20/23

NI, SO, AGR/PNM, ERCOT/VST, AES, CAL Watch, Polls, OKE/MMP, ENB, Midstream & Green Weeklies

The Fleishman Daily 6/20/23
Utilities: NI, SO, AGR/PNM, ERCOT/VST, AES, CAL Watch, Polls
Midstream: OKE/MMP, ENB, Midstream of Consciousness
Clean Energy: GREEN Playbook
WEBCAST REPLAY: Fleish on Fridays; replay here, slides here, poll results here

Utilities sentiment meter - We lower our utilities sentiment meter back to "1" from "2". The sector just can't keep up with the strong market rally. First half is turning into the worst relative for utilities in the past 30 years. This seems extreme. Last week had good regulatory updates with settlement news for PNW and XEL and a solid staff recommendation for DTE.

Utilities

NI – Announces 19.9% NIPSCO stake sale to Blackstone for $2.15B plus $250M equity commitment letter; 2023 guide, L-T 6-8% annual EPS growth, financing plan, 14-16% FFO/D target reaffirmed; positive
SO – Vogtle U-3 start-up delayed to next month
AGR/PNM – Agree to extend pending merger through year-end, no change to terms
ERCOT/VST – Watching for new load records; Comanche Peak down over the weekend, but now back up

AES – Appoints Gerry Anderson to Board; solid move
CAL Watch – Weekly implied 2024 ROEs; utility bond yields trimmed but ROE on track for ≥50bp increase
Fleish on Friday – Click link below to see this week's Fleish on Friday Poll Result

Midstream

OKE/MMP – Magellan published new slides and an FAQ document with further rationale and tax analysis for the transaction
ENB - WI court gives ENB 3 years for Line 5 re-route; not unexpected but timing dependent on permits
Midstream of Consciousness – what we learned in Houston; OKE-MMP proxy this week?

Clean Energy

Wolfe GREEN Playbook – Nomura Greentech summit; Domestic (dis)content; FSLR, NOVA check-in; Hydrogen events; DUK read-thrus

Wolfe Utility & Midstream Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Charts, Clean Energy Comps, Clean Energy Stock Charts, Models, Valuation Charts

Utilities

NI – Announces 19.9% NIPSCO stake sale to Blackstone for $2.15B plus $250M equity commitment letter; 2023 guide, L-T 6-8% annual EPS growth, financing plan, 14-16% FFO/D target reaffirmed; positive

- This morning, NI announced an agreement with Blackstone Infrastructure Partners for a $2.40B minority interest sale and equity capital raise at its NIPSCO electric/gas utility.
  - **$2.15B upfront cash for a 19.9% stake**; tax-efficient transaction.
  - **$250M equity commitment letter** from Blackstone to fund pro rate share of NIPSCO's ongoing capital requirements through 2027.
- **Strong price.** Stake sale implies 32.5x LTM P/E (~77% premium to NI's 18.4x LTM P/E) and 1.85x EV/NIPSCO's YE22 rate base.
  - Transaction implies an equity value of $10.8B for 100% of NIPSCO (<50% of NI's consolidated earnings and rate base) vs. NI's market cap of $11.3B.
- **Asset sale expected to close by YE23.** Requires FERC approval, which NI will file for by June-end.
- **2023 guidance reaffirmed.** Range of $1.54-1.60 vs. cons. at $1.57 (WRe $1.58).
- **L-T 6-8% annual EPS growth target reaffirmed through 2027.**
- **8-10% annual rate base growth reiterated.** Driven by $15B of capex over 2023-27.
- **Financing plan unchanged from 2022 Investor Day.** Includes ATM equity 2025 onwards; 14-16% FFO/Debt target reiterated.
  - Mgmt. noted that $2.15B of proceeds will help bring NI's FFO/Debt towards the

high-end of the targeted range initially, moderating to the 15% midpoint over the L-T.

The $2.15B cash investment that NI will receive from Blackstone is in-line with our expectations – we had been assuming that a 19.9% stake in NIPSCO is sold for 2.2x book equity, consistent with the valuation DUK sold its Indiana stake a few years ago, yielding ~$2.2B in tax-free proceeds. Nonetheless, it is good to see NI execute an asset sale for a premium valuation in this challenging M&A environment. It is also good to see NI reaffirm FY23 guidance, its L-T 6-8% annual EPS growth rate, 14-16% FFO/Debt target, and financing plan, which includes only maintenance equity via ATM 2025 onwards.

SO – Vogtle U-3 start-up delayed to next month

- After the last close, SO announced its Vogtle U-3 in-service date slipped to next month, as the company is remediating a degraded hydrogen seal in the main generator and has started a planned maintenance outage.
- SO said U-3 power-ascension testing is ~95% complete and operated as designed during the pre-operational testing and start-up sequence.
- After all four seals on the generator are replaced, SO will conduct a couple of tests.
- Separately, the GaPSC Staff will file testimony in the semiannual VCM proceeding this Thurs.

While a little disappointing, the delay appears modest and related to the generator. We are encouraged that U-3 still sees in-service in a matter of a few weeks, not months.

AGR/PNM – Agree to extend pending merger through year-end, no change to terms

- AGR/PNM have decided to extend their merger agreement through December 31 with an option to extend another 3 months
- Recall that the NM Supreme Court rejected remanding the proceeding back to the NM PRC and instead set oral arguments for September 12
- There is no statutory deadline for the NM Supreme Court to rule

Having both parties agree to an extension increases the odds of closure. The deal has now been pending for almost 3 years, but if AGR/PNM can just get the decision back to the new NM PRC, they seem likely to be supportive.

ERCOT/VST – Watching for new load records; Comanche Peak down over the weekend, but now back up

- This week, hot temperatures forecasts are projected to result in a new ERCOT peak load record – exceeding last summer's 79.8 GWs
    - Yesterday, load topped out at 79.3 GWs
- Real-time pricing only very briefly cracked triple digits over the last 2 days (forwards were unchanged on Friday)

WOLFE RESEARCH

May 23, 2023

UTILITIES & POWER

AGA Conference – lots of regulatory, asset sale chatter

The Wolfe Byte. Our meetings at the AGA Conference this week focused on key rate cases pending in states like MI, IL, and WI as well as asset sale buyers/sellers. Good meetings from OP-rated names CNP, NI, AEE, SO, SRE and XEL.

Low-key AGA. No big surprises at AGA this year, and frankly we weren't expecting any since the companies tend to be the higher-quality electric/gas utilities. Notable are the pending rate cases in historically constructive states that have seen some negative noise recently – DTE in Mich., AEE in IL, LNT in Wisc., XEL in CO. All are expecting reasonable outcomes in 2H '23. Asset sales were another key theme with the biggest seller Dominion still being coy on their exact plans. DUK suggested they would look hard at D's PSNC utility. No one seems to want Dom Ohio. NI was confident on their NIPSCO stake sale; DUK is getting close on their renewables sale. Finally, we caught up with S&P who upgraded the sector to Stable from Negative Outlook going into the conference as they see less downgrade skew going forward. However, S&P potential treatment of tax transferability as excluded from FFO became a topical issue at the conference as WEC highlighted this as a key reason for their negative outlook. See more in note.

Company highlights:

AEE – Think IL MYP outcome improves on staff rec; reiterate 6-8% CAGR no matter what as they can redirect capex elsewhere.
CNP – TX tailwinds; some capex increase likely coming 2H.
NI – Strong execution on regulatory & financials; confident on NIPSCO stake sale.
SO – Vogtle 3 still on track for mid-to-late June – sounding more and more like old SO.
XEL – Renewables upside plan progressing; feel good on MN and CO outcomes.
CMS – Strongly believe MI will remain constructive regulatory environment.
DTE – Confident will get better rate case outcome in 2H and IRP settlement. Possible asset sales at Vantage.
D – Excited to lay out new plan some time in Q3 but hard to read too much into that. Asset sales, B/S main focus now.
LNT – Showed off underground cables from industry-leading U/G program; feel good on WI rate case.
PEG – What a turn from the pension/reg lag warnings last year; telling story well.
SRE – Confident on LNG execution and see good interest for more; regulated growth very strong.
AGR – Still think can get PNM done; NECEC likely restarts soon; mentioned GE turbines as timing gate for VW.
DUK – Renewables sale soon; interested in PSNC with guard rails; constructive on NC multi-year plans.
ED – Feel good on settlement approval and potential steam deal; buyback done Q3; more transmission capex.
WEC – Work with S&P on negative outlook; transferability treatment important; equity likely with higher EEI capex plan.

Exhibit 1: Attending Companies

Ticker	Company	Rating
LNT	Alliant Energy	Peer Perform
AEE	Ameren	Outperform
ATO	Atmos Energy	Not Covered
AGR	Avangrid	Underperform
CNP	CenterPoint Energy	Outperform
CMS	CMS Energy	Peer Perform
ED	Con Edison	Peer Perform
D	Dominion Energy	Peer Perform
DTE	DTE Energy	Outperform
DUK	Duke Energy	Peer Perform
NI	NiSource	Outperform
PEG	PSEG	Peer Perform
SRE	Sempra Energy	Outperform
SO	Southern Company	Outperform
WEC	WEC Energy Group	Peer Perform
XEL	Xcel Energy	Outperform

Source: Wolfe Research Utilities & Power Research

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May 23, 2023

Meeting with S&P

S&P just revised the regulated utilities sector outlook to stable, from negative. This is a position it has held for the last 3 years, as downgrades have far outpaced upgrades. S&P now sees this stabilizing more going forward. To the positive, economic indicators are improving - gas prices have come down and inflation is starting to roll over. To the negative, there is no end in sight to capex plans being revised higher and most companies are still showing a sharp aversion to equity issuances. Instead, many are pursuing sales of non-core assets, to which S&P is beginning to take the view that fewer subsidiaries/OpCos are in fact core. Similar to our own view, S&P is pointing to companies like AEE/XEL that issue equity under an ATM annually to shore up credit metrics, without a problem. Currently, S&P sees about one-third of the sector operating with minimal financial cushion, but at the same time views the cash flows of the industry to be very stable.

One interesting point of discussion is the treatment of tax credits being sold via transferability. S&P is considering only giving credit for this on the debt side (denominator), but not the cash flow side (numerator). This is a different approach from Moody's in our understanding, but could result in meaningful swings in how the metrics are calculated. S&P pointed to guidance from Big 4 accounting firms on this, but at the same time on a GAAP-basis these credit transfers will show up in CFO and will be recurring, so adjusting it out doesn't make much sense to us. Part of WEC's negative outlook is due to this discrepancy based on our meeting with them.

- AEP is operating with minimal cushion and is barely getting by; it is on stable outlook (BBB+ senior unsecured) and has been undergoing asset sales as well as planned $600-700M/yr. in 2024-26.
- D was recently placed on negative outlook, citing the loss of $350M of EBITDA in the VA legislation as the triggering event and a projected FFO/D below their 13% downgrade threshold absent countermeasures. D aims to maintain its current ratings (BBB senior unsecured) on the other side of its business review update in Q3.
- EIX is projected to improve to 16-17% FFO/D by 2025 from under 15% in 2022 before any recoveries of 2017-18 wildfire costs.
- EMA is on negative outlook, but is forecasted by S&P to remain above its 10% FFO/D downgrade threshold over 2023-25, albeit with little cushion. NSPI's reasonable rate case outcome in light of Bill 212 provides some stability and EMA's plan to fund 15-25% of its 2023-25 capex plan with equity (C$240M/yr. DRIP + C$60-70M/qtr. ATM) will help support its credit metrics some. It will be important for EMA to manage fuel costs at TECO during summer months as well as manage through the storm season.
- EVRG has been on negative outlook for almost 2 years now (BBB+ senior unsecured, a notch above Moody's), as Missouri West securitization has been held up by a legal proceeding, and we are awaiting an outcome in the Kansas case. However, there may be path to stabilization by the Fall.
- FE has been on positive outlook to get back to IG following all the Ohio fallout several years ago. S&P is looking for FFO/Debt consistently above 12%, more detail on use of FET proceeds, and further demonstration of deferred prosecution agreement compliance. The path to IG seems attainable.
- NEE has been highly in focus with all the noise around NEP. With the recent actions though, S&P sees no change in how it views NEP as deconsolidated. NEE/NEP have complied with all the parameters originally set out to achieve that treatment. Without NEP deconsolidated there would be credit pressure. However, NEE appears to be one of the most credit-focused companies in the sector.
- PCG's FFO/D on the other hand is projected to remain below 13% through 2024 and investment grade still looks to be some time away, as the company needs a good GRC and get through at least another wildfire season without major fires. PCG also has increased capex and assumes minority interest sale of PacGen.
- PNW is on negative outlook given APS' pending rate case, but S&P sees regulation in AZ headed in a better direction.
- SO has had good momentum and is projected to see FFO/D 15-17% vs the 17% upgrade threshold (BBB senior unsecured), but U-3 in-service and prudency case are important.
- WEC was recently put on negative outlook, where S&P sees rising capex and unregulated acquisitions as weighing on metrics as WEC continues to avoid equity issuance.

Company Summaries

Alliant Energy (LNT – PP): Confident in resolving IA/WI regulatory initiatives constructively

- **Seeking certainty and premium ROE in 200 MW solar reconsideration filing in IA.** On 5/17, IPL requested reconsideration of key parameters in the advanced ratemaking order for the 200 MW build-transfer Duane Arnold solar projects to include: 1) ROE for the life of the projects and 2) updated cost cap of $1,821/kW to reflect current market conditions for solar development/construction costs. Recall, IUB's initial order denied IPL a premium 11.4% ROE and specified a $1,575/kW cost cap, which denies recovery certainty of ~$50M out of $364M in project costs. With the proceeding now being adjudicated by new Chair Erik Helland and new Board Member Sarah Martz, LNT is hopeful of securing an improvement in key parameters of the order; IUB's reply is due 6/6 and deadline for the IUB to grant or deny rehearing is 6/16.
- **Judicial review of remaining IA solar/storage projects progressing.** In May, IPL filed briefs with the District Court requesting reversal of IUB's decision to deny advance ratemaking for the 200 MW self-developed Creston/Wever solar & 75 MW battery storage projects and remand of the proceeding to the IUB to specify principles. LNT contends that IUB's decision is contrary to the purpose of IA statutes and past precedent. A hearing is set for 7/14 and if unsuccessful, LNT intends to pursue recovery of these project costs in its next rate case (filing expected by 1H24).
- **Confident in balanced WI rate case outcome.** WPL's $111M revenue increase request in 2024 is driven by ~1.1 GW of solar additions and tax benefits/amortizations rolling off, which had allowed for minimal rate hikes over the past decade. With affordability in focus, mgmt. acknowledged that LNT's request to maintain a 10% ROE will be scrutinized; LNT is also seeking to increase its regulatory equity ratio to ~56% vs. 53.8% currently authorized – every 50bps ROE change is $0.07 & every 100bps equity ratio change is $0.03. But, mgmt. remains convicted in LNT's ability to reach a reasonable outcome and pointed to some conservatism embedded in the plan. Hearings are anticipated in Sept., with a final decision expected in Q4.
- **Early mover on undergrounding.** ~26% of LNT's system is currently underground (~30% in WI/~25% in IA). LNT plans to underground ~600 miles or ~1.5% of its system per year, with ~95% of its capital spend on wires weighted towards undergrounding – through technology and scale, LNT has driven down the cost per mile for 3-phase underground cables to $600-650K vs. $550K for overhead. To keep pace, LNT has made forward purchases of transformers and could deploy undergrounding in the future as a lever to yield O&M savings by reducing tree trimming.
- **Tax credit transfer discussions moving faster than expected.** LNT expects to generate ~$150M of renewables tax credits in 2023, ramping up to >$300M per year in 2025, which would boost FFO/D. Transferability guidance is expected from Treasury later in Q2 and based on high demand for bi-lateral contracts from counterparties, LNT anticipates that the monetization discount would be minimal. LNT's plan assumes starting to transfer tax credits in 2024, but mgmt. noted that these cash flow begin in 2H23. Beyond $225M/$25M via ATM/DRIP in 2023, LNT's equity needs 2024 onwards will depend on: a further $125M partial sale of West Riverside to WEC/MGE in 2024 (subject to PSCW approval) & a possible increase in WPL's equity layer.

Ameren (AEE – OP): Take a chIL pIL

- **Working to address intervenor concerns in IL electric case, hopeful for balanced outcome.** AEE probably spent 80% of AGA answering questions on the IL electric MYP rate case, despite the segment making up only 20% of the company. After reasonable recommendations in its gas rate case, AEE was surprised by ICC Staff's $700M reduction in requested electric rate base (implying ~2.5% rate base growth vs ~7% requested). In its rebuttal testimony, AEE is expected to show those investments are needed to meet the state's electrification goals. AEE is also likely to argue against Staff's formulaic ROE recommendation, which ended when IL enacted CEJA two years ago. AEE is hopeful for a balanced outcome. Lower power/capacity prices this summer vs a year ago ease pressure on downstate IL electric bills.

- **Confident on hitting EPS growth target.** AEE has investment opportunities across its four segments (MO-50% of company, IL electric-20%, IL gas-10% and FERC transmission-20%). Even if the Staff's rec were to prevail, AEE is confident on achieving its 6-8% EPS growth target, as AEE's 5yr plan has ~$20B capex, with a $48B pipeline of investments through 2032.
- **MO rate case settlement decision expected by July.** AEE settled its MO rate case in March, leaving only three non-revenue items. The blackbox settlement is unopposed and is expected to be discussed at an upcoming hearing and decided by July. AEE has constructive regulatory mechanisms, such as PISA, but there is still modest lag that builds. We think AEE will file a rate case every 18-24 months.
- **Good sign for more renewables, dispatchable resources more in focus.** AEE received approval by MO regulators for two solar plants this year, including the first (Boomtown) that was not needed to meet state renewables mandates. The approval is a good signal for future renewables. AEE targets about 400 MW of additional renewables annually, on average, through 2035. But AEE sees a need for dispatchable resources. In its triennial IRP filing this Sep, we think AEE likely keeps or adds to its 1.2 GW of CCs by 2031. Extending coal retirements is unlikely: Rush Island is under court order to retire within the next couple of years while Sioux is reaching its useful life by end of the decade.
- **Transmission opportunities.** AEE has $1.8B of MISO allocated projects in its plan, and it has begun bidding for about $700M of MISO transmission, with results expected in 1H24. AEE expects MISO Tranche 2 to have more transmission opportunities than Tranche 1 last year. Those projects are anticipated to be allocated by mid-2024. Neither IL nor MO has transmission right-of-first-refusal law. AEE expects to repropose a ROFR bill in the 2024 session in MO, after the effort picked up support too late in the last session. IL also could see a ROFR bill proposed.

Avangrid (AGR – UP): Sticking with PNM, starting NECEC soon, waiting for NY/ME settlements

- **Sticking with PNM.** Despite the prolonged timeline after the latest New Mexico Supreme Court action, AGR is anticipating that both they and PNM will extend the merger agreement beyond the July deadline. Oral arguments at the Supreme Court will be held in September and a decision is expected in the following months. Mgmt. remains convicted that the deal will ultimately be approved by the NM PRC. Importantly, 2023 guidance is effectively unimpacted, as the absence of a half-year PNM contribution ($0.30/sh) is mostly offset by not having to issue $4.3B of debt to close the deal.
- **NECEC construction expected to restart soon.** After a string of legal victories, AGR is expecting to start construction again imminently. Costs have ticked up, but there is a level of comfort around the law and contract provisions, that should compensate AGR.
- **NY/ME rate case settlements seem imminent.** AGR has been in ongoing dialogue in both states and our sense is a settlement could be reached very soon. Connecticut is a different story though, as AGR is cognizant of the recent disappointing outcome for ES' water utility.
- **Vineyard Wind construction progressing, waiting on Park City / Commonwealth next steps.** AGR's construction of Vineyard Wind offshore is well underway, with monopiling set to begin soon. There might be slight delays in receiving the GE turbines, but nothing overly material. Mgmt. appeared very convicted in the project. The other offshore wind projects are seeing a very disciplined approach. Commonwealth defaulted on the collateral posting tied to its contract in MA after PPA renegotiations failed, while Park City Wind is still attempting to renegotiate. Mgmt. stressed that the projects need to be economic, if that isn't so, it will simply re-bid in future solicitations.
- **Still exploring renewables asset sales.** AGR is looking at a stake sale in its onshore renewables business and its Kitty Hawk offshore lease in North Carolina. The extent of these sales may in part be determined by the realization of PNM and other funding opportunities. AGR is confident in the quality of its assets, pipeline, and team. But if the value isn't there in the market, there is no rush to sell.

CenterPoint Energy (CNP – OP): Plethora of tailwinds on the horizon

- **Incentive comp/DCRF bills could improve regulatory lag at CEHE.** The incentive comp. bill (SB 1016) was made effective on 5/5 and would help reduce regulatory lag at CEHE given that $20-25M of incentive compensation was disallowed in its previous rate case. SB 1015, which provides the ability to file a second

DCRF in a calendar year, cleared the Senate on 4/5 and passed the House today. We think this legislation would allow for more timely recovery of investments. The equity ratio bill (HB 3042) looks unlikely to move forward, while it is unclear whether SB 1075, which would allow T&D utilities to own temporary mobile gen. facilities, will cross the finish line before the 5/29 deadline.

- **Some capex increase likely coming in 2H23.** Enactment of the DCRF bill would allow for more timely recovery of investments, providing CNP with an opportunity to fold in some of the ~$3B incremental capital in 2H23. We think CNP is more likely to incorporate a larger portion of the capex upside post its TX rate case given that CEHE cannot use capital trackers whilst its rate case is ongoing in 2024. While gas LDC sale multiples have come down from the historical highs of ~2.5x rate base given the higher interest rate environment and CNP doesn't need to sell any gas LDCs to fund its ~$43B capital plan, mgmt. still thinks these asset sales, particularly if less chunky like CNP's MS/LA gas LDCs, would be a more efficient financing method than equity issuance given robust inbound interest. We think this capex upside would enable CNP to perform even stronger within its mid-to-high end of 6-8% annual EPS growth target over 2025-30 or even extend its 8% annual EPS growth target beyond 2024.
- **Well-positioned into CEHE & TX Gas rate case filings.** TX Gas will file its rate case in July and mgmt. remains confident that both CEHE and TX Gas can seek a relatively flat revenue requirement – even potentially including a higher ROE/equity ratio request at CEHE – due to O&M savings. There is upside potential at CEHE vs. its currently allowed 9.4% ROE given the 9.7% ROE recently awarded to in-state peer Oncor. Additionally, if the DCRF bill is signed into law, the ability to file the distribution tracker twice annually would help address regulatory lag at CEHE. CNP has also pre-funded its TX Gas subsidiary with 60% equity content (similar to pre-funding CEHE with a 45% equity layer) vs. the current mid-50% level; if CNP is unable to secure a higher equity ratio, this excess cash could be used elsewhere in the business.
- **IN renewables transition on-track.** CNP's generation fleet transition in IN is progressing on plan. Panels for solar projects have been secured and CNP accelerated capex to backfill earnings power lost due to the delay in renewables projects coming online to 2025 from 2024 amidst supply chain issues. Given the increased focus on affordability, mgmt. acknowledged that there is some potential for a ROE decrease when IN Electric files its next rate case in Dec. vs. its currently authorized 10.4% level. Consequently, CNP has embedded some conservatism in its plan with respect to IN Electric's ROE. CNP also plans to submit its next IRP to the IURC by 6/1, after recently disclosing its preferred portfolio, which includes converting the 270 MW Culley 3 coal unit to natural gas by 2027 and adding 200 MW each of wind/solar by 2030.

CMS Energy (CMS – PP): Confident in constructive Michigan

- **Still a lot of focus on regulatory environment.** A noisy storm season in the state and last year's disappointing DTE electric rate case, have kept the focus on Michigan. CMS is pointing to its 3 settlements last year though (electric, gas, IRP). It has a currently pending gas rate case, where the opening Staff testimony looks reasonable, and a constructive outcome regardless of whether it is settled looks attainable. CMS believes its cases are well-positioned to answer areas of MI PSC pushback in recent years - supporting evidence for certain capex program and sales forecasts (DTE). CMS sees very little appetite for a decoupling mechanism (beyond its partial gas one) in the state, despite the large weather swings in recent years.
- **New commissioner coming soon.** Commissioner Tremaine Phillips recently stepped down and we expect a replacement to be named in the next month or so. Similarly, Governor Whitmer will also decide whether to reappoint Commissioner Scripps as Chairman. CMS feels comfortable with the slate of candidates and a solid regulatory environment prevailing under Scripps' leadership.
- **Looking into more undergrounding and tracked investment to build storm resiliency.** CMS is asking for an IRM tracker mechanism, through which it will spend more to address reliability going forward - slowly scaling up over time. At the same time, it is also requesting an undergrounding spend pilot. All of this is designed to address future storm-related outages. That said, CMS actually saw its 2022 SAIDI metrics improve and 2023 is tracking even better. As part of its discussions with the Michigan legislature, CMS has also agreed to increase the level of storm-outage credits to $35/day (from $25).

- **Economic growth greenshoots.** Weather-normal sales growth results continue to outpace conservative assumptions. CMS is seeing robust economic development in its state, tied to EV and manufacturing industries.
- **Financing efficiencies helping to offset 2023 weather pressure.** Like many in the industry, CMS recently did a convert issuance and subsequently used it to pull-forward some of next year's parent maturities and tender some longer-dated debt. CMS feels good about maintaining mid-teens credit metrics, with PSCR/GCR power/gas recovery starting to come back, and up to $350M/year of equity planned starting in 2025. These financing efficiencies, along with 2022 pull-aheads, load growth, Northstar (DIG) upside, and tax planning are helping to offset the mild winter weather pressure to start 2023.

Con Edison (ED – PP): Steam settlement talks and Long Island PPTN proposal in focus

- **Decoupling key in CECONY Steam rate case.** With settlement negotiations ongoing in the Steam rate case, CECONY expects to reach an outcome that levels Steam's business profile with electric/gas in terms of revenue predictability and improve the earned ROE vs. the mid-4% range realized in recent years. PSC Staff's 9% ROE recommendation is in-line with recent datapoints in NY and with capex/rate base growth & O&M delta vs. ED's ask not being significant drivers, discussions appear to be centered on revenue decoupling – on a full, per customer, or weather-normalization basis – which Staff didn't support in its testimony. The NY PSC could vote on CECONY's electric/gas joint proposal in June/July; mgmt. expects CECONY to earn its allowed return, which will help ED achieve the midpoint of its 5-7% EPS CAGR.
- **Potential capex upside at CET.** NYISO Staff recently recommended CET's ~$3.3B *Propel NY Solution* for the Long Island PPTN, with 4 of ED's variants ranked amongst the 7 top-tier projects (ranks 1-3, 5). This capital, of which ED would contribute ~30%, is not included in CET's 2023-25 capex forecast. This project has a proposed 72-month development period and would need to be in-service by 2030. NYISO's Board of Directors is scheduled to review recommendations at its 6/12 meeting after which a solicitation winner could be announced; if successful, CET intends to fund this project with asset-level non-recourse debt & equity infused from the parent.
- **Progress on capex being pursued separately from CECONY's rate case.** The NY PSC recently approved ED's cost recovery petition for the $810M Brooklyn Clean Energy Hub and ED intends to file for approval of the $1.1B Eastern Queens/Idlewild Energy Solution proposal later this year. These projects constitute ~$320M/~$390M/~$550M of capex over 2023-25 in ED's plan, but are not reflected in rate base given 2027-30 in-service dates. Forecasting that its 2022/23 summer/winter peak demand of ~13 GW/~8.7 GW will grow 30-140% by 2025 driven by electrification of transportation & heating, CECONY expects to transition to a winter-peaking electric utility by 2040. Given the need for significant T&D investment, ED's rate base growth seems to be skewing higher than the current 6% CAGR beyond 2025.
- **$1B accelerated buyback expected to be completed by Q3.** ED expects its $1B accelerated share repurchase (ASR) program to be completed by Q3, but is unaware of how far along the banks are in completing the ASR. We note that 8.73M shares were initially repurchased on 3/7 for $800M or $91.63/sh.; the remaining $200M could be used for more buybacks through Q3.
- **L-T gas planning filing upcoming.** ED will file its 20-year gas long range supply plan with the NY PSC by 5/31, highlighting its vision for the path to net zero/carbon neutrality by 2050. ED is supportive of NY city/state regulations banning natural gas use in small/large buildings. That said, ED believes that a hybrid model that optimally utilizes existing electric, gas, and steam infrastructure with RNG/hydrogen blending is more reasonable vs. deep electrification since it helps balance customer affordability and reliability.

Dominion Energy (D – PP): Third quarter is ours, third quarter is ours

- **Timing of business review update still sometime in third quarter (7/1-9/30).** D continues to target a full business review at its Investor Day sometime from 7/1 through 9/30. D aims to isolate as many of the input variables ahead of the ID to de-risk the outlook thereafter.
- **All key objectives remain unchanged; excited about prospects post update.** D aims to have a stable utility profile, with high quality, durable growth. D wants to improve its credit profile. And D will keep the

dividend safe. D said it was excited about the direction of the company after the Q3 update, which should allow the company to better operate at its potential as the issues and constraints of the past are lifted.

- **Asset sales vs equity issuances.** D needs to increase the equitization of the business, but it seeks to minimize external equity. D has a bias toward alternative sources of financing and looks at asset sales on an individual basis, as the details matter. The market should hear about the sales prior to the Investor Day. D is evaluating whether to sell a minority stake in its offshore wind project in VA.
- **VA IRP reflects growth, more dispatchable resources to address reliability.** Significant investments will be needed to meet load growth (~5% peak load in Dominion zone). D delayed some coal retirements and sees more gas given the region's need for dispatchable resources, which state leaders appear to understand.
- **Targeting current credit ratings, finding right fixed/floating debt.** D is rated Baa2 and BBB+ issuer rating (BBB unsecured) at Moody's and S&P. The FFO/D downgrade thresholds are 14% and 13%. D's B/S is 80/20 fixed vs floating. But SOFR is 5.1%. D intends to find the right mix variable debt going forward.

DTE Energy (DTE – OP): Focus on regulatory execution, targeting settlements

- **Looking to settle IRP ahead of upcoming ALJ rec on July 14.** This is the first in the timeline of regulatory focus this year for DTE. The company laid out a robust plan to build more solar and accelerate coal retirements. The key area we have been focused on is regulatory asset treatment of retiring coal at a reasonable ROE. Peer CMS was able to settle on a 9.0% ROE in this matter last year. There's also discussion points around whether the second half of Monroe can be retired earlier and if more solar/storage can be brought online earlier. We see a path for DTE to achieve a constructive outcome.
- **Next up is the electric rate case.** The ALJ here is due October 5, so that will be the window to reach a settlement. This is critical after the disappointing order in late-2022 that came down to a large discrepancy on sales growth assumptions. Before all that though, we'll get a Staff recommendation on June 13, which should form the basis for discussions. DTE sees its YTD sales tracking its prior forecasts well and believes it has solid support for its capex. In-state peer CMS achieved constructive settlements in both electric and gas cases last year, and DTE seems highly motivated to reach a settlement of its own.
- **Big weather headwind, but manageable absent a mild summer.** The storms and mild weather of Q1 have put DTE in a little bit of a hole at the electric business, but its other segments still have a decent amount of contingency. Mgmt. continues to find cost savings that are not just one-time, but sustainable beyond 2023. Our sense is DTE still has levers to pull in order to hit the midpoint of 2023 guidance, but if summer is extremely mild, it won't compromise long-term performance to chase short-term weather offsets.
- **Addressing future storms with more automation and undergrounding.** This has been DTE's messaging in recent months, as storm-related outages early in the year created some political pressure in the state. Mgmt. sees undergrounding of the electric system as becoming a more cost effective way of adding resiliency, while at the same time pursuing more grid automation. Specifically, DTE's 46k mile system is currently one-third underground, but the company is focused on undergrounding another one-third of low voltage lines. This will start small with a 5-10 miles, but quickly ramp up as the cost comparison becomes more compelling.
- **Potentially monetizing some of Vantage assets.** Mgmt. remains focused on shareholder value creation and has proven it isn't afraid to monetize non-utility businesses (midstream spin). Vantage is seeing solid growth opportunities, but in order to remain less than 10% of the business mix, it may start to pursue asset rotation. RNG is seeing pressure in LCFS markets, offset by RFS markets. On-site energy projects are seeing 8%+ unlevered returns, with carbon capture potentially achieving 10% unlevered returns.

Duke Energy (DUK – PP): (PS)NC @ DUK on the schedule?

- **Confident on getting CR sale announced soon, completed by yearend.** DUK was hopeful of an announcement by AGA but now anticipates a two separate announcements (one for the utility scale developer and the other for C&I rooftop business). DUK has budgeted five months for approval of the utility scale deal, which may need FERC approvals, but is confident they will both close by YE23.

- **Constructive tone on NC rate cases.** DUK's partial settlement in its DEP case in NC would give certainty on forward capex and leaves just ROE/cap structure to be decided on by the NCUC. DUK expects an ROE modeslty better than its current 9.6% allowed, given water utilities in the state last month received 9.8% (from 9.4% previously allowed). DUK's DEC case in NC, which follows DEP by a few months, is expected to mirror DEP.
- **Would consider PSNC if within guardrails.** DUK noted M&A guardrails, including contiguous to existing DUK territories, not large enough to change the roughly 90/10% electric/gas composition of the company, accretive, credit positive and more than just standard cost synergies. D's PSNC has overlapping territory with DUK's NC segment and is only about $2B of rate base (~2% of DUK's $100B total RB).
- **Targeting an improved B/S but big company, not likely to exceed 14% target.** Fuel deferrals (~$4B) was a key driver of DUK's weaker B/S in 2022, but as those get recovered, coupled with the CR sale, DUK expects 50-75bp improvement and close to 14%. DUK indicated FFO/D would be back to normal levels in 2024. DUK noted that any M&A would be funded equity for equity and that it would not lever up the parent.
- **Nuclear PTCs.** DUK is the largest regulated nuclear operator, generating about 75 TWH/yr, suggesting several hundred million dollars of annual tax credits, DUK said. Mgmt expects to be able to monetize the first tranche in 2025 (the year after they become effective). And preliminary discussions with stakeholders suggest some kind of smoothing and multiyear giveback to customers could be a solution; but it is early days and the PTC guidelines have yet to be published.
- We recently had DUK on the road and touched on similar topics discussed at our AGA meetings; please see the note for more detail.

NiSource (NI – OP): Focused on executing A.D. plan; NIPSCO stake sale on target

- **NIPSCO stake sale on-track.** Mgmt. reiterated confidence in NI's ability to successfully execute a 19.9% minority interest sale in NIPSCO by YE23, with an announcement possible by mid-year. NI would require FERC approval to close this transaction and it's 2022 Investor Day plan already incorporated a higher interest rate environment in its sale price assumption. NI views NIPSCO as a premium opportunity for potential buyers given its scale, constructive IN regulation & coal to renewables transition in the electric segment coupled with steady gas investment.
- **Balance sheet > M&A.** NI will likely narrow its 14-16% FFO/D target post executing NIPSCO's stake sale, but expects this metric to be higher in early years due to asset sale proceeds and trend lower in the outyears. NI intends to maintain some cushion vs. its 13% downgrade threshold (Baa2/BBB+ credit ratings at Moody's/S&P) to capitalize on additional investment opportunities. Mgmt. clearly downplayed M&A opportunities, stating instead that NI is focused on its organic growth plan and maintaining a robust B/S. NI intends to issue ATM equity 2025 onwards and utilize equity unit re-marketing proceeds (~$863M) for renewables project milestone payments and to redeem outstanding preferred stock of $900M.
- **Potential upside from tax credit transferability and IN transmission ROFR.** IN's recently enacted transmission ROFR legislation could lead to incremental capex as NI works with MISO to quantify the magnitude of transmission build opportunities. Replacement capacity projects for Schahfer/Michigan City gas/coal units are included in NI's 6-8% annual EPS growth rate/8-10% annual rate base growth forecast and NI is likely to rate base the gas peaker, battery storage, and Sugar Creek uprate, but transferability could lead to more equity investment in additional solar/wind resources vs. financing via tax equity. NI is finalizing contracts from its Aug-Sept. 2022 Schahfer gas peaking facility/all-source RFPs & noted ~25% YoY price increases in bids.
- **L-T execution key to bridging valuation discount.** NI currently trades at a ~0.5-1.5x discount vs. its gas/electric peers, but mgmt. believes that rebuilding NI's track record of L-T execution is key to re-rating to a premium. The NIPSCO stake sale process is on plan and IN's renewables buildout is progressing on-target with previously revised in-service dates as solar panel availability/supply chain trend in a positive direction. NI has also performed well in the regulatory arena as evidenced by recent settlements approved in key OH/PA gas rate cases and awaiting approval in NIPSCO electric's rate case; the MD gas (~1% of rate base) rate case is pending.

PSEG (PEG – PP): Much quieter meeting than more recent conferences

- **Mgmt. pointing to low risk, steady story.** After last year's AGA conference kicked off some of PEG's pension concerns and EEI resulted in a re-basing lower, this year's AGA conference messaging was much more encouraging. PEG believes it 5-7% EPS growth rate is conservative and achievable, as nuclear pricing above the PTC floor is an upside, and the utility remains well-aligned with New Jersey state policy. Transmission formula rate and the CIP mechanism have also greatly reduced any volatility at the utility.
- **Sticking with nuclear, waiting on Treasury guidance.** PEG has been clear about maintaining its nukes and even the recent Energy Harbor transaction didn't change its thinking. We're still awaiting Treasury guidance on the determination of "gross receipts" in the PTC calculation, but PEG has been actively engaged on that front. The inflation-indexed PTC floor is assumed in the outlook, but to the extent PEG realizes upsides it could take the opportunity to pull-forward costs/investments.
- **Convicted in constructive New Jersey rate outcome.** PEG will file its first case in 5 years in late-2018. The track record in the state has been to settle and PEG's expectations are no different this time. Mgmt. expects the headline rate increase to be lower than in-state peers, as some rider revenues simply roll into base rates, and there is in offset between Hurricane Sandy and COVID costs/deferrals. Similar to others in-state, PEG will also seek to better address pension volatility within rates. Two new Democrat commissioners (Abdou/Guhl Savoy) at the BPU were just confirmed yesterday.
- **Not much new on offshore wind.** PEG didn't have much new to say on its GSOE stake in Maryland that it is looking to monetize, other than acknowledging that enabling tax credit retention for developers could enhance value. Our sense is that nothing is imminent here. On the offshore transmission side, the investment opportunity is large, but also long-dated. The latest solicitation will center around PEG's Deans substation, which should bode well for some of the onshore potential.

Sempra Energy (SRE – OP): Sees tailwinds in all segments, confident on LNG

- **Confident on LNG execution and demand.** On LNG, SRE feels good about FID on Port Arthur and sees on time or sooner, as mgmt. learned a lot from its experience with Cameron. ECA is expected COD in 2025. Overall, SRE sees interest in contracts and expects 20-yr deals. SRE will not deviate from its returns targets.
- **See multiple forms of financing.** SRE would consider farm downs and other forms of financing, with equity issuances a last resort.
- **Utility growth is solid.** SRE sees 8% and 10% RB growth in CA and TX, respectively. In CA, a PD in its GRC is expected in 2Q24; the last case was constructive. In TX, SRE was watching utility-related legislation involving DCRF and equity ratio. The first passed out of the House but equity ratio did not.
- **CA CCM on track to trigger but within SRE's guidance.** SRE anticipates the CA cost of capital mechanism will be triggered given current rates. If it were to trigger, SRE sees about a 70bp increase in the ROE. But mgmt. indicated that would be within SRE's current guidance.

Southern Company (SO – OP): Maybe the last AGA at which Vogtle is key focus

- **Same focus but different tone.** As has been the case at any investor conference the past decade or so, much of the focus at AGA was on Vogtle. But it certainly felt different with the new CEO Chris Womack in attendance and U-3 potentially in-service mid- to late-June. We thought the meeting felt like the closest to the old SO since Vogtle construction began. SO sees more economic activity later this year and over the next few years, as recent announcements come to fruition.
- **U-3 in-service nearing.** U-3 has been undergoing tests and looks to be at least 3-4 weeks away from COD: the unit will plateau in the 90s for a week or so, then go to 100% and plateau before going back down and then being volatile for a week. Once those tests are complete, the unit will have a 10-day planned outage before ramping back up toward 100 and declared in-service.
- **U-4 on track.** U-4 has benefited from the lessons learned at U-3. The critical path is the paper ITAACs; there were 110 ITAACs left as of last week. U-4 targets in-service 4Q23 or 1Q24.
- **Prudency will be next focus in 2H23.** The prudency review begins when U-4 fuel load starts, currently mid-July if the project stays on track. The main focus item is $7.3B of investment that was deemed reasonable. It will be important to get at least that amount deemed prudent; $3.6B has already been and

another ~$2B must be shown by intervenors that they are not prudent. That leaves about $1.7B in need of prudency determination to get to $7.3B.

- **GA PSC elections still TBD.** There were no legislative changes to the PSC election, as lawmakers awaited an 11th Circuit Court ruling. The earliest a PSC vote could occur is in Nov, but that would require a Court ruling and special legislative session.
- **Regulated renewables would be additive, but 5-7% EPS growth intact.** SO expects to better compete in GA RFPs this year and next, as regulated renewables benefit from IRA. Renewables would be additive to SO's plan, but SO sees its 5-7% EPS growth target intact for some time, potentially beyond its current five year planning period. Southern Power could also add more renewables, both wind and solar.
- **B/S improvement.** Vogtle and recovery of fuel deferrals are expected to get SO's FFO/D in the 16% or more range in the next year or so.

WEC Energy Group (WEC – PP): Regulatory remains solid, long-dated future for nat gas; higher capex could bring some equity

- **Wisconsin regulatory noise hopefully quieting.** WEC's constructive (but noisy) rate case outcome in late-2022 is in the rearview, but since then the WI PSC has unanimously approved (including new Commissioner Summer Strand) $1B+ in new capital projects. These projects, and others that have already been approved, serve as the primary drivers of WEC's limited rate case re-opener filing for this year. In total, the rate increase is in the low-single-digits on a percentage-basis. Both ROE and equity ratio are not up for debate. We expect a relatively straightforward and reasonable outcome.
- **Illinois cases with a reasonable starting point.** WEC just saw ICC Staff testimony in its pending PGL/NSG cases, which seems like a reasonable starting point. The Staff recommended ROE/equity ratio of 9.83%/50.97% would both be above PGL's currently allowed levels (9.05%/50.33%). On the capex side, Staff's recommendation covered 88% of WEC's ask, while also being on board with continued pipeline replacement spend of $280M/year. With the discontinuation of WEC's QIP rider, we expect annual rate case filings going forward. In the current case, we believe a settlement is achievable once the ALJ recommendation is out later this year.
- **Strong support for nat gas long-term.** This was one of WEC's key messages. It sees electrification in Wisconsin (where it owns electric/gas), as a material long-term demand driver. However, even in Illinois (where it owns only gas) WEC pointed to studies that have shown moving to all-electric power would actually result in higher emissions from gas plant new build. Mgmt. also pointed to the latest EPA rules as supportive of natural gas long-term - creating exceptions for smaller plants and those with lower capacity factors. Importantly, WEC's Power the Future plants - Oak Creek coal is converting to natural gas and Port Washington already runs on gas - would fall below the EPA emissions thresholds and thus not be required to install carbon capture equipment.
- **S&P negative outlook tied to tax credit treatment, still considering some equity issuance.** WEC was recently put on negative outlook at S&P and pointed to the rating agency's view of tax credit transferability treatment. As of now, S&P is viewing the credits as a reduction in the denominator (debt), but not the numerator (cash flow). Thus, WEC's metrics are failing to reflect the full benefit ($1.4-1.5B over the next 5 years). Mgmt. is hopeful S&P might change its stance, but regardless the ratings should be intact at Moody's. Historically, WEC has avoided any equity issuances, but did acknowledge that a modest amount could ultimately be reintroduced as it continues to revise its capex plan higher.
- **Highly convicted in hitting 2023 guidance.** This would continue WEC's long track record, which should come as no surprise. Despite the mild weather headwind in Q1, WEC has a number of tailwinds coming later in the year tied to fuel costs, pull-aheads, and foundation contributions experienced in 2H22. Specifically on fuel costs, WEC was unable to defer those outside its fuel band last year because it was already achieving its allowed ROE.

May 23, 2023

Xcel Energy (XEL – OP): Confident in constructive MN/CO rate case outcomes; working through RFPs

- **Hopeful to reach reasonable MN/CO rate case outcomes.** XEL views the ALJ's 9.87% ROE recommendation in the MN electric rate case as constructive, but expects the MN PUC to adjust this slightly downwards to ~9.6% based on recent datapoints in the state; every 10bps of ROE vs. NSP-MN's currently allowed 9.06% is ~$0.01 of EPS. Oral deliberations are scheduled for 6/1, when the MN PUC will make its decision. Despite disappointing initial Staff testimony in the CO electric rate case, XEL remains confident in its ability to reach a balanced outcome. PSCo plans to engage in negotiations to see if a settlement can be reached before the 6/14 deadline. XEL also recently reached a constructive stipulation in its NM electric rate case that specifies a ROE 15bps higher than the 9.35% currently authorized and uses a forward test year.
- **Renewables upside plan progressing.** In May, NSP-MN filed its recommended portfolio consisting of the 250 MW Sherco Solar 3 self-build (~$1,600-1,700/kW) and the 100 MW Apple River Solar PPA, with both projects expected to come online in 2025-26. Uneconomical bid prices, solar supply chain issues, and a large MISO interconnection queue resulted in only 350 MW of projects being recommended from the 900 MW RFP. NSP-MN intends to issue another RFP with an expanded scope including solar, wind, and batteries to fill the remaining MWs. In its ~4.2 GW CO RFP, XEL has observed median wind/solar pricing of $22/$33 on a 25-yr. LCOE basis for projects expected to be in-service in the 2025-27 timeframe. Mgmt. remains confident that when PSCo files its recommended portfolio by 8/18, selected wind/solar projects will likely be sub-$20/$30. In late-Q2/early-Q3, XEL will also file for approval of 2026 projects in TX/NM resulting from SPS' 947 MW RFP, which is not included in XEL's $2-4B of incremental opportunities over 2023-27. XEL intends to finance this capex upside with 40% equity/60% debt.
- **CO utility bill legislation is manageable.** Mgmt. believes that the recently enacted fuel price legislation in CO is workable. By 11/1, PSCo will file with the CPUC on mechanisms to reduce gas commodity volatility for customers. This could include a smoothing mechanism where the delta vs. forecasted gas prices is placed on XEL's B/S as a regulatory asset and recovered over a longer horizon with a carrying charge. XEL could also propose to increase financial hedging, look at potential for more physical gas storage in CO, and enter into physical gas contracts. While details still need to be determined, by 1/1/25, PSCo will also need to implement a symmetrical performance incentive mechanism. Mgmt. does not expect this to have a material financial impact as this legislation safeguards the financial integrity of the utility.
- **Long-dated opportunity from MISO transmission and hydrogen hubs.** XEL anticipates visibility from MISO on Tranche 2 transmission projects in 1H24 and expects the size to be at least as big as Tranche 1; capex for these projects would be in the late-2020s. Recall, XEL's share out of ~$10B of Tranche 1 projects is ~$1.2B and mgmt. expects to receive a similar share of Tranche 2. XEL also recently submitted funding applications for the multi-party Heartland and Western Interstate Hydrogen Hubs and anticipates that the DOE will make final decisions on proposals in Dec. Potential hydrogen hub investment is not included in XEL's 10-yr. capex plan.

May 23, 2023

Comparables Tables

Exhibit 2: Regulated Utility Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	P/E 2023E	P/E 2024E	P/E 2025E	P/E 2026E	Div Yield	Div Growth (E)	Payout Ratio	Price/ Book	Equity Ratio
AES Corp.	AES	$20.76	669	$13,895	12.2x	10.8x	9.9x	N/A	3.2%	5.0%	39%	9.1x	13%
Alliant Energy	LNT	$52.44	251	$13,183	18.2x	17.0x	16.0x	15.1x	3.5%	5.8%	63%	2.1x	41%
Ameren	AEE	82.71	263	21,720	18.9x	17.4x	16.3x	15.4x	3.0%	6.8%	58%	2.1x	41%
American Electric	AEP	86.00	515	44,272	16.3x	15.4x	14.3x	13.6x	3.9%	6.0%	63%	1.9x	35%
Avangrid	AGR	38.42	387	14,855	18.8x	18.3x	16.5x	N/A	4.6%	0.0%	86%	0.8x	66%
CenterPoint Energy	CNP	28.86	631	18,212	19.4x	17.9x	16.6x	15.4x	2.6%	8.6%	51%	1.9x	38%
CMS Energy	CMS	58.63	292	17,100	18.9x	17.6x	16.3x	15.2x	3.3%	6.0%	63%	2.5x	33%
Con Edison	ED	93.88	347	32,533	19.4x	17.8x	17.1x	16.3x	3.5%	2.5%	67%	1.6x	48%
Dominion	D	52.29	836	43,711	13.8x	14.5x	13.6x	N/A	5.1%	0.0%	71%	1.6x	37%
DTE Energy	DTE	109.16	206	22,499	17.4x	16.4x	15.2x	14.1x	3.6%	7.4%	62%	2.1x	35%
Duke Energy	DUK	90.75	771	69,937	16.1x	15.3x	14.4x	13.5x	4.5%	2.0%	73%	1.5x	39%
Edison International	EIX	67.37	383	25,802	14.3x	13.3x	12.0x	N/A	4.4%	5.4%	63%	1.9x	31%
Emera*	EMA	56.66	272	15,395	18.1x	17.1x	16.2x	15.0x	4.9%	4.1%	89%	1.5x	38%
Entergy	ETR	100.29	211	21,206	15.0x	13.9x	13.0x	12.2x	4.5%	6.0%	68%	1.6x	32%
Evergy	EVRG	58.75	230	13,494	16.2x	14.7x	13.8x	13.0x	4.2%	7.0%	69%	1.4x	43%
Eversource Energy	ES	72.75	349	25,378	16.7x	15.7x	14.7x	13.8x	3.7%	5.9%	62%	1.6x	40%
Exelon	EXC	40.44	995	40,220	17.0x	16.1x	14.7x	N/A	3.6%	7.0%	61%	1.6x	37%
FirstEnergy	FE	37.90	573	21,711	14.9x	13.9x	13.2x	12.5x	4.1%	0.0%	61%	2.1x	31%
Fortis*	FTS	58.07	484	28,127	19.4x	18.5x	17.9x	17.3x	3.9%	4.5%	76%	1.4x	42%
NextEra Energy	NEE	74.16	2,023	150,057	24.0x	21.9x	20.4x	18.9x	2.5%	10.0%	60%	3.5x	38%
NiSource	NI	27.36	413	11,301	17.3x	16.3x	15.2x	14.1x	3.7%	6.4%	63%	1.8x	40%
OGE Energy	OGE	35.97	200	7,204	18.0x	17.0x	16.2x	15.4x	4.6%	1.0%	83%	1.6x	47%
PG&E	PCG	16.41	1,996	32,751	13.6x	12.3x	11.2x	10.4x	0.4%	0.0%	5%	1.4x	30%
Pinnacle West	PNW	77.65	113	8,794	19.2x	16.7x	15.9x	15.1x	4.5%	2.0%	86%	1.5x	38%
Portland General	POR	49.43	97	4,776	18.5x	16.4x	15.6x	14.9x	3.8%	5.0%	70%	1.5x	45%
PPL Corp.	PPL	26.78	737	19,739	16.9x	15.6x	14.5x	13.8x	3.6%	6.7%	61%	1.4x	49%
PSEG	PEG	61.31	499	30,592	17.8x	16.8x	15.2x	14.5x	3.7%	5.6%	66%	2.1x	42%
Sempra	SRE	146.50	315	46,096	16.4x	15.4x	14.3x	N/A	3.2%	3.9%	53%	1.7x	48%
Southern Company	SO	71.15	1,090	77,582	19.7x	17.6x	16.5x	15.7x	3.9%	2.9%	78%	2.5x	34%
WEC Energy Group	WEC	88.86	315	28,030	19.3x	18.1x	16.9x	15.9x	3.5%	7.0%	67%	2.4x	39%
Xcel Energy	XEL	65.59	550	36,098	19.5x	18.2x	17.1x	16.2x	3.2%	6.0%	62%	2.1x	39%
Average					**17.5x**	**16.3x**	**15.2x**	**14.7x**	**3.7%**	**4.7%**	**64%**	**2.1x**	**39%**
Average (ex EIX & PCG)					**17.7x**	**16.5x**	**15.4x**	**14.9x**	**3.8%**	**4.9%**	**67%**	**2.1x**	**40%**

Source: Wolfe Utilities & Power Research

Exhibit 3: YieldCo Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2023E	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBITDA 2026E	Div Yield
Clearway Energy	CWEN	30.07	202	6,073	10.7x	10.9x	N/A	N/A	5.1%
NextEra Energy Partners	NEP	59.98	192	11,535	7.7x	8.1x	7.5x	7.4x	5.6%
Atlantica Yield*	AY	25.68	116	2,980	9.8x	9.3x	9.0x	9.0x	6.9%
Brookfield Renewable Partners*	BEP	31.56	275	8,690	23.2x	21.3x	20.4x	18.4x	4.3%
Average					**12.8x**	**12.4x**	**12.3x**	**11.6x**	**5.5%**

Source: Wolfe Utilities & Power Research
*Not covered by Wolfe Research, estimates based on consensus

Exhibit 4: IPP Comparables

Company Name	Ticker	Current Price	Current Shares	Mkt Cap ($M)	EV/EBITDA 2023E	EV/EBITDA 2024E	EV/EBITDA 2025E	Levered FCF Yield 2023E	Levered FCF Yield 2024E	Levered FCF Yield 2025E	Unlevered FCF Yield 2023E	Unlevered FCF Yield 2024E	Unlevered FCF Yield 2025E
Constellation Energy Corp	CEG	84.04	324	27,264	10.0x	8.6x	8.0x	5.8%	7.9%	8.8%	5.9%	7.5%	8.1%
NRG Energy	NRG	33.81	230	7,784	6.1x	5.6x	5.1x	20.3%	23.4%	26.8%	11.4%	13.1%	14.6%
Vistra Corp	VST	24.56	373	9,162	5.8x	5.3x	5.1x	19.6%	24.9%	29.0%	10.7%	12.7%	13.4%
Average					**7.3x**	**6.5x**	**6.0x**	**15.2%**	**18.7%**	**21.5%**	**9.4%**	**11.1%**	**12.0%**

Source: Wolfe Utilities & Power Research

May 23, 2023

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From: Steve Fleishman
To: Weisenburger \ Michael \ V
Subject: The Utility Trader – Poor Q1 stock performance not a good sign for the year
Date: Monday, April 3, 2023 9:06:33 PM

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April 3, 2023

THE UTILITY TRADER

Poor Q1 stock performance not a good sign for the year

View Full Report

Worst Q1 vs. market since 2012 despite fundamental pressures abating – Q1 is in the books and it was a tough start for utilities. The sector fell 4% trailing the market by over 1,100bps. Tech and growth stocks are leading a broad market recovery that has been impervious to Fed tightening, a banking crisis and continued geopolitical tension. Defensive sectors are underperforming. We looked back at the three other years in the past 40 where utilities Q1 trailed by over 1,000bps – 1996, 1999 and 2012. Unfortunately, utilities' underperformance worsened in all those years as the market rally extended (link here). Fundamentally, the two key overhangs on utilities seem to be abating - high nat gas prices and high rates. And so far, the regulatory environment has held up ok despite bill pressures. But utilities likely need the hidden bull market in growth to abate to see better performance.

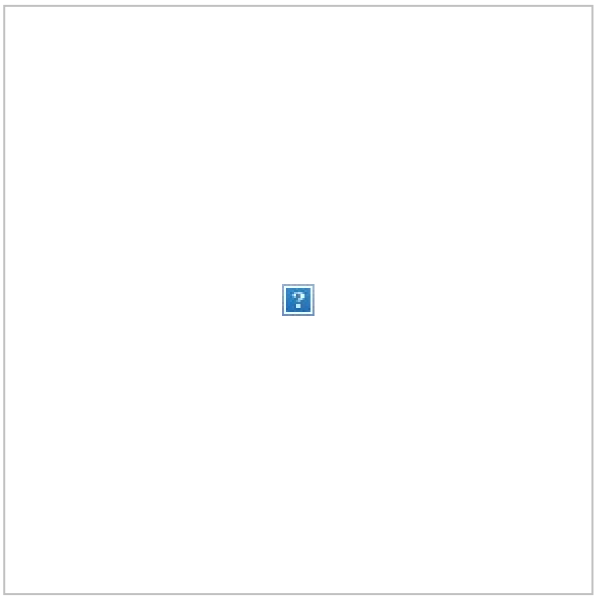
What's working this year...IPPs, Canadians, CA utilities, Regulation improving – It's been a strange year. In a market worried about leverage, the top performing sectors are Canadian utilities (FTS, EMA) and IPPs (VST, NRG) that are on the weak end of balance sheets and credit. CA utilities have started to re-rate as investors get more comfortable with fire risk relative to cheap valuations. EIX has led this year, but PCG and SRE are also performing well. Finally, stocks with positive regulatory improvements have notably re-rated as investors rush to any positive regulatory data points – these include ED in NY, PNW in AZ, and NI in OH/IN.

What's not working...IRA winners, offshore wind, asset sale risk, regulatory worry – IRA winners were among the best stocks in 2022 but have pulled back in 2023 as investors worry on execution and impact of higher rates. AES, NEP, CEG and NEE are all bottom 5 performers. We think they will do better as the year goes on and renewables growth opportunities take shape, especially if interest rates moderate. Offshore wind exposure remains an overhang with those involved still suffering – AGR, ES, D. Both ES and D are working on selling down offshore wind, but investors worry on execution. DUK renewables sale and AEP KY sale are also concerns. Regulatory/legal risk is an overhang on some of the weaker stocks too – NEE, DTE, ES, and ETR.

Top ideas – PCG and CEG. We see the best risk/reward in PCG and CEG from here. PCG is on the Wolfe Alpha List and we see a lot of catalysts for the current 30%+ discount to narrow. CEG is the pre-eminent play on nuclear which we see re-rating as the nuke PTC is implemented in 2024 under IRA. Other top ideas. Value with catalysts – EVRG, SO, SRE. Growth at reasonable price – PPL, EXC, NI, DTE. Quality – CNP, AEE, XEL. IRA winners – AES, NEE

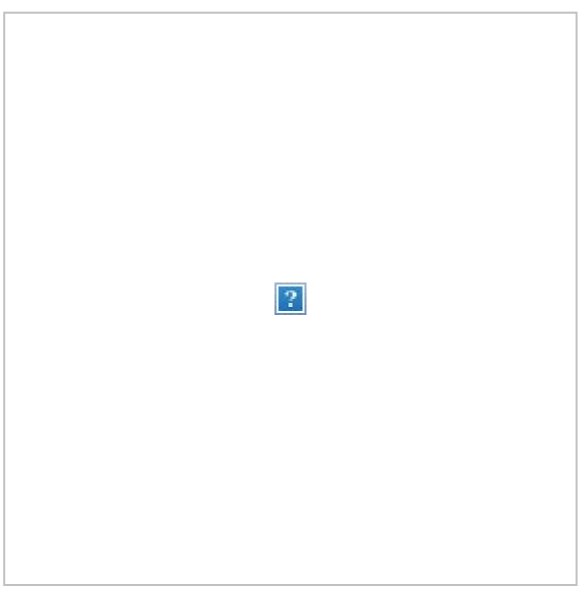
Source for all exhibits in this report: FactSet, Wolfe Research; prices as of 3/31/23

Exhibit 1: 2023 Income Sectors Perf



Source: FactSet, Wolfe Research

Exhibit 2: 2023 Utilities Perf



Source: FactSet, Wolfe Research

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From: Steve Fleishman
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Subject: The Fleishman Daily 5/2/23 - PEG, Trader, D, FE, CMS, NI/CNP/DUK/AES, AWK, ETR, WEC, LNG, MPLX, EPD, DTM, ETRN, PLUG, Solar Tariffs, SPWR
Date: Tuesday, May 2, 2023 9:10:37 AM

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May 2, 2023

THE FLEISHMAN DAILY 5/2/23

PEG, Trader, D, FE, CMS, NI/CNP/DUK/AES, AWK, ETR,WEC,LNG,MPLX,EPD,DTM,ETRN, PLUG,Solar Tariffs,SPWR

The Fleishman Daily 5/2/23
Utilities: PEG, Utility Trader, D, FE, CMS, NI/CNP/DUK/AES, AWK, ETR, WEC, Bi-Weekly Mark
Midstream: LNG, MPLX, EPD, DTM, ETRN
Clean Energy: PLUG, Solar Tariffs, SPWR
WEBCAST REPLAY: Lazard 2023 Levelized Cost of Energy & Report Webcast; replay here, slides here

Utilities

PEG – Q1 EPS beat, 2023 guide reaffirmed
The Utility Trader – Utilities treading water; Renewables in focus this month
D – Files annual VA IRP reflecting updated load growth expectations; Gov applauds filing
FE – Upsizes convertible debt offering to $1.3B and prices at 4%
CMS – Upsizes convertible debt offering to $700M and prices at 3.375%
NI/CNP/DUK/AES – Indiana Governor signs bill that gives utilities the right of first refusal (ROFR) for in-state electric transmission projects
AWK – Files rate case in WV seeking a ~$45M revenue increase premised on a 10.5% ROE and 52.8% equity ratio
ETR – Moody's changes outlooks ETR's AR, MS and NOLA subs
WEC – As Giannis said, you can't win every time
The Bi-Weekly Mark – Gas plants under pressure too; IPP earnings preview

Midstream

LNG – Big Q1 beat, raises 2023 guidance; $450M share repurchases; very positive especially given global gas prices
MPLX – Large Q1 beat lends support to mid-single digit growth outlook; No unit repurchases in Q1; Positive
EPD – Q1 beat on very strong propylene results and Rockies gas gathering; Strong exports; Upper end of capex range raised; Mixed
DTM – Q1 in line; reiterates 2023 outlook but changes EBITDA methodology. Growth projects on track but no major updates
ETRN – Q1 beat; Mgmt. pushes MVP in-service assumption by a quarter; expected

Clean Energy

PLUG – Announces JV with SK E&S to build gigafactory in South Korea
Solar tariffs (AD-CVD) - Final decision delayed 3 months until August 17th
SPWR – Announces hiring of Jennifer Johnston as COO, replaces Derek Kuzak

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

PEG – Q1 EPS beat, 2023 guide reaffirmed

- **Q1 operating EPS of $1.39 vs. $1.33 last year – beat** versus consensus/us at $1.25/$1.31
  - PSE&G -0.02 YoY on T&D rate base growth; offset by pension expense and higher depreciation/interest
  - Power/Other +0.08 YoY on higher hedge pricing; partially offset by weaker BGSS and higher pension/interest expense
- **Reaffirms 2023 guidance at $3.40-3.50** (consensus: $3:44 ; WRe: $3.45)
  - Segment guidance unchanged
- **Reaffirms 5-7% EPS CAGR over 2023-2027**
- Slides have yet to be posted as of this time

Solid results from PEG, as we expected a beat and believed the CIP mechanism would differentiate this quarter as most of the sector was facing big weather headwinds. Otherwise the update looks relatively uneventful, as PEG just hosted a big Analyst Day in March.

The Utility Trader – Utilities treading water; Renewables in focus this month

Click here to view our complete note

Utilities eke out a small rally after worst Q1 in a decade – Utilities rose 1.8% in April edging out the S&P 500's 1.5% gain. After underperforming over 1,100bps in Q1, we would characterize this as a whimper. Weak Q1 on weather has taken some of the shine off utility earnings though we think the focus on whether companies will be able to offset weather in 2023 is largely irrelevant since we value them off 2025 estimates anyway. With Fed uncertainty and a tightening credit environment, we continue to view utilities as a decent value here trading at a modest discount to the market.

D – Files annual VA IRP reflecting updated load growth expectations; Gov applauds filing

- Dominion Energy VA filed its annual Integrated Resource Plan, as expected, which covers 15 years.
- It reflects resource needs to meet PJM's projected 5% load growth.
- It includes transmission, solar, offshore wind, and gas, as well as no meaningful baseload retirements.
- Gov Youngkin issued on the IRP filing, saying "...I applaud Dominion Energy for taking a serious look at the anticipated demand and providing commonsense pathways to proactively delay the retirement of critical baseload capacity in this IRP."

We are still reviewing the IRP. The expected capex for transmission is significantly higher, calling for $2B/yr vs $1B/yr previously. D plans to discuss the IRP on its call this Friday but does not plan to unveil its updated capital plan until its business review is completed and announced in Q3. The comments from VA Gov are good to see.

FE – Upsizes convertible debt offering to $1.3B and prices at 4%

- FE has upsized its previously announced convertible debt offering – to $1.3B from $1.0B, plus the $200M shoe
- The notes will bear interest at 4.0% and are due in 2026
- Initial conversion price is $46.81/sh or a 20% premium – if share price exceeds this, the excess value can be paid in cash, stock or both

As a reminder, this is effectively low-cost debt financing, not an equity-like financing. The principal amount will not convert to stock, instead the buyer gets an option on the stock that allows them to take a lower coupon on the debt.

CMS – Upsizes convertible debt offering to $700M and prices at 3.375%

- CMS has upsized its previously announced convertible debt offering – to $700M from $650M, plus the $100M shoe
- The notes will bear interest at 3.375% and are due in 2028
- Initial conversion price is $73.97/sh or a 20% premium – if share price exceeds this, the excess value can be paid in cash, stock or both

As a reminder, this is effectively low-cost debt financing, not an equity-like financing. The principal amount will not convert to stock, instead the buyer gets an option on the stock that allows them to take a lower coupon on the debt.

NI/CNP/DUK/AES – Indiana Governor signs bill that gives utilities the right of first refusal (ROFR) for in-state electric transmission projects

- IN Gov. Eric Holcomb signed **HB 1420**, which gives utilities the right of first refusal (ROFR) for electric transmission projects in the state.
- This bill specifies that the ROFR applies with respect to the construction or upgrades of electric transmission facilities if approved through an RTO planning process.
- Each incumbent electric transmission owner shall give written notice to the IURC, not later than 90 days after approval, regarding intent to construct, own, operate, and maintain the facility.
- If an incumbent gives notice of intent not to construct the approved electric transmission facility, another entity may seek to construct it in accordance with the RTO planning process.

We view this bill as positive for in-state utilities NI, CNP, and DUK since it provides a transmission ROFR for incumbent utilities.

AWK – Files rate case in WV seeking a ~$45M revenue increase premised on a 10.5% ROE and 52.8% equity ratio

- Yesterday, AWK filed a rate case with the WV PSC seeking a $44.9M revenue increase (excl. infrastructure surcharges of $6.9M) based on a proposed ROE of 10.5% and a 52.8% equity ratio.
  - WV AWK is currently allowed a 9.8% ROE and 47.97% authorized equity ratio.
- AWK is allowed to utilize a hybrid test year in WV: historical test year for the 12 months ended 12/31/22 & future test year for the 12 months ending 2/28/25; corresponding rate base figures:
  - Water: ~$807M/~$922M; Wastewater: ~$4M/~$33M
- The primary driver of this request is ~$340 million in water/wastewater system investments made from 2020 through February 2025.
- If proposed rates are approved as requested, the monthly water/wastewater bill for the average residential customer using 3,000 gallons would increase ~$15 (incl. DSIC)/~$19.
- New rates are expected to take effect on 2/25/2024, unless otherwise provided by the WV PSC.

The steady pace of regulatory activity from AWK continues as the company seeks recovery of investments made as part of its ramped-up regulated capex plan. With an authorized rate base of ~$734M, West Virginia is AWK's 6th largest state.

ETR – Moody's changes outlooks ETR's AR, MS and NOLA subs

- Moody's put ETR's AR and MS subs on stable outlook (Baa1 issuer rating), down from positive outlook; whereas it placed ETR's NOLA sub on stable outlook (Ba1), up from negative.

- Moody's expects ETR-AR and ETR-MS' financial performance to remain consistent with historical levels and projects adjusted ratios of CFO pre-WC to debt between 18-20%.
- Moody's cites support for storm cost recovery will continue in New Orleans and that stakeholder relationships have improved back to historical norms. Moody's expects ENOL to generate a ratio of CFO pre-WC to debt over 20% on a sustainable basis.

ETR's holdco rating is unaffected.

WEC – As Giannis said, you can't win every time
Click here to view our complete note
Q1 EPS beats after weather guide cut. WEC reported Q1 EPS of $1.61 – ahead of consensus/us that sat at the top of the $1.56-1.58 guidance range. However, the guide was cut a month ago by $0.13 on mild weather. This was the first time we can recall WEC cutting quarterly guidance going back over a decade. The company has a very long track record of beating guidance/consensus (see page 4). The quarter was also down from $1.79 last year, as weather plus fuel timing, interest/depreciation, and absense of one-time gains (SPP / clean energy fund); more than offset rate relief.

The Bi-Weekly Mark – Gas plants under pressure too; IPP earnings preview
Click here to view our complete note
Still waiting on latest EPA rules that would limit gas plant emissions
This was the big news last week, with numerous reports that the Environmental Protection Agency is set to introduce new regulations on carbon pollution from gas (and coal) plants. Official rules and details are expected this week and the timeline for implementation is key (some reports saying 2030s). It is reported that it would impact new and existing plants. The idea is to push plants toward using carbon capture and hydrogen blending technology, particularly with new IRA tax credits providing support. There are already a multitude of EPA rules out there expected to force coal retirements (CCR, CSAPR, ELG, MATS, etc.). Even those alone may test grid reliability. But potentially pushing out gas plants, even early next decade, seems risky to us. We expect legal challenges here, particularly after last year's Supreme Court ruling against the EPA's authority. It's possible the rules are never even enacted (either via courts of change in administration), similar to the Obama Clean Power Plan. Nonetheless this has serious implications and we will be watching.

Midstream

LNG – Big Q1 beat, raises 2023 guidance; $450M share repurchases; very positive especially given global gas prices

- Cheniere reported Q1 EBITDA of $3.6B vs. $3.1B last year, way ahead of the street at $2.9B and our estimate
- Results were higher on 4% more cargoes and much higher global market prices
- **Raises 2023 guidance:** LNG now sees 2023 EBITDA at $8.2B-$8.7B and DCF of $5.7B-$6.2B, both up $200M vs. the yearend call. Consensus EBITDA is currently

$8.4B.

- **Open position even more de-risked.** Cheniere now has 35 Tbtu of unsold volumes in 2023 (vs. <70 Tbtu in Feb.) with only a $20M EBITDA sensitivity to each move in market margin (vs. $50M prior)
- **Significant capital return in Q1.** Cheniere paid down $900M in CCH debt and repurchased 3.1M shares ($450M) total

This is a very positive result especially as global LNG marketing margins fell by $3-$5/mmbtu since the last earnings call. Cheniere was able to substantially lock in higher prices and essentially de-risk the rest of 2023. The stepped up capital return was also very good to see.

MPLX – Large Q1 beat lends support to mid-single digit growth outlook; No unit repurchases in Q1; Positive

- **Big Q1 beat.** EBITDA of $1,519M was 6% ahead of both our estimate and consensus. EBITDA was up 9% YoY.
  - **L&S** EBITDA was 6% ahead of our estimate. Pipeline volumes and tariffs were slightly ahead of our forecast.
  - **G&P** EBITDA was 4% ahead of our estimate. Utica and Southwest gathering volumes were strong, although processing volumes were a little light.
- **No buybacks.** MPLX did not appear to do any stock buybacks during Q1 for the first quarter since 3Q20. The company generated $184M of FCF above its distributions in Q1.
- Growth projects and timing all appear on track

The big Q1 beat lends support to management commentary last quarter on expectations for mid-single digit growth as Q1 EBITDA was up 9% YoY. Note, FY 2023 consensus EBITDA implies only 2% growth in 2023. Key projects appear on track with no new disclosures. The absence of buybacks in Q1 was notable – management had alluded to being price sensitive and the stock price is now higher, but we'll be looking for more color on alternative uses of MPLX's sizeable excess FCF if buybacks are becoming less of a priority.

EPD – Q1 beat on very strong propylene results and Rockies gas gathering; Strong exports; Upper end of capex range raised; Mixed

- **Q1 beat.** EBITDA of $2,321M came in 3% ahead of both our estimate and consensus. Marine volumes were strong across NGLs, crude, and petchem.
  - **Petchem / Refined Products** segment margin beat by about $70M on much better than expected propylene results as the PGP-RGP spread widened out significantly more than we realized in the quarter.
  - **Gas** segment beat by $50M on a nice uplift in Rockies gathering where margins are indexed to regional gas prices
  - **NGLs** segment missed our forecast by about $40M on a big step-down from recent elevated marketing results and lower than expected processing. However, pipeline / storage volumes and margin were significantly ahead of our

estimate and partially offsetting.
    - **Crude** missed by about $20M on weaker Seaway and South Texas pipeline results
- **Upper end of 2023-24 capex outlook raised.** EPD now expects 2023 growth capex of $2.4B - $2.8B vs. $2.4B - $2.5B previously. Approved projects for 2024 remain around $1.4B (consistent with the recent Analyst Day disclosure), but the upper end of 2024 capex including projects under development was increased from $2.0B to $2.5B.

This is another strong quarter for EPD. Co-CEO Teague said at the recent Analyst Day "it's always something" as it relates to market-based opportunities and this quarter propylene spreads and Rockies gas price strength boosted results and offset a big step-down in NGL marketing from elevated levels. However, the increase in the upper end of the potential capex range for 2023-24 could be viewed cautiously by some, and we'll be looking for more details on potential incremental projects on the call.

<u>DTM – Q1 in line; reiterates 2023 outlook but changes EBITDA methodology. Growth projects on track but no major updates</u>

- DT Midstream reported Q1 EBITDA of $225M vs. $193M last year. Growth was mainly attributable to higher gathering volumes and the larger Millennium stake.
- **Guidance higher on EBITDA methodology change**; underlying outlook unchanged. DTM will now reflect proportional EBITDA from equity method projects rather than EBDA previously, due to the issuance of debt at NEXUS. EBITDA guidance of $895M-$935M now includes $15M of equity method proportional interest. There is no change to underlying outlook.
- **Capital plan unchanged.** DTM reiterated the 2023-2027 outlook of $1.7B-$2.2B of total capex; $800M of spending in 2023-2024 will be done at 5-8x build multiples

The results were solid and keep the company on track for the year. There were no significant project updates so views on the latest on Haynesville activity will be a focus. On the EBITDA methodology change, for valuation purposes we had already been adjusting equity method interest so it won't have an impact on valuation.

<u>ETRN – Q1 beat; Mgmt. pushes MVP in-service assumption by a quarter; expected</u>

- **Q1 beat.** ETRN reported Q1 EBITDA of $300M vs. $277M last year, ahead of our $283M estimate and consensus.
    - The quarter was higher on a combination of one-time payments from transmission and gathering contract buyouts and strong water results, partially offset by lower gathered volumes and higher operating expenses.
- **Assuming YE '23 MVP completion.** The 2023 outlook now assumes that MVP construction completion by 12/31/2023 with contractual obligations commencing in 2024. ETRN still expects that the remaining permits will be issued by early summer with or without permitting reform legislation.
- **Lowered EBITDA guidance.** ETRN lowered EBITDA guidance to $990-$1,070 from $1,060-$1,140M after pushing back the assumed in-service date by about a quarter

    - ETRN still does not provide EBITDA or net income guidance in a no-MVP scenario

Although Q1 results were solid, we flag that the beat was mostly attributable to $28M in one-time payments from contract buyouts. EBITDA guidance adjustments were somewhat expected after the WV water permits were vacated back in early April. ETRN still expects MVP construction completion by YE2023, but we remain cautious at this point given the track record at the 4th circuit and some critical upcoming decisions. Click **here** to see our recent note where we review where the litigation process stands and potential valuation with and without MVP.

Clean Energy

PLUG – Announces JV with SK E&S to build gigafactory in South Korea

- Earlier today Plug Power and SK E&S announced plans to spend $747M on a fuel cell/electrolyzer manufacturing facility in South Korea
- Plug's share will by 49% ($366M), in line with its broader SK Plug Hyverse joint venture
- Commercial operations are targeted for 2025

The JV has been in development for the last couple years and this is the first specific project announcement from it that we are aware of. It follows an MOU signed last summer. Korea has been active in developing a hydrogen ecosystem and is a significant customer for fuel cells.

Solar tariffs (AD-CVD) - Final decision delayed 3 months until August 17th

- Last week, the Department of Commerce extended the deadline for a decision in the AD-CVD review by 3 months until August 17th
- A preliminary determination in December had found four companies to be circumventing tariffs
- As a reminder, the AD-CVD investigation is considering new tariffs on solar panels that are partly made in China and completed in four Southeast Asian countries in an attempt to evade tariffs on China

The delay is interesting. It's a complicated matter to review, but we think some may read a delayed final determination as Commerce potentially considering changes to the preliminary outcome. In any event, the Biden 2-year pause on new tariffs through June 2024 is highly likely to remain in place, making any new tariffs less disruptive and less impactful over the very near term.

SPWR – Announces hiring of Jennifer Johnston as COO, replaces Derek Kuzak

- Yesterday, SPWR announced the company has hired Jennifer Johnston as COO.

- Ms. Johnston's background includes two decades in operations, manufacturing, logistics, and finance.
- Prior to joining SPWR, Ms. Johnston was COO/CFO at Nimble Robotics and, before that, spent 10 years at Amazon across various finance and leadership roles.
- She also held operating roles at General Electric, Bristol Myers Squibb, Saint-Gobain, and the Gillette Company.
- Ms. Johnston's hiring coincides with the departure of Derek Kuzak, Executive VP of Operations, who will continue on as senior adviser to the COO until June 2.

Ms. Johnston's background in operations and logistics will likely be valuable given the increasing complexity of resi solar.

Wolfe Events

May 16-17: DUK non-deal roadshow in Midwest and Canada
May 17-18: AES non-deal roadshow on West Coast
May 21-22: 2023 AGA Conference Management Meetings in Florida
May 22: Dinner with PAA CEO at EIC
May 24: NXT, ENPH, and RUN Clean Energy Bay Ara Tour
June 14-15: Midstream, Utilities, and Renewables Bus Tour in Texas
June 20-21: EVRG non-deal roadshow in New York/Boston

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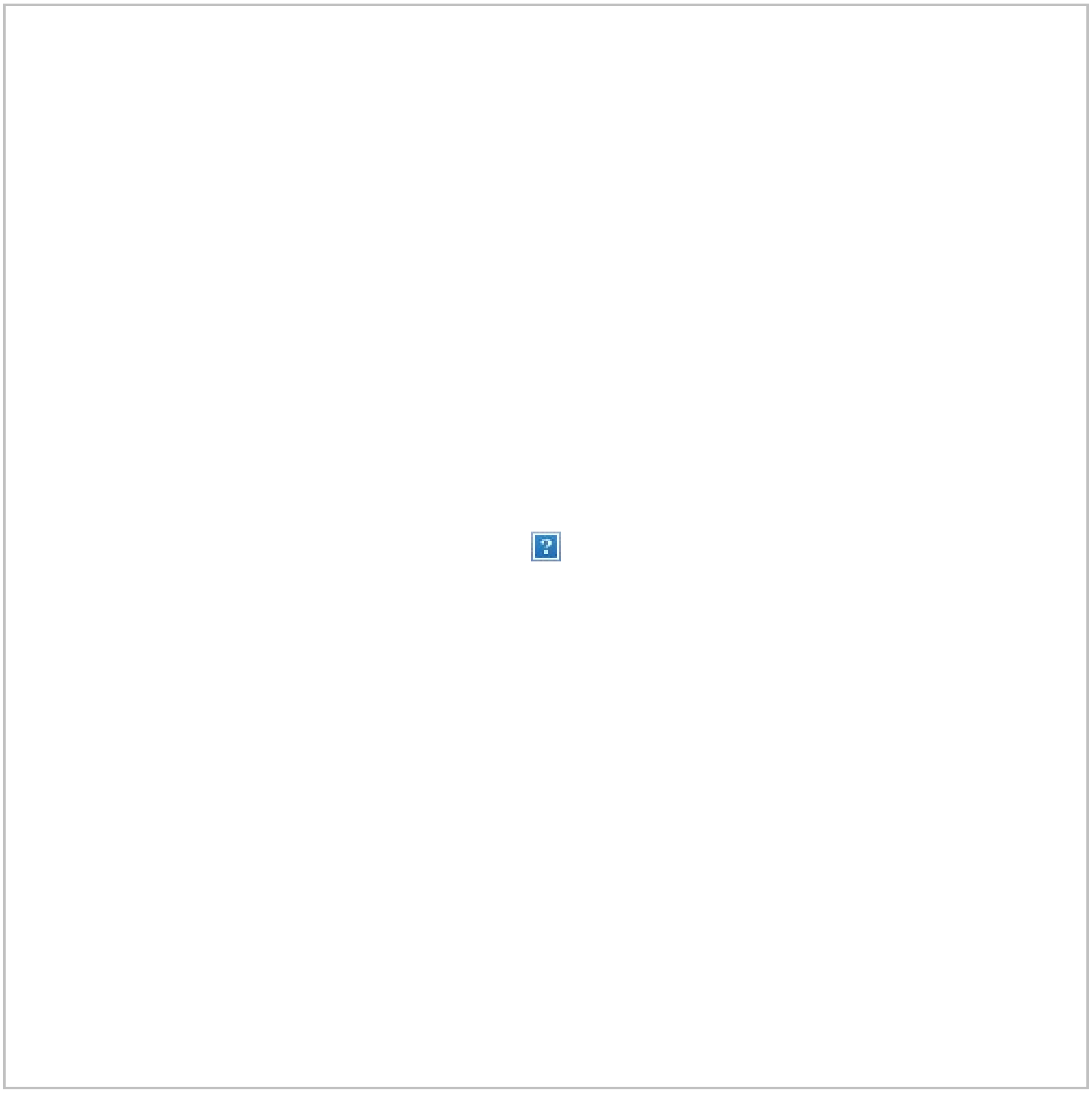

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From: Steve Fleishman
To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 5/8/23 - AES, NEP, XEL, NI, CAL Watch, D, ES, EVRG, ED, AEE, LNT, PNW, Polls, WES, PAA / PAGP, ENB, Weeklies, STEM
Date: Monday, May 8, 2023 9:07:33 AM

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May 8, 2023

THE FLEISHMAN DAILY 5/8/23

AES, NEP, XEL, NI, D, ES, EVRG, ED, AEE, LNT, PNW, Polls, WES, PAA / PAGP, ENB, Weeklies, STEM

The Fleishman Daily 5/8/23
Utilities: AES, NEP, XEL, NI, CAL Watch, D, ES, EVRG, ED, AEE, LNT, PNW, Polls
Midstream: WES, PAA / PAGP, ENB, Midstream of Consciousness
Clean Energy: GREEN Playbook, STEM
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 – to "4" from "3". The bad weather Q1 is largely over and it was not as bad as feared with no companies changing their 2023 outlooks. The banking crisis is also reviving defensive interest. The regulatory calendar is full of data points to come but the overall environment feels pretty stable right now.

Utilities

AES – Sets new 6-8% EPS CAGR through 2027 off low 2023 base; introduces 2023 EBITDA guidance and targets 3-5% growth ex-tax credits through 2027; reset we were expecting, though expectations have come down
AES – Tapas today, main course Monday

NEP – Announces plans to sell pipeline assets, IDRs cut through 2026, CEPFs bought out through 2025, no equity through 2024, dividend growth at low-end of 12-15% through 2026; strong, positive actions
XEL – Estimates that delta between CPUC Staff's $45M base rate increase recommendation in CO electric rate case and PSCo's $312M ask is driven by test year adjustments and ROE
NI – Issues redemption notice for 400K 5.65% Series A preferred shares at $1000/sh.
CAL Watch – Weekly update of implied 2024 ROEs; utility bond yields flattish, ROE on track for at least a 50bp increase
D – Cinco D Mayo will have to wait till Q3
ES – Goodbye to you, my trusted IR friend
EVRG – Time to face the wizards in Kansas
ED – Not running out of steam
AEE – Climbin' the LAEEdder to the top
LNT – IA solar/storage proceeding; early in the WI rate case
PNW – Staff testimony on the horizon in APS' rate case
Fleish on Friday – Click link below to see this week's Fleish on Friday Poll Results

Midstream

WES – Berkshire indicates they won't offer to buy full control of sponsor OXY
PAA / PAGP – Plain and Simple
ENB - CFO Vern Yu leaving for AltaGas; Patrick Murray to replace him
ENB – Mainline certainty
Midstream of Consciousness – Earnings Recap – Big beats and higher capex

Clean Energy

Wolfe GREEN Playbook – Resi names trade down with banks again; AES meeting worth watching; FLNC, ARRY, Hydrogen Q1 previews
STEM – Marching towards positive EBITDA

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

AES – Sets new 6-8% EPS CAGR through 2027 off low 2023 base; introduces 2023 EBITDA guidance and targets 3-5% growth ex-tax credits through 2027; reset we were expecting, though expectations have come down

- **Sets 6-8% EPS CAGR over 2023-2027.** Also reaffirmed 7-9% EPS CAGR over 2020-2025.

This implies just a ~2.5% CAGR over 2025-2027, as the 2027E is 10% dilutive relative to if AES had just extended the CAGR
    - 2023 base = $1.70, 2020 base = $1.44
- **Introducing 2023 EBITDA guidance of $2.6-2.9B and setting 3-5% CAGR over 2023-2027**
    - This excludes tax credits and would be 17-20% CAGR excluding the Energy Infrastructure segment (where coal is rolling off)
        - Consolidated growth in 2027 over 2026 is 12-15%; coal roll-off = ~$750M EBITDA
    - Renewables segment EBITDA CAGR is 19-21%, Utilities CAGR is 12-14%, and Energy Infrastructure shrinking 15-17%
    - Tax credits = $490-540M from ITC and $10-20M from PTC in 2023 – notes these will increase significantly as more renewables come online
- **Parent Free Cash Flow expected to grow 6-8% over 2023-2027**
- **Reaffirms 4-6% dividend growth target**
- **Financing.** 15-20% of ~$40B capex plan comes via AES funding and 5-10% via partner funding
    - Asset sales = $2.7-3.0B and equity issuances = $1.6-1.9B
- **Targeting 25-30 GWs of new renewables through 2027.** Consistent with 14-17 GWs target over 2023-2025 and ~5-5.5 GW annual run-rate
    - Maintaining levered returns targets of 10-13% in U.S. and 14-17% non-U.S.
- **U.S. Utilities growing rate base at 10% CAGR**
- **Reaffirming commitment to exit coal by YE25**

The financial outlook update mostly aligns with the reset/re-base we were expecting. 2023 guidance was a relatively depressed base (5.7% CAGR off 2020), such that the implied earnings growth in 2026-2027 is just 2-3%. We appreciate AES laying out EBITDA ex-tax credits, but the contrast in growth with and without the energy infrastructure segment highlights just how much of a headwind the coal roll-off is to overcome. We'll be interested to hear more details on the funding plan during the presentation. This is a renewables growth story that is becoming better quality.

AES – Tapas today, main course Monday
Click here to view our complete note
Q1 EPS in-line and 2023 guide reaffirmed. AES posted Q1 EPS of $0.22 – in-line and similar to $0.21 last year. This was driven by LNG strength, new renewables, and lower AES Next losses. AES reaffirmed its 2023 guidance range of $1.65-1.75, which still conservatively embeds 0.6 GWs of renewables delays ($0.10/sh).

NEP – Announces plans to sell pipeline assets, IDRs cut through 2026, CEPFs bought out through 2025, no equity through 2024, dividend growth at low-end of 12-15% through 2026; strong, positive actions

- **NEP has announced plans to sell its STX Midstream and Meade Pipeline assets** in 2023/2025 respectively, which currently comprise 20% (~$160M of CAFD)
- **Proceeds will be used to buyout remaining CEPFs through 2025 totaling $1.5B**

($400/200/900M over 2023-2025), the next convert equity issuance due is $300M in 2026
    - NEP also notes it has no plans to issue additional CEPFs
- **NEP also has no plans for incremental equity through 2024**
- **The annual IDR to NEE of $157M has been suspended through 2026**
    - NEE reaffirmed its outlook, including all high-end language
- **NEP reaffirmed its 12-15% distribution growth outlook through at least 2026, but will grow at low-end given current capital markets conditions**
    - History has been growing at 15%
- **Reaffirms run-rate EBITDA range of $2,200-2,420M and CAFD range $770-860M for YE23 (calendar '24)**

This is a pretty strong response to the recent pressure on NEP stock and we think addresses a lot of the issue. Equity is now fully off the table until 2025 and a sizable chunk of outstanding CEPFs are being taken out. While the pipeline assets are solid CAFD contributors, they should fetch a solid price, and allow NEP to become a 100% renewables pure play. Further, the IDR suspension essentially offsets nearly all of the lost cash flow. Bottom line – NEP yields over 6% on its current dividend and has taken action to restore faith that that level will continue to grow at 12%+. From NEE's perspective, this helps deal with what was becoming a major distraction, with no real impact on its own financial outlook.

<u>XEL – Estimates that delta between CPUC Staff's $45M base rate increase recommendation in CO electric rate case and PSCo's $312M ask is driven by test year adjustments and ROE</u>

- On 5/5, XEL filed an 8-K summarizing intervenor recommendations in its CO electric rate case.
    - Recall, XEL requested a $312M rate hike (incl. $50M prev. authorized through riders) based on a 10.25% ROE, 55.7% equity ratio, and a 2023 forecast test year with YE23 rate base of $11.3B; new rates are expected to be effective 9/2023.
    - PSCo is currently allowed a 9.3% ROE and 55.69% equity ratio.
- CPUC Staff recommended a $45M base rate increase (or $31M adj. for transfer of costs from rider to base rates) using a 9.02% ROE and 55.69% equity ratio; delta drivers vs. XEL's request:
    - -$129M for test year adjustments (2022 historic test year with 13-month avg. rate base).
    - -$95M for ROE.
    - +$9M for capital structure and other cost of capital.
    - -$19M for cash working capital.
    - -$29M for O&M adjustments.
    - -$4M for other, net.
- The Utility Consumer Advocate (UCA) recommended a ($27M) base rate <u>decrease</u> using a 9.30% ROE, 52% equity ratio, and 2022 historic test year with 13-month average rate base.
    - After adjusting to correct transfer of costs from rider to base rates, UCA proposed a base rate <u>increase</u> of $9M.

- Rebuttal testimony is due 5/31; the settlement deadline is 6/14; a CPUC decision is expected in 3Q23.
- Separately, XEL reaffirmed its 2023 earnings guidance of $3.30-3.40 (WRe: $3.36; cons.: $3.38).

This disclosure is consistent with our previous Fleishman Daily on 5/4. We will be watching to see if XEL can reach more of a middle ground through a settlement before the 6/14 deadline. CO is one of XEL's largest jurisdictions with CO electric comprising ~27% of XEL's overall rate base.

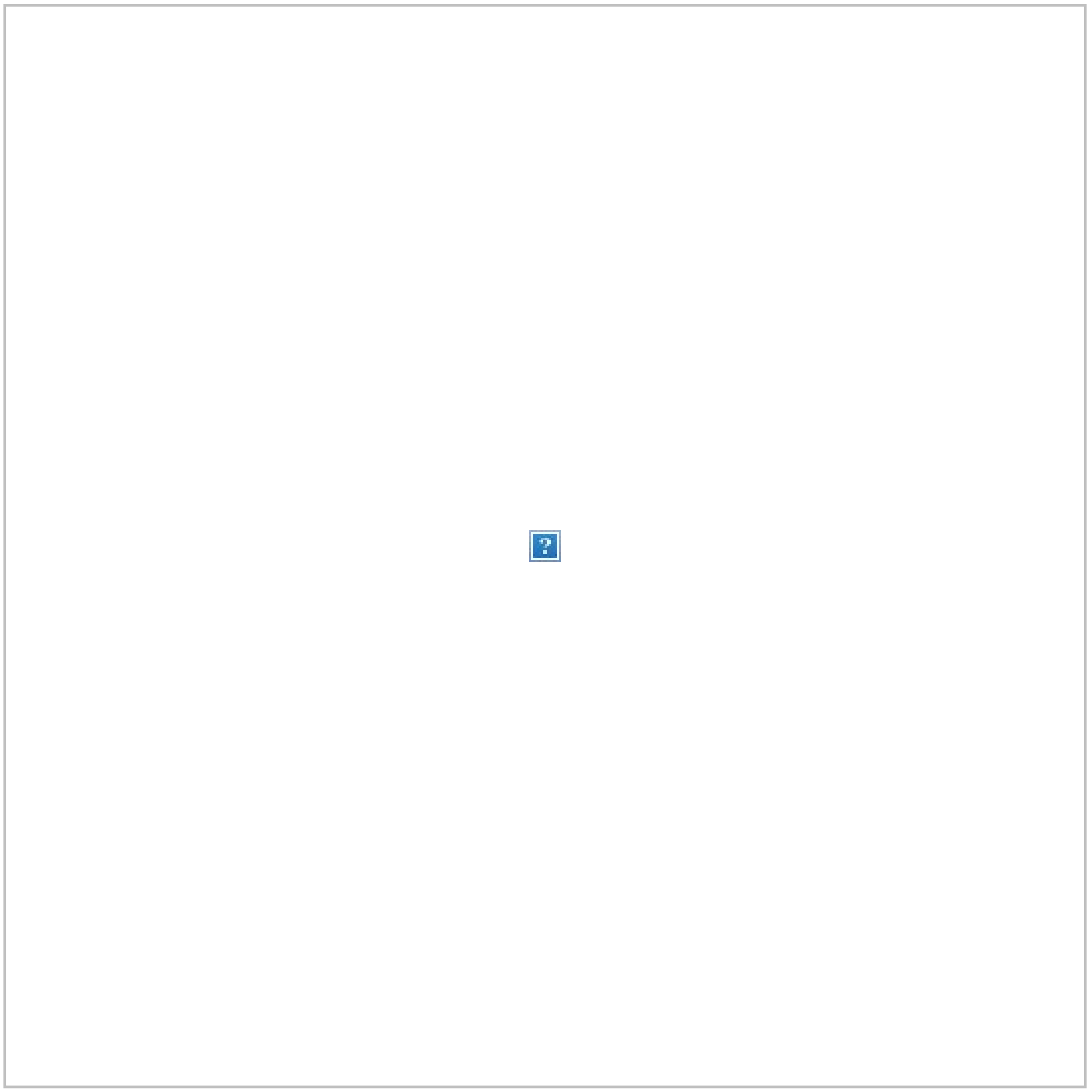
NI – Issues redemption notice for 400K 5.65% Series A preferred shares at $1000/sh.

- This morning, NI issued a notice of redemption for all 400,000 outstanding shares of its 5.65% Series A fixed-rate reset cumulative redeemable perpetual preferred stock.
- Shares of Series A preferred stock will be redeemed on 6/15/23 for a redemption price of $1000/sh.
- Recall, after 6/15/23, dividends on the Series A preferred stock were supposed to accumulate at the 5-year U.S. treasury rate plus a spread of 2.843% for each 5-year period before 6/15/43.

This is consistent with NI's Analyst Day slides, which indicated a likely use for some of the NIPSCO minority interest sale proceeds including paying off $900M of existing high-cost preferred stock ($400M 5.65% Series A + $500M 6.50% Series B).

CAL Watch – Weekly update of implied 2024 ROEs; utility bond yields flattish, 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 5.72% (solid orange line).
- The Index value through last Thu was 5.54%, a 2bp increase from a week ago; if that were the average from now through 9/30/23, under the CoC mechanism, 2024 ROEs would be increased by 64bp [=(5.64-4.37)/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 4.88%.



Source: Wolfe Utilities & Power Research; Bloomberg.

D – Cinco D Mayo will have to wait till Q3

Click here to view our complete note

Well down path of business review but some key pieces unknown. D reported in line 1Q23 of $0.99. D will provide a strategic and financial outlook at its Investor Day. D discussed key inputs - VA regulatory reform and supportive comments from VA policymakers/leaders. D touched on its IRP filings, infrastructure investment opportunities, and strong sales growth (6.1% LTM and 4.8% expected in 2023). Still, D stock lagged the UTY by 85bp and trails it by ~500bp YTD, as investors worry how much dilution will come from B/S repair.

ES – Goodbye to you, my trusted IR friend

Click here to view our complete note

Offshore sale nearing end. On its 1Q23 call on 5/4, ES sounded optimistic that its offshore wind sale will conclude in two parts by the end of June. ES did not indicate when, but it breaks a string of delay announcements and shows the end is near. The delay has been an overhang on ES stock and has caused us to temper price expectations. We now assume a modest loss but lack conviction. We think getting the sale done is important. We also think CT regulation also shows no signs of improving (see Aquarion rate order); but ES is not in a rate case until late 2025. Performance-based ratemaking and potentially new regulations (SB 7) could await ES then. That said, ES had a constructive elec rate settlement in MA last fall and is in multiyear gas rate plans in MA.

EVRG – Time to face the wizards in Kansas

Click here to view our complete note

Q1 EPS in-line and 2023 guide reaffirmed. EVRG posted Q1 EPS of $0.59 – in-line with consensus/us and similar to $0.56 a year ago. O&M savings were a key driver that was part timing; offset by mild weather and depreciation/interest. EVRG reaffirmed 2023 guidance at $3.55-3.75 and its 6-8% EPS CAGR through 2025.

ED – Not running out of steam

Click here to view our complete note

Sizable Q1 beat; FY23 guide reaffirmed. ED reported 1Q23 EPS of $1.83, significantly above us/cons. $1.50/$1.57, due to CECONY gas rate relief being weighted towards Q1; results also included a $0.06 headwind on steam revenue from milder weather. 2023 guidance of $4.75-4.95 and the 5-yr. EPS CAGR of 5-7% were reaffirmed. ED also revised its 3-yr. rate base CAGR to 6.0% from 6.2% prior. Earned returns are improving as evidenced by CECONY/O&R electric realizing ROEs of 9.1%/9.9% for the LTM ended 3/31/23.

AEE – Climbin' the LAEEdder to the top

Click here to view our complete note

Good start; raise PT. AEE's 1Q23 $1.00 beat $0.95 cons as COLI benefits offset mild weather. AEE 2023 guidance of $4.25-4.45 and 6-8% EPS/div growth were unchanged. AEE also had a good start on the regulatory side, settling its MO rate case and getting MO solar projects approved; MO is ~50% of AEE's EPS and growing RB >8%. AEE's $1.8B MISO transmission capex is on track, with another $800M potentially through RFPs and even more LT opportunities when MISO releases Tranche 2 projects in 1H24. AEE stock is 475bp ahead of the UTY YTD and trades at a 1.6x premium to the utility avg P/E - about in line with high-quality, low-risk peers. We see AEE trading at the highest P/E, along with XEL, particularly if the IL MYP case results in a reasonable outcome. Raise our PT by $2 to $97, based on 20% premium to our group P/E.

LNT – IA solar/storage proceeding; early in the WI rate case

Click here to view our complete note

Q1 miss, but FY23 guide reaffirmed. LNT reported 1Q23 EPS of $0.65, below us/cons. at $0.69/$0.71, due to warmer weather (-$0.04 vs. normal) and ($0.04) of tax expense timing, which will reverse later this yr. and is not expected to have a FY impact. 2023 guidance of $2.82-2.96 and the L-T 5-7% EPS growth target were reaffirmed. More detail was provided on 2023 drivers, with mgmt. expecting YoY O&M savings to largely occur in 2H23 and interest expense variance to taper through the yr.

PNW – Staff testimony on the horizon in APS' rate case

Click here to view our complete note

Small Q1 miss; FY23 guide & L-T 5-7% EPS CAGR reaffirmed. PNW reported 1Q23 EPS of ($0.03), slightly below cons. at $0.01 (WRe -$0.13), with favorable weather somewhat offsetting higher O&M. Despite the YoY decline, mgmt. noted that Q1 results were in-line with expectations and reiterated 2023 guidance of $3.95-4.15, pointing to flattish adj. O&M vs. 2022. The 5-7% EPS CAGR over 2022-26 and 5-yr. capex plan of $5.32B were maintained. PNW experienced strong W/N sales growth of 3.6% in Q1, with resi/C&I up 2.8%/4.3% and 2.0% YoY customer growth; 2023's W/N sales growth forecast remains unchanged at 3.5-5.5%.

Fleish on Friday – Click link below to see this week's Fleish on Friday Poll Results
Click here to view poll results

1. What's your main takeaway from Q1 earnings?
2. What do you think NEE does on NEP?
3. AES – What's your view on stock into the Analyst Day?
4. D – What's your 2025 earnings outlook?
5. D – What's the right multiple once they guide 2025 earnings?
6. EIX – What do they do on EPS CAGR to 2028?
7. DUK – Renewables sale outcome and valuation views?
8. ES – Offshore wind sale outcome?
9. Growth at reasonable value favorite?
10. Growth at reasonable value least favorite?

Midstream

WES – Berkshire indicates they won't offer to buy full control of sponsor OXY

- Over the weekend, Warren Buffett indicated at Berkshire's annual meeting that the company won't make an offer for full control of OXY (WES' sponsor)
  - Berkshire indicated they may or may seek to make further purchases in OXY
- Berkshire owns 23.6% of OXY as well as preferred stock

One of our views on WES has been that if Berkshire were to fully acquire OXY, it would increase the likelihood of a buy-in of WES which would likely come with a premium. However, it appears Berkshire talked down its interest in taking full control of OXY.

PAA / PAGP – Plain and Simple
Click here to view our complete note
Strong start to the year but pointed toward year being on track. PAA/PAGP reported 1Q23 EBITDA of $715M which was 8% ahead of consensus. The beat vs. our forecast was primarily in the NGL segment. Crude segment margin was a little ahead of our expectation, although volumes were slightly lower. PAA cited upside on Permian pipes, Capline, and with Canadian market-based opportunities. That said, on the call management proactively indicated the year was on track and not necessarily above plan as the NGL business is highly hedged, there's a turnaround in Q2, and the market is incentivizing selling into winter (1Q24).

ENB - CFO Vern Yu leaving for AltaGas; Patrick Murray to replace him

- This morning Enbridge announced that CFO Vern Yu would be leaving on July 1 to become CEO of AltaGas
- Current CAO Patrick Murray will replace him

Vern has held key financial, strategic and operational positions at ENB but it's good to see him taking over at AltaGas. Murray has been with the company for decades and should be helpful in conjunction with new CEO Greg Ebel.

ENB – Mainline certainty
Click here to view our complete note
Growth with some de-risking. ENB is off to a solid start to the year with an above consensus Q1 though the stock underperformed by about 175 bp as the market was clearly risk-on. Despite this, there were clear positives from the call: detail on the Mainline settlement and progress on a few growth initiatives especially related to LNG development. We like the overall business with solid growth and low risk and think the stock warrants its premium; Peer Perform.

Midstream of Consciousness – Earnings Recap – Big beats and higher capex

- In yesterday's report, we recap Q1 earnings, which were surprisingly strong, but poorly timed with a surge of reports coming at the same time the market weakened on economic concerns coupled with a Fed rate hike.
- **Key themes from Q1 earnings:**
    - "Beat and raise capex"
    - Marketing opportunities
    - Natural gas basin outlooks
    - LNG
    - Return of capital
- Please see full report **here** for more.

Clean Energy

Wolfe GREEN Playbook – Resi names trade down with banks again; AES meeting worth watching; FLNC, ARRY, Hydrogen Q1 previews

- In yesterday's report, we show recent successful NOVA and RUN ABS offerings that fly in the face of the continued weakness, highlight AES Analyst Day (today 9:00 AM ET), and preview Q1 results coming this week from ARRY, FLNC, PLUG and BE.
- **Banks correlation returns for resi stocks; Uncertain US growth outlook doesn't help.** Abysmal week for resi names following Q1 reports from RUN (-16%) and SPWR (-15%). We didn't learn anything new from earnings reports that would warrant such a steep sell off. Banks correlation spreading to the broader sector (yieldcos, developers, etc.)
- **AES Analyst Day worth watching for Renewables Developers and for FLNC.** We

think AES disclosures could be an important value data point for renewables developers and its disclosures could also give a view of FLNC growth plans and potential AES monetization over time.

- **Previews for upcoming earnings.** With resi solar earnings behind us, we shift our focus to this week's earnings. See full report for FLNC, ARRY, PLUG, and BE previews.

- Please see full report **here** for more.

STEM – Marching towards positive EBITDA

Click here to view our complete note

In-line results across the board. Adj. EBITDA of ($13M) was in line, including a new $10.2M revenue constraint add-back for variable lithium carbonate pricing. Bookings of $364M were in-line with WRe's $363M est. and guidance which called for 25% of annual bookings to occur in 1Q. Adj. gross margin was 19% vs. WRe's 19.6% est., including the revenue constraint. GAAP gross margin was 1.5%. 2023 guidance was reaffirmed including 15%-20% adj. gross margins.

Wolfe Events

May 12: Group Breakfast with NEE CEO in NYC
May 16-17: DUK non-deal roadshow in Midwest and Canada
May 17-18: AES non-deal roadshow on West Coast
May 21-22: 2023 AGA Conference Management Meetings in Florida
May 22: Dinner with PAA CEO at EIC
May 24: NXT, ENPH, and RUN Clean Energy Bay Ara Tour
June 14-15: Midstream, Utilities, and Renewables Bus Tour in Texas
June 20-21: EVRG non-deal roadshow in New York/Boston

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From: Steve Fleishman
To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 5/16/23 - AES, NEE, AGR/PNM, ETR, NI, NEP, CMS, OKE, MMP, LNG, Rig Count, SPWR
Date: Tuesday, May 16, 2023 8:59:19 AM

Wolfe banner

May 16, 2023

THE FLEISHMAN DAILY 5/16/23

AES, NEE, AGR/PNM, ETR, NI, NEP, CMS, OKE, MMP, LNG, Rig Count, SPWR

The Fleishman Daily 5/16/23
Utilities: AES, NEE, AGR/PNM, ETR, NI, NEP, CMS
Midstream: OKE, MMP, LNG, Rig Count
Clean Energy: SPWR

Utilities sentiment meter – down to "2" from "3". IL staff recommendation for AEE in multi-year rate case were not helpful as they pushed down both AEE and EXC. Asset sale overhang also continues to weigh on the sector for the time being. We also wonder if portfolios are positioning for the last PCG sell down by the FVT which could come any day they want (lockup has expired).

Utilities

AES – Putting together the parts
NEE – Getting its mojo back; CEO meetings
AGR/PNM – New Mexico Supreme Court denies merger remand request, sets oral arguments for September; disappointing
ETR - FERC ALJ issues mixed decision for SERI on various issues; immaterial impact; other SERI cases pending
NI – Files MD gas rate case requesting an ~$8M base rate hike, 10.95% ROE, and 52.07% equity ratio
NEP – FPL CEO Pimentel enters plan to buy $250k of stock
CMS – Names former PEG CEO Ralph Izzo to Board

Midstream

OKE – Tulsa tie-up
MMP – Samsonite...I was way off! Deal thoughts and going to No Rating
LNG - Announces 0.4 mtpa long term contract with Korea Southern Power; first contract tied to Sabine Pass expansion
Rig Count – Gas rig count fell 16 rigs (10%) last week; Important for gas infra names

Clean Energy

SPWR – Appoints Elizabeth "Beth" Eby as CFO

Wolfe Utility & Midstream Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Charts, Clean Energy Comps, Clean Energy Stock Charts, Models

Utilities

AES – Putting together the parts
Click here to view our complete note
New Sum of Parts approach. On page 3 we lay out our new SotP valuation methodology, with detailed commentary on how we derive our assumptions on pages 4-5. There are lots of moving pieces and we fully expect the different biz segment multiples to be debated. Overall, we believe we are taking a fair approach here, though some areas may be generous and others punitive. We welcome any feedback. Net-net, we see fair value at $24-26. We like AES as a L-T renewables leader play. But all of this requires continued execution and working through this new valuation approach wasn't easy. Remain Peer Perform.

NEE – Getting its mojo back; CEO meetings
Click here to view our complete note
Moving past the distractions; inflection point. John characterized addressing NEP as an inflection point for NEE beyond a host of headwinds and distractions over the past year. These included the NEP overhang, mgmt. changes, two corporate investigations, two hurricanes, AD/CVD, and inflation/ rates. All along, NEE has been posting strong renewable backlog growth and beating its financial targets, including two upward re-bases last year. John sees this continuing with confidence at the high end of 6-8% growth (maybe another re-base up over time), significant NEER backlog growth and consistent FPL performance. As John said "we had 2023 locked up 3 years ago, we are living in 2025-2027 right now."

AGR/PNM – New Mexico Supreme Court denies merger remand request, sets oral arguments for September; disappointing

- Yesterday, the New Mexico Supreme Court came out and denied the request for a merger remand, made jointly by AGR/PNM and the New Mexico PRC
- Instead the court set oral arguments for September 12, where a decision would be

made thereafter, but with no set timeline

- Recall that AGR/PNM exercised a 3-month extension of the pending merger agreement to July 20
  - Our understanding is that a further extension would require new approval by both Boards
- As a reminder, AGR assumed a half-year contribution from PNM worth $0.30/sh (before debt costs) in its 2023 guidance of $2.20-2.35
  - The guide also assumes $4.3B of debt issuance associated with the deal

- Separately, ***Expansion*** is reporting that Iberdrola is exploring a sale of 50% of its U.S. Renewables business worth up to €5B

Just the latest twist and turn in this merger process that has now been pending since October 2020. Both companies simply acknowledged the New Mexico Supreme Court decision yesterday, without definitively commenting on their commitment to the deal. We believe AGR/PNM want to remain committed to the merger, but as we approach 3 years, at some point you'd have to think it reaches a breaking point. Even if they remain committed, the odds of closing have come down substantially in our view. Previously, it looked as if the deal was set to return to a new NM PRC, where commissioners were appointed by a Governor that backed the merger. Now, things are in the hands of the Supreme Court, where an outcome is much less certain. From a financial perspective, AGR has indicated that it can still manage within its guidance range for 2023 without PNM. We estimate an $0.08/sh headwind for the loss of PNM's contribution net of avoided interest costs from related debt issuance. Longer-term, AGR has said that without PNM it would no longer require $1.9B of equity and could still hit its 6-7% EPS CAGR, however we struggle to reconcile to the latter.

<u>ETR - FERC ALJ issues mixed decision for SERI on various issues; immaterial impact; other SERI cases pending</u>

- On 5/15, a FERC ALJ issued an order on a hodgepodge of contested issues brought against ETR's SERI by state regulators, relating to the Grand Gulf Unit Power Sale Agreement. This case is one of four SERI cases at FERC.
- The ALJ ruled against SERI on some issues, including certain ADIT adjustments to rate base and cash working capital treatment.
- However, ETR noted that the ongoing impact of the initial decision, if finalized, would be immaterial.
- FERC still must issue a decision, timing of which is uncertain, as FERC does not have a statutory deadline. But ETR expects it will be at least 12 months.
- ETR affirmed its 2023 guidance, 2024-25 outlook and equity needs.

The ongoing impact from the initial decision is immaterial. We continue to watch for a FERC clarifying order related to its 12/23 decision on uncertain tax positions.

<u>NI – Files MD gas rate case requesting an ~$8M base rate hike, 10.95% ROE, and 52.07% equity ratio</u>

Last week, Columbia Gas of Maryland filed its annual rate case with the MD PSC.

- NI is seeking an $8.1M (11.8%) base rate increase, effective 6/11/23, premised on a 10.95% ROE, 52.07% equity ratio, $235.4M average rate base for the test year ending 5/31/23.
    - Columbia Gas of MD is currently allowed a 9.65% ROE and 52.79% equity ratio.

This filing was expected as NI has filed annual rate cases in MD in each of the last 7 years. MD is NI's smallest jurisdiction in its gas distribution segment and represents ~1% of NI's overall YE22 rate base.

NEP – FPL CEO Pimentel enters plan to buy $250k of stock

- Yesterday, NEP filed an 8K indicating that Armando Pimentel, CEO of FP&L, had entered into a 10b5-1 trading the plan
- The trading plan will allow Armando to purchase $250k of NEP stock on/after August 10

Good to see NEP insider purchases, after we saw similar insider buying at NEE earlier this year around stock weakness.

CMS – Names former PEG CEO Ralph Izzo to Board

- CMS has elected Ralph Izzo to its Board of Directors, including its audit/finance committees
- Ralph recently retired as PEG's Chair/President/CEO last year

Solid add to CMS' Board, as Izzo was one of the longest-tenured CEOs in the sector until his recent retirement. Good to see Ralph still staying involved in the space.

Midstream

OKE – Tulsa tie-up
Click here to view our complete note
Investors looking for more detail on OKE-MMP industrial logic. Shares of OKE fell 9% on Monday after the Sunday night announcement of its acquisition of Magellan. OKE is paying a sizable premium on a stock that already has one of the highest values in the space and apart from cost synergies the market appeared to struggle on how OKE's NGL/gas system benefits from the addition of MMP's refined products pipes. We remain Underperform on OKE pending more background on the deal as well as a better sense of the combination's industrial logic.

MMP – Samsonite...I was way off! Deal thoughts and going to No Rating
Click here to view our complete note
We are surprised by the transaction. OKE will acquire MMP for $67.50/unit (based on OKE's

Friday close price) using a mix of stock and cash. This was a 22% premium on Friday's close but a 15% premium after OKE's stock price decline today. We don't see a lot of strategic rationale to the deal for OKE with a seemingly large focus on tax benefits from a large basis step-up associated with acquiring an MLP. Likewise, MMP was far from the top of our list of takeout candidates given its premium valuation.

LNG - Announces 0.4 mtpa long term contract with Korea Southern Power; first contract tied to Sabine Pass expansion

- This morning Cheniere announced that it had signed a 19-year, 0.4 mtpa SPA with Korea Southern Power
- Volumes will be delivered ex-ship over 2027-2046 indexed off Henry Hub
- Smaller volumes will start in 2024 and will be priced at market
- Sales commencing in 2028 are subject to an FID of the Sabine Pass expansion

This was the contract discussed on the Q1 conference call a couple weeks ago and is the first one associated with the Sabine Pass expansion, which is in early stages of development.

Rig Count – Gas rig count fell 16 rigs (10%) last week; Important for gas infra names

- Last week, the Baker Hughes rig count showed a 16 rig decline (10%) with a 5 rig drop in the Haynesville, 3 rig decline in the Marcellus, and 4 rig decline in the Eagle Ford
- The gas rig count is now at its lowest point since April 2022

We were encouraged to see the large decline in gas rigs as this seems necessary to rebalance the gas market. We think rigs still need to come down further, but once we get closer to a bottom in the rig count we think this will help provide more confidence and visibility in the outlook for the gas infrastructure stocks.

Clean Energy

SPWR – Appoints Elizabeth "Beth" Eby as CFO

- Yesterday, SPWR announced the appointment of Elizabeth "Beth" Eby as the company's new CFO, effective May 30, 2023.
- Eby brings more than 30 years of experience in financial strategy, execution and governance at Fortune 50 and publicly traded technology companies.
    - She most recently served as CFO of NeoPhotonics Corporation, a high-speed digital optics company.
    - Prior to NeoPhotonics, Eby spent more than 25 years at Intel Corporation where she held the positions of Vice President of Finance and Group CFO for the Internet of Things business.

Good to see this important position permanently filled with an experienced executive. We thought SPWR's Guthrie Dundas did a good job as interim CFO while the search was ongoing. Recall SPWR's prior CFO of four years, Manu Sial, departed in August of 2022 to take the CFO role at FLNC. This is SPWR's second major hire in a month – Jennifer Johnston was announced as incoming COO on May 1, effective May 8.

Wolfe Events

May 16-17: DUK non-deal roadshow in Midwest and Canada
May 17-18: AES non-deal roadshow on West Coast
May 21-22: 2023 AGA Conference Management Meetings in Florida
May 22: Dinner with PAA CEO at EIC
May 24: NXT, ENPH, and RUN Clean Energy Bay Ara Tour
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From: Steve Fleishman
To: Weisenburger \ Michael \ V
Subject: The Fleishman Daily 6/20/23 - NI, SO, AGR/PNM, ERCOT/VST, AES, CAL Watch, Polls, OKE/MMP, ENB, Midstream & Green Weeklies
Date: Tuesday, June 20, 2023 9:09:35 AM

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June 20, 2023

THE FLEISHMAN DAILY 6/20/23

NI, SO, AGR/PNM, ERCOT/VST, AES, CAL Watch, Polls, OKE/MMP, ENB, Midstream & Green Weeklies

The Fleishman Daily 6/20/23
Utilities: NI, SO, AGR/PNM, ERCOT/VST, AES, CAL Watch, Polls
Midstream: OKE/MMP, ENB, Midstream of Consciousness
Clean Energy: GREEN Playbook
WEBCAST REPLAY: Fleish on Fridays; replay here, slides here, poll results here

Utilities sentiment meter - We lower our utilities sentiment meter back to "1" from "2". The sector just can't keep up with the strong market rally. First half is turning into the worst relative for utilities in the past 30 years. This seems extreme. Last week had good regulatory updates with settlement news for PNW and XEL and a solid staff recommendation for DTE.

Utilities

NI – Announces 19.9% NIPSCO stake sale to Blackstone for $2.15B plus $250M equity commitment letter; 2023 guide, L-T 6-8% annual EPS growth, financing plan, 14-16% FFO/D target reaffirmed; positive
SO – Vogtle U-3 start-up delayed to next month
AGR/PNM – Agree to extend pending merger through year-end, no change to terms
ERCOT/VST – Watching for new load records; Comanche Peak down over the weekend, but now back up

AES – Appoints Gerry Anderson to Board; solid move
CAL Watch – Weekly implied 2024 ROEs; utility bond yields trimmed but ROE on track for ≥50bp increase
Fleish on Friday – Click link below to see this week's Fleish on Friday Poll Result

Midstream

OKE/MMP – Magellan published new slides and an FAQ document with further rationale and tax analysis for the transaction
ENB - WI court gives ENB 3 years for Line 5 re-route; not unexpected but timing dependent on permits
Midstream of Consciousness – what we learned in Houston; OKE-MMP proxy this week?

Clean Energy

Wolfe GREEN Playbook – Nomura Greentech summit; Domestic (dis)content; FSLR, NOVA check-in; Hydrogen events; DUK read-thrus

Wolfe Utility & Midstream Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Charts, Clean Energy Comps, Clean Energy Stock Charts, Models, Valuation Charts

Utilities

NI – Announces 19.9% NIPSCO stake sale to Blackstone for $2.15B plus $250M equity commitment letter; 2023 guide, L-T 6-8% annual EPS growth, financing plan, 14-16% FFO/D target reaffirmed; positive

- This morning, NI announced an agreement with Blackstone Infrastructure Partners for a $2.40B minority interest sale and equity capital raise at its NIPSCO electric/gas utility.
  - **$2.15B upfront cash for a 19.9% stake**; tax-efficient transaction.
  - **$250M equity commitment letter** from Blackstone to fund pro rate share of NIPSCO's ongoing capital requirements through 2027.
- **Strong price.** Stake sale implies 32.5x LTM P/E (~77% premium to NI's 18.4x LTM P/E) and 1.85x EV/NIPSCO's YE22 rate base.
  - Transaction implies an equity value of $10.8B for 100% of NIPSCO (<50% of NI's consolidated earnings and rate base) vs. NI's market cap of $11.3B.
- **Asset sale expected to close by YE23.** Requires FERC approval, which NI will file for by June-end.
- **2023 guidance reaffirmed.** Range of $1.54-1.60 vs. cons. at $1.57 (WRe $1.58).
- **L-T 6-8% annual EPS growth target reaffirmed through 2027.**
- **8-10% annual rate base growth reiterated.** Driven by $15B of capex over 2023-27.
- **Financing plan unchanged from 2022 Investor Day.** Includes ATM equity 2025 onwards; 14-16% FFO/Debt target reiterated.
  - Mgmt. noted that $2.15B of proceeds will help bring NI's FFO/Debt towards the

high-end of the targeted range initially, moderating to the 15% midpoint over the L-T.

The $2.15B cash investment that NI will receive from Blackstone is in-line with our expectations – we had been assuming that a 19.9% stake in NIPSCO is sold for 2.2x book equity, consistent with the valuation DUK sold its Indiana stake a few years ago, yielding ~$2.2B in tax-free proceeds. Nonetheless, it is good to see NI execute an asset sale for a premium valuation in this challenging M&A environment. It is also good to see NI reaffirm FY23 guidance, its L-T 6-8% annual EPS growth rate, 14-16% FFO/Debt target, and financing plan, which includes only maintenance equity via ATM 2025 onwards.

SO – Vogtle U-3 start-up delayed to next month

- After the last close, SO announced its Vogtle U-3 in-service date slipped to next month, as the company is remediating a degraded hydrogen seal in the main generator and has started a planned maintenance outage.
- SO said U-3 power-ascension testing is ~95% complete and operated as designed during the pre-operational testing and start-up sequence.
- After all four seals on the generator are replaced, SO will conduct a couple of tests.
- Separately, the GaPSC Staff will file testimony in the semiannual VCM proceeding this Thurs.

While a little disappointing, the delay appears modest and related to the generator. We are encouraged that U-3 still sees in-service in a matter of a few weeks, not months.

AGR/PNM – Agree to extend pending merger through year-end, no change to terms

- AGR/PNM have decided to extend their merger agreement through December 31 with an option to extend another 3 months
- Recall that the NM Supreme Court rejected remanding the proceeding back to the NM PRC and instead set oral arguments for September 12
- There is no statutory deadline for the NM Supreme Court to rule

Having both parties agree to an extension increases the odds of closure. The deal has now been pending for almost 3 years, but if AGR/PNM can just get the decision back to the new NM PRC, they seem likely to be supportive.

ERCOT/VST – Watching for new load records; Comanche Peak down over the weekend, but now back up

- This week, hot temperatures forecasts are projected to result in a new ERCOT peak load record – exceeding last summer's 79.8 GWs
    - Yesterday, load topped out at 79.3 GWs
- Real-time pricing only very briefly cracked triple digits over the last 2 days (forwards were unchanged on Friday)

- Relatedly, the NRC shows that VST's Comanche Peak Unit 1 nuke went down over June 17-19, due to a non-nuclear equipment issue involving a feed water pump
  - The plant is running at 78% capacity as of this morning

We're watching to see if ERCOT sets peak load records, as Texas has been under a week-long 100-degree heat wave. That said, real-time pricing appears relatively stable, as solar/wind availability have been strong. Plant operations are critical during these periods of tightness, so it's important that Comanche Peak is back online quickly.

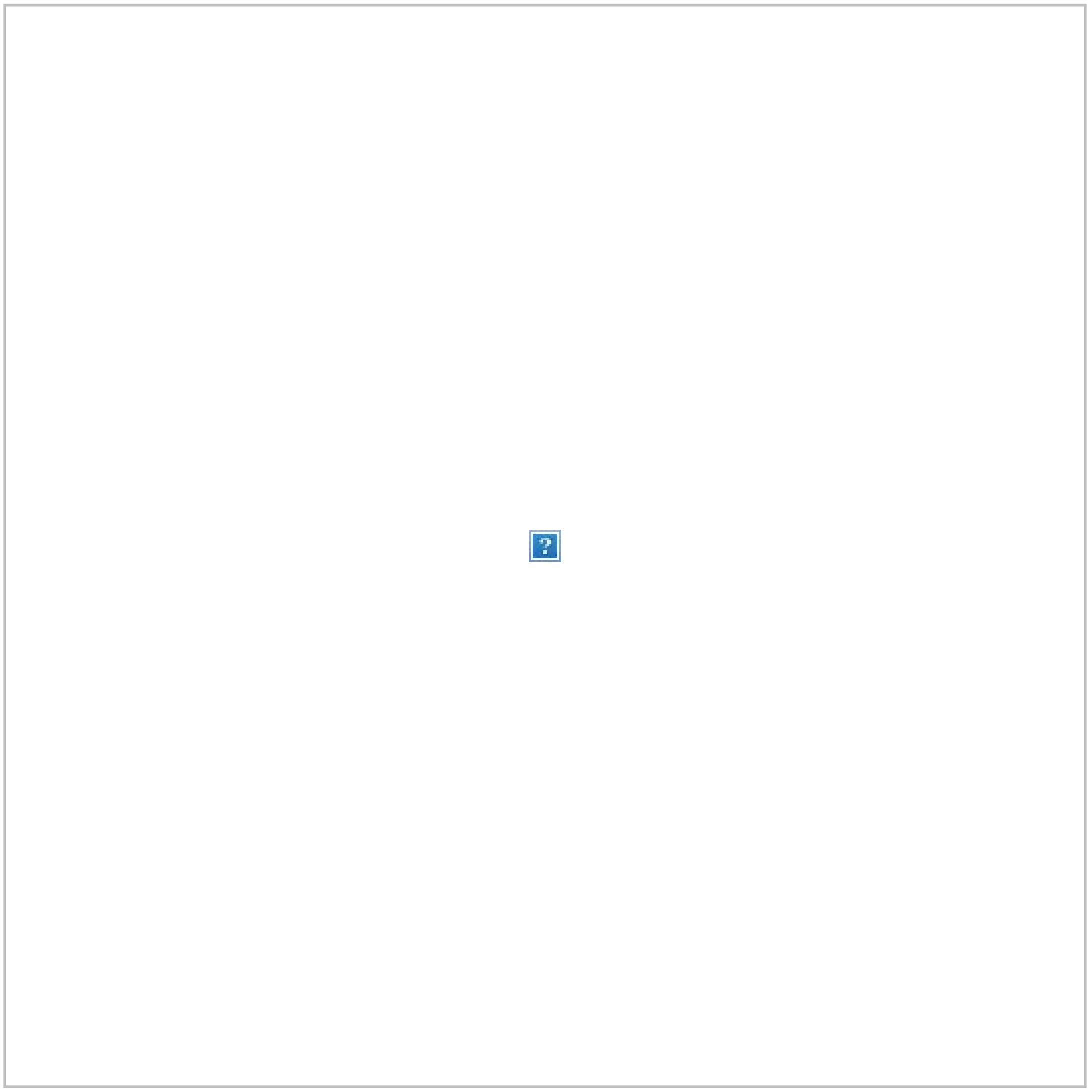
AES – Appoints Gerry Anderson to Board; solid move

- AES has appointed Gerry Anderson to its Board of Directors effective July 17
- Gerry was long-time Chair/CEO of DTE and also served as EEI Chairman as well

We know Gerry well from his very successful run at DTE. Solid move by AES here.

CAL Watch – Weekly implied 2024 ROEs; utility bond yields trimmed but ROE on track for ≥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 5.72% (solid orange line).
- The Index value through last Thu was 5.71%, a 6bp decrease from a week ago; if that were the average from now through 9/30/23, under the CoC mechanism, 2024 ROEs would be increased by 67bp [=(5.72-4.37)/2].
- With less than 4 months left in the CCM year, it 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 4.51%.



Source: Wolfe Utilities & Power Research

Fleish on Friday – Click link below to see this week's Fleish on Friday Poll Results
[Click here to view poll results]

1. Write-In: Biggest underperformer next 12 months?
2. Write-In: Best wishes Jeff Kotkin – Who is heir apparent for best IR?
3. What does the market do from here?
4. Best sub-sector to own from here?
5. NRG – What do they do at Analyst Day
6. NRG – What's your view here?
7. D – Where does it trade vs the sector in 2024?
8. D – What's your view here?
9. Most likely to re-rate to a premium next 12 months?
10. Least likely to re-rate to a premium next 12 months?

Midstream

OKE/MMP – Magellan published new slides and an FAQ document with further rationale and tax analysis for the transaction

- This morning, MMP published new materials with a focus on the benefits of the transaction across tax, growth, and risks
- MMP also noted "a potential combination with ONEOK has been considered from time to time over the years"
- **Tax.** MMP provides significant incremental tax analysis of its holders' positions and rationale for the transaction with a big focus on how the deferred tax liabilities would be incurred eventually with any sale and not just this transaction barring holding the units until death (i.e., a tax basis step-up). Our biggest takeaways are:
    - **Average holder to pay $13.40/unit in tax.** MMP estimates an average tax on sale of $13.40/unit at the pre-announcement transaction price of $67.50. This is slightly higher than unitholder EIP's estimate of an average $10-12/unit tax liability in their letter to the MMP board.
    - Holders for 10+ years (about 25% of total) will have an average tax of $23.99/unit
    - **For long-term holders, annual taxes from allocated income are estimated to increase by over 100% to total 60% of distributions within 3 years given limited growth opportunities and allocable depreciation**
- **Growth.** MMP emphasizes that its growth investment potential is limited within a "mature" refined products business which reduces the potential to increase allocable depreciation to holders. They see diversification through the OKE deal as a way to improve the growth outlook.
- **Risks.** MMP highlights potential for energy transition to impact refined products demand more than expected and crude pipeline re-contracting risks
- **C-corp conversion.** MMP believes the OKE transaction is superior to converting to a C-corp, but says "it could be a good option in the absence of the pending transaction, depending on, among other things, changes in tax policy"

We are joining a group lunch with Magellan later today and hope to learn more on the details and how efforts are going to rally the vote. The disclosure that the average holder faces a tax of $13.40/unit is even higher than EIP's estimate and so not a great read, although MMP also disclosed that long-term holders may soon face taxes on allocated income that equal a significant 60% of their distributions without a sale (i.e., the tax bill was coming soon anyway). On growth and risks, we don't think it's great to highlight a need to diversify to grow as a rationale, and are pretty surprised by MMP highlighting risks of energy transition impacting refined products demand more than expected as they have long pushed back on this argument historically. Lastly, we can't help but notice that while the company views a sale to OKE as superior to a conversion to a C-corp, they appear to suggest it could be an option in the absence of a transaction.

ENB - WI court gives ENB 3 years for Line 5 re-route; not unexpected but timing dependent on permits

- On Friday, a federal court in Wisconsin found that Enbridge was in trespass of Line 5's crossing of the Bad River Band's reservation since the previous easement's expiration

in 2013 and fined the company $5M
- The judge gave Enbridge 3 years to complete the reroute and remediate the land affected by the line

Enbridge has indicated that the pipeline can be routed around the lands and construction could be completed within a year, though it continues to hope that a resolution with the Bad River Band can be found and we also expect an appeal. The main hurdles on a reroute are on state and federal permitting (Wisconsin DNR and US Army Corps) as the construction appears to be straightforward. Note that the state of Michigan is contesting Line 5's Mackinac Straights crossing as well (though there is a tunnel to resolve the issue in a separate permitting process). A full shutdown of Line 5 would significantly constrict the availability of propane and other liquids to Michigan.

Midstream of Consciousness – what we learned in Houston; OKE-MMP proxy this week?

- We had the opportunity to visit with management teams in Houston last week as part of our investor bus tour.
- **Key takeaways from our meetings with EPD, KMI, LNG, TRGP, PAA/PAGP, and ET**
- **OKE-MMP arb spread – proxy likely to be released this week**
  - The arb spread was calmer last week with all eyes on the expected proxy release

- Please see full report **here**for more.

Clean Energy

Wolfe GREEN Playbook – Nomura Greentech summit; Domestic (dis)content; FSLR, NOVA check-in; Hydrogen events; DUK read-thrus

- **Tidbits from Nomura Greentech Sustainable Leaders Summit**
  - Domestic content rules potentially unworkable
  - FSLR update – uncertainty potentially impacting some contract announcements
  - More confirmation that green hydrogen rules likely start flexible
  - Utility connection delays; transformer shortages
  - CBP battery review seems to be fake news
  - IRA still a gamechanger; Europe likely to follow
- **Hydrogen takeaways from PLUG and BLDP investor days**
  - Common theme at both meetings was that commercial interest (backed by US/European policy support) is as high as ever, and the transition from pilot projects to commercial adoption and scale orders is fully underway
- **DUK portfolio sale – not a great comp**
  - Project values can vary a lot based on location and contract terms
- **Wolfe Texas bus tour – NOVA meeting takeaways**
- Please see full report **here**for more.

Wolfe Events

June 20-21: EVRG non-deal roadshow in New York/Boston
June 28: NRG non-deal roadshow in Boston
July 12-13: ETR non-deal roadshow in New York/Mid-Atlantic
August 7-8: FE non-deal roadshow in New York/Boston

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Calendar

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From: Steve Fleishman
To: Weisenburger \ Michael \ V
Subject: NI: Gentleman, Start Your Engines
Date: Tuesday, June 20, 2023 10:21:27 PM

Wolfe banner

June 20, 2023

NISOURCE (NI)

NI: Gentleman, Start Your Engines

View Full Report

View NI Model

Rating:	**Price:**
Outperform	$27.22
Price Target:	**% Upside:**
$31.00	13.9%

The Wolfe Byte

NI announced a 19.9% NIPSCO stake sale to Blackstone for $2.4B, reaffirming its '23 guidance & L-T outlook. This asset sale, which was executed at an attractive valuation in our view, enables NI to improve its B/S. Reiterate OP and $31 PT as we see NI re-rating to a premium.

NIPSCO stake sale announced. On 6/20, NI disclosed an agreement with Blackstone for a $2.40B minority interest sale and equity capital raise at NIPSCO. This consists of: 1) $2.15B upfront cash payment for a 19.9% stake, which will be received at the close of a tax-efficient transaction; and 2) $250M equity commitment letter to fund BX's pro rata share of NIPSCO's ongoing capital requirements. This asset sale is expected to close by YE23 and requires FERC approval, which NI intends to file for by June-end.

Solid valuation marker. This stake sale implies 32.5x LTM P/E, a ~77% premium to NI's LTM P/E of 18.4x. It also represents 1.85x EV/rate base, above the sector average of ~1.5-1.6x. The $2.15B cash investment was in-line with our initial ~$2.2B expectation based on 2.2x book equity (consistent with DUK IN's stake sale multiple in 2021), but BX's $250M additional N-T investment commitment to support NIPSCO's renewables transition suggests a higher forward-looking value.

FY23 guide & L-T outlook reaffirmed. NI reaffirmed its 2023 guidance of $1.54-1.60, L-T 6-8% annual EPS growth rate through 2027, 14-16% FFO/D target, and 8-10% annual rate base growth, which is driven by $15B of capex over 2023-27. NI's financing plan remains unchanged from its 2022 Investor Day and includes maintenance equity via ATM 2025 onwards. Mgmt. expects FFO/D to trend towards the higher-end of the targeted range initially, followed by moderation towards the ~15% midpt. over the course of the plan.

Model refinements. After factoring in BX's $250M of contractual obligations over 2024-26, we estimate modestly lower annual equity needs in the neighborhood of ~$205M/yr. over 2025-27 vs. ~$290M/yr. prior; this is inferred by NI's presentation too. Consequently, we raise our 2026E by $0.01 to $1.94. We see NI re-rating to a premium with strong EPS growth, regulatory execution, and now a strengthened balance sheet too.

Company Information	
52-Week Range	$24 - $32
Market Cap. (MM)	$11,244
Enterprise Value (MM)	$25,474
Shares Out. (MM)	413.1
Avg. Value Traded (MM)	$149.72
Adj. Debt to Cap	60.9%
SI% of Float	1.6%

EPS ($)	Dec FYE
	FY*
2023E	1.58 E
Consensus	1.57 E
2024E	1.68 E
Consensus	1.68 E
2025E	1.81 E
Consensus	1.80 E
2026E	1.94 E
Prior	1.93 E
Consensus	1.93 E

*Numbers may not add up due to rounding
Source: Company Documents, Wolfe Research, FactSet

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View Steve's Research

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From: Steve Fleishman
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Date: Wednesday, May 3, 2023 9:01:50 AM

Wolfe banner

May 3, 2023

THE FLEISHMAN DAILY 5/3/23

EXC, NI, FTS, AGR/PNM, NY Gas Ban, EIX, PEG, OKE, ET, EPD, SPWR, Ørsted, Offshore Wind, ENPH

The Fleishman Daily 5/3/23
Utilities: EXC, NI, FTS, AGR/PNM, NY Gas Ban, EIX, PEG
Midstream: OKE, ET, EPD, Earnings Takeaways in one page
Clean Energy: SPWR, Ørsted, Offshore Wind, ENPH

Utilities

EXC – Q1 beat but FY guidance and EPS growth target affirmed
NI – Small Q1 beat; FY23 guidance and L-T 6-8% annual EPS growth target reaffirmed; NIPSCO minority interest sale on track for 2023; in-line
FTS – Big Q1 EPS beat; capex, rate base growth, dividend growth all unchanged
AGR/PNM – Latest filings by companies and New Mexico PRC provide more transparency on merger rehearing discussions; still waiting on NM Supreme Court
NY Gas Ban – Bill to prohibit gas use in new construction progressing as part of state's annual budget process
EIX – File GRC in May and go away till key Q2 call
PEG – Devils win; "gotta support the team"

Midstream

OKE - Q1 tops estimate on insurance recovery; 2023 guidance unchanged
ET – Setting up for a beat and raise repeat in 2023

EPD – Count Project $10B be a stretch goal in 2024?
Earnings Takeaways in one page – LNG, MPLX, EPD, ETRN, DTM

Clean Energy

SPWR – 1Q EBITDA weaker than anticipated on backlog build and adverse weather; FY23 guidance affirmed due to growing backlog
Ørsted – 1Q23 EBITDA misses Bloomberg consensus but in line with sell-side survey; FY23 guidance affirmed
Offshore Wind – Massachusetts set to launch 4th RFP
ENPH – CFO Yang acquires $549k of stock

Quarterly data: Weather, Forward Prices, Spot Prices, Nuke Outages

Wolfe Utility & Midstream Materials: Utility Comps, Utility Stock Charts, Midstream Comps, Midstream Stock Charts, Clean Energy Comps, Clean Energy Stock Charts, Models

Utilities

EXC – Q1 beat but FY guidance and EPS growth target affirmed

- **1Q23 beat**. $0.70 vs $0.66 consensus, $0.67 WRe.
- **2023 guidance affirmed:** $2.30-2.42 vs $2.36 consensus, $2.37 WRe
- **Affirmed 6-8% EPS growth rate through 2026 off 2022.** EXC's 6-8% CAGR off midpoint of 2022 guidance ($2.25), implying 2025E of $2.76 vs $2.74 consensus and $2.76 Wolfe estimate; reaffirmed same annual growth indicators below:
    - 2023: below low end of 6-8%
    - 2024: low end of 6-8% growth
    - 2025: above 6-8% growth
    - 2026: middle of 6-8%
- **IRA impact reflected in FFO/D range of 13-14% in 2023-26; no incremental equity needs through 2025 beyond the remaining $425M.** EXC notes if repairs deduction issue is fixed, then EXC sees high end of 13-14% through 2026; if not, then low end. EXC's downgrade threshold is 12%.
- **IL MYP rate case:** Intervenor testimony is expected 5/22 on ComEd 4-yr rate plan under the 2021 law, requesting 10.5% ROE; every 50bp of ROE is $0.04 in 2024-26. A decision is expected by 12/20/23.
- **Says earned ROE on track to be within 9-10% target range**. Earned ROE for trailing twelve months through 1Q23 was not specified; 4Q22 was 9.4%.

Slightly positive given Q1 beat but guidance and growth outlook affirmed. midpoint of 6-8% or better and providing indications of annual growth. On the call, we expect questions around the repairs deduction and cash tax impact, ComEd rate case intervenor testimony this month, and other MYP/reconciliation cases in Maryland and DC. We also anticipate some questions on any read-through from yesterday's jury verdict in the former ComEd executive's bribery case.

NI – Small Q1 beat; FY23 guidance and L-T 6-8% annual EPS growth target reaffirmed; NIPSCO minority interest sale on track for 2023; in-line

- **Small Q1 EPS beat.** NI reported 1Q23 EPS of $0.77, slightly above us/cons. at $0.76/$0.75.
- **2023 guidance reaffirmed.** Range of $1.54-1.60 vs. cons. at $1.55 (WRe $1.58).
- **L-T 6-8% annual EPS growth target reaffirmed through 2027.**
- **5-yr. capex plan unchanged.** $15B of capex over 2023-27 drives 8-10% annual rate base growth.
- **Updates on IN renewables projects.** Estimated in-service date for Fairbanks Solar refined to 2Q25 (from 2024-25 prior); amendment for Green River Solar PPA approved.
    - Construction on Indiana Crossroads Solar and Dunns Bridge Solar I projects is nearing completion; work has begun on Dunns Bridge II and Cavalry Solar projects.
- **NIPSCO minority interest sale.** Remains on track for 2023; L-T 14-16% FFO/D target reiterated.
- **NIPSCO electric rate case.** Settlement stipulates a $292M revenue increase based on a 9.8% ROE and $5.95B rate base; order anticipated in Aug. with rates effective Sept. 2023/Mar. 2024.

An in-line update from NI, as Q1 slightly beats, the $15B 5-yr. capex plan & L-T growth outlook are reaffirmed, and IN renewables projects remain on target with previously revised in-service dates. On the call, we will be looking for color from mgmt. on how NISPCO's minority interest sale process is progressing.

FTS – Big Q1 EPS beat; capex, rate base growth, dividend growth all unchanged

- **FTS reported adjusted 1Q23 EPS of $0.91 vs. $0.78 last year – up 16.7% YoY and big beat** versus $0.82 consensus and our $0.82
    - Driven by rate base growth, FX, AZ weather, and Aitken Creek gas / Belize hydro; partially offset by financing costs and share dilution
        - Timing of wholesale sales and FERC transmission in AZ also had a +$0.04-0.05 impact
- No 2023 guidance as expected (consensus: $2.95, WRe: $2.96)
    - Consensus implies 6.1% YoY set-up off 2022A
- **Reaffirms dividend growth at 4-6% through 2027**
- **Five-year capex plan over 2023-2027 of $22.3B reaffirmed**
- **Rate base growth CAGR affirmed at 6.2% ($40.7B/$46.1B in 2025/2027)**
- **Aitken Creek sale.** Announced earlier this week for $400M CAD – proceeds used to repay credit facilities and support regulated growth
- **FX. Assuming $1.30 in plan** vs. $1.36 currently (every $0.05 in FX change = $0.06 EPS and $500M capex)

Another solid quarter from FTS, even though some of the beat appears to be timing. The company is starting to show material EPS growth again for the first time in several years. The call is ongoing, but we expect focus on the pending AZ rate case, Iowa Supreme Court decision on ROFRs, and future ITC opportunities in MISO.

AGR/PNM – Latest filings by companies and New Mexico PRC provide more transparency on merger rehearing discussions; still waiting on NM Supreme Court

- Merger applicants AGR/PNM's most recent filing was in response to New Energy Economy's (the only party opposed to the original merger settlement) claims that the New Mexico PRC had ex parte discussions
- These claims were centered around the pending Supreme Court process and eventual reconsideration of the merger at the NM PRC
- AGR/PNM explain that the communications were not improper, as it didn't concern the merits of the merger applications
- AGR/PNM and the NM PRC have made public the email exchanges that were alleged to be ex parte
- NM PRC stated its intention is to indicate support for a motion that would dismiss this appeal and remand jurisdiction to the Commission so that Commission may consider a motion to reopen

The AGR/PNM and NM PRC filings push against the latest claims of the one party that opposed the original settlement. AGR/PNM's intention is that they have nothing to hide. We're still waiting on the New Mexico Supreme Court to decide on remanding the case, but our conversations with AGR indicated that a decision at the NM PRC is still possible by the current merger deadline of July 20.

NY Gas Ban – Bill to prohibit gas use in new construction progressing as part of state's annual budget process

- On 5/1, NY lawmakers released a budget bill that directs state code officials to prohibit fossil fuel equipment and building systems in new construction with 7 or fewer floors by 2026.
  - This requirement would expand to all new construction by 2029.
- This measure passed as part of the state's annual budget process; the budget is overdue and legislators are expected to vote on the bill this week.
- Recall, Gov. Hochul had backed the Climate Action Council's earlier recommendation to prohibit fossil fuel combustion in small/larger buildings by the end of 2025/2028.
- To address emissions from existing buildings, the Climate Action Council separately recommended a requirement to replace end-of-life equipment with heat pumps or other non-fossil fuel systems beginning in 2030; the legislature has not taken up that recommendation yet.

This bill would support electrification and energy efficiency investments, which in-state utilities like ED have been focused on. However, we worry about the reliability and affordability issues that could stem from transitioning away from natural gas use too fast, especially given that NY is depending on future offshore wind projects, which run intermittently.

EIX – File GRC in May and go away till key Q2 call
Click here to view our complete note
Stock recovery continues, still cheap option on 17/18 recoveries; raise PT to $79. EIX 1Q23 of $1.09 beat $0.95 cons but was in-line with our $1.08. EIX affirmed 2023 and 2025 guidance. EIX raised its 2017-18 wildfire costs by $90M but still sees the total costs at $8.8B ($6B of which it plans to request recovery). EIX is the best performing utility YTD, beating the UTY by 1,920bp. But it still trades at a ~19% discount. None of the potential 17/18 fire cost recovery is in its 5-7% EPS growth target through 2025, which EIX will update through 2028 this Jul. We raise our PT by $1 to $79.

PEG – Devils win; "gotta support the team"
Click here to view our complete note
Q1 EPS beats, 2023 guide reaffirmed. PEG posted Q1 EPS of $1.39 – ahead of our above-consensus estimate. This was also above $1.33 a year ago – driven by utility rider recovery and higher nuke hedge pricing; offset by weaker BGSS, lower pension earnings, and interest costs. The CIP mechanism neutralized weather impacts on sales, while transmission formula rates protect as well. PEG maintained its $3.40-3.50 guidance range and reaffirmed the 5-7% EPS CAGR over 2023-2027.

Midstream

OKE - Q1 tops estimate on insurance recovery; 2023 guidance unchanged

- ONEOK reported Q1 EBITDA of $1.72B vs. $864M last year, ahead of street consensus
- The quarter was up on a $779M insurance settlement gain for Medford, higher volumes and fees at the G&P and NGL segments, and higher storage rates at the transmission segment
- **Guidance maintained.** OKE reaffirmed 2023 guidance of $4.425B-$4.725B inclusive of the net insurance recovery benefit ($779M gain less $240M in 3rd party frac costs)
- **Key projects completed.** OKE's two major growth projects - Demicks Lake III processing plant and MB-5 fractionator were completed and placed into service; MB-5 will help partially handle volumes from Medford as MB-6 work continues

The quarter looked solid benefiting from higher volumes and rates generally as expected. The key will be any incremental color on guidance and what potential impact the commodity price dynamics may be having on the year.

ET – Setting up for a beat and raise repeat in 2023
Click here to view our complete note

Big Q1 beat. EBITDA beat consensus by 5% with strong beats vs. our estimate in 1) NGLs on an inventory item and blending, 2) Interstate on what appears to be core business improvement, and 3) Intrastate on better gas sales with volatility. Volumes were pretty much in line with our expectations to even a little light in the NGL segment.

EPD – Count Project $10B be a stretch goal in 2024?
Click here to view our complete note
Q1 beat on market opportunities...and despite very weak NGL marketing. EBITDA of $2,321M was 3% ahead of our estimate / consensus. The beat was driven by very strong propylene results on a blow-out in PGP-RGP spreads, gas gathering uplift from Rockies price strength, and high NGL export and pipeline volumes, the latter of which EPD sees continuing. Strong results came despite the lowest NGL marketing margin quarter (excluding MTM items) since 3Q21.

Earnings Takeaways in one page – LNG, MPLX, EPD, ETRN, DTM
Click here to view our complete note
An overall constructive surge of earnings this morning ran into an unfavorable macro tape. MPLX had a big beat that lends support to mid-single digit growth commentary, the LNG guide raise was a nice relief after spreads weakened, and EPD beat with a "growthy" tone. *We will update models with company-specific notes at a later time.

Clean Energy

SPWR – 1Q EBITDA weaker than anticipated on backlog build and adverse weather; FY23 guidance affirmed due to growing backlog

- Customer additions of 21,000 vs. WRe of 20,289.
    - Enters Q2 with backlog of 23,000 retrofit customers.
    - NEM 2.0 bookings for retrofit customers up 135% resulting in >6 month backlog.
    - Leases grew 268% y/y.
- Adj. EBITDA of $0.6M vs. WRe of $3.9M and consensus of $14M.
    - Adjusted EBITDA/customer before platform investment of $1,200 vs. WRe of $1,725.
- **Affirmed 2023 guidance of $2,450–$2,900 Adjusted EBITDA per customer before platform investment; 90,000–110,000 customer adds; $125–$155M Adjusted EBITDA.**
- SPWR also put out a separate press release announcing a new $550M solar loan purchase agreement with KKR.
    - YTD capital raised sufficient to fund $1 billion of solar loans.

SPWR's EBITDA miss vs. consensus was expected by us due to adverse weather, but results were even weaker than anticipated. Adverse weather was flagged as keeping crews idle while SG&A was higher due to NEM 2.0 grandfathering backlog build. Management notes that NEM 2.0 orders are still coming in from dealers and the growing backlog gives them confidence in meeting the FY23 guide. The conference call is underway.

Ørsted – 1Q23 EBITDA misses Bloomberg consensus but in line with sell-side survey; FY23 guidance affirmed

- Ørsted reported 1Q23 results both with and without farmdown gains that missed *Bloomberg* consensus but was in line with a recent sell-side survey.
- **1Q23 EBITDA vs sell-side survey consensus and WRe (all in DKK); Offshore beat, Onshore in line, Bio/other missed.**
    - Total: DKK 6.9B vs DKK 6.9B sell-side survey; WRe was DKK 7.8B; Bloomberg has consensus at DKK 7.1B
    - Offshore: DKK 5.4B vs 4.8B sell-side survey vs WRe of DKK 5.8B
    - Onshore: DKK 0.8B vs 0.9B vs 1.1B
    - Bio/other: DKK 0.5B vs 1.1B vs 0.8B
- **2023 EBITDA of DKK 20-23B (ex gains) affirmed.** Sell-side survey consensus (ex gains) was DKK 22.0B vs WRe of DKK 21.6B; Bloomberg has consensus at DKK 22.8B.

- **FFO/adj net debt is 38% vs 37% in previous quarter; target remains 25%**.
- **6/8 CMD**. Expects to update outlook, which was last provided in 2021; updates will include financial targets.

We view the update as modestly negative, as it relates mostly to the Bioenergy/CHP business, not the company's core offshore and onshore business. The call is ongoing, as we publish. We anticipate questions on the US, including potential impact on returns from energy communities tax bonus and other IRA benefits, as well as the company's interest in Eversource's offshore wind sale and pending offshore wind solicitations. We also expect questions on any potential equity needs and any previews to next month's CMD strategic and financial outlook.

Offshore Wind – Massachusetts set to launch 4th RFP

- Yesterday, a request for approval to launch the 4th offshore wind solicitation was filed with the Massachusetts DPU – allowing bids for 200-2,400 MWs
    - The proposed timeline would have bids due in January 31 2024 and selection of winners in June 12 2024
- Recall that AGR's Commonwealth Wind (1.2 GWs) and Shell/EDPR/Engie's Mayflower Wind (0.4 GWs) were winners of the third solicitation (these same parties have won all MA bids thus far and were the only bidders in the most recent one
- AGR's Commonwealth Wind subsequently sought to renegotiate its contract, then cancel it and re-bid, due to economic conditions
    - The originally filed PPAs were starting at $59.60/MWh nominal price ($47.68/MWh for energy and $11.92 for RECs, both of which escalate by 2.5% annually)
    - The total levelized all-in energy price for Commonwealth Wind was $72.17/MWh
- Massachusetts has a goal of 5.6 GWs of offshore wind by 2027 and has awarded 3.2 GWs so far (including Commonwealth Wind)

We'll be interested to see how the next MA solicitation progresses, as AGR has made it clear it intends to re-bid. Shell/EDPR/Engie have been successful in the past and Ørsted owns lease areas that can bid. One important nuance is that a change in MA law makes it such that each successive auction no longer has to have a lower PPA price than the last. The ability to bid higher PPA prices this time, should help with economic viability.

ENPH – CFO Yang acquires $549k of stock

- Yesterday, ENPH CFO Mandy Yang acquired 3,500 shares of ENPH for a total of $549,022.

Good to see, especially following board member TJ Rodgers' >$10M of purchases last week

Wolfe Events

May 12: Group Breakfast with NEE CEO in NYC
May 16-17: DUK non-deal roadshow in Midwest and Canada
May 17-18: AES non-deal roadshow on West Coast
May 21-22: 2023 AGA Conference Management Meetings in Florida
May 22: Dinner with PAA CEO at EIC
May 24: NXT, ENPH, and RUN Clean Energy Bay Ara Tour
June 14-15: Midstream, Utilities, and Renewables Bus Tour in Texas
June 20-21: EVRG non-deal roadshow in New York/Boston

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Utilities & Power

April 17, 2023

Q1 preview – Wearing shorts in winter

The Wolfe Byte

Mild weather clipped Q1, but we expect most utilities to reaffirm 2023. Asset sale execution will be the major news along with AES and SRE L-T guidance. Lots of renewables and power developments to watch as well.

Tough Q1 on mild winter, but lower utility bills are a relief. A warm winter will hurt Q1 everywhere except the West and for decoupled utilities like PEG/EXC. Thankfully, the associated drop in nat gas prices has toned down utility bill backlash. We expect nearly all companies to reaffirm 2023 outlooks. AES and SRE are the only ones planning new L-T guidance. Asset sale updates will be the big news; AEP's was just cancelled and we remain wary on DUK and ES. We are monitoring a ton of renewables developments that altogether are a mixed bag: CRA on circumvention, UFLPA project delays, IRA implementation, YieldCo instability, pending IRPs/RFPs, offshore wind news and hydrogen announcements. Power prices are down but hedges limit exposure; most attention will be on potential Texas legislation. Overall, we see Q1 down ~9% and 2023/2024 bottom up earnings up 4.6%/7.6% respectively.

Positives: 1) AEE – MO settlement, Boomtown done and potential Transmission bill; **2) PEG –** Decoupling protected; VST deal highlights value of nuclear; **3) SO –** Vogtle on track for start-up soon; new CEO first call.

Negatives: 1) AES – Q1 miss, may guide down post 2025 growth at A.D.; **2) CMS/DTE –** very weak Q1 on weather/ storms but will reaffirm; **3) DUK –** asset sale execution risk and weak Q1 weather.

Important: 1) ES – likely announce lease acreage sale, but focus is on other piece; **2) FE –** coal outlook, any views on incoming CEO plan; **3) NEE/NEP –** will NEE be able to resolve market concerns on NEP?; **4) NRG –** first update since VVNT closed, possible noise around EBITDA accounting; **5) SRE –** 2024 guide, extend 6-8% incl. Oncor rate case and Port Arthur.

Please see full report for company by company previews.

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COMPANY	TICKER	RATING	PT	% UPSIDE
Ameren Corp	AEE	OP	$95.00	5.9%
American Electric Power	AEP	PP	NA	
AES Corp.	AES	PP	NA	
Avangrid	AGR	UP	$40.00	(1.1)%
American Water Works	AWK	PP	NA	
Constellation Energy, Inc.	CEG	OP	$104.00	38.6%
CMS Energy	CMS	PP	NA	
CenterPoint Energy	CNP	OP	$32.00	4.4%
Dominion Energy	D	PP	NA	
DTE Energy	DTE	OP	$125.00	10.9%
Duke Energy	DUK	PP	NA	
Consolidated Edison	ED	PP	NA	
Edison International	EIX	OP	$78.00	8.2%
Emera, Inc.	EMA-CA	PP	NA	
Eversource Energy	ES	PP	NA	
Entergy Corp	ETR	OP	$120.00	10.2%
Evergy	EVRG	OP	$68.00	9.6%
Exelon Corp	EXC	OP	$45.00	5.5%
FirstEnergy	FE	OP	$44.00	7.7%
Fortis, Inc.	FTS	UP	$39.00	(12.2)%
Alliant Energy	LNT	PP	NA	
NextEra Energy	NEE	OP	$89.00	13.3%
NiSource	NI	OP	$30.00	6.0%
NRG Energy	NRG	PP	NA	
OGE Energy	OGE	PP	NA	
PG&E Corp	PCG	OP	$20.00	18.6%
PSEG	PEG	PP	NA	
Pinnacle West Capital	PNW	PP	NA	
Portland General	POR	PP	NA	
PPL Corp	PPL	OP	$32.00	11.4%
The Southern Company	SO	OP	$73.00	0.9%
Sempra Energy	SRE	OP	$168.00	8.4%
Vistra Corp.	VST	OP	$32.00	32.0%
WEC Energy Group	WEC	PP	NA	
Xcel Energy	XEL	OP	$74.00	5.2%

Source: Wolfe Research
OP=Outperform, PP=Peer Perform, UP=Underperform, NR=Not Rated
Priced as of 04/17/23

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. The biggest inflationary risks to utilities – high natural gas and interest rates – appear to be abating. With a fully regulated profile, we think utilities are as well positioned as they have ever been if a recession hits.

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Quarterly Estimates

Exhibit 1: Wolfe Research Earnings Estimates vs. Consensus

				Q1 2023E		Q1 2022	2023E		2024E		2025E		2026E	
Company Name	**Ticker**	**Price**	**Rating**	**WR**	**Cons**	**Actual**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
AES Corp.	AES	$24.33	PP	$0.20	$0.30	$0.21	$1.71	$1.70	$1.92	$1.93	$2.10	$2.10	N/A	$2.29
Alliant Energy	LNT	54.72	PP	0.69	0.79	0.77	2.89	2.90	3.08	3.15	3.28	3.28	3.47	3.47
Ameren	AEE	89.74	OP	0.91	0.99	0.97	4.37	4.36	4.73	4.68	5.02	5.02	5.34	5.35
American Electric Power	AEP	93.29	PP	1.19	1.22	1.22	5.29	5.28	5.60	5.63	6.00	5.97	6.35	6.33
American Water	AWK	149.84	PP	0.96	0.94	0.87	4.78	4.77	5.15	5.13	5.59	5.58	6.03	6.02
Avangrid	AGR	40.46	UP	0.72	0.75	1.16	2.04	2.22	2.10	2.34	2.33	2.50	N/A	2.47
CMS Energy	CMS	61.34	PP	0.64	1.05	1.20	3.10	3.10	3.34	3.35	3.60	3.62	3.86	3.88
CenterPoint**	CNP	30.64	OP	0.47	0.49	0.47	1.49	1.49	1.61	1.62	1.74	1.73	N/A	1.85
Con Edison	ED	97.87	PP	1.50	1.63	1.47	4.85	4.86	5.27	5.19	5.48	5.48	N/A	5.74
Dominion	D	58.68	PP	0.97	1.10	1.18	3.79	4.16	3.60	3.83	3.85	3.98	N/A	4.56
DTE Energy	DTE	112.70	OP	1.26	1.59	2.31	6.26	6.23	6.68	6.69	7.17	7.17	7.76	7.71
Duke Energy	DUK	98.41	PP	1.26	1.35	1.30	5.62	5.64	5.94	5.98	6.32	6.33	6.72	6.71
Edison Int'l	EIX	72.08	OP	1.08	0.99	1.07	4.70	4.72	5.07	5.09	5.60	5.52	N/A	5.93
Emera*	EMA	57.84	PP	0.95	0.98	0.92	3.13	3.22	3.29	3.33	3.49	3.48	N/A	3.74
Entergy	ETR	108.93	OP	1.39	1.52	1.32	6.73	6.72	7.21	7.20	7.71	7.73	8.23	8.31
Evergy	EVRG	62.06	OP	0.58	0.56	0.56	3.63	3.63	4.01	3.97	4.26	4.24	4.52	4.45
Eversource Energy	ES	79.14	PP	1.30	1.37	1.30	4.34	4.37	4.67	4.67	5.00	5.01	5.29	5.37
Exelon**	EXC	42.67	OP	0.67	0.66	0.64	2.37	2.36	2.51	2.51	2.76	2.73	N/A	2.93
FirstEnergy	FE	40.86	OP	0.61	0.63	0.60	2.54	2.53	2.72	2.67	2.86	2.84	N/A	3.07
Fortis*	FTS	44.42	UP	0.82	0.82	0.78	2.96	2.96	3.10	3.12	3.21	3.27	3.32	3.39
NextEra Energy	NEE	78.54	OP	0.79	0.59	0.74	3.09	3.11	3.38	3.39	3.64	3.67	N/A	4.02
NiSource	NI	28.30	OP	0.76	0.82	0.75	1.58	1.55	1.68	1.67	1.81	1.79	N/A	1.95
OGE Energy**	OGE	37.86	PP	0.13	0.38	0.24	2.00	2.01	2.11	2.12	2.24	2.27	2.34	2.37
PG&E	PCG	16.86	OP	0.26	0.30	0.30	1.20	1.22	1.33	1.35	1.46	1.47	1.58	1.61
Pinnacle West	PNW	79.31	PP	(0.13)	0.09	0.15	4.05	4.08	4.66	4.76	4.89	4.89	N/A	5.17
Portland General	POR	50.07	PP	0.79	0.83	0.67	2.68	2.66	3.00	3.04	3.15	3.20	N/A	3.34
PPL Corp.	PPL	28.72	OP	0.44	0.45	0.41	1.59	1.59	1.72	1.70	1.85	1.83	1.94	1.96
PSEG	PEG	63.70	PP	1.31	1.16	1.33	3.45	3.44	3.58	3.70	4.03	4.05	N/A	4.23
Sempra Energy	SRE	154.98	OP	2.68	2.90	2.91	8.94	8.98	9.58	9.59	10.18	10.15	N/A	10.75
Southern Company	SO	72.34	OP	0.72	0.77	0.97	3.60	3.61	4.03	4.03	4.30	4.30	4.53	4.55
WEC Energy Group	WEC	96.50	PP	1.58	1.69	1.79	4.61	4.61	4.91	4.90	5.25	5.25	5.60	5.60
Xcel Energy	XEL	70.32	OP	0.74	0.73	0.70	3.36	3.38	3.61	3.61	3.84	3.85	N/A	4.01

Source: Wolfe Research Utilities & Power Research, FactSet; Prices are as of 4/17/23
*Estimates in $CAD
**CNP, EXC, and OGE 1Q22 actuals are utility-only

Exhibit 2: Wolfe Research EBITDA Estimates vs. Consensus

				Q1 2023E		Q1 2022	2023E		2024E		2025E		2026E	
Company Name	**Ticker**	**Price**	**Rating**	**WR**	**Cons**	**Actual**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**	**WR**	**Cons**
Constellation Energy Corp.	CEG	$75.04	OP	$749	$846	$866	$2,999	$3,101	$3,367	$3,460	$3,731	$3,585	N/A	$3,426
Clearway Energy	CWEN	32.19	OP	245	182	260	1,174	1,179	1,154	1,175	N/A	1,269	N/A	1,315
NextEra Energy Partners	NEP	61.72	OP	436	462	415	2,043	1,984	2,247	2,189	2,389	2,300	N/A	2,571
NRG Energy	NRG	35.11	PP	610	632	509	2,850	2,844	3,115	2,959	3,225	3,027	N/A	3,107
Vistra Energy	VST	24.25	OP	589	712	547	3,582	3,590	3,614	3,881	3,704	3,811	N/A	3,706

Source: Wolfe Research Utilities & Power Research, FactSet; Prices are as of 4/17/23

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1Q23 Beats/Misses – Wolfe Estimates vs. Consensus

Exhibit 3: 1Q23 Beats/Misses – Wolfe Estimates vs. Consensus

	1Q23 Estimate	
Ticker	**WR**	**Cons**
Beats		
PEG	$1.31	$1.16
Misses		
AEE	$0.91	$0.99
AES	$0.20	$0.30
CMS	$0.64	$1.05
D	$0.97	$1.10
DTE	$1.26	$1.59
ED	$1.50	$1.63
LNT	$0.69	$0.79
PCG	$0.26	$0.30
PNW	($0.13)	$0.09
CEG	$749	$846
VST	$589	$712

Source: Wolfe Research Utilities & Power Research

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

		2023E		2024E		2025E	
Company Name	**Ticker**	**New**	**Prior**	**New**	**Prior**	**New**	**Prior**
PSEG	PEG	$3.45	$3.46	$3.58	$3.66	N/A	N/A

Source: Wolfe Research Utilities & Power Research

Exhibit 5: Wolfe Research EBITDA Estimate Revisions – IPPs and YieldCos

		2023E		2024E		2025E	
Company Name	**Ticker**	**New**	**Prior**	**New**	**Prior**	**New**	**Prior**
Constellation Energy Corp.	CEG	$2,999	$3,009	$3,367	$3,526	$3,731	$3,725
Vistra Energy	VST	$3,582	$3,600	$3,614	$3,619	$3,704	$3,531

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 down substantially in every region except out West, where spot prices were up 100-172%, led by Mid-C. Most notably, New England spot prices were down ~56%, PJM spot prices were down 41-48%, and ERCOT spot prices were down ~32%, on average. This was largely driven by the collapse in nat. gas prices as spot gas averaged $2.77/MMBtu (a 39% decline YoY).

Exhibit 6: Average 7x24 Spot Prices

Northeast	**Q123**	**Q122**	**% Change**
Mass Hub	$48.22	$109.09	(56%)
Connecticut	46.87	106.11	(56%)
SE Mass	48.81	109.80	(56%)
NY Zone A	26.13	65.38	(60%)
NY Zone G	40.31	92.78	(57%)
NY Zone - J	40.81	95.31	(57%)
PJM West	32.64	54.90	(41%)
Pepco Zone	28.94	55.41	(48%)
Midwest	**Q123**	**Q122**	**% Change**
Cinergy	$32.10	$50.42	(36%)
NI Hub	26.04	39.64	(34%)
AD Hub	30.65	48.05	(36%)
South Central	**Q123**	**Q122**	**% Change**
ERCOT North	$22.85	$35.99	(36%)
ERCOT South	22.62	33.15	(32%)
ERCOT West	22.75	29.34	(22%)
ERCOT Houston	23.92	37.86	(37%)
West	**Q123**	**Q122**	**% Change**
Palo Verde	$84.19	$40.30	109%
NP 15	98.96	49.58	100%
SP 15	94.42	45.95	105%
Mid-Columbia	101.76	37.44	172%
Natural Gas	**$2.77**	**$4.58**	**(39%)**

Source: Wolfe Utilities & Power Research, SNL

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Wolfe Research Prices vs. Market Prices

We've marked our commodities deck to market as of Q1-end. This reflects the sharp decline in power/gas in 2023, though most of our coverage is close to fully hedged, thus financial impacts are relatively modest. In 2024, we 've lowered our assumptions as well – more notably in PJM/NI Hub than ERCOT. Finally in 2025, we've seen a more constructive move in commodities. We revise up our ERCOT and NI Hub assumptions, while our deck already matched current PJM forwards. We now show sharp contango in our forwards assumptions, similar to the market, largely driven by natural gas.

Exhibit 7: Wolfe 7x24 power price estimates

	2023	2024	2025
PJM West	$36.16	$46.80	$50.27
PJM East	$34.16	$44.80	$48.27
NEPOOL	$47.34	$67.33	$62.20
NY Zone A	$28.33	$36.01	$37.49
NY Zone G	$41.43	$55.55	$59.00
NY Zone J	$43.65	$59.43	$64.60
A/D Hub	$36.29	$44.79	$47.90
NI Hub	$32.27	$39.96	$42.45
Indiana Hub	$37.95	$47.47	$51.56
ERCOT (Houston)	$39.67	$46.18	$50.24
ERCOT (South)	$34.37	$40.68	$44.30
ERCOT (North)	$35.27	$41.94	$46.11
ERCOT (West)	$34.04	$39.51	$43.02
NP-15	$100.38	$90.45	$89.57
SP-15	$97.71	$80.73	$79.99
Mid-C	$95.65	$93.23	$93.36
Palo Verde	$97.64	$89.95	$89.38
Nymex Gas ($/Mcf)	$2.74	$3.52	$4.14
CAPP Coal ($/ton)	$125.00	$125.00	$125.00
PRB Coal ($/ton)	$15.00	$15.00	$15.00

Source: Platts, Wolfe Research Utilities & Power Research

Exhibit 8: Market 7x24 power price estimates

	2023	2024	2025
PJM West	$36.27	$46.92	$50.41
PJM East	$34.27	$44.92	$48.41
NEPOOL	$47.46	$67.44	$62.30
NY Zone A	$28.41	$36.10	$37.59
NY Zone G	$41.54	$55.67	$59.13
NY Zone J	$43.78	$59.57	$64.76
A/D Hub	$36.40	$44.91	$48.03
NI Hub	$32.41	$40.08	$42.59
Indiana Hub	$38.07	$47.60	$51.70
ERCOT (Houston)	$39.88	$46.38	$50.45
ERCOT (South)	$34.54	$40.84	$44.44
ERCOT (North)	$35.47	$42.11	$46.26
ERCOT (West)	$34.21	$39.63	$43.12
NP-15	$100.36	$90.59	$89.60
SP-15	$98.38	$81.29	$80.40
Mid-C	$96.39	$93.62	$93.70
Palo Verde	$101.47	$92.95	$91.12
Nymex Gas ($/Mcf)	$2.74	$3.52	$4.14
CAPP Coal ($/ton)	$125.00	$125.00	$125.00
PRB Coal ($/ton)	$15.00	$15.00	$15.00

Source: Platts, Wolfe Research Utilities & Power Research

Exhibit 9: Market 7x24 vs. Wolfe 7x24

	2023	2024	2025
PJM West	0.3%	0.3%	0.3%
PJM East	0.3%	0.3%	0.3%
NEPOOL	0.2%	0.2%	0.2%
NY Zone A	0.3%	0.3%	0.3%
NY Zone G	0.2%	0.2%	0.2%
NY Zone J	0.3%	0.2%	0.2%
A/D Hub	0.3%	0.3%	0.3%
NI Hub	0.4%	0.3%	0.3%
Indiana Hub	0.3%	0.3%	0.3%
ERCOT (Houston)	0.5%	0.4%	0.4%
ERCOT (South)	0.5%	0.4%	0.3%
ERCOT (North)	0.6%	0.4%	0.3%
ERCOT (West)	0.5%	0.3%	0.2%
NP-15	(0.0%)	0.1%	0.0%
SP-15	0.7%	0.7%	0.5%
Mid-C	0.8%	0.4%	0.4%
Palo Verde	3.8%	3.2%	1.9%
Nymex Gas ($/Mcf)	0.0%	0.0%	0.0%
CAPP Coal ($/ton)	0.0%	0.0%	0.0%
PRB Coal ($/ton)	0.0%	0.0%	0.0%

Source: Platts, Wolfe Research Utilities & Power Research

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Market Power Prices (12/31/22 vs. 03/31/23)

In Exhibits 10-12, we show market 7x24 power and commodity prices at December 31, 2022 and March 31, 2023. 2023-25 contracts were largely down across the board compared to marks at 12/31/22. Notable exceptions include certain contracts in ERCOT and out West that experienced single-digit to low-double-digit % increases in 2024-25. For 2023, PJM contracts were down 42-43%, ERCOT contracts were down 21-30%, and Midwest contracts were down ~37%, on average. For 2024, on average, PJM contracts were down ~20%, Midwest contracts were down ~17%, and ERCOT contracts were down ~6%. For 2025, PJM and Midwest contracts were down ~11% and ~7%, on average, respectively; contracts in ERCOT and out West were up 4-11% and 2-8%, respectively.

Exhibit 10: 12/31/22 Market 7x24

	2023	2024	2025
PJM West	$62.25	$58.49	$56.32
PJM East	$60.25	$56.49	$54.32
NEPOOL	$92.43	$88.90	$72.18
NY Zone A	$41.39	$38.94	$39.53
NY Zone G	$76.80	$75.61	$69.50
NY Zone J	$81.85	$79.59	$75.42
A/D Hub	$58.32	$54.19	$52.18
NI Hub	$50.32	$47.58	$45.26
Indiana Hub	$60.55	$58.12	$56.24
ERCOT (Houston)	$55.53	$51.82	$50.53
ERCOT (South)	$48.32	$43.84	$41.97
ERCOT (North)	$50.73	$46.40	$44.62
ERCOT (West)	$43.50	$39.04	$38.72
NP-15	$118.29	$86.95	$83.11
SP-15	$109.98	$81.26	$78.11
Mid-C	$119.48	$95.57	$91.63
Palo Verde	$124.06	$93.47	$88.45
Nymex Gas ($/Mcf)	$4.24	$4.26	$4.38
CAPP Coal ($/ton)	$205.55	$205.55	$205.55
PRB Coal ($/ton)	$15.55	$15.55	$15.55

Source: Wolfe Utilities & Power Research, Platts

Exhibit 11: 3/31/23 Market 7x24

	2023	2024	2025
PJM West	$36.27	$46.92	$50.41
PJM East	$34.27	$44.92	$48.41
NEPOOL	$47.46	$67.44	$62.30
NY Zone A	$28.41	$36.10	$37.59
NY Zone G	$41.54	$55.67	$59.13
NY Zone J	$43.78	$59.57	$64.76
A/D Hub	$36.40	$44.91	$48.03
NI Hub	$32.41	$40.08	$42.59
Indiana Hub	$38.07	$47.60	$51.70
ERCOT (Houston)	$39.88	$46.38	$50.45
ERCOT (South)	$34.54	$40.84	$44.44
ERCOT (North)	$35.47	$42.11	$46.26
ERCOT (West)	$34.21	$39.63	$43.12
NP-15	$100.36	$90.59	$89.60
SP-15	$98.38	$81.29	$80.40
Mid-C	$96.39	$93.62	$93.70
Palo Verde	$101.47	$92.95	$91.12
Nymex Gas ($/Mcf)	$2.74	$3.52	$4.14
CAPP Coal ($/ton)	$91.55	$91.55	$91.55
PRB Coal ($/ton)	$14.90	$14.90	$14.90

Source: Wolfe Utilities & Power Research, Platts

Exhibit 12: 12/31/22 vs. 3/31/23 Market 7x24

	2023	2024	2025
PJM West	(41.7%)	(19.8%)	(10.5%)
PJM East	(43.1%)	(20.5%)	(10.9%)
NEPOOL	(48.7%)	(24.1%)	(13.7%)
NY Zone A	(31.4%)	(7.3%)	(4.9%)
NY Zone G	(45.9%)	(26.4%)	(14.9%)
NY Zone J	(46.5%)	(25.2%)	(14.1%)
A/D Hub	(37.6%)	(17.1%)	(7.9%)
NI Hub	(35.6%)	(15.8%)	(5.9%)
Indiana Hub	(37.1%)	(18.1%)	(8.1%)
ERCOT (Houston)	(28.2%)	(10.5%)	(0.2%)
ERCOT (South)	(28.5%)	(6.8%)	5.9%
ERCOT (North)	(30.1%)	(9.2%)	3.7%
ERCOT (West)	(21.4%)	1.5%	11.4%
NP-15	(15.2%)	4.2%	7.8%
SP-15	(10.5%)	0.0%	2.9%
Mid-C	(19.3%)	(2.0%)	2.3%
Palo Verde	(18.2%)	(0.5%)	3.0%
Nymex Gas ($/Mcf)	(35.4%)	(17.3%)	(5.5%)
CAPP Coal ($/ton)	(55.5%)	(55.5%)	(55.5%)
PRB Coal ($/ton)	(4.2%)	(4.2%)	(4.2%)

Source: Wolfe Utilities & Power Research, Platts

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April 17, 2023

Earnings Call Calendar

Below, we have provided the 1st quarter 2023 earnings call calendar for companies in our coverage universe. Please note all times are in Eastern Daylight Time.

April 2023

Monday	Tuesday	Wednesday	Thursday	Friday
17	18	29	20	21
24	9am: NEE / NEP 25	10am: AGR 11am: ETR 26	8am: CNP, DTE 9am: AWK, CMS 10am: XEL 1pm: SO 27	10am: FE 11am: POR 28

May 2023

Monday	Tuesday	Wednesday	Thursday	Friday
2pm: WEC 1	11am: PEG 4:30pm: EIX 2	8:30am: FTS 10am: EXC 11am: NI 3	8am: CWEN 9am: AEP, ES, OGE 10am: CEG 11am: PCG, PPL (tent.) 12pm: PNW, SRE 4pm: ED (tent.)* 4	9am: EVRG 10am: AEE, AES, D, LNT 5
8	9am: VST 10am: DUK 9	10	11	8:30am: EMA 12

*No earnings call
**No call date has been set yet for NRG

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Highlights and Lowlights

AEE: Looking to carry the MO-mentum to IL

- We estimate 1Q23 EPS of $0.91, noticeably below consensus possibly on weather and timing of rate relief. We still expect AEE to affirm 2023 guidance of $4.25-4.45 vs consensus of $4.36 and our $4.37e.
- MO rate case: AEE reached a non-unanimous partial settlement for $140M (vs $223M revised request with $20M of the delta related to D&A). The three remaining disputed items are not expected to be material; the non-signatories do not oppose the settlement. A MoPSC decision is expected this spring, with new rates effective by July.
- MO renewables: MoPSC approved AEE's 150 MW Boomtown solar project, despite Staff's opposition. This is a good sign as AEE plans to invest $2.5B through 2027 on 1.6 GW of renewables (largely solar) projects in MO.
- IL rate cases: AEE is in its first 4-year electric rate case in IL; intervenor testimony is expected on 5/11, with a decision expected in Dec for rates effective Jan 2024. AEE also is in a gas rate case in IL, with intervenor testimony scheduled for 5/5. Although MO is AEE's largest state, these cases are important because collectively IL elec and gas distribution make up ~25% of AEE.
- Transmission: AEE includes $800M of MISO-awarded Tranche 1 transmission projects in its 2023-27 plan; the remaining $1B awarded to AEE will be in 2028-29. And AEE plans to bid for $700M in competitive MISO transmission projects in MO. Relatedly, the MO House has ROFR bill (HB 992) that passed out of committees but is currently not on the calendar for a vote. If it were to be enacted, AEE could have right-of-first-refusal on the $700M of competitive projects and any future competitive projects in its MO service territory. MISO's Tranche 2 projects are expected to be approved in 1H24; and early indications point to potentially double the $10B of Tranche 1 projects across MISO North (not just MO).

AEP: No deal

- We estimate 1Q23 EPS of $1.19, in line with consensus. We anticipate AEP will reaffirm 2023 guidance of $5.19-5.39, as weather and interest rates are mitigated by better rate relief and transmission earnings. Our 2023E is $5.29 is in line with consensus.
- KY Power: AEP reaffirmed its long-term EPS growth target of 6-7%, equity financing plans, and 14-15% FFO/D after it agreed to terminate the sale of KY Power to AQN yesterday. AEP's financing plan had $1.2B of KY Power proceeds but those will be replaced by its Contracted Renewables sale for $1.2B. AEP outlined a strategic focus on KY, including securitizing KY's coal assets, namely Big Sandy (~$300M of rate base as of YE22) and potentially other plants down the road. KY Power will file its mandatory rate case in June.
- Contracted Renewables sale; Retail strategic review: AEP announced a deal for its CR portfolio last Feb and is expected close sometime this quarter. AEP also will put its retail supply business up for sale, though that is anticipated to generate relatively modest proceeds.
- Regulated renewables: AEP has received settlements/approvals for about $5B of the $8.6B in its 2023-27 capital plan. Another $1.7B is awaiting approvals. In OK, the recent settlement on 996 MW of renewables included 27% and 42% minimum capacity factors for solar and wind in the first 5 years, as well as a $2.5B cost cap.

AES: Tough set-up into upcoming Analyst Day

- We see Q1 EPS at $0.20 – a big miss versus consensus and down from $0.21 last year. We see key drivers being better AES Next results (Fluence), but mostly offset by the absence of last year's favorability in Bulgaria/Vietnam and higher interest costs.
- We expect AES to reaffirm 2023 guidance of $1.65-1.75. The weak Q1 should be expected, as mgmt. communicated that 75% of 2023 EPS was expected to be realized in 2H23. This is in large part a function of the timing of renewables in-service dates (3.4 GWs), which drives $0.27 of EPS mostly from ITCs ($500M). Further, AES has conservatively assumed that another 600 MWs of renewables are delayed to 2024, but if those come in early, there is $0.10 upside in 2023.

- We expect the earnings call to be relatively brief (held on Friday), with the Analyst Day held the following Monday. We will get a small preview of AES' new reporting segments with Q1 results though. Execution on renewables PPA additions versus its ~5 GW per year target will also be of note.
- Other focus areas for the Q1 call include the recently filed rate settlement in Ohio and updates on asset sales in Jordan/Vietnam ($400-600M planned for 2023).
- The big focus at the Analyst Day will be how AES refreshes/extends its CAGR beyond 2025. We see headwinds from exiting coal and tax credit step-downs. This led us to Downgrade AES to Peer Perform – see more in our note (link).

AGR: NECEC and PNM still in limbo, but hopefully nearing clarity

- We estimate Q1 EPS of $0.72 – in-line with consensus, but down from $1.16 a year ago. Recall that last year included a $0.47 one-time offshore wind accounting gain. Otherwise, we see Q1 driven by rate relief in New York and 385 MWs of new renewables online; partially offset by higher interest costs. We've yet to see Q1 wind conditions, but last year saw a 31.5% capacity factor versus 32% normal. On the utilities side, AGR is basically fully-decoupled.
- <u>We expect AGR to reaffirm 2023 guidance of $2.20-2.35, which as a reminder assumes the PNM deal closes around mid-year (~$0.30).</u> This also bakes in an assumed offshore wind asset sale that is presumed to be Kitty Hawk in NC, but nothing has been officially announced yet.
- The two big strategic focus areas right now are the PNM merger and the NECEC transmission line. The PNM merger agreement was just extended by 3 months until July. AGR/PNM have filed with the NM PRC at the New Mexico Supreme Court, to have the case sent back to the commission, but no action has been taken yet. We ultimately expect approval, but it has been moving slow. On NECEC transmission, the case is currently in proceedings at the Maine lower court, where a jury is expected to make a decision imminently. Recent court outcomes have been constructive, but construction remains on hold for now. Similar to PNM, AGR assumes NECEC is completed in its plan.
- On the regulatory side, AGR remains in pending rate cases across NY/ME/CT. In New York, settlement discussions continue to result in delayed hearings – this is the most important (50%+ of rate base). Maine is in settlement discussions as well, whereas in CT we were disappointed by the recent rate outcome for in-state water utility Aquarion.
- On the renewables front, we're waiting to see when Commonwealth Wind bids back into the next offshore wind RFP in MA, after cancelling its prior PPA. AGR also recently announced its first new onshore renewables PPA in 1.5 years – a solar project in ERCOT.

AWK: First look at the impact of EPA's proposed PFAS regulation

- We forecast 1Q23 EPS of $0.96, which is slightly above consensus at $0.94. We see YoY results in Q1 up $0.09, driven by traditional rate relief/rider mechanisms, reversal of a $0.02 loss from NY subsidiary's sale in 1Q22, and a modest pick-up at MSG. Partial offsets include inflationary pressures/O&M costs, higher D&A, interest expense, property taxes, the reversal of a $0.04 benefit from HOS sale post-close adjustments in 1Q22, and share dilution from issuing ~$1.7B of block equity in early March.
- <u>We anticipate that AWK will reaffirm its 2023 guidance of $4.72-4.82</u>. Our 2023E of $4.78 is a penny above consensus at $4.77 and the midpoint of AWK's 2023 guidance.
- We believe that AWK could provide a preliminary range of capex/opex impacts from EPA's proposed regulation that calls for a MCL of 4 ppt each for PFOS/PFOA and 4 additional PFAS to have a combined hazard index limit of 1.0. We think this rulemaking presents a rate base upside opportunity and could potentially accelerate municipal tuck-in acquisitions, but remain concerned about affordability – any federal funding that AWK can secure would help mitigate customer bill impact. EPA's proposal is currently undergoing a 60-day comment period, with the agency aiming to finalize the regulation by the end of 2023; these limits would supersede state limits with less stringent thresholds (mid-teens ppt range in PA/NJ) once finalized and require compliance within 3 years of the adoption date.
- As it relates to pending rate cases, in early March, AWK reached a black box settlement in MO (~13% of rate base) stipulating a ~$95M revenue increase, with an order expected by Q2-end; the ALJ recommendation deadline in CA's (<5% of rate base) CoC proceeding was extended to August, while it

is still early in the GRC. AWK recently filed a rate case in IN (~8% of rate base), and we will be watching for mgmt.'s commentary on plans to file in any other jurisdictions this year.

CEG: Weak Q1 but hedges, PTC value mitigate impact of power/gas prices on margins

- We estimate 1Q23 EBITDA of $749M, below consensus of $846M on timing of CMC implementation last June. The CMC pricing of $30.30 became effective for Braidwood, Byron and Dresden (6,578 MW) beginning 6/1/22. CEG/ExGen had announced the early retirement of Byron and Dresden – leaving them unhedged in 1Q22 when market pricing was in the low to mid 40s. Braidwood also in 1Q22 was likely realizing pricing above $30.30. On a yoy basis, that's a material headwind in 1Q23 when prices were $30.30. By 6/1, the yoy delta should be immaterial for Byron/Dresden/Braidwood. We believe CEG will affirm FY23 EBITDA of $2.9-3.3B guidance using 1Q23 marks given it is mostly hedged. Our $3.00B is in line with consensus of $3.04B.
- PTC value: For 2024, CEG will not give EBITDA guidance but will update gross margins and hedges in 2024, as of 3/31/23. This includes an estimate of nuclear PTC value in 2024, which CEG saw as zero using YE22 marks. CEG is assuming the spot market as opposed to hedge prices, despite the IRS guidelines on nuclear PTCs yet to be issued. This is a conservative assumption, given avg hedge prices are below market. We estimate nearly $75M of PTC value (all from CEG's LaSalle nuclear in IL), using 3/31/23 pricing for 2024 forwards. We also anticipate CEG will again point to the PTC framework under inflationary environments, which we view as organic growth from PTCs; see our note.
- Plans for 2023-24 unallocated cash: CEG has a $1B buyback program for 2023, but it has ~$2B of unallocated cash for 2023-24. We think CEG will likely get questions on plans for that cash. Given the stock price, we believe CEG will add raise its buybacks at some point this year, given an increase in other growth opportunities, such as hydrogen and uprates, would be post 2024.
- M&A: The 1Q23 call will be CEG's first earnings call since the VST-Energy Harbor deal. We anticipate investor questions on CEG's strategic outlook, including M&A.
- New deck/EBITDA changes: Under our new commodity deck, our 2023 EBITDA remains ~$3.0B (guidance $2.9-3.3B) but our 2024 EBITDA declines to $3.4B from $3.5B and 2025 is unchanged $3.7B.
- Gross margins: Below we show our estimates of CEG 2023-24 margins as of 3/31/23 vs those using 12/31/22 pricing. CEG is almost entirely hedged in 2023. For 2024, when CEG is ~30% open (ex CMCs), prices fell ~20% in NiHub/PJM 3/31 from 12/31. The nuke PTC mitigates the GM decline in 2024.

Wolfe Projected CEG Total and Open Gross Margin		
	2023	2024
3/31/2023		
Total Gross Margin ex Nuke PTC	8,250	8,650
Open GM + Cntrd Rev ex Nuke PTC	7,250	8,100
Nuke PTC value, rounded to nearest 25		75
12/31/2022		
Total Gross Margin ex Nuke PTC	8,350	8,950
Open GM + Cntrd Rev ex Nuke PTC	9,800	9,150
Nuke PTC value, rounded to nearest 25		-

CMS: Big miss on weather/storms, but everything else intact

- We forecast Q1 EPS of $0.64 – well-below current consensus, which we expect to continue to fall. We see Q1 driven almost entirely by record mild weather plus some storms (and the absence of a one-time tax benefit); only partially offset by rate relief.

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- Importantly, we expect CMS to reaffirm 2023 guidance of $3.06-3.12. The company has historically demonstrated that it has enough levers in its O&M mgmt. arsenal to offset weather headwinds. We already expected the year to be relatively second-half weighted, as there are several 4Q22 headwinds that don't repeat (refunds/credits, etc.). We also expect CMS to reaffirm its 6-8% EPS CAGR long-term.
- CMS had a highly successful year on the regulatory front in 2022 – going 3 for 3 on settlements. It is now back in for a gas rate case currently, with another electric filing coming soon. The Michigan regulatory environment remains in focus in the wake of DTE's disappointing electric order last year. Good regulatory outcomes for both companies will be important to calm any concerns.
- Beyond simply the earnings impact of the storms, we expect CMS to speak to a plan to avoid future widespread outages. Similar to DTE, we believe there is going to be an increasing focus on undergrounding.

CNP: TX legislations progressing; busy regulatory calendar; levers in plan to execute on 2023

- We project 1Q23 EPS of $0.47, which is modestly below consensus at $0.49. We see YoY results in Q1 approximately flat, driven by milder weather vs. 1Q22, higher interest expense, and earnings lost from the close of the AR/OK gas LDCs sale. Partial offsets include rate relief and O&M savings.
- We expect CNP to reaffirm its 2023 guidance of $1.48-1.50, as we think CNP has enough levers in its plan to offset Q1's weather headwind over the course of the year. Our 2023E of $1.49 matches consensus and the midpoint of CNP's 2023 guidance. We don't anticipate that CNP will make any material updates to its capital plan.
- We continue to closely monitor TX's 2023 legislative session, as 3 impactful bills are being pursued. 1) the ability to file two distribution cost recovery factor (DCRF) applications each year similar to TCOS (SB 1015/HB 3043); and 2) including incentive compensation within rates for electric utilities (SB 1016) have passed in the Senate and are currently in committee in the House. Given broad support in the state, we think these bills are likely to pass and would help reduce regulatory lag at CEHE. 3) setting equity ratios based on actual levels (HB 3042) is currently in committee in the House, but still in early stages.
- CNP has a busy regulatory calendar, with a TX Gas rate case filing expected in July, followed by CEHE/MN Gas in November-December, and IN Electric in December; CEHE will be the overwhelming focus. The final order in in-state peer Oncor's recent rate case was reasonable overall and better than the ALJ recommendation, with the PUCT stipulating a 9.7% ROE and 42.5% equity ratio. CNP's outlook assumes CEHE's currently allowed 9.4% ROE and 42.5% equity ratio, so this outcome suggests potential for ROE upside. On the Q4/YE22 call, mgmt. also noted that it doesn't anticipate seeking a substantial rate increase; significant O&M reductions vs. 2019 levels would offset any other items that CNP will attempt to pursue, for example, a higher ROE or a richer equity layer.
- Other regulatory items we are watching include: (i) CEHE's DCRF filing requesting an ~$84.6M incremental increase effective 9/1 (~$162.5M total revenue requirement); (ii) CEHE's TEEEF Rider filing for mobile generation investments seeking ~$187.9M of revenues for 9/1/23-8/31/24; and (iii) CEHE's 1st TCOS filing for 2023 asking for a ~$39.5M rate hike.

CWEN: California rainfall may have been a Q1 headwind; Straight-forward story on track

- **Q1 weather issues may continue.** Our 1Q23 EBITDA and CAFD estimates are $245M and $15M, respectively, with the latter being in the lower part of CWEN's quarterly guidance range. Heavy rainfall in California during Q1 likely reduced output relative to normal. This is unfortunate after the company had below average wind performance in each of Q3 and Q4.
- **Key topics – Growth updates, gas plant outlook for the summer.** It's possible there are updates on the remaining $182M of drop-downs offered from the sponsor that CWEN had not yet formally committed to, as well as on a repowering of the Cedro Hill wind asset. There shouldn't be much new on the financing front with the thermal sale proceeds still funding near-term growth. Lastly, we expect questions on the outlook for the California gas plants as we enter the key summer period and the assets now have exposure to the energy market.

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D: VA update on call but full business plan at Investor Day in Q3

- We estimate 1Q23 EPS of $0.97, below consensus and at the low end of D's 1Q23 guidance of $0.97-1.12. We expect D to continue giving only quarterly guidance until its Investor Day in 3Q23. D plans to give a full business update at that time.
- VA legislation: The key update on the Q1 call is expected to be the VA regulatory reform bill, which includes a $350M revenue reduction, fuel securitization, a biennial this year with a 9.7% ROE, and another biennial in 2025 but with the ROE at SCC's discretion; see our note. D will also likely address the offshore wind (see below).
- Offshore wind: The VA legislature also passed an offshore wind bill that allows D to sell a noncontrolling interest in its VA offshore wind project. D is expected to describe the minority sale process but is unlikely to announce a buyer.

DTE: Managing through big miss on weather/storms, but regulatory more important

- We forecast Q1 EPS of $1.26 – well-below current consensus, which we expect to continue to fall. We expect Q1 to be driven by dramatic weather/storm headwinds. There is also a big timing element to the Trading business this year – a big headwind in Q1, that turns into a tailwind later in the year.
- We expect DTE to reaffirm 2023 guidance at $6.09-6.40 with a focus on the midpoint, just as they did earlier this month. The company has shifted to lean operations, consumed contingency on the electric business, but still sees enough levers to remain on track for the year and long-term. We hosted DTE mgmt. for meetings last month – see more in our note (link).
- We expect a lot of focus on DTE's storm response given the widespread outages in its service territory this year. When we hosted mgmt. they viewed both automation and undergrounding as key aspects to its future grid investments.
- Aside from all this, we see DTE's regulatory execution as most important for the stock after its disappointing electric rate order last year. We viewed Staff testimony in the Integrated Resource Plan as a reasonable starting point, with DTE hopefully looking to settle before the ALJ recommendation in July. The electric rate case won't see Staff/intervenor testimony until June, with the window to settle likely in the Fall.

DUK: Update on Comm Renewables sale, key NC rate cases

- We estimate 1Q23 EPS of $1.26, modestly below consensus. We see weather and the delayed CR sale pressuring DUK's 2023 guidance of $5.55-5.75 but anticipate it will be affirmed for now; our estimate is $5.62 vs consensus of $5.63. We think DUK will affirm its 5-7% EPS growth target.
- CR sale: A key update will be on DUK's CR sale, with a buyer/price expected to be announced soon to meet its previously-delayed close timing of 2H23. On the last call, DUK suggested CR's book equity value is ~$1.5B. Proceeds are expected to reduce debt and avert equity needs through 2027, both of which are reflected in DUK's EPS growth outlook.
- NC rate cases: Another key update is on the NC rate cases – the first under a 2021 utility law that introduced multiyear plans and ROE bands. Intervenor testimony in the DEP case last month was not surprising, with NCUC Staff recommending a 9.25% ROE vs DUK's 10.2% (subsequently raised to 10.4%). We will be looking for any potential settlements on some issues ahead of hearings that start on 5/1.
- Interest rates and O&M: DUK pointed to interest rates and inflation when it upsized O&M cuts to $300M last fall. The $1.725B convertible note earlier this month at 4.125% locks in some below market interest rates; sensitivity is 100bp = $0.10 in 2023. But we will be watching for an update on the O&M reduction program given weather and potentially a delay in CR close beyond 2023.

ED: Wait…Con Ed isn't fully decoupled? CECONY Steam could pressure 2023 guidance

- We estimate 1Q23 EPS of $1.50, which is below consensus at $1.63. We see YoY results in Q1 to be up $0.03, driven by rate relief, higher AFUDC, and lower share count due to an 8.7M accelerated share repurchase in early March. Partial offsets include a large negative weather impact at CECONY Steam, higher property taxes, D&A, O&M, interest expense, and loss of earnings post CEBs' sale close.

- Our sense is that ED's 2023 guidance issued in mid-February baked in weather observed in the 1st half of Q1 and forecasted for the 2nd half of Q1. Thus, we believe that ED will reaffirm its 2023 guidance of $4.75-4.95, but could be tracking towards the lower half of its range if the impact of mild weather on CECONY's Steam business was more severe than anticipated. Our 2023E of $4.85 is a penny below consensus at $4.86 and at the midpoint of ED's 2023 guidance.
- Evidentiary hearings in CECONY's electric/gas rate cases are scheduled to commence on 4/18, suggesting that the NY PSC could vote on the joint proposal in May-June. At our recently held NDR, mgmt. seemed confident that the settlement agreement would be approved without major amendments. ED will also file rebuttal testimony in CECONY Steam's rate case on 4/21 after Staff recommended a ~$94M rate increase (vs. ED's ~$140M ask) and 9% ROE, but denial of ED's proposed decoupling mechanism. Securing decoupling is key in CECONY Steam's rate case, as declining sales due to energy efficiency and mild weather have led to realized ROEs in the mid-4% range in recent years.
- We will also be watching for any updates on the $0.8-1B Brooklyn Clean Energy Hub proposal, for which ED requested cost recovery approval from the NY PSC by 3/16. In addition, ED is proposing the $1.1B Eastern Queens/Idlewild Energy Solution separately from CECONY electric's joint proposal. ED's current capital investment forecast includes ~$320M/~$390M/~$550M of capex for these two projects over 2023-25. In conjunction with NYPA, NY Transco has been shortlisted as one of the bidders for its Propel NY proposal, which, if selected, would represent a capital upside opportunity at CET.

EIX: Trying to sustain its upswing

- We estimate 1Q23 EPS of $1.08, above consensus. We expect EIX to affirm 2023 guidance of $4.25-4.85. Our $4.70 is slightly below consensus of $4.74.
- The stock is the best performing utility YTD. This month, EIX held mgmt. meetings to showcase wildfire risk mitigation and LT growth drivers as wildfire capex abates; see note. The wet winter is expected to be delay fire season but result in more vegetation growth.
- Wildfire costs, recovery filing: EIX updates its 2017-18 wildfire damages estimate every quarter; it stood at $8.8B, as of YE22. EIX plans to seek recovery in 3Q23 of ~$2B of the net $6B in damages (after insurance, FERC recoveries). The remaining $4B is expected in a later filing. No recovery is assumed in EIX's outlook or our estimates.
- Interest rates/CCM: EIX has interest rate risk on wildfire debt and at the holdco, but the utility issuance earlier this year was in line with EIX's assumption. We view interest rate risk as partially hedged, given the Cost of Capital Mechanism could lead to at least $0.28 of upside in 2024 if rates avg 5% or higher now through 9/30/23.
- Equity and B/S: With a $500M Jr Sub issuance (8.125%) last month, which gets treated as 50% equity by S&P, EIX satisfied most of its planned $300-400M equity or equity-like content this year, leaving only about $50-150M to be satisfied through DRIP and ATM. EIX has Baa2/BBB credit ratings; it targets 15-17% FFO/Debt.

EMA: LIL close to commissioning; TECO fuel/storm recoveries begin; watching PGS rate case

- We forecast 1Q23 EPS of C$0.95, which is modestly below consensus at C$0.98. We see YoY results in Q1 up C$0.03, driven by rate relief at TECO/NSPI/NMGC, favorable FX rate (1.35 vs. 1.27), reversal of loss/gain on L-T compensation hedges in 1Q22/1Q23, and customer growth at PGS. Partial offsets include milder weather vs. 1Q22 at TECO/NSPI, share dilution, higher corporate interest expense, and slightly lower earnings from Emera Energy (consistent volatility, but lower pricing vs. 1Q22).
- EMA does not provide annual EPS guidance. Our current 2023E of C$3.13 is below consensus at C$3.22. We don't expect any major updates to EMA's capital or financing plan.
- Last week, the Labrador Island Link (LIL) passed final testing and is on-track for commissioning, pending paperwork. Commissioning is critical since it would convert LIL's AFUDC earnings to cash, thereby helping EMA to improve its balance sheet – EMA expects LIL commissioning to add C$80M of operating cash flow in its bridge to ~11.6% normalized FFO/Debt in 2023 from ~11% in 2022; EMA would receive a 6-month true-up of LIL dividends within 6 months of commissioning.
- In March, the FL PSC approved TECO's fuel/storm costs filings per which, starting 4/1/23, TECO began recouping the 2022 fuel under-recovery of $518M over a 21-month period and the $131M storm reserve

regulatory asset/replenishment over a 12-month period. These recoveries will be used to reduce EMA's S-T debt balance, which was elevated at YE22 to fund TECO's fuel/storm costs. Given the collapse in near-term natural gas prices, TECO is also likely to over-recover fuel costs in 2023, i.e., recoup a portion of its 2024 balance, which could result in a faster improvement in credit metrics.

- We will be watching PGS' recently filed rate case, which seeks a $127.6M base rate increase (net of riders), effective 1/1/24, premised on an 11% ROE and 54.68% equity ratio. PGS cited customer growth (4.5% CAGR over 2018-22) and higher depreciation expense due to rate base growth (5-year rate base CAGR of 18%) as drivers and expects to earn below its 8.9-11.0% ROE range in 2023. New base rates at PGS will likely be the most meaningful cash flow driver in 2024 given that the step increases at NSPI and TECO are already baked in. A procedural schedule hasn't been issued yet, but activity is expected to pick-up in late-summer, with a decision anticipated in Q4.

ES: Offshore wind sale key focus

- We estimate 1Q23 EPS of $1.30, below consensus possibly on higher interest costs, D&A and pension; weather is not a factor as ES is almost entirely decoupled. We expect ES to affirm 2023 guidance of $4.25-4.43 vs our $4.34 and consensus of $4.37.
- Offshore wind sale: 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 on the lease sale will come around the time of ES' call on 5/4. Ørsted's 1Q23 call is on 5/3. We think the sale of the projects – which are low return contracted projects – will be later this quarter, or potentially early next. We think ES will likely get around its offshore wind investment.
- Interest rates: ES' upper half of 5-7% EPS growth target assumed interest rates that were above the prevailing rates in early Feb. Rates are mostly back to those levels after a rollercoaster 2 months. We don't anticipate any changes to ES' growth rate.
- 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 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. CT lawmakers have been reviewing SB 7 – a bill backed by PURA Chair that makes settlements no more than 3 years, raises the threshold for settlements, disallows appeal costs, and the like. But whether it passes remains to be seen. Every Jun, the CT Gov can designate a new PURA chair of the three existing commissioners if he would like. The current chair's term expires next year.
- Aquarion order: ES is appealing the rate cut and 8.7% ROE for its small Aquarion water utility in CT. Although the decrease is immaterial, the order is a bad datapoint on CT regulation for utility investors.

ETR: Quieter quarter than last but watching SERI, storms

- We estimate 1Q23 EPS of $1.39, below consensus, potentially on weather. We expect ETR to affirm 2023 guidance of $6.55-6.85; our estimate is $6.73 vs consensus of $6.72. ETR sees 3% industrial sales growth (1% total sales), and we'll be watching for updates on ETR's commodity-exposed industrial customers.
- ETR's last call centered around LaPSC regulatory relations, storm cost securitization, and FERC's SERI order.
- Reg relations: While storm cost securitization was resolved in Jan (note), the tone of the LaPSC was concerning for investors. ETR said it would address its strategy to improve regulatory relations, particularly ahead of the next storm season this summer. We anticipate an update on any progress made.
- SERI: A 12/23/22 FERC order appeared to resolve two of the more meaningful matters related to lawsuits against ETR's SERI, which owns Grand Gulf nuclear plant. ETR reaffirmed its LT EPS outlook on multiple occasions, but the retail regulators – AR PSC, LaPSC and NOLA CC – claimed another $510M of incremental refunds to their customers related to uncertain tax positions. Appeals are pending while they await FERC clarification. There are other SERI-related proceedings (GG prudency, omnibus dockets). ETR says the claims total over SERI's equity value. As of YE22, SERI's net PP&E was $2B and its rate base $1.7B.

WOLFE RESEARCH

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- Resiliency: ETR filed for approvals of the first phases of its resiliency plan with NOLA CC and the LaPSC. Note ETR has only $900M of the $2.6B of resiliency costs through 2025 in its 2023-25 capital plan.

EVRG: Another regulatory let down in MO, time to turn tide with KS case

- We forecast Q1 EPS of $0.58 – in-line with consensus and similar to $0.56 a year ago (restated by -$0.02 for Sibley/transmission). We see Q1 driven by sales growth, O&M savings, and transmission formula rates; mostly offset by mild weather, depreciation, and interest.
- We expect 2023 guidance of $3.55-3.75 to be reaffirmed. This is despite the mild weather (summer more important) and disappointing Persimmon Creek outcome worth $0.05 (more on that below).
- The Persimmon Creek outcome was clearly disappointing given the Missouri PSC's unworkable conditions and the fact that in-state peer AEE saw its renewables project approved just a week later. We expect EVRG to lay out its plan for Persimmon Creek – whether it be re-filing in Missouri or attempting to rate-base it in Kansas.
- The big focus will be the Kansas rate case, which will be filed before the earnings call. We believe EVRG can lay out an encouraging story with its rate CAGR (~2%) below peers/inflation. Achieving a constructive outcome later in the year is critical. Particularly, after EVRG agreed to support a bill in Kansas that lowered its FERC transmission ROE by 100bps to 9.30%, as a sign of good faith to the KCC and other intervenors.
- We'll have to wait until mid-June for EVRG's latest Integrated Resource Plan filing, though this should lay out meaningful fleet transition changes post-IRA, and incorporating SPP reserve margin changes and new customer load (ie: Panasonic in KS).

EXC: IL rate cases main focus

- We estimate 1Q23 EPS of $0.67, in line with consensus. We expect EXC to affirm 2023 guidance of $2.30-2.42. Our 2023E of $2.37 is in line $2.36 consensus.
- IL rate case: EXC is in its first rate case under the 4-year rate plan framework. It is still a little early, but intervenor testimony is due 5/18. We think ROE will be a key item, as equity ratio is less contentious since the framework deems 50% reasonable. ComEd requested ~10.5% ROEs, rising 5bp annually. 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. The IL Commerce Commission will have a new chair (former Chair Scott) and two new commissioners by June.
- 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 $425M previously identified and expected to be issued anytime in 2023-25.

FE: Watching coal while waiting on new CEO

- We project Q1 EPS of $0.61 – in-line with consensus, last year, and $0.56-0.66 guidance. We see Q1 driven by a step-down in Ohio rate credits, distribution/transmission rider recovery, and Signal Peak coal earnings; offset mostly by much lower pension earnings.
  - To a put a finer point on the non-utility earnings – FE sees $0.03 of pension EPS in the 2023 guide, down from $0.41 a year ago. For Signal Peak, FE printed ~$0.24 a year ago and our understanding is this was expected to step-up to ~$0.35 this year.
- We expect FE to reaffirm 2023 EPS guidance of $2.44-2.64. Our sense is the coal mining performance may have come in a bit, but 2023 is still on track, as is the long-term 6-8% EPS CAGR.
- The big news since the last call was the announcement of Brian Tierney as new CEO. We liked the hire (former AEP CFO with Ohio familiarity, Blackstone involvement in FE) and believe Tierney will help FE's existing plan. His start date isn't until June though, so we'll have to wait to hear from him. We also wonder if Moody's looks to move FE back to an IG-rating now that it has named a new CEO and reaffirmed its plan.

- This year begins a stretch of rate case filings across FE's jurisdictions. Thus far, its smaller subsidiaries in NJ/MD have filed, with WV still to come. Next year, we expect the more important PA/OH filings. FE also recently filed its first ESP in Ohio in 8 years. So we expect a lot of discussion on this front in the coming months, where reaching constructive outcomes will be key.

FTS: Attention on Arizona case

- We project Q1 EPS of $0.82 – in-line with consensus. We see the quarter driven by ITC rate base growth, absence of a Central Hudson one-time cost, and favorable FX; offset partially by higher interest costs. Mild Arizona weather is only a modest headwind, as it is a shoulder quarter for TEP's electric operations. Nearly all of FTS' other utilities are decoupled.
- As a reminder, FTS doesn't give annual guidance. We forecast 2023E of $2.96 versus $2.98 consensus. Continued favorable USD/CAD FX movements could be a tailwind as the year carries on. They assumed $1.30 in their outlook versus the $1.34 current rate. Every $0.01 move is $0.01 of EPS.
- Focus remains on the Arizona rate case. Hearings have commenced and TEP was unable to achieve a settlement, despite previously indicating it aspired to. That said, we still found the ACC Staff recommendation to be a reasonable starting point with an allowed ROE (9.50%) above TEP's current 9.15% (plus being on board with the higher 54% equity ratio). The lack of a settlement may have just come down to there being too many parties to reach consensus with. There's also still a TBD on how TEP will recover its future renewables investments – the rider it proposed received pushback, but ACC Staff seemed amendable to a mechanism similar to what the state's water utilities use. We expect an ALJ recommendation in the case in Q2 and new rates have been requested for September.

LNT: Focus on WI rate case & IA solar/storage; guide likely intact despite unfavorable weather

- We project 1Q23 EPS of $0.69, which is below consensus at $0.79. We see YoY results in Q1 down $0.08, driven by milder weather vs. 1Q22 as well as higher interest expense, D&A, and O&M. Partial offsets include earnings from WPL capital investments/higher rate base, amortization of the regulated liability related to West Riverside liquidated damages, and Edgewater 5 deferral mechanism.
- Our expectation is that LNT will reaffirm its 2023 guidance of $2.82-2.96. LNT's gas LDC business constitutes ~11% of its rate base, so Q1's weather headwind will likely be less impactful than those for its Midwest peers; above normal CDDs in Q2-Q3 could also act as an offset since LNT is a summer-peaking utility. That said, we note that the O&M savings embedded in LNT's 2023 guidance are more weighted towards 2H23. Our 2023E of $2.89 is a penny below consensus at $2.90 and at the midpoint of LNT's 2023 guidance. We don't anticipate any material updates to LNT's capital or financing plan.
- Our focus on the call will be LNT's biennial WI rate case, which it intends to file in early-May to request recovery for rate base additions from ~1.1 GW of solar; WPL expects single-digit % increases for 2024-25, including associated fuel cost reductions/tax benefits. On the Q4/YE22 call, mgmt. noted that it sees the opportunity for a potential settlement later in the process, but also sees LNT as well-positioned to navigate the entire process. This rate case will be closely watched given that WEC's recent one resulted in a constructive outcome, but came with a lot of noise.
- We are closely monitoring the advanced ratemaking proceeding in IA, where the IUB recently lifted the stay on the reconsideration of the 200 MW Duane Arnold solar (BOT) and the Polk County District Court ruled that judicial review of the remaining 200/75 MW solar/battery storage projects shall proceed. A court hearing scheduled in July suggests that it's possible for this proceeding to be completed by the Q3-end, which would allow LNT to place IA solar projects in-service by the end of 2024. Mgmt. has expressed conviction in the midpoint of LNT's 5-7% EPS growth target even if these projects were to be recovered through a traditional rate case without a premium ROE and stated that there are other potential avenues for capacity resources as substitute capex.
- Two other items we are watching in WI include: (i) LNT's recent proposal to recoup 2022's under-recovered fuel costs of ~$137M over a multi-year period to manage customer bill impact. The PSCW will validate the prudency of this deferral in the fuel reconciliation proceeding and determine the period for recovery, which could begin later this year. (ii) LNT's solar project update filing informing the PSCW that costs for CA 1/CA 2 will be ~10%/~14% higher than originally estimated, with LNT still intending to place 600 MW of solar in service in 2023 and bring another 250 MW online in 1Q24.

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NEE/NEP: Solar CRA and NEP in focus

- We estimate Q1 NEE earnings of $0.79 – ahead of consensus that looks stale. We see 9% rate base growth at FPL. Typically NEE uses some reserve amortization in Q1 ($124M 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 well-above normal last year (107%). Interest costs and equity dilution from the unit conversions will also be a headwind.
- We expect NEE to continue 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.
- This will be the first call since year-end, where the stock sank on the unexpected abrupt retirement of FPL CEO Eric Silagy, despite its internal investigation finding nothing illegal on NEE's Florida political dealings. There's been no incremental shoes to drop since then and we think further distance between it is a good thing. The only lingering item is the FEC complaint, which could take over a year, though the financial ramifications with an adverse outcome are small. NEE is also still waiting for Florida Supreme Court action on the challenge to its 2021 rate order – it could be months before anything is decided, but even in the event of a remand to the FL PSC, we see it largely being procedural/technical with no fundamental changes to the terms.
- On the renewables front, we expect an increasing focus on the Congressional Review Act (CRA) aimed at undoing President Biden's two-year pause on China-related solar tariffs. NEE has been focused on re-domesticating its supply chain and moving off China reliance, but we are still only one year into the tariff pause. While Biden seems likely to veto the CRA, it is tricky politically given China's involvement, and if the tariff pause ends, it could re-stress the supply chain. We expect larger players like NEE to be best-positioned, but another potential hurdle nonetheless. FPL also recently filed its 10-year site plan, where we expect discussion around the doubling of its solar expectations.
- As always, NEER's backlog additions will be in focus. Last quarter saw 1.7 GWs added, which matches the typical 1.5-2.0 GWs run-rate. However, we see the potential for a step-up in 2023 as some of last year's supply chain headwinds (UFLPA, etc.) start to alleviate, the aforementioned solar CRA notwithstanding.
- At NEP we estimate Q1 EBITDA of $436M – below consensus, but above $415M last year. This is being driven by a multitude of dropdowns that closed last year, somewhat offset by last year's above-normal wind conditions (108%). As it did several weeks ago, we expect NEP to reaffirm its 2023 year-end run-rate guidance of $2,200-2,420M.
- NEP's stock has come under a lot of pressure and focus amidst some of its equity converts coming due this year. We wrote an in-depth note addressing this (link), with the bottom line being that we see NEP with ample liquidity and levers to address the converts, and more importantly that NEE will take steps to help as well (better financing, better drops, lower IDRs, etc.).
- NEP announced earlier this month that it used its ATM to already buyout 25% of its STX Midstream CEPF for $200M. The remainder ($600M) is due by mid-December before cash flows flip, with the Renewables II CEPF initial buyout (~$350M total) also due around that time.

NI: A great time to report weather-normalized earnings; new CFO's first call

- We estimate 1Q23 EPS of $0.76, which is below consensus at $0.82. We see YoY results in Q1 up $0.01, driven by rate relief/capital rider investments. Partial offsets include higher interest expense and D&A, lower other income, and share dilution.
- We expect NI to reaffirm its 2023 guidance of $1.54-1.60, which was raised at Q4/YE22 from $1.50-1.57. Recall, NI reports earnings on a weather-adjusted basis. Our 2023E of $1.58 is modestly above consensus at $1.55 and a penny above the midpoint of NI's 2023 guidance.
- We will be curious to get any color on the progress made in NIPSCO's minority sale process, which was officially launched in Q1. On the Q4/YE22 call, mgmt. noted a broad level of interest thus far; it's possible there could be an announcement around mid-year and NI expects to close the transaction by YE23. We currently assume that 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.

- Around mid-March, NIPSCO filed a constructive settlement in its electric rate case stipulating a ~$291.8M rate increase (~74% of initial ask) premised on a 9.80% ROE and 51.63% equity ratio; the rate base agreed to reflects NIPSCO's first 4 renewables build-own-transfer (BOT) JV projects and addresses any changes in costs due to supply chain issues. Hearings are scheduled to commence on 4/26 and a final order from the IURC is anticipated by 8/23, with new rates expected to be effective 9/1. NI could also file a gas rate case in MD in May (~1% of rate base, typically files annually in the state).
- Q1 will be Shawn Anderson's first earnings call as new CFO. Shawn has been presenting to investors for several years and we think he will do a good job at communicating NI's story.

NRG: Updating for Vivint acquisition could be noisy; Thoughts on Texas legislation / market reform

- **Forecast Q1 close to consensus.** We forecast 1Q23 EBITDA of $610M, which is close to consensus and up from $509M in the year ago period. Key drivers are a one-month contribution from Vivint, synergies from Direct Energy, and the absence of coal supply chain issues. This is partially offset by the impact of last year's plant shutdowns in PJM. Our understanding is ERCOT coal plant outages should be a wash – Limestone was back in 1Q23 (vs. being out in 1Q22), but the Parish unit remains offline and material insurance proceeds may not be received until later such that Parish was a negative.
- **Updating numbers for Vivint close; Could be accounting nuances for EBITDA.** We think this could be a big focus for the call as presumably NRG will update 2023 guidance for almost 10 months of ownership of Vivint. There are differences in accounting between the two companies that may need to be addressed. For example, Vivint historically capitalized the majority of costs of installing a security system (i.e., a lot of the costs did not count against EBITDA). The company also capitalized commission costs, whereas NRG did not, and didn't count stock compensation against EBITDA. It's unclear which accounting practices NRG will use going forward, but we assume they will want to be consistent across the two companies and we're not sure how this may impact NRG's headline EBITDA post the acquisition. That said, we think the overall business plan remains on track (a relief given recent quarters) with retail margins supported by the fall in power prices which should provide cushion for other things like mild winter weather.
- **Texas market reforms, legislation, and asset sale plans.** We expect SB 6 in the Texas legislature and the PUCT approved PCM mechanism to come up on the call. SB 6 would subsidize the construction of up to 10 GW of backup generation, while the PCM would provide an incremental revenue stream to incentivize reliability from existing generators during periods of scarcity. The Governor supports the PCM, whereas the Senate recently approved SB 6. On asset sales, recall NRG has a $500M placeholder for sales this year. We aren't necessarily expecting an update this quarter as it's an ongoing process. We think sales will be focused on legacy sites with interconnection rights and/or strong real estate value.
- **No estimate changes pending clarity on accounting treatment.** We are maintaining our forward estimates pending further clarity on how NRG will address the disparate policies for defining EBITDA between the company and Vivint. That said, we think the recent collapse in gas and power prices should be helpful on the margin to 2023 results.

OGE: Looking for an update on pending RFPs

- We forecast 1Q23 EPS of $0.13, which is below consensus at $0.38 that appears to be stale. We see YoY results in Q1 down $0.11, driven by the reversal of a $0.06 tax benefit in 1Q22 and milder weather as well as higher D&A, O&M, and interest expense. Partial offsets include rate relief from the OK rate case, Grid Enhancement Mechanism, AR's FRP & WACC return on Winter Storm Uri costs, load growth, and higher AFUDC.
- We believe that OGE will reaffirm its consolidated 2023 guidance of $1.93-2.07 despite the modest weather headwind since Q1 constitutes only ~10% of utility earnings. Our 2023E of $2.00 is a penny below consensus at $2.01 and at the midpoint of OGE's consolidated 2023 guidance. We don't anticipate material changes to OGE's capital or financing plan.
- We will be curious to get an update from mgmt. on the solar, flexible, and existing resource RFPs as OGE continues to negotiate with bidders. OGE intends to file for approval of capacity resources by the

end of 1H23, which will likely address a portion of its ~1.3-1.4 GW of generation needs over 2023-27. Upon filing, the OCC will have an 8-month statutory deadline to make a decision and OGE intends to update its capex forecast based on a final Commission order. Our sense is that mgmt.'s preference would be to secure recovery through a rider vs. traditional rate cases for these generation investments that would help OG&E grow close to the high-end of its 5-7% utility EPS CAGR. The size of the contracts resulting from this 1st tranche of RFPs will determine whether OGE will need to issue additional HoldCo debt or equity in combination with utility debt to finance generation capex.

- Other items we will be interested to get an update on include: (i) Timing of OG&E's next rate case filing in OK – we think sometime within the next year is reasonable; (ii) Progress on recouping $474M/$41M of fuel clause under-recoveries in OK/AR; and (iii) Sales growth trends observed, particularly in the commercial sector, given that OGE's 4-5% weather-normalized forecast for 2023 assumes a pick-up in datamining load contribution vs. YE22 levels.
- SB 1103, which deals with establishing a performance-based rate plan (PBR) for in-state electric utilities advanced in OK's Senate Energy and Telecommunications Committee, but failed to secure adequate votes from the full Senate floor. While passage of this bill appears unlikely in this year's session, we think that OK's electric utilities will attempt to re-propose similar legislation during next year's session.

PCG: Not much to say ahead of May Investor Day

- We estimate 1Q23 EPS of $0.26, below consensus likely on the lag until a final GRC order, which is expected in 3Q23 but will be retroactive to 1/1/23. 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 $1.21 consensus.
- We do not anticipate new material disclosures ahead of PCG's Investor Day in late May.
- 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).
- Storms: The wet winter weather has raised investor questions about its impact on wildfire risk; the fire season is expected to be later than the past several years. The storms have knocked down trees (fewer to fall on lines) but is expected to result in more vegetation (more fuel for fires).
- FVT stock sales: The FVT now has 128M shares left after selling 350M shares since last Jan (over several blocks). The latest was 60M for $16.10. We believe the FVT overhang is abating and see a complete exit this year – a key catalyst for the stock.
- Dividend resumption: PCG still expects to reinstate the dividend on the 3Q23 earnings call.
- PacGen minority interest sale: PCG expects no new equity through YE24, assuming a sell of up to 49.9% in its utility generation subsidiary were approved. Intervenor testimony is expected next month and a final decision appears to be in 1Q24.
- Undergrounding plan later this year, would be 10yr plan from 2025 or later: PCG plans to file its undergrounding plan after the CPUC completes its kickoff procedures this year. The plan will cover 10 years from 2025 or maybe even 2026; i.e., undergrounding investments will run into the mid-2030s. The regulatory approval process will take 18 months from filing.

PEG: Decoupled and nuclear sound pretty good right now

- We see Q1 EPS of $1.31 – well-above consensus, but close to $1.33 a year ago. We see Q1 driven by distribution/transmission investment recovery and higher hedge pricing; somewhat offset by weaker gas off-system sales (BGSS), lower capacity revenues, and higher interest costs. The biggest downward driver is lower pension earnings, which becomes even more meaningful starting in June once the OPEB amortization credit rolls off.
- We expect PEG to reaffirm 2023 guidance at $3.40-3.50. We see this tightened guidance range as fully on track. PEG's utilities have either the CIP mechanism that decouples from weather or transmission formula rates, and the nukes are fully contracted. We see this as differentiating in the current earnings season where many are being pressured by mild weather.
- We make some modest estimate changes though – mainly on a revised commodities deck, where PJM forwards came in meaningfully in 2024. Our estimates move to $3.45/3.58 in 2023/2024 from $3.46/3.66 previously (2025 is unchanged). We see the PA nukes at the PTC floor, whereas the NJ nukes are temporarily above due to the ZECs.

- Not much has changed since PEG's Analyst Day just a month ago. The presentation centered on predictability/transparency, while reaffirming the financial outlook and reiterating commitment to the nukes. We discussed more of our thoughts in a recent note (link).
- We'll also be listening for any updates on PEG's plans to monetize its GSOE lease area that it shares with Ørsted.

PNW: Awaiting Staff testimony in APS' rate case; Q1 headwinds likely embedded in 2023 guide

- We estimate 1Q23 EPS of ($0.13), which is below consensus at $0.09. We project YoY results in Q1 to be down $0.28, driven by higher O&M, net interest expense, D&A, an $8M refund booked through the Environmental Improvement Surcharge (EIS) adjustor, and lower pension/OPEB income & transmission revenue; partial offsets include sales growth and favorable weather.
- Our expectation is that PNW will reaffirm its 2023 guidance of $3.95-4.15, as Q1 headwinds were likely embedded in the guide. Our 2023E of $4.05 is modestly below consensus at $4.08 and at the midpoint of PNW's 2023 guidance. We don't expect any material updates to PNW's capital or financing plan.
- The first datapoint in APS' rate case will be Staff's testimony on revenue requirement due 5/22 and rate design due 6/5. While it was a little disappointing to see hearings commence in in-state peer TEP's rate case without a partial stipulation being filed, our understanding is that PNW is prepared for a fully litigated proceeding. Recall, Staff updated its ROE recommendation for FTS' subsidiary to 9.50% from 9.60% – still well above APS' current 8.9% allowed level; Staff is opposed to TEP's proposed new Resource Transition Mechanism, but believes a System Improvement Benefit Mechanism (currently used for AZ's water utilities) may be more appropriate.
- On 3/8, AZ's Court of Appeals vacated the 0.2% reduction to ROE (from 8.9% to 8.7%) in APS' 2019 rate case order and vacated/remanded the ACC's disallowance of the $215.5M SCR investment for the Four Corners plant. The ACC is contemplating whether filing an appeal with the Supreme Court is necessary while Staff works to find a resolution with PNW. The Appellate Court's ruling in PNW's favor fixed precedent in the state for utility asset recovery and clarified the prudency standard, but could also result in a ~$0.10 EPS boost, the timing of which depends on a future action by the ACC.

POR: Battery storage award announcement?; first rate case settlement conference upcoming

- We forecast 1Q23 EPS of $0.79, which is slightly below consensus at $0.83. We see YoY results in Q1 up $0.12, driven by the reversal of 1Q22's $0.14 reduction in 2020 Wildfire & COVID deferrals, sales growth, and higher AFUDC. Partial offsets include higher interest expense, D&A, NVPC, share dilution from a ~$300M equity forward draw in 1Q23, and a drag from Faraday not being included in rates.
- We anticipate that POR will reaffirm its 2023 guidance of $2.60-2.75. Our 2023E of $2.68 is modestly above consensus at $2.66 and at the midpoint of POR's 2023 guidance.
- We will be looking to get clarity on the finalization of remaining winning 2021 RFP contracts. POR remains optimistic about the possibility of rate basing ~200 MW/~$400M of battery storage. Every $100M of additional RFP capex is worth ~$0.015 of EPS vs. POR's current forecast. We assume this incremental capex in our estimates, which we expect POR to fund using ~$200M of additional ATM equity, with the batteries yielding AFUDC/cash earnings in 2024/25.
- The first milestone in POR's rate case will be the initial settlement conference scheduled for 4/21. While we think it's still early, we will be monitoring this datapoint closely since POR has historically reached early partial stipulations on ROE/capital structure in previous GRCs. Recall, POR is seeking a ~$337.8M (14.0%) rate increase premised on a 9.8% ROE, 50% equity ratio, and ~$6,290M rate base, effective 1/1/24 as well as proposing a modified PCAM structure to smooth its earnings volatility.
- We will also be monitoring mgmt.'s commentary on POR's recently filed combined inaugural CEP/IRP, which estimates a significant energy need of ~2,500 MW nameplate capacity by 2030. POR intends to issue an associated all-source RFP in Q3 and submit a final shortlist for acknowledgement to the OPUC in December. Assuming 25% ownership and ~$2,000/kW of installed cost at the midpoint of 3,000-4,000 MW total resource need would increase POR's 2022-27 rate base CAGR to 8.5% from 5.8% currently; 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. Winning additional RFP projects will be key to hitting POR's L-T 5-7% EPS CAGR by 2025.

PPL: Broke record with number of interquarter guidance reaffirmations

- We estimate 1Q23 EPS of $0.44, in line with consensus. We anticipate PPL will reaffirm 2023 guidance of $1.50-1.65 and 6-8%. Our 2023E is $1.59 vs $1.59 consensus.
- PPL reaffirmed guidance and its LT growth rate twice since the YE22 call, after the KY coal legislation and RI PUC decision on electric and gas annual ISR proceedings.
- In KY, PPL anticipates a SB 4 (coal retirement) filing next month; a decision is due 180 days after, aligning that proceeding with PPL's pending CPCN filing for gas and solar/storage. In the CPCN case, intervenor testimony is due 5/25, with a final decision in Nov.

SO: Getting close to Vogtle in-service

- We estimate 1Q23 EPS of $0.72, below consensus but above SO's guidance of $0.70; weather is expected to be a big swing, with SO baking in -$0.13 for a weather contingency in its Q1 guidance. SO does not typically address current year guidance until the Q3 call; its 2023 guidance is $3.55-3.65. Our 2023E is $3.60 in line with consensus of $3.61.
- Vogtle update: SO still targets U-3 in-service by June. And the unit has been ramping up and down as expected during tests and grid synchronization. SO also is about halfway through Hot Functional Testing at U-4, putting that unit on track for in-service by end of 1Q24. SO expects to submit its VCM testimony on 5/6, followed by hearings on 6/1 and Staff testimony on 6/22, with a hearing 7/27.
- Fuel deferrals: SO filed for recovery of its fuel deferrals in GA: $2.1B balance as of YE22 plus a $500M projection for mid-2023 through mid-2025, which will be updated. A decision is expected next month.

SRE: Q1 likely short of consensus but expecting positive LT outlook refresh

- Our Q1 EPS estimate is $2.68 vs. $2.91 in 2022; we are short of consensus. We see a lower y/y result on a combination of lower California base ROE, milder weather at Oncor and the absence of tax benefits at the infrastructure segment
- **Oncor clarity.** Two weeks ago the PUCT finalized the Oncor rate case decision, which included a 10 bp ROE reduction and maintained a 42.5% equity ratio. The outcome was better than feared and should give enough clarity for SRE to give its take on the outcome as well as a long-term capital update
- **Port Arthur FID.** Sempra announced it was moving forward with Port Arthur phase 1 late last month. At the time SRE published some financial info on the project and we'll be looking for any incremental details from management on the call. It may still be early to determine how much of PA that KKR buys into, which will determine the ultimate financial impact for SRE.
- **Full outlook refresh should be upbeat.** The combination of the Oncor rate case outcome and the Port Arthur FID should allow the company to give 2024 guidance and an updated LT capital plan including rate base outlooks for all of the utilities – capex is likely to go higher in our view. Given the FID of Port Arthur we also expect that project to be incorporated into an update to the LT growth outlook of 6%-8%. It's unclear if there will be a boost to the range but the support of Port Arthur and more capex clarity should bolster the trajectory.

VST: First call since the Energy Harbor fireworks

- We're forecasting Q1 EBITDA of $589M – below consensus, but above $547M last year. We see Q1 again impacted by Retail margin timing similar to last year. There are also continued headwinds from default service customer migration in Ohio and lower capacity revenues at the Generation segment. Mild weather and weaker 2023 power pricing is a modest headwind, though there should be some improvement in coal costs and 3 new Vistra Zero plants have come online in ERCOT.
- 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. Since year-end, we've seen power forwards come in across the board, though most of the pressure was in 2023 where VST was well-hedged. Recall that VST reaffirmed its ranges in early-March when it reported earnings. Since that time, we see only modest pressure across 2023-2025.

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- Alongside our earnings preview, we also updated our commodities assumptions for generators, which reflects some of the downward move in commodities. However, our prior assumptions were conservatively below market in 2025. As such, our VST estimates move to $3,582/3,614/3,704M from $3,600/3,619/3,531M. VST was 73% hedged over 2023-2025 as of the Q4 call, including over 90% hedged in 2023, which continues to look very prudent.
- This is the first call since VST made a big splash right after year-end earnings with its Energy Harbor announcement. The stock shot up with a lot of excitement, but has since cooled off. We'll be interested in hearing mgmt's latest messaging on the future of its Vistra Vision and Vistra Vision subsidiaries, and how it expects to attain a better valuation for its asset base. The deal isn't expected to close until the end of the year, but we would also like to hear some more details on ENGH's free cash flow outlook.
- Finally, we expect focus on the Texas legislative session, as SB6 passed the Senate and would result in ~10 GWs of backup gas plant new build. This would clearly change the competitive market dynamic in ERCOT, and is very different from the Performance Credit Mechanism (PCM) construct that the Governor/PUCT/ERCOT supports. However, we are still skeptical the legislation passes the House in its current form or survives a Governor veto.

WEC: Once in a lifetime weather and guide cut

- We forecast Q1 EPS of $1.58 – this is below consensus, which we expect to come down. It is also at the top of the $1.56-1.58 guidance range, which was revised down intra-quarter from $1.68-1.72. This was entirely on $0.13 of record mild weather. This is the first time we can recall WEC cutting its quarterly guide since it started giving them over a decade ago. Outside of weather, we also see Q1 down versus $1.79 last year on fuel/depreciation/interest, and the absence of one-time gains on a SPP settlement and clean energy fund investments. The main positive earnings driver this year is Wisconsin rate relief and PTCs from new projects at the infrastructure segment.
- <u>All that said, we see WEC reaffirming 2023 guidance at $4.58-4.62, as it did after cutting Q1 guidance.</u> Similarly, the long-term EPS CAGR is on track.
- WEC has a proven track record on managing costs as a lever to achieve EPS growth – reducing it by a ~2.5% CAGR on 2016-2023. That said, WEC was budgeting for a 3-5% uptick in 2023.
- We expect regulatory attention to shift from Wisconsin last year to Illinois this year. 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. The first meaningful data point won't come until after earnings though, with May 9 Staff/intervenor testimony.

XEL: Important CO/MN electric rate case and RFP dates on the horizon

- We project 1Q23 EPS of $0.74, which is in-line with consensus at $0.73. We see YoY results in Q1 up $0.04, driven by traditional rate relief/capital riders, sales growth, and the reversal of a $9M margin impact in 1Q22 from Comanche 3 replacement power costs. Partial offsets include higher D&A, net interest expense, property taxes, milder weather vs. 1Q22, and share dilution.
- <u>We expect XEL to reaffirm its 2023 guidance of $3.30-3.40</u>. Our 2023E of $3.36 is slightly below consensus at $3.38, but a penny above the midpoint of XEL's 2023 guidance. We don't anticipate any material updates to XEL's capex/financing plan.
- We will be closely watching XEL's electric rate cases in MN and CO. An ALJ report recently filed in NSP-MN's electric rate case recommended a 9.87% ROE vs. 9.06% currently allowed and 52.5% equity ratio (in-line with XEL's ask) – every 10bps of ROE is worth ~$0.01 of EPS. MN PUC's order is expected on 6/30; we wouldn't be surprised if a 15-20bps haircut is applied given recent datapoints – the 9.57% ROE stipulated in NSP-MN's recently approved gas settlement and 9.65% awarded to MN Power. In the CO electric rate case, intervenor testimony is due 5/3 and May to mid-June would be the timeframe for a potential settlement given that hearings are scheduled for 6/14. Outside of MN/CO, intervenor testimony is expected to be filed in the NM electric rate case on 4/21 and in the TX electric rate case in August; XEL also intends to file its WI rate case in late April/early May.
- XEL has RFPs pending at PSCo, NSP-MN, and SPS for over 6 GW of renewables/firm peaking resources. XEL will submit its recommended portfolio in CO in the summer, with a CPUC decision

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anticipated in the fall, while a MN PUC decision is expected in the summer. XEL has pointed to $1.5-3B of potential incremental investments related to the CO/MN RFPs (assuming 50% ownership) + $0.5-1B for associated transmission needs as upsides to its current base capex plan. At the midpoints, we estimate $0.13-0.15 of EPS (~3%) upside by 2027.

- Other items we will look to get an update on include: (i) XEL's plans to transfer credits directly to other big corporations in MN (XEL's 2023-27 financing plan assumes $1.8B of tax credit transfers); (ii) Impact of the collapse in N-T gas prices on customer bills and the upcoming natural gas incentive mechanism filing in CO; and (iii) Applications to the DOE for the Rocky Mountain & Upper Midwest hydrogen hubs.

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April 17, 2023

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AGA Conference Wrap-up

We met with fourteen management teams at the American Gas Association (AGA) Financial Conference in Florida over the last three days. Detailed takeaways are discussed by company below. We also discuss general takeaways and themes.

Asset Sales More Challenging, Equity Needs Likely to Increase

Broadly overall we think assets sales are generally becoming more challenging across the sector for three main reasons: (1) higher interest rates lead to higher financing costs and required hurdle rates; (2) a significant number of assets are out in the market; (3) regulatory approval processes are proving more difficult. These factors likely drive lower prices and longer time to execution. Balance sheets are also emerging as a concern, as only five companies remained materially above their downgrade thresholds at S&P on year-end 2022 metrics, and while there is some increase in FFO/Debt around recovery of under recovered fuel balances over time, equity needs moving forward for the sector are likely to increase as a result of: (1) increasing capital expenditure needs related to the clean energy transition and the IRA; (2) more challenging asset sale processes as noted above, and (3) less opportunity for capital recycling as most companies have sold off or are in the process of selling off almost all of their material unregulated businesses. DTE, NEE, and SRE may have differentiated capital recycling opportunities over the longer term. Another alternative is for sales of minority stakes in utility opco's although we would likely prefer increased equity issuance vs. this alternative for most companies in our coverage given a utility opco's asset life. The market continues to be adverse to equity, even that to fund growth to some degree. This appears due to a long period of equity avoidance by the sector as a result of, until recently, low cost debt financing and accelerated depreciation limiting or eliminating cash taxes, as well as asset sales of significant unregulated businesses. We believe the market can eventually differentiate between equity for balance sheet repair and that for growth, but it may take some time to adjust to go forward equity issuance expectations. All else equal increased DRIP/ESOP and ATM programs are preferred to straight block equity.

Full Electrification Could Raise Carbon Emissions

AGA did release a study in conjunction with WEC Energy Group, that full electrification of the natural gas system, particularly in cold weather jurisdictions will actually raise greenhouse gas emissions. The first reason for this is that natural gas is 92% efficient from production to customer and electricity is far less efficient for heating. Natural gas at 100 MMBtu experiences 7% energy loss in extraction, processing, and transportation, and 1% loss in distribution to deliver 92 MMBtus to customers at the heating burner tip. For electricity heating, 100 MMBtu experiences 5% extraction, processing, and transportation, 60% energy loss in generation of electricity from natural gas, 5% energy loss through distribution, delivering 38 MMBtu. WEC Energy Group noted that electrification would switch the system to a winter peak, and the new winter peak would be double to current summer peak. To meet this winter peak demand, given lower renewable capacity factors in the winter, particularly for solar, they would need to add 1 GW of renewables and 10GWs of new gas to their system at a cost of $15Bln, excluding T&D costs. This also would not include home conversion costs that customers would have to pay. Greenhouse gas emissions did not go down as a result given significant increase in gas generation and the inefficiency of electric heat at cold temperatures. It is likely a more affordable and better alternative to reduce emissions of the natural gas distribution network through: (1) significant leak repair efforts; (2)

injection of RNG; (3) injection of hydrogen; (4) improvements in efficiency and insulation in customer homes.

EPA Power Plant Rule

Of the companies we visited with who own generation, compliance with the recently released EPA Power Plant rule was seen as broadly feasible given natural gas peakers below 300MWs or 20% capacity factors were outside the rule, and remaining natural gas would run under 50% capacity factors by 2035 provided forecast renewables and storage are added to the system. New gas plants would likely be peakers, or inject hydrogen by the timeline required to comply. The rule may not survive likely court challenges as written, but even if it does, it is likely manageable and will have two main near term impacts: (1) coal retirements will likely continue to be pullled forward in time; (2) it will provide a tailwind to continued deployment of renewables and storage; (3) it will likely be supportive of green hydrogen in the longer term, and for carbon sequestration and storage (CCS) in geographies where it make sense in the late 2030's.

SCENE AND HEARD AT AGA IN FLORIDA

We met with fourteen management teams at the American Gas Association (AGA) Financial Conference in Florida over the last three days. Detailed takeaways are discussed by company below. We also discuss general takeaways and themes.

ESSENTIAL UTILITIES

DELCORA acquisition update. Closing timeline looks like late 2023 or early 2024. The delay relates to addressing the City of Chester's rights related to a small amount of assets. This is not a distraction for management and ongoing legal costs are less than $1 million. WTRG hasn't said they'll walk away at any point; due to rate base potential. WTRG continues to talk with DELCORA to explore settlement.

Repair tax update. WTRG is comparing their accounting to new IRS guidance. WTRG has a Fin 48 reserve set up for adjustments ($30-50mm) if their treatment was different. With regard to the Peoples Gas case in Pennsylvania in late 2023, they expect a revenue increase which would help offset repair tax reduction. People's Gas earned ROE has been ~11% vs. ~10% allowed. People's Gas has not been in for a rate case since 2012.

Equity need. More muni deals coming, Q1 weakness due to weather in the gas business and $1.1B cap-ex budget drove need to the higher end of the $400-$500M, but they haven't done significant equity. They did $82mm in Q4 in at-the-market program and have the $35 million West Virginia gas LDC sale pending. We expect a small block and then some ATM. The gas rate case will help the metrics with revenue versus repair tax treatment. The downgrade threshold is 12% at S&P which they haven't been at although repair tax is a $55M drag which would move the company to right around 12%.

2023 update. WTRG is committed to making guidance this year. Gas weather was terrible for Q1'23 and will ask weather normalization in PA in next gas case. WTRG has O&M initiatives underway and selling some non-core energy projects, but won't sacrifice the longer-term just to make 2023 guidance.

CONSOLIDATED EDISON

Regulatory calendar to achieve clean energy goals. Decarbonization initiative is a lot to pursue and has big gaps in the elements that are required to be successful. At the May 18 meeting, the NY Public Service Commission launched initiative to research zero emission dispatchable energy including nuclear, demand response, and hydrogen. The natural gas delivery system is still the key.

Demand growth. They expect it to increase in Brooklyn and Queens due to electrification of heating and EVs. New York is behind on the 70% renewables goal by 2030 but there are no penalties for missing deadlines. The New York Power Authority now has authority to build renewables along with NYSERDA, although utilities still are not allowed to own/build projects. There is a slowdown on decarbonization due to upstate/downstate policy issues but there is a need to turnover the generation fleet. Offshore wind and the Lake Champlain project help bring in renewables.

Manhattan demand down 10% from summer peak; total demand down 2%; Manhattan real estate may be under-utilitized, but not going to be abandoned; Not worried.

Projects Update. The Brooklyn Clean Energy hub is not in rate base, but it is in the capex guidance. JFK Airport will be electrified – that will need its own substation. ED will propose a new substation in Q3'23 in eastern Queens project. This project is a $1.1bn

COD in 2028. Both projects are in the cap-ex guidance.

Expect that NY PSC Staff will not stray from formulaic ROE approach.

Will issue equity annually beginning in '25; but not holdco debt. They target 17% FFO/debt and they'll finance how the regulator will allow.

Strategic. The lesson from renewables is that they are best served by being evaluated as NY cost of service regulation. Would they look at an asset nearby if it came on the market, maybe, but they don't feel compelled to fix a problem.

Hydrogen blend up to 20% has been proven feasible.

EV Charging. The current construct in NY is that they don't own the meter; they do the work up to the meter. The current program is oversubscribed.

O&M They feel good on gas side on about managing the cost; They caught up on inflation costs due to "linking" from test year to rate year (inflation adjustment), but the company has to manage costs between cases.

Reasonable opportunity to hit allowed ROE, won't comment about sharing band.

Pipe replacement backlog. 1,400 miles of pipe replacement, $500mm per year, which is $5.0bn total.

SOUTHERN COMPANY

Vogtle Unit 3. Have passed 16 of the 17 tests at the 75% capacity factor level. The last one was Monday, then it goes to 90% for 4 or 5 days, then to 100%, then more tests, including trips down to zero; then 10 days of maintenance. Commercial operations around June 15th is currently scheduled.

Vogtle Unit 4. Fuel load is expected mid- July and the prudence review will begin as well.

Focus on the fundamentals; Flat to declining O&M over forecast period. Cost per customer is elevated relative to peers so there's room for improved efficiency. M&A is not a current focus or priority; they can hit the growth targets without it.

Weather. Looks like 2019; they have strategic cost reserve, which they will use as needed.

Credit metrics. 2022 was 12% FFO/debt including -400bps of fuel impact. Pre Vogtle 4, they expect to be 15% and as rest of Vogtle comes on metrics will move up to 17-18%. Fuel balance may keep them closer to 17% and the rating threshold is 14-18%. They think threshold could come down by early next year.

Georgia PSC outlook. The State is waiting for the 11th Circuit ruling around how the PSC commissioners are elected. Following a decision it goes back to legislature for implementation. It could be a special election or it could wait for general election, the case might be be picked up by SCOTUS.

NICOR. Constructive Illinois Commission Staff position in rate case. They are in suburbs of Chicago, so they get the growth from people leaving the city. Only volumetric exposure is on the commercial side. They have a long runway of investment with pipeline replacement program.

Vogtle Co-Owner lawsuit. Discovery finishes end of Summer when it goes to State Business Court. Early '24 at earliest for resolution.

Other Items. Georgia Power service territory has growth from EV plants at Rivian and Hyundai, and the ports are growing in importance. Capital plan is conservative at 5% electric rate base growth. Wins in regulated renewable competitive RFPs will be additive. Convertible note was not in the guidance. It saved 150 bp in financing cost on $1.725bn.

DOMINION ENERGY

Waiting on 3Q investor day. No change to messaging from Q1 call; Top to bottom review making progress. Desire is to have real decisions made by a 3Q investor day (no date set). They could announce definitive sale agreement or more refined strategic direction before that time for certain elements.

Business Mix. State regulated utilities are the core business and at least 90% of the company, Millstone nuclear and Cove Point LNG are the rest, presently. The objective coming out of the business review is to at least maintain if not increase the percentage of state regulated utilities.

Guidance. We believe they will give 2025 EPS guidance and likely a EPS growth range off of that base. The company is not committing to specific elements of guidance, just that the intention is to provide it at the analyst day. D is continuing to evaluate sources of capital, to fund growth and improve balance sheet to minimize common equity needs. They have have a significant portfolio of tax credits ($958mm in federal credits); but not much in NOL balances ($167mm) when thinking about tax leakage around asset sales. The dividend will not be cut, but will provide an update on the payout ratio.

Virginia regulatory update. The company does not see anything imminent regarding new SCC commissioners. If Gov can appoint commissioners, it would be temporary through February 2024. The General Assembly has been clear about action on utilities. Legislation indicates to management that they want a utility that can earn its allowed return and support policy initiatives for clean generation, reliable serve and support economic development. Rider construct is well established so not expecting any changes; they've never been deemed imprudent with their investments.

Biennial review in July; Judge West is adjudicating this case.; $350mm revenue reduction drops to the bottom line, which is expected.

Offshore wind sale. Up to 49% is the logical way to think about it as a non-majority stake according to the legislation; SCC would have to approve any potential minority sale.

Deferred fuel balance $1.3 billion; proceeds in Q1'24. Will file officially in July with October decision. Expect a November filing with the SEC and proceeds in Q1'24.

Other Items. Competition wasn't addressed in the Virginia legislation. Under more normal base rate actions, the cost shift isn't falling to D's bottom line, so it is unchanged. Transmission constraints. SCC approved 500kv line and D is working to receive right of way now.

Credit metrics for 2022. 13% FFO/debt for S&P and 13.5% for Moody's. Moody's downgrade threshold is 14% and S&P is 13%. They think rating categories they are in are appropriate. They want more financial flexibility within the range going forward. They have 70bps of deferred fuel drag. They don't include Virginia reset or higher interest costs or ramp in capex in the numbers noted here.

WEC ENERGY GROUP

Regulatory Updates. Discussions with Illinois Commerce Commission Staff indicate higher allowed equity ratios unlikely. Supportive of Gov. Evers appointment Summer

Strand to the Public Service Commission of Wisconsin. Good background, centrist and supported by labor unions.

Solar Panels. Working on alternate plan for solar panel accessibility. Still working through issues with getting panels through the border.

Point Beach. Would be nice to keep, provides 25% of energy to largest utility. Working with NEE on solution. Could provide an investment opportunity. Expect a decision before year-end.

GHG Reductions. Power the Future asset conversion to gas is minimal investment. Blended hydrogen up to 25% at RICE unit which worked well, but requires pipeline access.Don't expect to add carbon capture and storage to be compliant with EPA carbon rules. Assumes they'll have enough renewables to be running gas less than 50%.

2023 earnings guidance ($4.58-$4.62) headwinds. Weather was a -$0.12/share drag in Q1'23. They had a very good year last year and they had several items in the second half that were unique and present tail winds this year. They pulled forward O&M expenses last year so that's a help this year, plus they'll have less fuel under recovery this year, so in total of $0.16-$0.18 that will be a help in 2H '23 vs. '22.

Gas Business in IL. $280mm a year of pipe capex goes through at least 2040. Gas conversions still driving growth from propane and fuel oil. Some industrial customers converting as well despite potential economic effects.

Electrification will help push the company into a winter peaking utility. The peak will be double the current summer peak. They may need 1 GW of renewables and 10 GW of new gas which is $15bn of cost for just generation, not including T&D costs. This maintains emission levels in WI. IL was similar, but CO2 increased.

ATC update. Expect to see material uptick in investment at 60% owned ATC. Tranche 1 of MISO transmission plan is $900mm for ATC. MSFT data center at same park as FoxConn is a $1.0bn investment in the state. They may need 1 GW of additional generation as a result and associated transmission spend. MISO tranche 2 could be the same scale as Tranche 1.

Rate increases, Coal Retirement Headroom. Coal retirements - $35mm of savings from Oak Creek and $45mm from Columbia plus massive fuel savings plus renewable tax credits represent offsets to bill pressure, so annual rate increases will likely average 4% over the forecast period.

DUKE ENERGY

LDC assets: At the right value, if they are credit positive and earnings positive, will give them a look, but not looking to add a new state. Could represent operational synergies within one of their current states.

Costs. Cost program launched last year of $300mm was focused on corporate and support costs (information technology spend).

Weather has been soft and looking at operational issues now. These include outage timing, overtime; $200mm of additional tactical levers at the Opco level. If decoupled, (which they likely will be next year in NC) the $0.22/share weather exposure would have been one-half the impact.

Industrial Sales. Fuji Film closed their campus which adversely impacted 1Q sales in part; however, March/April is back on plan.

Equity. No equity needed for base plan through '27. May need equity beyond the current plan pending Carolinas rate case outcomes and Capital needs from the decarbonization plan Not capital constrained. Customer bills will determine level of capex. Natural gas growth remains strong - 10% rate base growth. Ban on expansions in their states. Pointed to potential balance sheet improvement from rate cases in Carolinas and Florida.

Commercial renewables sale includes $1.5 billion in debt and proceeds will repay debt. Pointing to a year end close and a 5 month regulatory approval cycle, which means an announcement would have to come in the next 2 months. Incremental write off related to 4 projects. 2 in Texas with minority owners who are the most likely acquirers and 2 others. All four are likely to be sold under separate processes. Buyer hurdle rates are higher but still seeing significant interest.

Water utility ROE. Higher risks to the electric business versus the water point positively given 9.8% ROE awarded to water utilities.

Decarbonization Plan. Have become a winter peaking system. Decarbonization plan pace is constrained by transmission in '28/29 and will need to build more. Nuclear PTC final rules will drive ultimate bill increase for decarbonization plan but maintained a 2.5-4% range.

CMS ENERGY

2023 EPS. Headwind of $0.21 or $85 million pre-tax due to 1Q'23 weather. Can offset this with financing optimization alone. Plan $2.0bn of opco issuances of which $1.5bn has been done so far. Cost is better than plan so far this year.

Solar. PTC is driving 10-15% reduction of levelized cost for solar. $70/mwhr all in cost down to $50s/mwhr. Domestic content provision not factored into the plan and prevailing wage aspect is helpful. IRP capped tax incentive at 50% and next iteration was 50-60%. With IRA they can potentially justify a higher amount.

EVs. 2 mm EVs in Michigan by 2030, 1mm in CMS territory . That is 5-10% of load growth, but that's not in the plan.

Climate Bill. First term of Governor Whitmer introduced a climate bill. There is some conversation in committees around zero carbon 2035, five years earlier than the 2040 target.

Rates outlook. 3.5% annual CAGR for electric rate increases and 4% CAGR for gas rate increases. Rating agencies are supportive due to mechanisms for recovery of deferred costs. They are optimistic sales forecast won't be an issue in future regulatory proceedings.

XCEL ENERGY

Colorado gas procurement legislation. Will help reduce volatility to customers. XEL will make filing in November to implement. They will have a cost smoothing mechanism which takes the delta versus rates and establishes a regulatory asset to collect over 2-3 years. XEL will earn a carrying cost and incentive. They can utilize long duration physical contracts and physical storage. Performance incentives won't be big but it will incent XEL.

Nuclear PTC clarification. Expect Q4'23 guidance from Treasury on nuclear PTC implementation rules.

2023 EPS. On plan for 2023 EPS guidance. Have factored in Minnesota rate case. Q1'23 results were good, but that puts them on plan for '23.

Exit coal by 2030. Pleased to see gas peakers were carved out of EPA CO2 proposal. Doesn't materially change the base plan.

Transmission. $2-$4bn of potential transmission spending doesn't include 950 MWs for SPP. A lot of renewable related transmission opportunities exist going forward.

Financing. Assume 60% debt and 40 % equity financing for incremental capex. Holdco to total debt below 25%; Tax transferability adds $1.8bn of cash flow and helps cost and credit profile and credit profile, but it lowers rate base and equity needs.

Bill Headroom. Rates in Colorado gas jurisdictions are down 19% due to lower natural gas prices.

SEMPRA

Texas. No capital constraints in Texas, went from $15 to $19Bln and expect more capital opportunities at Oncor with significant growth in DFW, in West Texas, and with renewable queues. TX legislature completed 2nd reading of distribution tracker legislation Monday night, if it passes, Governor has to sign or veto within 10 days or automatically becomes law.

California. Regulatory process going as expected. RAMP process led to constructive outcomes in the last rate case round and can set the stage for constructive outcomes in this round. Gas ban in Berkeley, CA was challenged by the restaurant association in court and the 9th Circuit has ruled that federal law preempts local bans. The issue is likely to continue to move through the courts.

2023 and 2024 Guidance. Both the distribution tracker and the CA cost of capital decision are within the guidance ranges provided for 2024 whether positive or negative. Guidance remains unchanged but would note that every year since 2018 SRE has raised guidance and beaten revised guidance as they have challenged businesses to find upside post initial guidance ranges.

LNG. FEED process for Cameron Phase 2 will be longer but will lower project risk and bring forward COD date. Port Arthur Phase 2 is progressing. Now that Phase 1 has gone FID parties are coalescing around the project. There has been interest in both offtake volumes and equity participation. Still waiting on FERC permits on electric drives and continue to work with Bechtel on the E&C contract, given they are constructing Phase 1. KKR stake in Phase 1 left common facility payments and other upsides with SIP.

Financing Needs. Financing remains an exercise in sourcing lowest cost equity capital. Could be equity sell downs but ownership stake is likely higher than Phase 1 but lower than 100% for SIP, which is 70% for SRE. Project financing, equity sell downs, and recycling of Capital at SIP all remain funding options as well as increased internal cash flow at SIP from ECA Phase 1, Cameron Phase 2, and Port Arthur Phase 1.

PUBLIC SERVICE ENTERPRISE GROUP

Offshore wind. Not in rush to sell leasehold and expect to get money back from Orsted shortly on previous announced sale.

Offshore transmission – NJ BPU ruled Deans 500kv substation, owned by PSE&G, is the right entry point for on-shoring. Should give them some advantage for onshore transmission capex related to offshore wind, but it's capital at the end of the decade.

Pension Liftout. Doing due diligence and need execution by year-end on sale of unregulated exposure. Not in a rush to transact though.

Nuclear Above PTC Level. What to do with any potential free cash flow from the nuclear business? They have longer term cap-ex upside and don't want to buy back stock only to issue it back later. They can fund utility capex, and maximize balance sheet efficiency. Waiting on Treasury clarity on nuclear PTC. New Jersey customers are saving $300 million per year, so it creates some headroom for investment and disposable income is up in the State.

Electrification. Electrification initiative is under way, supported by Governor Murphy's mandated plan. NJ electrification plan could be problematic for some gas LDCs if a lot of the targeted areas are in their service territories. PSE&G's service territories overlap. Electrification makes most sense for transportation. Total energy bill savings are known to policy makers, but that story has to be sold to customers.

NISOURCE

NIPSCO sale on track for year-end. Keeping it under 19.9% ownership allows deferral of tax gains; Transaction only requires FERC approval and IURC notification.

Sales. Modest sales outlook at 50-100 bps for gas and 50-100 bps for electric; Intel project in Columbus is supportive to sales outlook.

O&M expense initiatives. Cost efficiency improvements are well underway. New customer info, work scheduling, and dispatch systems all being updated.

Electrification. Role of gas vs. electric - efficiency for natural gas at the burner tip is 90%+ vs. CCGT burning gas and delivering electricity which is 68% efficient. Efficiency of gas better at home heating, and electrification could raise, or at least not reduce greenhouse gas emissions.

Solar supply chain. Supply chain continues to free up, solar projects are on track.

IRA transferability. $1.0 billion investment in renewables required to replace Michigan City plant. $500 million capex upside opportunity from replacing tax equity with transferability;

Regulation. NIPSCO electric will have to file another rate case in 2024 for renewables investment. Earn allowed return in Pennsylvania. Indiana legislation on right of first refusal transmission investment is upside to plan post 2027. MISO Tranche 2 will provide additional investment opportunities. Prefer to own renewables and gas peakers and then look to third party purchases to meet generation demands longer term.

AMEREN CORP.

2023. Off to good start this year, constructive settlement in MO GRC. Resolved a few CPCNs related to renewable energy.

IL Regulation. IL electric is 20% of the business and IL Gas historically earns on 50-52% equity, so the 50% recommendation Staff is in the range. Management sees potential for settlement in gas case. Staff in the electric case noted that the ROE would be 10.02% under traditional ROE framework rather than a continuation of the formulaic approach. The MTM on the current 30 year treasury is 9.7%. They feel like on cost of capital there's room to negotiate. Biggest difference on rate base and capex is grid automation / digital investments. The staff wants further substantiation on the investments, which the company aims to provide. The rate base growth rate is 7.2% in IL. If the capex is disallowed, they have other avenues to spend capital in their jurisdictions. There's a revenue adjustment each year to keep it at 105% of baseline each year, so overall regulatory framework in IL is very constructive. Commodity and capacity costs have come down and that helps affordability. OPEB exposure is 2-3c if it is disallowed.

MISO Transmission. Bids this summer on competitive projects. Tranche 2 is moving a bit slower than previously expected due to complexity of modeling. Permitting/siting remains challenging, so the continue to prefer brownfield projects vs. greenfield. The company is likely to make another effort for ROFR legislation again next year in Missouri.

Balance Sheet. Will continue to use the ATM to fund equity needs. Downgrade threshold is 17% at Moody's, 13% at S&P. Capex strategy is to focus is on stable linear growth, don't want lumpy items.

Missouri. Sales outlook in Missouri is flat to half of one percent, they have ambitious energy efficiency goals as well. Missouri has been on 18 months rate case cycle, likely continues; Have to file at least every four years due to FAC.

CENTERPOINT ENERGY

TX Legislation. DCRF bill had second reading last night could be poised to pass, incentive compensation bill already passed; incentive comp is 20-25mm pre-tax benefit; DCRF is 30-35mm pre tax benefit; They could file DCRF in Q3, Houston electric case could slide to Q1 as a result of the 185 provision around timing of DCRF filings.

CapEx. Post the rate cases they'll evaluate the $3.0bn of capex backlog of opportunity; The $3.0bn is scalable, not lump projects. $110mm of enhanced cash flow from the asset sale this week.

Financing. No need for equity in the current plan; Will maintain 150bps cushion and look to capital recycling opportunities around incremental capex funding. They do get inbounds on LDCs, they are smaller in size and in good regulatory jurisdictions. Upgrade threshold is 16% but they think the current rating and FFO/Debt level is appropriate. $800mm perpetual preferred reset is upcoming, coupon likely going up by potentially ~200bps, 300bps over SOFR.

Regulation. Indiana rate case filing in December; IRP filing is in June. ROFR bill has some upside for transmission spend in Indiana. Texas Gas rate case in July; Pre-funded at 60% equity; ask will be somewhere in a range around flat revenue; Indiana rate case in Dec, MN gas rate case in Nov. '23 on normal 2 year cycle, CE case in Jan provided DCRF legislation passes.

DTE ENERGY

IRP. Management sees potential for settlement. Potential around the late summer base on regulatory timing.

Storms. Have become the new normal and need to be managed. The company is currently on a 5-7 year tree trimming cycle, maintenance program beyond that, and is beginning to invest in automation to shrink outage duration. Would like to potentially try to complete this over 5-6 years versus the current 15 year projection. Only 10% of the system is currently automated. Tree trimming is currently $300mm/yr. and above the base level is securitized as the real benefit is lower outages, outage duration and longer term lower O&M levels.

Distribution Spend. The current system is split roughly one-third each to undergrounded, latest vintage construction, and 4.8kV older grid that needs fundamental replacement. This is on a 15-20 year cycle that could be accelerated. There could be an opportunity to underground, and are currently studying how much could happen and the cost effectiveness for customers versus sustained tree trimming, outages, and O&M. Can be linked to gas repair in metro Detroit to some degree to create synergies on costs.

Vantage. For RNG LCFS pricing is down in CA, but RSF markets are up at the federal level and ITCs on RNG take effect in 2024 due to the IRA, making RNG still economic based on all three moving parts. The industrial business is beginning to see growth ticking up again on re-shoring. Will keep at 10% of company over time which could create some capital recycling opportunities.

CCS. Michigan is geologically advantaged with saline formations at 5,000 ft. which given the pressure would store carbon dioxide as a liquid making in easier to transmit by pipe to store. Pipelines would be relatively short from plant sites in Michigan and the tax credit under the IRA would make projects economic in their region. They are currently in smaller $50-$100mln projects as quasi-pilots for larger projects down the line.

Sales. On track with projections that were filed in the rate case. Slightly below in the 1Q, on forecast in April.

Monroe. Well received that the retirement date of one unit has been pulled forward to 2028. The other remains 2035 but could potentially be pulled forward if it makes sense for customers.

PSCR. the $400mm is likely to be nearly completely eliminated by year-end with a small stub in 2024. There is accelerated recovery on lower power and natural gas prices, which sets up for a rate reset and customer bill relief around commodity costs in the next rate case should current commodity prices continue.

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Neutral	FSR is between -6% and 6% of the MRA.	36%	21%
Sell	FSR is > 6% below the MRA.	10%	18%
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Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
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Source: UBS. Rating allocations are as of 31 March 2023.
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Company Name	Reuters	12-month rating	Price	Price date
AES Corp[16]	AES.N	Buy	US$20.76	23 May 2023
Alliant Energy Corp[16]	LNT.O	Neutral	US$52.44	23 May 2023
Ameren Corp[16]	AEE.N	Neutral	US$82.71	23 May 2023
American Electric Power Inc[16,7,6b]	AEP.O	Buy	US$86.00	23 May 2023
CMS Energy Corp[16]	CMS.N	Neutral	US$58.63	23 May 2023
CenterPoint Energy Inc[16]	CNP.N	Buy	US$28.86	23 May 2023
Consolidated Edison Inc[16]	ED.N	Neutral	US$93.88	23 May 2023
DTE Energy Co[16]	DTE.N	Neutral	US$109.16	23 May 2023
Dominion Energy Inc[16,7,6b]	D.N	Neutral	US$52.29	23 May 2023
Duke Energy Corp[16,7,6b,6c]	DUK.N	Neutral	US$90.75	23 May 2023
Edison International[16]	EIX.N	Buy	US$67.37	23 May 2023
Entergy Corp[16,7,6b,6c]	ETR.N	Neutral	US$100.29	23 May 2023
Essential Utilities Inc[16]	WTRG.N	Buy	US$40.72	23 May 2023
Eversource Energy[16,7,6b]	ES.N	Neutral	US$72.75	23 May 2023
Exelon Corp[16,7,6b,6c]	EXC.O	Buy	US$40.44	23 May 2023
FirstEnergy Corp[16]	FE.N	Buy	US$37.90	23 May 2023
NextEra Energy Inc[2,4,5,16,7,6a]	NEE.N	Buy	US$74.16	23 May 2023
NiSource Inc.[16]	NI.N	Neutral	US$27.36	23 May 2023
OGE Energy Corp[16]	OGE.N	Neutral	US$35.97	23 May 2023
PG&E Corp[16,7,6b,6c]	PCG.N	Neutral	US$16.41	23 May 2023
PPL Corp[16]	PPL.N	Buy	US$26.78	23 May 2023
Pinnacle West Capital Corp[16,7,6b]	PNW.N	Sell	US$77.65	23 May 2023
Public Service Enterprise Group[16,7,6b]	PEG.N	Buy	US$61.31	23 May 2023
Sempra[16]	SRE.N	Buy	US$146.50	23 May 2023
Southern Co[13,16]	SO.N	Buy	US$71.15	23 May 2023
WEC Energy Group Inc[16]	WEC.N	Neutral	US$88.86	23 May 2023
Xcel Energy Inc[16]	XEL.O	Neutral	US$65.59	23 May 2023

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Global Research

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North American Regulated Utilities & Power

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North America Regulated Utility Coverage

Figure 1: North America Regulated Utilities

Rating	Ticker	3/31/23	Price Target	Total Return inc. Div. Yld	UBS 2020A EPS	UBS 2021A EPS	UBS 2022A EPS	UBS 2023E EPS	UBS 2024E EPS	2024 P/E Ratio	2024 Prem/ Disc	Current Dividend Yield	5 Yr EPS Growth	5 Yr DPS Growth	Regulatory Quartile
Buy	**NEE**	$77.08	$102	35%	$2.31	$2.55	$2.90	$3.13	$3.43	22.5x	33%	2.2%	6.4%	10.0%	1st
Buy	**AES**	$24.08	$30	27%	$1.44	$1.52	$1.67	$1.71	$1.88	12.8x	(24%)	2.7%	9.4%	5.1%	1st
Buy	**AEP**	$90.99	$111	25%	$4.46	$4.74	$5.09	$5.25	$5.64	16.1x	(5%)	3.5%	5.6%	7.0%	2nd
Buy	**SRE**	$151.16	$181	23%	$8.00	$8.43	$9.21	$8.98	$9.58	15.8x	(7%)	3.0%	6.9%	6.4%	3rd
Neutral	**DTE**	$109.54	$129	21%	$5.62	$5.99	$6.10	$6.25	$6.69	16.4x	(3%)	3.3%	6.1%	4.4%	1st
Buy	**FE**	$40.06	$46	19%	$2.38	$2.60	$2.41	$2.54	$2.63	15.2x	(10%)	3.9%	6.3%	2.4%	2nd
Buy	**SO**	$69.58	$79	17%	$3.25	$3.41	$3.60	$3.65	$4.05	17.2x	2%	3.1%	7.6%	-6.5%	1st
Buy	**PPL**	$27.79	$32	18%	$2.40	$1.05	$1.41	$1.59	$1.74	16.0x	(5%)	3.1%	7.6%	-6.5%	3rd
Buy	**EMA**	$55.52	$63	18%	$2.68	$2.81	$3.03	$3.29	$3.39	16.4x	(3%)	4.8%	4.6%	4.6%	2nd
Buy	**EXC**	$41.89	$47	15%	$1.78	$1.83	$2.27	$2.36	$2.54	16.5x	(2%)	3.2%	7.4%	5.8%	3rd
Buy	**CNP**	$29.46	$33	14%	$1.44	$1.64	$1.38	$1.49	$1.64	18.0x	6%	2.4%	7.4%	7.9%	3rd
Neutral	**DUK**	$96.47	$106	14%	$5.25	$5.24	$5.55	$5.63	$5.97	16.1x	(4%)	4.1%	5.2%	3.6%	2nd
Neutral	**ETR**	$107.74	$117	12%	$5.62	$6.02	$6.42	$6.71	$7.18	15.0x	(11%)	3.8%	6.6%	2.3%	4th
Buy	**PEG**	$62.45	$68	12%	$3.43	$3.65	$3.47	$3.46	$3.67	17.0x	1%	3.5%	4.9%	6.6%	2nd
Neutral	**CMS**	$61.38	$67	12%	$2.67	$2.65	$2.89	$3.12	$3.37	18.2x	8%	3.0%	8.1%	6.7%	1st
Neutral	**PCG**	$16.17	$18	11%	$1.61	$1.08	$1.10	$1.23	$1.36	11.9x	(30%)	0.0%	10.2%	0.0%	3rd
Buy	**EIX**	$70.59	$75	10%	$4.52	$4.59	$4.63	$4.77	$5.18	13.6x	(19%)	4.0%	5.8%	4.0%	3rd
Neutral	**WEC**	$94.79	$101	10%	$3.79	$4.11	$4.46	$4.62	$4.94	19.2x	14%	3.1%	6.3%	6.7%	1st
Neutral	**AEE**	$86.39	$92	9%	$3.50	$3.82	$4.14	$4.36	$4.71	18.3x	8%	2.7%	7.1%	6.0%	2nd
Neutral	**OGE**	$37.66	$39	8%	$2.03	$2.36	$3.32	$2.01	$2.10	17.9x	6%	4.4%	3.1%	3.0%	2nd
Neutral	**NI**	$27.96	$29	7%	$1.32	$1.37	$1.35	$1.45	$1.56	17.9x	6%	3.4%	7.4%	6.0%	2nd
Neutral	**D**	$55.91	$57	7%	$3.54	$3.86	$4.10	$3.99	$3.53	15.8x	(6%)	4.8%	1.4%	2.2%	3rd
Neutral	**XEL**	$67.44	$70	7%	$2.79	$2.96	$3.17	$3.40	$3.68	18.3x	8%	2.9%	7.4%	6.0%	3rd
Neutral	**LNT**	$53.40	$54	4%	$2.43	$2.65	$2.80	$2.90	$3.08	17.3x	3%	3.2%	5.5%	6.0%	1st
Neutral	**ED**	$95.67	$96	4%	$4.15	$4.37	$4.57	$4.85	$5.14	18.6x	10%	3.3%	6.0%	5.5%	4th
Neutral	**EVRG**	$61.12	$61	4%	$3.10	$3.58	$3.71	$3.65	$3.99	15.3x	(10%)	3.8%	5.5%	6.6%	4th
Neutral	**ES**	$78.26	$78	3%	$3.64	$3.54	$4.05	$4.36	$4.64	16.9x	(0%)	3.3%	6.7%	6.0%	4th
Sell	**FTS**	$57.45	$52	(6%)	$2.57	$2.59	$2.78	$2.97	$3.18	18.0x	7%	3.8%	5.9%	4.6%	4th
Sell	**PNW**	$79.24	$66	(12%)	$3.93	$3.74	$4.26	$4.03	$4.69	16.9x	(0%)	4.3%	5.2%	4.1%	4th
Electric Utility Average										**16.9x**		**3.5%**	**6.3%**	**4.7%**	

Source: FactSet, UBS Estimates

US Power and Water Utility Coverage

Figure 2: US Power Exposed Stocks

Rating	Ticker	3/31/23	Price Target	Total Return inc. Div. Yld	UBS 2019A EBITDA	UBS 2020A EBITDA	UBS 2021A EBITDA	UBS 2022A EBITDA	UBS 2023E EBITDA	2023 EV/ EBITDA Ratio	2023 Prem/ Disc	2022A Net Debt/ EBITDA	2022A FCF Yield
Buy	VST	$24.00	$37	56%	$3,325	$3,685	$1,908	$2,994	$3,699	5.9x	-6%	2.7x	42%
Sell	NRG	$34.29	$30	(12%)	$1,776	$1,977	$2,404	$1,848	$3,073	5.9x	-17%	4.5x	39%
AVERAGE										**5.9x**		**3.6x**	**41%**

Source: FactSet, UBS Estimates, Company Reports

Figure 3: Water Utilities

Rating	Ticker	3/31/23	Price Target	Total Return inc. Div. Yld	UBS 2020A EPS	UBS 2021A EPS	UBS 2022A EPS	UBS 2023E EPS	UBS 2024E EPS	2024 P/E Ratio	2024 Prem/ Disc	Current Dividend Yield	5 Yr EPS Growth	5 Yr DPS Growth	Regulatory Quartile
Buy	WTRG	$43.65	$51	19%	$1.58	$1.67	$1.77	$1.88	$2.05	21.3x	(20%)	2.5%	8.7%	7.0%	2nd
Buy	SJW	$76.13	$85	13%	$2.14	$2.03	$2.43	$2.47	$2.80	27.2x	2%	1.8%	6.3%	7.0%	2nd
Neutral	CWT	$58.20	$62	8%	$1.97	$1.96	$1.77	$2.00	$2.17	26.8x	1%	1.6%	8.4%	5.0%	2nd
Neutral	AWK	$146.49	$149	4%	$3.63	$4.25	$4.51	$4.79	$5.18	28.3x	6%	1.8%	7.9%	8.0%	2nd
Sell	AWR	$88.89	$83	(5%)	$2.34	$2.56	$2.11	$2.73	$2.93	30.3x	14%	1.7%	10.4%	6.0%	2nd
Water Utility Average										**26.6x**		**1.9%**	**8.3%**	**7.4%**	

Source: FactSet, UBS Estimates, Company Reports

UBS

CEG Infrastructure Comps

Figure 4: Toll Roads, Railroads, and Clean Power

COMPANY NAME	Currency	TICKER	UBS Rating	Price	Shares	MktCap	Net Debt	UBSe '24 EV/EBITDA	Cons. '24 EV/EBITDA	UBSe 2024 EBITDA
Toll Roads										
Transurban Group	A$	TCL-ASX	Buy	$ 14.21	3,081	$ 43,775	$ 15,754	24.8x	19.9x	$ 2,405
Railroads										
CSX Corp	US$	CSX-USA	Neutral	$ 29.94	2,063	$ 61,754	$ 16,517	11.3x	10.1x	$ 6,905
Canadian National Railway	US$	CNI-USA	Buy	$ 117.97	671	$ 79,188	$ 11,116	9.9x	12.2x	$ 9,149
Canadian Pacific Railway	US$	CP-USA	Buy	$ 76.94	931	$ 71,621	$ 14,370	9.9x	15.2x	$ 8,670
Norfolk Southern Corp.	US$	NSC-USA	Neutral	$ 212.00	228	$ 48,290	$ 15,670	10.8x	9.7x	$ 5,932
Union Pacific Corp.	US$	UNP-USA	Neutral	$ 201.26	612	$ 123,146	$ 33,928	12.8x	10.1x	$ 12,287
Average								**10.9x**	**11.4x**	
Clean Power										
AES Corp.	US$	AES-USA	Buy	$ 24.08	669	$ 16,105	$ 21,258	8.3x	8.7x	$ 4,479
Clearway Energy, Inc.	US$	CWEN-USA	Buy	$ 31.33	82	$ 2,578	$ 6,371	8.2x	8.2x	$ 1,086
NextEra Energy Partners	US$	NEP-USA	Buy	$ 60.75	87	$ 5,257	$ 5,030	11.0x	7.5x	$ 934
Ormat Technologies	US$	ORA-USA	Buy	$ 84.77	60	$ 5,060	$ 1,826	11.7x	12.1x	$ 587
Orsted A/S	DKK	ORSTED-CSE	Buy	583.40 kr.	420	245,250.32 kr.	$ 49,965	9.2x	12.1x	32,218.41 kr.
Atlantica Sustainable Infrastructure	US$	AY-USA	Neutral	$ 29.56	116	$ 3,431	$ 4,836	9.4x	8.6x	$ 884
Average								**9.6x**	**9.6x**	
OVERALL AVERAGE								**11.4x**	**11.2x**	
Constellation Energy Corp (1)	US$	CEG-USA	Buy	$78.50	302	$ 23,702	$ 6,677	8.6x	8.4x	$ 3,546
							At 8% Discount	**11x**	**10x**	

(1) UBSe '24 EV/EBITDA incorporates value of share buybacks

Source: Company Reports, FactSet, UBS; Prices as of market close 3/31/2023
(1) UBSe '24 EV/EBITDA incorporates value of share buybacks

UBS

2023 Outlook: Flip the Script

UBS

2023 Outlook: Seasonality Reverses for a Good 1H; Fade the 2H

Normal seasonality typically favors the 2H as investors do not become defensively focused until after mid-year.

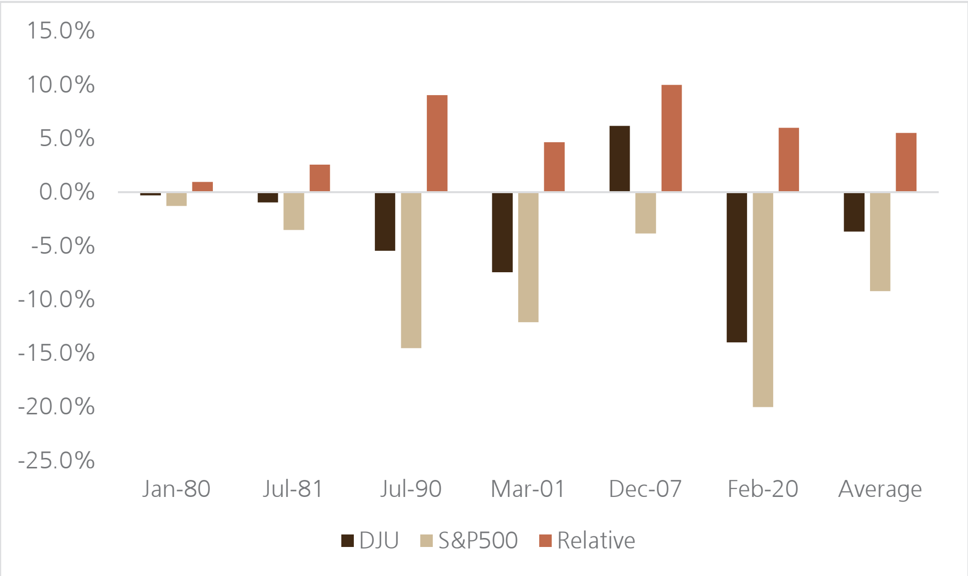
Flip the Script in '23: Utilities have outperformed by an average of 550bp in the quarter prior to recessions since 1972.

So far in 2023, the "soft-landing" trade has dominated and left utilities underperformers (S&P 500 +7.0%, XLU -4.1%)

Timing around the shift in performance is dependent on the macro backdrop which is likely one of three scenarios:

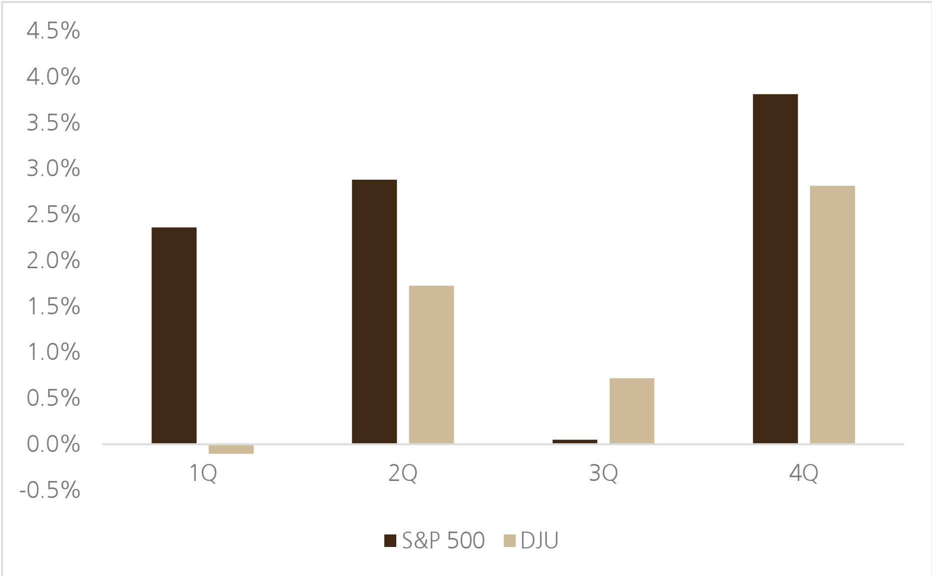
- The Good: Base case, 2Q-4Q recession; shift to underperformance as the market shifts to cyclicals and looks past the recession.
- The Bad: More resilient economy/persistent inflation, higher terminal fed funds rate; shift to underperformance happens earlier than 2H.
- The Ugly: Stagflation. Volatility. In the 70's utilities outperformed by 22% for 1st 375bps and underperformed by 29% thereafter but had spates of volatile outperformance for short periods.

Figure 5: Utility Performance in Qtr. Prior to Recession Since 1972



Source: Company Reports, FactSet, UBS Estimates

Figure 6: Seasonality of Utility Returns Since 1972



Source: Company Reports, Moody's, FactSet, Strategic Insights, UBS Estimates

UBS

Valuation: What's the Right Multiple?

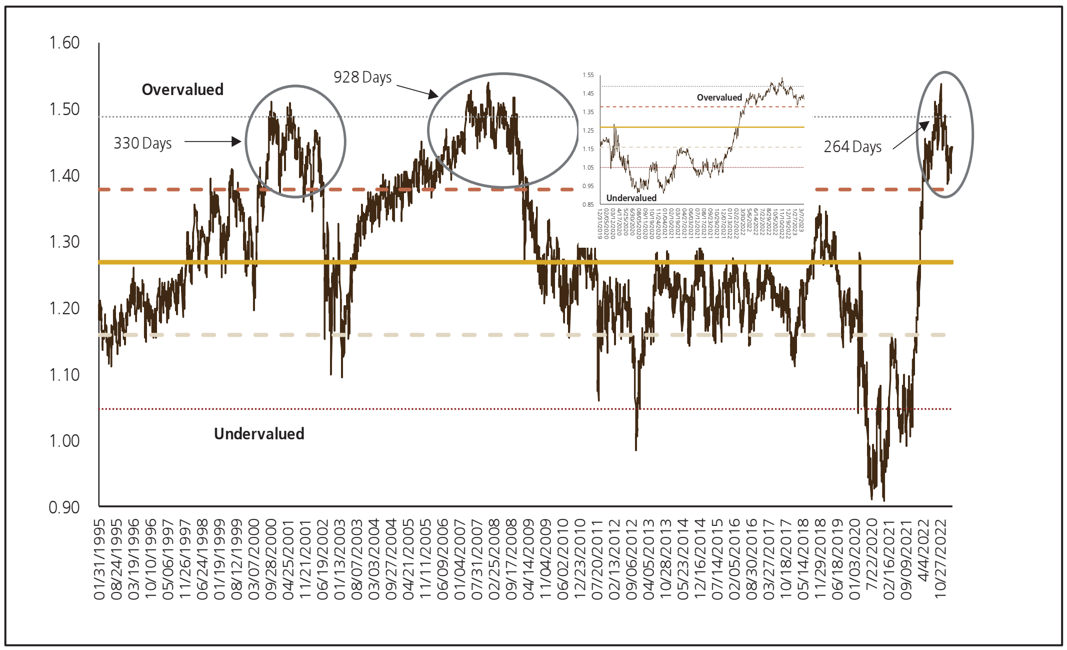
Utilities screen ~15.9% overvalued when comparing regulated utility yields vs. Baa corporate bond yields

Using a valuation metric that accounts for both growth and interest rates leaves the group only ~9.8% overvalued

Our valuation methodology inclusive of growth and interest rates:

- Looked at historical eps forecasts since 2006 and developed an average PEG ratio of 2.81x
- Developed an unadjusted FY2 P/E Ratio of 18.5x on projected average 6.6% growth
- Adjusted this multiple for interest rates vs. the average since 2006 using the relationship of utility value vs. interest rates including convexity premised upon an equity duration of ~20 years – Figure 8 shows multiples at different growth rates at 10-year bond yields.

Figure 7: Regulated Utility Yields vs. Baa Corp. Bond Yields



Source: FactSet, Capital IQ, Moody's, UBS Estimates

Figure 8: FY2 P/E Multiple Matrix Accounting for Interest Rates & Growth

LT EPS Growth CAGR	10 Year Treasury Yield						
	2.50%	3.00%	3.50%	4.00%	5.00%	6.00%	7.00%
4.00%	11.5x	10.3x	9.4x	8.6x	7.3x	6.4x	5.7x
4.50%	12.9x	11.6x	10.5x	9.6x	8.2x	7.2x	6.4x
5.00%	14.0x	12.9x	11.7x	10.7x	9.1x	8.0x	7.1x
5.50%	15.8x	14.2x	12.9x	11.8x	10.0x	8.8x	7.8x
6.00%	17.3x	15.5x	14.0x	12.8x	11.0x	9.6x	8.5x
6.50%	18.7x	16.8x	15.2x	13.9x	11.9x	10.4x	9.2x
7.00%	20.1x	18.1x	16.4x	15.0x	12.8x	11.2x	9.9x
7.50%	21.6x	19.3x	17.5x	16.0x	13.7x	12.0x	10.6x
8.00%	23.0x	20.6x	18.7x	17.1x	14.6x	12.8x	11.3x
8.50%	24.4x	21.9x	19.9x	18.2x	15.5x	13.5x	12.0x
9.00%	25.9x	23.2x	21.0x	19.2x	16.4x	14.3x	12.7x
9.50%	27.3x	24.5x	22.2x	20.3x	17.4x	15.1x	13.4x
10.00%	28.8x	25.8x	23.4x	21.4x	18.3x	15.9x	14.1x

Source: FactSet, UBS Estimates

UBS

The Fed: The Good, the Bad, and the Ugly

Utilities underperform on the way into Fed rate hike cycles and outperform on the way out:

- During cycles utilities are likely outperformers if the hikes total < 275bps.

Three Macro Scenarios:

- The Good: 2Q – 4Q 2023 recession; lower relative terminal Fed Funds rate, potential for 1H outperformance given IRA growth.
- The Bad: Resilient economy/sustained inflation; higher terminal Fed Funds rate, underperformance shift earlier than the 2H'23.
- The Ugly: Stagflation; would cause increased volatility and underperformance from this point in the cycle.

Figure 9: Fed Hike Cycles

Duration	Fed Rate Hike Cycles		Starting	Ending	Entire Hike Cycle			Last Hike to 12Mo After		
Months	Start Date	End Date	Rates	Rates	DJU	S&P500	Relative	DJU	S&P500	Relative
Underway	Mar-22	N/A	0.25	*5.00*	3%	-6%	9%			
37	Dec-15	Dec-18	0.50	2.50	30%	23%	7%	20%	28%	-8%
24	Jun-04	Jun-06	1.25	5.25	48%	10%	38%	21%	21%	1%
9	Aug-99	May-00	5.25	6.50	4%	7%	-3%	18%	-14%	32%
12	Feb-94	Jan-95	3.25	6.00	-14%	-2%	-12%	19%	33%	-14%
22	Apr-87	Feb-89	6.75	9.75	-9%	2%	-11%	18%	12%	6%
14	May-83	Jul-84	9.56	11.63	-3%	-9%	6%	32%	30%	2%
10	Aug-80	May-81	10.00	20.00	-2%	8%	-10%	6%	-13%	19%
47	Apr-76	Feb-80	4.88	20.00	26%	11%	15%	-3%	10%	-13%
27	Mar-72	May-74	5.63	13.00	-34%	-17%	-17%	4%	2%	1%
			Commodity Driven Cycles '76-'80 | '04-'06							
		Average			5%	3%	2%	15%	12%	3%
		Avg. w/o Commodity Cycles			-3%	1%	-6%	17%	11%	5%

Figure 10: Stagflation Comparison

Duration	Stagflation Period		Starting	Ending	Performance			Duration	Current Cycle		Starting	Ending	Performance		
Months	Start Date	End Date	Rates	Rates	DJU	S&P500	Relative	Months	Start Date	End Date	Rates	Rates	DJU	S&P500	Relative
24	Apr-76	Apr-78	4.88	6.75	21%	-12%	33%	7	Feb-22	Sep-22	0.25	2.50	15%	-8%	23%
24	Apr-78	Mar-80	6.75	20.00	-8%	11%	-18%	7	Sep-22	Apr-23	2.50	5.00	-11%	2%	-13%
1	Mar-80	Apr-80	20.00	11.00	9%	0%	9%								
2	Apr-80	Jun-80	11.00	9.00	4%	13%	-9%								
17	Jun-80	Oct-81	9.00	19.00	-6%	5%	-11%								
9	Oct-81	Jul-82	19.00	13.00	2%	-7%	10%								
10	Jul-82	May-83	13.00	8.50	20%	47%	-26%								
14	May-83	Jul-84	8.50	11.63	-3%	-8%	5%								

Source: Company Reports, FactSet, UBS Estimates, Global Economic Forecast Database . Note: Current cycle removes 5% relative rally on Ukraine from 2/24 -3/17.

2023 Outlook: Stay Valuation Focused with Catalysts

Figure 11: Top Recommendations

Rating	Ticker	3/31/2023	UBS Price Target	Total Return inc. Div. Yld	UBS 2021A EPS	UBS 2022A EPS	UBS 2023E EPS	UBS 2024E EPS	2024 P/E Ratio	2024 Prem/ Disc	Current Dividend Yield	5 Yr EPS Growth	5 Yr DPS Growth
Buy	AEP	$90.99	$111	25%	$4.74	$5.09	$5.25	$5.64	16.1x	(5%)	3.5%	5.6%	7.0%
Buy	SRE	$151.16	$181	23%	$8.43	$9.21	$8.98	$9.58	15.8x	(7%)	3.0%	6.9%	6.4%
Buy	EMA	$55.52	$63	18%	$2.81	$3.03	$3.29	$3.39	16.4x	(3%)	4.8%	4.6%	4.6%
Buy	SO	$69.58	$79	17%	$3.41	$3.60	$3.65	$4.05	17.2x	2%	3.9%	7.6%	(6.5%)

Rating	Ticker	3/31/2023	UBS Price Target	Total Return inc. Div. Yld	UBS 2020A EBITDA	UBS 2021A EBITDA	UBS 2022A EBITDA	UBS 2023E EBITDA	2023 EV/EBITDA Ratio	2022E Net Debt/EBITDA	2022E FCF Yield	2023 Prem/ Disc
Buy	CEG	$78.50	$108	39%	$3,229	$1,511	$3,425	$3,675	8.6x	2.0x	0%	(5%)

Rating	Ticker	3/31/2023	UBS Price Target	Total Return inc. Div. Yld	UBS 2021A EPS	UBS 2022A EPS	UBS 2023E EPS	UBS 2024E EPS	2024 P/E Ratio	2024 Prem/ Disc	Current Dividend Yield	5 Yr EPS Growth	5 Yr DPS Growth
Buy	WTRG	$43.65	$51	19%	$1.67	$1.77	$1.88	$2.05	21.3x	(20%)	2.5%	8.7%	7.0%

Source: Company Reports, FactSet, UBS Estimates

2023 Outlook: Narrow to Catalysts & Secular Growth Stories

- **SO (Buy, $79 PT).** We believe the company is on track to complete construction of the Vogtle nuclear plant in 2023 and the risk premium in shares should wane as the market begins to apply historical premiums to SO for 1st quartile regulation, 1st quartile EPS growth, and management execution quality. Southern traded at an average 17% premium to the average regulated utility (prior to new nuclear construction) vs. the 2% premium where it trades. The post-Vogtle growth profile should accelerate on fleet transformation opportunities to achieve SO's 2050 net zero carbon emissions goal, in our view.

- **SRE (Buy, $181 PT).** We expect constructive outcomes in Sempra's ongoing rate cases in California and Texas that should provide the base case to achieve management's long term 6-8% eps growth guidance. We see growth opportunities at the regulated utilities around renewable interconnections in Texas and cleaning the natural gas molecule stream through RNG and hydrogen in California. We believe the gas utilities in California have absolute bill headroom despite higher natural gas prices given lower usage levels and average bills of $30-$40/month. On the Sempra Infrastructure Partners side of the company, we see a significant secular growth opportunity around LNG export terminals in North America, with potential catalysts in 2023 the final investment decisions on Port Arthur Phase 1 in 1Q'23 completed and Cameron Train 4 in 3Q'23. We also expect incremental progress toward FID on Port Arthur Phase 2 and continued work to move the Vista Pacifico and ECA Phase 2 projects forward.

- **AEP (Buy, $111 PT).** AEP performed well in 2022, with nearly 10% outperformance vs. the XLU YTD, but the stock trades at a 5% discount multiple. We believe 2023 to be the year it can trade to and sustain a premium valuation given the de-risked business model, favorable load growth trends and a large portion of the growth derived from steady/predictable transmission investments. The company has several potential catalysts in 1H'23, including 1) Closing the KY asset sale; 2) Closing the transaction for the recently announced sale of the contracted renewables; 3) Update on the strategic review of the Retail business; and 4) Updated financing outlook. Despite the FERC denial of the KY Power sale, we believe the issue to be curable with the recent refiling with the FERC.

- **EMA (Buy, $63 PT).** EMA is a balance sheet improvement story with FFO/Debt increasing from year end levels of ~10% at year end '22 to ~12% at year end '23 on cash flow improvement from new rates at Tampa Electric +C$120mln, NM Gas +C$25mln, Caribbean +C$25mln, NSPI +C$100mln from settlement, and C$70mln from the LIL. Fuel recovery in Florida will also increase cash and lower short term debt balances. We see significant capital deployment in Florida driving 7-8% rate base growth with limited equity need beyond the ATM program.

- **CEG (Buy, $108 PT).** We see CEG as the best positioned name within Power having, post the IRA, secured the nuclear production tax credit which provides a floor price of $40-$43.75/MWh on generation output from the nuclear fleet. The PTC value adjusts for inflation each year, and any price above $40-$43.75/MWh. We expect management to provide an update on free cash flow allocation that will either be a repurchase of shares or a consolidation of some of the merchant nuclear plants in the US that they do not currently own as they discussed on the third quarter conference call. We believe CEG should be valued at an infrastructure multiple with an 8% discount applied for nuclear operational risk or 10.8x 2024E EV/EBITDA.

- **WTRG (Buy, $51 PT).** Undervalued water and gas utility trading at wide discount to SOTP since becoming a hybrid in 2020. EPS growth guidance looks conservative at 5% to 7% and balance sheet improving to mid-BBB metric with equity issuance in guidance. Pace of acquisitions could accelerate with issuance of federal US EPA rules on PFAS and closing of DELCORA in 2H'23.

IRA Support for Renewables

Figure 12: Renewable Generation Supported by IRA

Renewable Generation Supported by Inflation Reduction Act of 2022, HR 5376

$ in millions	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	'22-'26	'22-'31
PTC Extension Through 2024 (solar eligible, potential hydro)	$0	-$1,562	-$2,183	-$3,317	-$4,822	-$6,428	-$7,677	-$8,232	-$8,329	-$8,511	-$11,884	-$51,061
ITC Extension Through 2024	$0	-$2,140	-$1,559	-$2,458	-$5,367	-$2,359	-$48	-$38	-$9	$15	-$11,524	-$13,963
Clean Hydrogen	$0	-$72	-$213	-$366	-$554	-$753	-$970	-$1,231	-$1,581	-$2,108	-$1,205	-$7,848
Nuclear PTC. 2032	$0	$0	-$2,188	-$3,524	-$3,710	-$3,838	-$3,960	-$4,050	-$4,279	-$4,452	-$9,422	-$30,001
PTC Extension, 2032	$0	$0	$0	$0	-$12	-$45	-$571	-$1,864	-$3,497	-$5,215	-$12	-$11,204
ITC Extension, 2032	$0	$0	$0	-$39	-$57	-$6,575	-$10,315	-$10,742	-$11,264	-$11,865	-$96	-$50,857
Total											-$34,143	-$164,934
PTC	$0	-$1,562	-$2,183	-$3,317	-$4,834	-$6,473	-$8,248	-$10,096	-$11,826	-$13,726		
Implied Generation Supported by Production Tax Credits, UBS Estimates												
MMWhrs 45% Capacity Factor		104.5	146.0	221.8	323.3	432.9	551.6	675.2	790.9	918.0		
MW		26,500	37,036	56,274	82,011	109,817	139,931	171,283	200,633	232,867		

As posted to website of Senate Majority Leader July 27, 2022
https://www.cbo.gov/publication/58366

Source: Congressional Budget Office, UBS Estimates

UBS

Top-Bottom, Long-Term and Short-Term P/E Quartiles

Figure 13: Short-Term Top P/E Quartile vs. Bottom P/E Quartile Avg

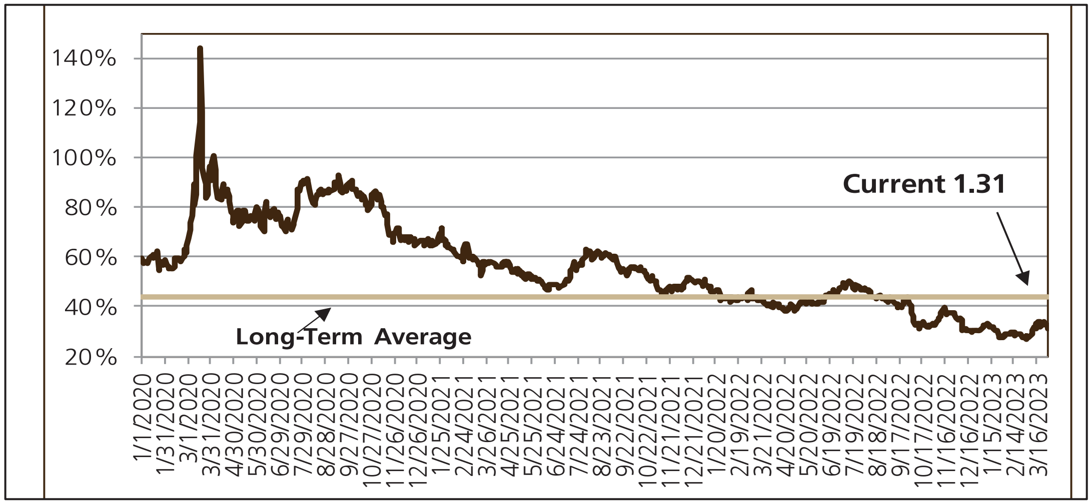
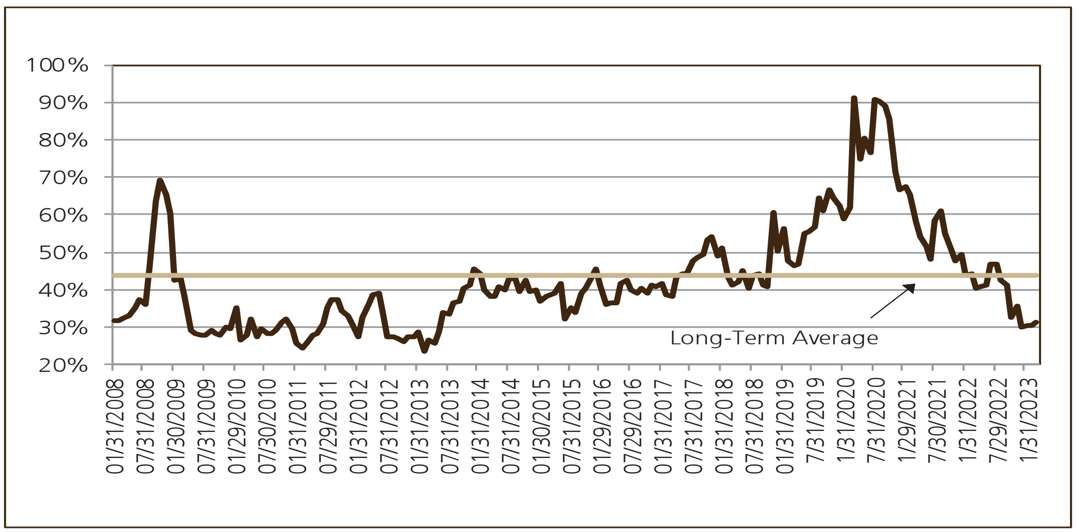


Figure 14: Long-Term Top P/E Quartile vs. Bottom P/E Quartile Avg



Source: FactSet, UBS Equity Research

Regulated Utility FY2 P/E Quartiles

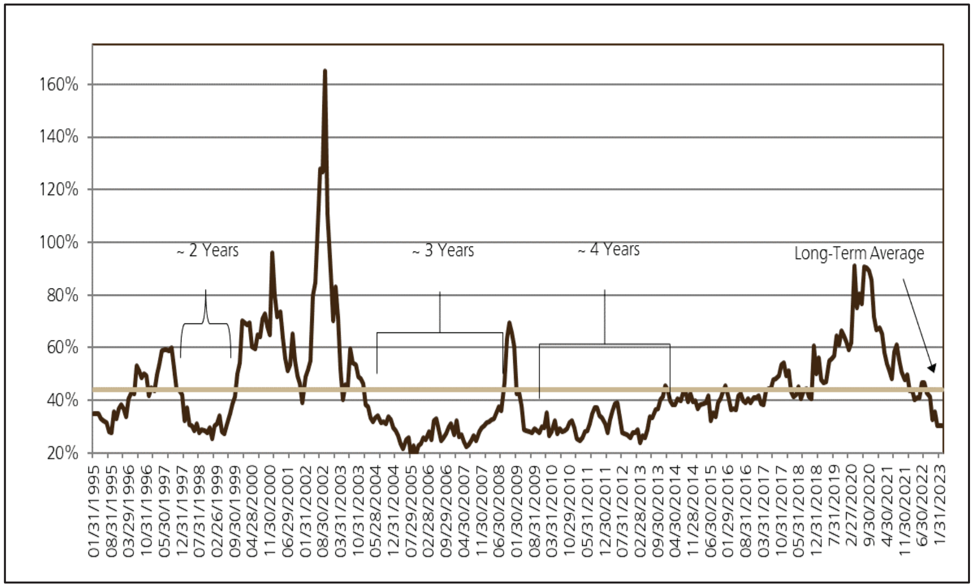
Figure 15: Regulated Utility Quartiles

1st Quartile		2nd Quartile		3rd Quartile		4th Quartile	
NEE	22.7x	PPL	17.6x	ES	16.9x	FE	15.2x
WEC	19.2x	PNW	17.5x	EXC	16.5x	ETR	15.0x
ED	18.6x	LNT	17.4x	DTE	16.4x	D	14.6x
XEL	18.3x	OGE	17.3x	AEP	16.1x	EIX	13.6x
CMS	18.2x	SO	17.2x	DUK	16.0x	AES	12.8x
AEE	18.2x	PEG	17.1x	SRE	15.4x	PCG	11.9x
CNP	18.0x	NI	16.9x	EVRG	15.3x		
Average	19.0x	Average	17.3x	Average	16.1x	Average	13.9x

Source: FactSet, UBS Equity Research

Premium Quartile Names Change in Each Peak Cycle Valuation Spreads Tend to Compress After Peaks

Figure 16: Top-Bottom, Long & Short-Term Averages since 1995



Source: FactSet, UBS Equity Research

Figure 17: Top Quartile Tickers at each Peak Spread

Spread	60%	96%	167%	69%	91%
Month -End	8/29/1997	12/29/2000	9/30/2002	10/31/2008	7/31/2020
	AES	**AES**	**SO**	PPL	NEE
	EIX	**DUK**	HE	**HE**	**WEC**
	DUK	D	ED	**SO**	ES
	KCPL	NU	AEE	PNM	XEL
	OGE	**NI**	**NU**	WEC	CMS
	FPL	EXC	FPL	**ED**	AEE
	AEP	SO	SCG	EXC	LNT
	NI	WR	DTE	DUK	D

BOLD indicates top quartile repeater:

KCPL became **GXP** which merged with WR to become **EVRG**

FPL became **NEE**

NU became ES

WR merged with **GXP** to become **EVRG**

Source: FactSet, UBS Equity Research

The Clean Energy Transition at Lower Relative Risk

Figure 18: The Clean Energy Transition at Lower Relative Risk

2024 VALUATION			GROWTH					CLEAN ENERGY TRANSITION RISK FACTORS				
Ticker	Under Valued vs. Avg	Current Valuation	Expanded 5% Energy Transition Prem.(1)	Current or Transition Growth Opportunity (2)	Current Rate Base Growth Rank	Already Clean (3)	Tons CO2 per MWh	Lower Relative Transition Risk (4)	Relative Regulatory Rank	Leverage Debt to EBITDA	Bill Headroom From Geography (5)	FCF Growth or Potential Alternative Equity Sources
LNT		17.6x	√	√	6		0.53	√	4	5.2x		ATC
AEE		18.1x		√	8		0.69		13	4.8x		
AEP	√	16.6x	√	√	20		0.57	√	15	5.3x	TX	Kentucky/Renewable Sales
CNP		17.7x	√	√	3		1.08	√	23	4.6x	TX	Gas Distribution
CMS		18.8x		√	18		0.47		2	5.1x		
ED		18.2x	√		22	√	0.25		29	4.7x		Renewable Sale
D		16.0x		√	2		0.29		11	5.2x		Millstone; Cove Point
DTE		17.4x		√	11		0.61		2	5.7x		
DUK		17.0x		√	13		0.35		10	6.0x	NC/SC/FL	Renewable Sale
EIX	√	12.5x	(6)		23	√	0.21		19	5.3x	CA	
EMA	√	14.9x	√	√	29		0.45	√	5	6.5x	FL	Emera Energy Segment
ETR		14.4x			5		0.35		24	7.0x	LA; TX	
ES		17.9x	√		16	√	0.00		27	6.4x		Offshore Wind
EVRG		15.8x		√	14		0.51		26	5.1x		
EXC	√	16.8x	√		10	√	0.11		20	4.8x		
FE		16.2x		√	28		0.72		12	5.6x		Minority Utility Opco Interest
FTS		17.3x			21		0.35		22	6.4x	AZ	ITC
NEE		24.3x	√	√	7	√	0.19	√	1	5.6x	FL	NEER
NI	√	16.4x		√	1		0.66		9	5.0x		Indiana utility stake
OGE		17.8x	√	√	27		0.46	√	18	4.6x	OK	Energy Transfer Stake
PCG		11.5x	(6)	√	4	√	0.05		17	5.8x	CA	Minority Generation Sale
PNW		16.2x		√	17		0.39		28	5.5x	AZ	
PPL		17.0x		√	25		0.84		15	2.6x		
PEG	√	16.7x	√		12	√	0.17		14	4.5x		Nuclear Fleet
SRE	√	15.6x	√	√	15	√	0.21	√	21	4.4x	CA/TX	Sempra Infra. Partners
SO		17.4x	(7)	√	26		0.39	√	7	6.0x	GA	Vogtle FCF Upon Completion
WEC		18.7x	√	√	9		0.48	√	6	4.5x		Power the Future; ATC
XEL		18.8x	√	√	19		0.39	√	25	5.3x	TX	Largest Regulated Wind MWs
Avg		**17.1x**										

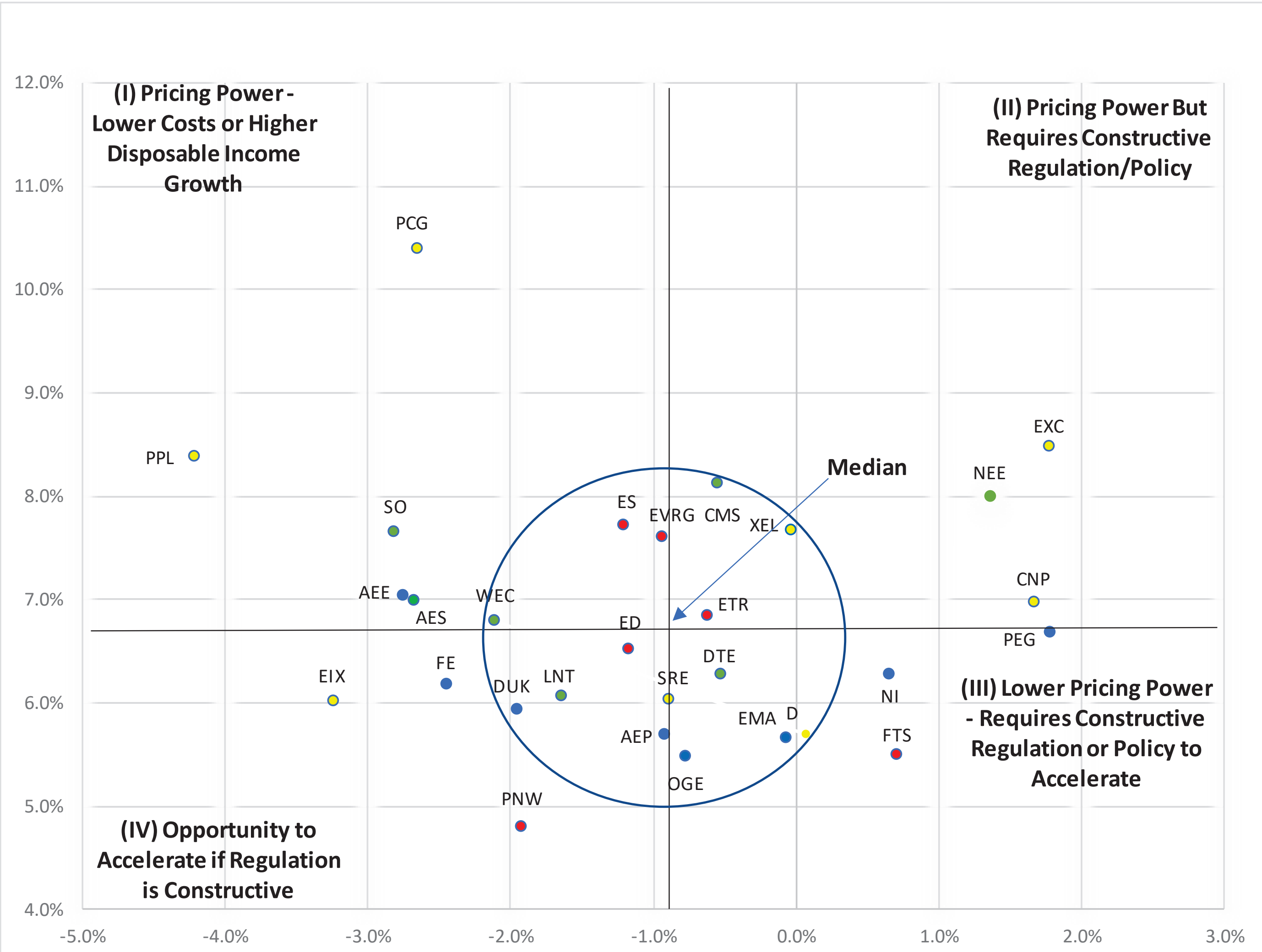
(1) Energy Transition Premium awarded to already clean companies; or companies with top growth and lower relative risk transition growth opportunities
(2) Criteria met if in the top quartile (1-7) current growth profiles; or having >0.39 tons CO2/MWh constituting a transition growth opportunity (coal to retire)
(3) Criteria met if company has <0.25 tons CO2/MWh (clean without coal)
(4) Criteria met if at least three of four lower risk factors are present including top quartile (1-7) regulation and top half debt/EBITDA, 5.3x.
(5) Service territory in states where we see in-migration and positive household formation long term or high EV penetration driving an accelerating ecosystem
(6) EIX and PCG would meet criteria but we do not award a premium given wildfire concerns
(7) SO would meet criteria but they are constructing a new nuclear power plant at Vogtle Unit 3 and Unit 4

Source: FactSet, UBS Equity Research Estimates, CO2 tons/MWh from EEI/AGA ESG Templates (Link)

UBS

Pricing Power: Affordability Inflation vs. EPS Growth

Figure 19: Pricing Power



Source: Company Filings, FactSet, S&P Global Market Intelligence, UBS Equity Research Estimates

- Bill inflation is calculated as the increase in annual bills/disposable income, annualized.
- Disposable income is grown at state forecast GDP, and a weighted average is taken by company.
- Our May 2022 analysis called out pressures for D. EMA, NI, and WEC all of which came to fruition to some degree in late '22
- Updated analysis shows pressure for FTS and NI; more importantly pricing power for PCG, PPL, and SO. And potential for accelerating growth on pricing power if regulation is supportive for EIX, FE, and PNW.

UBS

Updated Ranking of Fundamental Factors

Rate Base Growth is Increasing, and Backwardation is Bullish

Our updated capex and rate base growth survey shows the 5-year forecast for spending is $714Bln for 2022-2027 up 10% versus 2021-2026. We forecast an annual rate base growth of 7.3% slightly below 7.5% previously and with upside to 8-10%.

Figure 20: Rate Base Growth

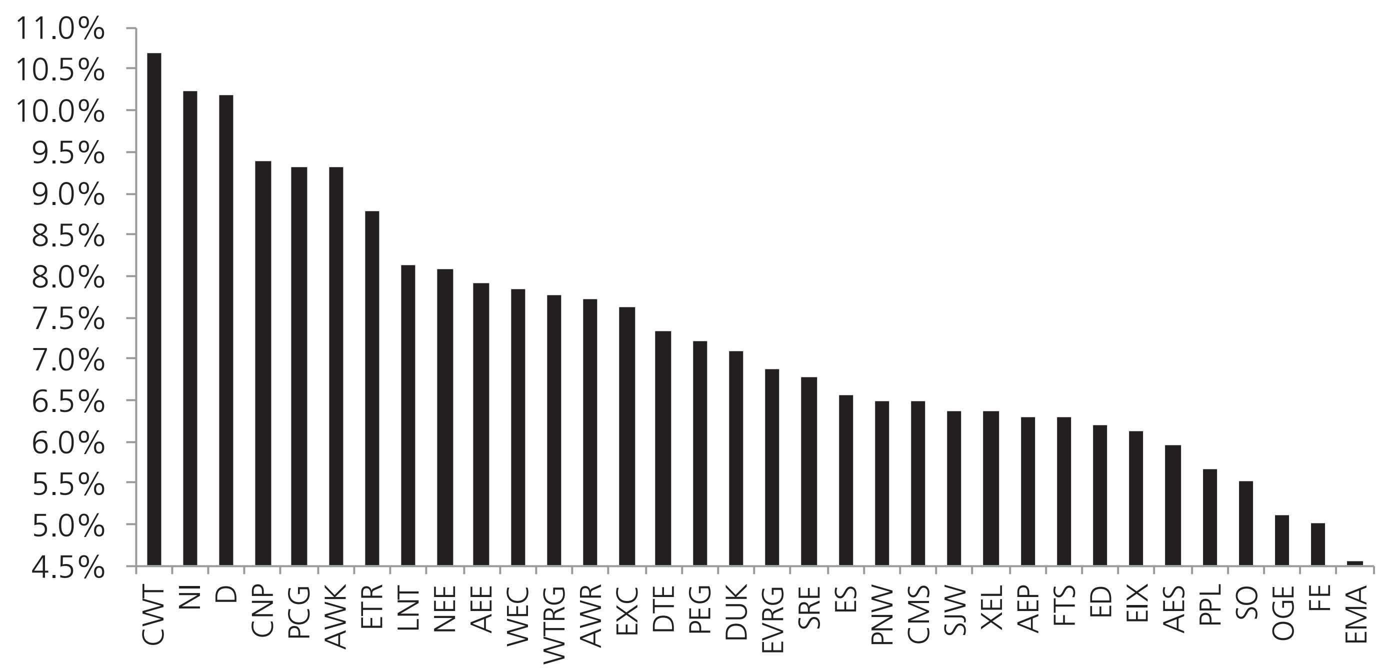
Cap-ex Dollars in Millions	2020A	2021A	2022A	2023E	2024E	2025E	2026E	2027E		
Electric Distribution	$41,732	$43,774	$52,483	$52,503	$56,148	$56,825	$56,342	$57,656		
Gas Distribution	$14,957	$20,080	$21,311	$22,265	$22,191	$22,596	$22,579	$22,372		
Distribution	$59,905	$63,855	$73,794	$74,767	$78,339	$79,421	$78,921	$80,028		
Transmission	$22,983	$23,867	$24,808	$26,493	$27,870	$28,214	$27,763	$27,827		
Renewable Generation		$6,254	$8,744	$15,249	$14,556	$18,226	$16,677	$15,911		
Non-Renewable Generation	$21,202	$8,972	$7,558	$13,937	$12,300	$12,324	$12,512	$13,058		
Environmental	$1,688	$2,719	$2,096	$1,843	$1,654	$1,540	$1,465	$1,346		
Grid-Modernization	$4,506	$5,599	$5,727	$6,584	$6,515	$6,199	$6,093	$6,116		
Networks	$69,221	$73,241	$83,017	$85,579	$90,534	$91,238	$90,197	$91,598		
UBS Universe Cap-ex	$107,067	$111,265	$122,726	$138,873	$141,234	$145,924	$143,430	$144,285		
Year over Year-Total	14.4%	3.9%	10.3%	13.2%	1.7%	3.3%	-1.7%	0.6%		
Rolling 3 year-Total	7.6%	6.3%	9.0%	9.0%	8.2%	5.9%	1.1%	0.7%	**2022**	**2023**
Ratebase	**2020A**	**2021A**	**2022A**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**'21-'26E**	**'22-'27E**
Networks	$540,957	$587,946	$634,568	$680,925	$729,461	$775,900	$818,707	$860,412	6.4%	6.3%
Generation	$231,839	$248,256	$273,100	$309,492	$341,314	$374,936	$405,093	$432,779	10.0%	9.6%
Starting Ratebase	$707,924	$772,795	$836,203	$907,668	$990,416	$1,070,774	$1,150,836	$1,223,799		
Capital Expenditures	$107,067	$111,265	$122,726	$138,873	$141,234	$145,924	$143,430	$144,285		
Depreciation	-$42,196	-$47,858	-$51,261	-$55,243	-$59,152	-$63,096	-$66,748	-$70,272		
Ratebase Additions	$64,871	$63,407	$71,465	$83,630	$82,082	$82,828	$76,683	$74,013		
IRA Offset to Ratebase				-$882	-$1,725	-$2,766	-$3,720	-$4,622		
UBS Universe Ratebase	$772,795	$836,203	$907,668	$990,416	$1,070,774	$1,150,836	$1,223,799	$1,293,191	7.5%	7.3%
Year over Year-Ratebase	9.2%	8.2%	8.5%	9.1%	8.1%	7.5%	6.3%	5.7%		

Source: S&P Capital IQ Pro, FactSet, UBS Estimates

UBS

5-Year Regulated Utility Rate Base Growth %

Figure 21: 5-Year Rate Base Growth Forecast 2022A-2027E



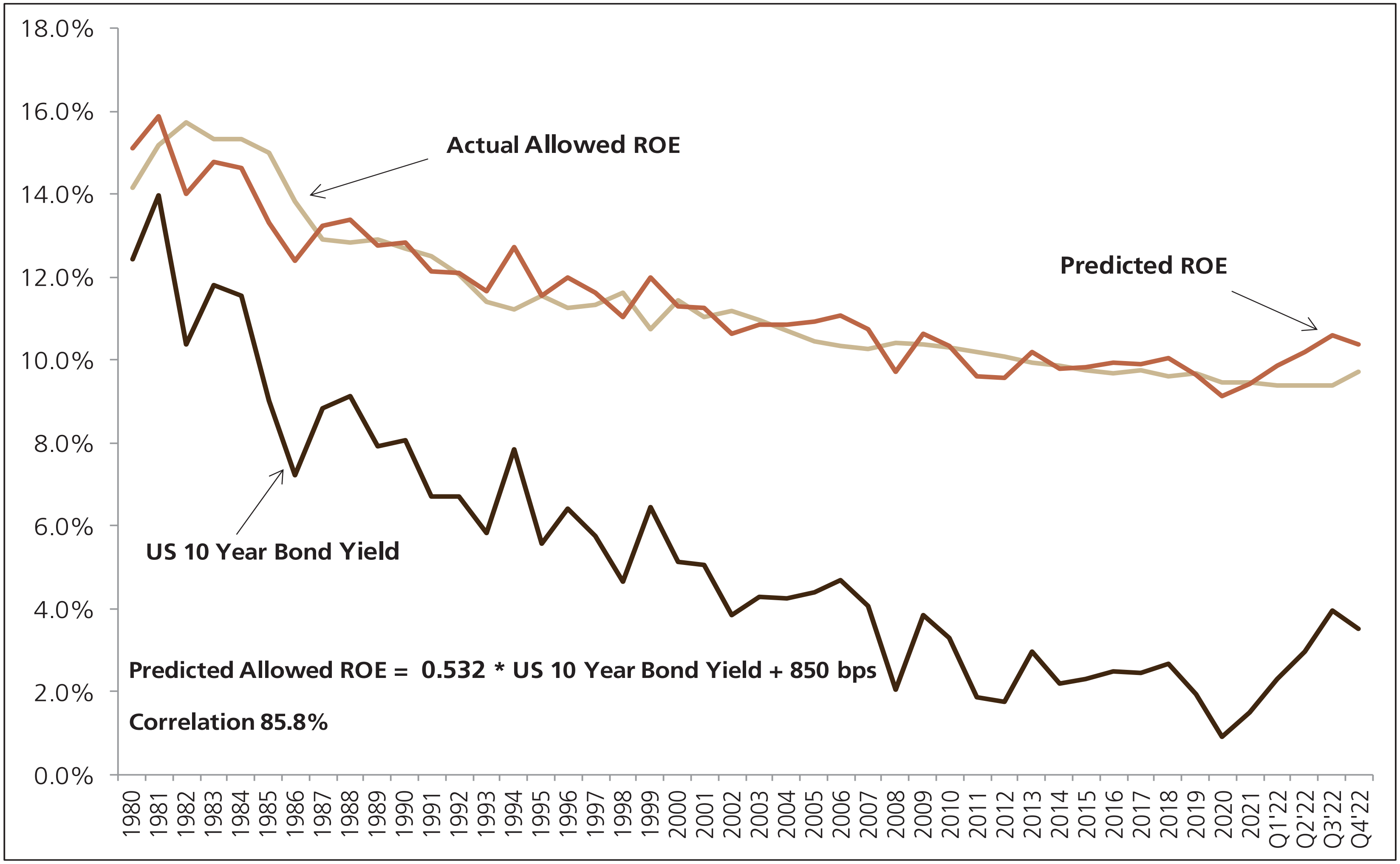
Rate base Growth Calculated 2022A-2027E	Current Growth	High Growth	Low Growth
1st Quartile	9.3%	10.7%	8.1%
2nd Quartile	7.5%	7.9%	6.9%
3rd Quartile	6.5%	6.8%	6.3%
4th Quartile	5.5%	6.2%	5.1%
Median	7.0%		

Source: FactSet, S&P Capital IQ Pro, UBS Estimates

Regulatory Support Continues for Infrastructure Spending

619 bp allowed ROE spread to the 10 year

Figure 22: RU Authorized ROE and the 10 Year Note Relationship

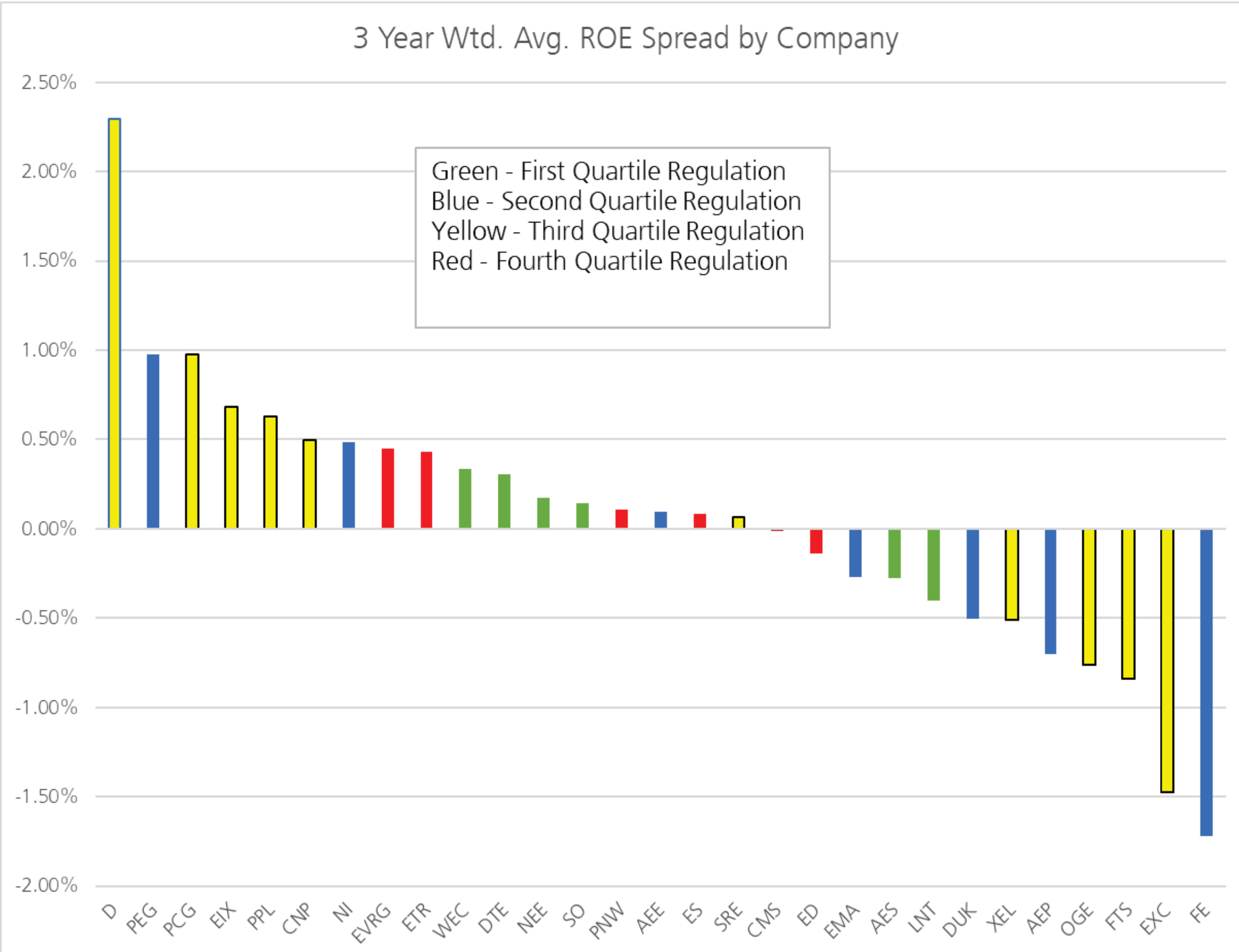


Source: FactSet, S&P Capital IQ Pro, UBS Estimates

UBS

ROE Spreads vs. Regulatory Quartile 2019-2021

Figure 23: RU Authorized ROE and the 10 Year Note Relationship



Source: FERC Form 1s, S&P Capital IQ Pro, UBS Securities LLC, FactSet

EPS and Rate Base Growth Guidance and Timing

Figure 24: EPS and Rate Base Growth Guidance

Company	Ticker	Rate base Growth Guidance	EPS Growth Guidance	Ratebase Guidance 2023 $B	EPS Guidance 2023	When do they give new rate base guidance?	When do they give new forward EPS guidance?
AES Corp	AES	N/A	7%-9%	N/A	$1.65-$1.75	N/A	4Q Results
Alliant Energy	LNT	8.0%	5%-7%	$13.2	$2.82-$2.96	November	3Q Results
Ameren corp	AEE	8.0%	6%-8%	$24.9	$4.25-$4.45	4Q Results	4Q Results
American Electric Power	AEP	7.6%	6%-7%	$62.8	$5.19-$5.39	November	November
Centerpoint Energy	CNP	11.0%	8%	$22.5	$1.48-$1.50	November	November
CMS Energy	CMS	7%	6%-8%	$24.1	$3.06-$3.12	4Q Results	3Q Results
Consolidated Edison	ED	6.2%	5%-7%	$39.4	$4.75-$4.95	4Q Results	4Q Results
Dominion Energy (b)	D	9.0%	6.5%		N/A	4Q Results	4Q Results
DTE Energy (a)	DTE	Elec 7%-8%/Gas 9%	6%-8%	N/A	$6.09-$6.40	4Q Results	3Q Results
Duke Energy (c)	DUK	7.1%	5%-7%	$100.2	$5.55-$5.75	4Q Results	4Q Results
Edison International	EIX	8.6%	5-7%	$41.6	$4.55-$4.85	4Q Results	4Q Results
Emera Inc	EMA	6%-8%	N/A		N/A	3Q Results	N/A
Entergy Corp	ETR	7%-8%	6%-8%	$35.0	$6.55-$6.85	June	June
Evergy Inc	EVRG	6.0%	6%-8%	$18.8	$3.55-$3.75	4Q Results	4Q Results
Eversource Energy	ES	7.5%	5%-7%	$26.2	$4.25-$4.43	4Q Results	4Q Results
Exelon Corp.	EXC	7.9%	6%-8%	$56.2	$2.30-$2.42	4Q Results	N/A
FirstEnergy Corp	FE	6.5%	6%-8%	$27.0	$2.44-$2.64	3Q Results	3Q Results
Fortis Inc	FTS	6.0%	N/A		N/A	September	N/A
NextEra Energy	NEE	9.0%	9.8%	N/A	$2.98-$3.13	June/July	June/July
NiSource	NI	8%-10%	6%-8%	$17.7	$1.54-$1.60	November	November
OGE Energy Corp	OGE	N/A	5%-7%	N/A	$1.93-$2.07	4Q Results	4Q Results
PG&E Corp	PCG	9.5%	10%	$58.0	$1.19-$1.23	4Q Results	4Q Results
Pinacle West Capital Corporation	PNW	5%-7%	5%-7%	$13.1	$3.95-$4.15	3Q Results	3Q Results
PPL Corporation	PPL	5.6%	6%-8%	$25.2	$1.50-$1.65	4Q Results	4Q Results
Public Service Enterprise Group (c)	PEG	6.0%-7.5%	5%-7%	$27.9	$3.40-$3.50	3Q Results	N/A
Sempra Energy	SRE	9.0%	6%-8%	$49.6	$8.60-$9.20	March	March
Southern Company	SO	6.0%	5%-7%	$72.1	$3.55-$3.65	4Q Results	4Q Results
WEC Energy Group	WEC	7.4%	6.5%-7%	$28.5	$4.58-$4.62	3Q Results	3Q Results
Xcel Energy	XEL	N/A	5%-7%	N/A	$3.30-$3.40	3Q Results	3Q Results
American Water Works Company	AWK	8%-9%	7%-9%	N/A	$4.72-$4.82	3Q Results	3Q Results
Essential Utilities	WTRG	Water 6%-7%/Gas 8%-10%	5%-7%	$10.5	$1.85-$1.90	4Q Results	4Q Results
SJW Group	SJW	N/A	N/A	N/A	$2.40-$2.50	4Q Results	4Q Results
(a) DTE ratebase is 2021		Gas 9%-10%					

(b) D announced a comprehensive business in Q4'22 which may impact the EPS and rate bse growth outlooks shown above.
(c) Both DUK and PEG have recently rebased earnings off 2023 earnings, which lowered growth trajectory vs. prior guidance.

Source: FactSet, S&P Capital IQ Pro, UBS Estimates. 2023 EPS guidance reflects OG&E and parent.

Regulatory Jurisdictional Rankings – Location Matters

Our current rankings are below, including Canadian provinces that regulate the subsidiaries of publicly traded utilities.

Figure 25: Regulatory Jurisdiction Rankings

TIER 1	TIER 2	TIER 3	TIER 4	TIER 5
		New Jersey		
		Virginia		
		California		
		Missouri		
		North Dakota		
		Ohio		
		Oklahoma		
		Oregon		
		Tennessee		
		Washington		
		Newfoundland & Labrador	Rhode Island	
		Ontario	Nova Scotia	
Florida	Alabama	Wyoming	West Virginia	
British Columbia	Idaho	South Carolina	Kansas	New York
North Carolina	Pennsylvania	Texas	Minnesota	Alberta
Michigan	Arkansas	Prince Edward Island	Nevada	Vermont
Wisconsin	FERC	Hawaii	Nebraska	South Dakota
Georgia	Illinois	Louisiana	District of Columbia	Connecticut
Indiana	Colorado	Massachusetts	Mississippi	Maine
Iowa	Delaware	Alaska	New Hampshire	Montana
Utah	Kentucky	Maryland	New Mexico	Arizona
JD Power Average Customer Service Scores				
755	754	743	736	707

Source: Canadian Provincial Regulatory Websites, S&P Capital IQ Pro, FactSet, JD Power, UBS Estimates

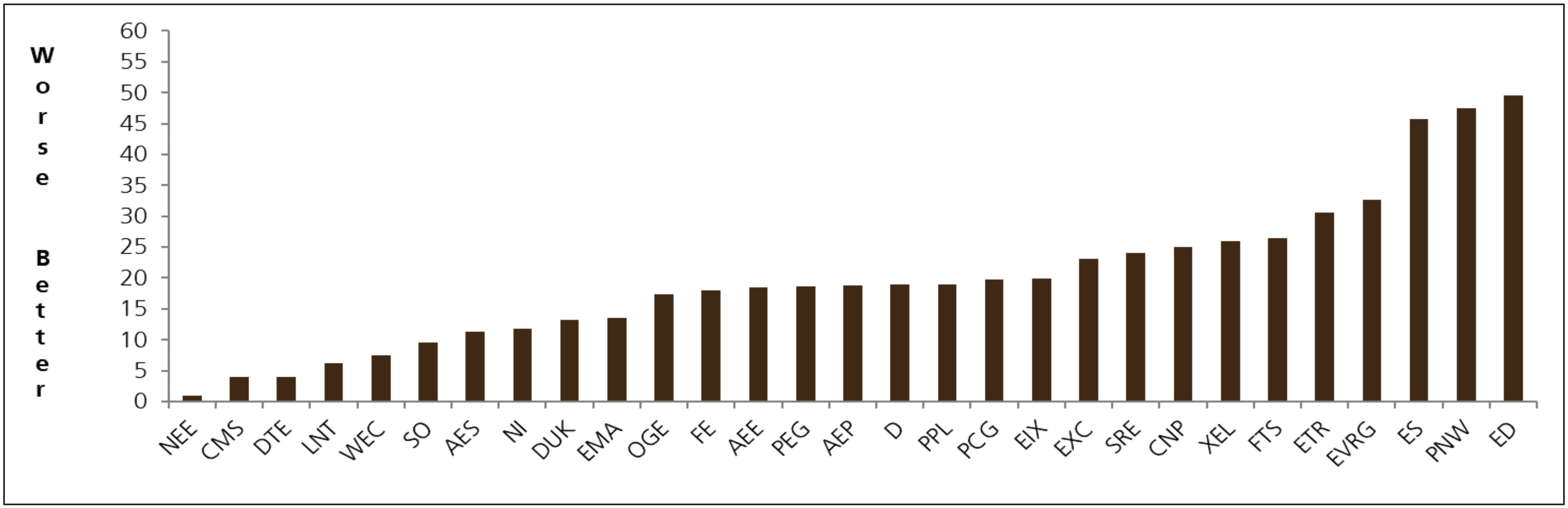
WAVG Regulatory Ranking by Company/Metrics by Tier

Figure 26: Regulated Utility Quartiles

Metric	1st Quartile	2nd Quartile	3rd Quartile	4th Quartile
Ratebase Growth '21-'26E	7.3%	7.1%	7.2%	7.2%
Price/Book	2.63x	2.14x	1.91x	1.70x
Earned ROE	9.9%	10.3%	9.2%	9.2%
Customer Service Rank	8	16	13	24

Source: FactSet, S&P Capital IQ Pro, UBS Estimates

Figure 27: Weighted Average Regulatory Ranking



Source: FactSet, S&P Capital IQ Pro, UBS Estimates

Consistency is Rewarded in Utilities – 2022

Figure 28: Time Beat & Time Beat/Meet Quartiles

	% Time Beat	% Time Beat/Meet	% Beat Ests	vs S&P 500	vs XLU
1st	94%	94%	5%	-4%	-1%
2nd	79%	92%	5%	-4%	-1%
3rd	67%	75%	3%	-7%	-4%
4th	37%	51%	5%	-5%	-2%
Average	70%	79%	5%	-5%	-2%

Figure 29: Time Beat (based of last 10 years) & Time Beat/Meet (based on total years giving guidance)

	% Time Beat	% Time Beat/Meet	% Beat Ests	vs. S&P 500	vs. XLU	Beat	Miss	Meet
Average	70%	79%	4.5%	-4.9%	-2.1%	7	2	1
	% Time Beat	% Time Beat/Meet	% Beat Ests	vs. S&P 500	vs. XLU	Beat	Miss	Meet
ETR	100%	100%	13.2%	-4.9%	-2.8%	10	0	0
AEP	100%	90%	3.2%	-2.4%	-0.3%	9	1	0
WEC	100%	100%	2.1%	-3.1%	-0.1%	10	0	0
SRE	90%	90%	7.0%	-3.9%	-1.4%	9	1	0
DTE	90%	90%	5.6%	-1.9%	0.4%	9	1	0
PEG	90%	100%	3.0%	-5.6%	-2.9%	9	0	1
ED	90%	80%	2.3%	-8.6%	-5.5%	8	2	0
XEL	90%	100%	1.4%	-0.2%	2.1%	9	0	1
CNP	80%	100%	8.6%	-9.4%	-7.0%	8	0	2
PPL	80%	89%	5.1%	-15.6%	-12.7%	8	1	0
AEE	80%	100%	3.7%	0.7%	3.1%	8	0	2
NI	80%	89%	2.7%	1.5%	3.6%	8	1	0
NEE	80%	90%	1.9%	5.4%	8.6%	8	1	1
CMS	80%	90%	0.7%	-0.7%	1.6%	8	1	1
EIX	70%	86%	12.5%	-9.8%	-7.3%	6	1	0
FE	70%	60%	5.4%	-18.2%	-14.8%	6	4	0
LNT	70%	70%	2.9%	-0.9%	1.2%	7	3	0
SO	70%	88%	2.5%	-8.8%	-5.6%	7	1	0
AWK	70%	90%	2.4%	5.3%	7.7%	7	1	2
PNW	70%	70%	2.3%	-11.0%	-7.0%	7	3	0
EXC	60%	78%	3.5%	-5.6%	-1.4%	6	2	1
DUK	60%	70%	1.1%	-8.4%	-5.2%	7	3	0
EVRG	50%	71%	7.3%	-2.8%	-0.3%	5	2	0
AES	50%	50%	2.1%	-1.1%	1.3%	4	5	1
OGE	40%	40%	5.7%	-11.6%	-8.9%	4	6	0
D	40%	40%	0.4%	-1.2%	-1.0%	3	6	1
PCG	30%	50%	21.1%	-5.7%	-2.9%	3	4	1
WTR	30%	67%	1.0%	-8.0%	-2.8%	3	2	1
ES	20%	40%	0.9%	-4.5%	-1.5%	3	6	1

Note: % Time Beat is of last 10 years and % Time Beat/Meet is based on total years giving guidance.

Source for Figures 28-29: FactSet, S&P Capital IQ Pro, UBS Estimates

US Electric Bills Low Allowing Headroom for Investment

Electric affordability best since the 1960s:

- Electricity is 1.0% of consumer spending
- Electric bills rank 12th in the list of household burdens
- We forecast utility costs as a % of disposable income as rangebound through 2027E at levels consistent with the early 1970s
- Risk to this view is continued sustained inflation on a more resilient economy or stagflation backdrop

Figure 30: Electricity Cost as a % of Disposable Income 1965-2022 Actual, 2023-2027 Forecast

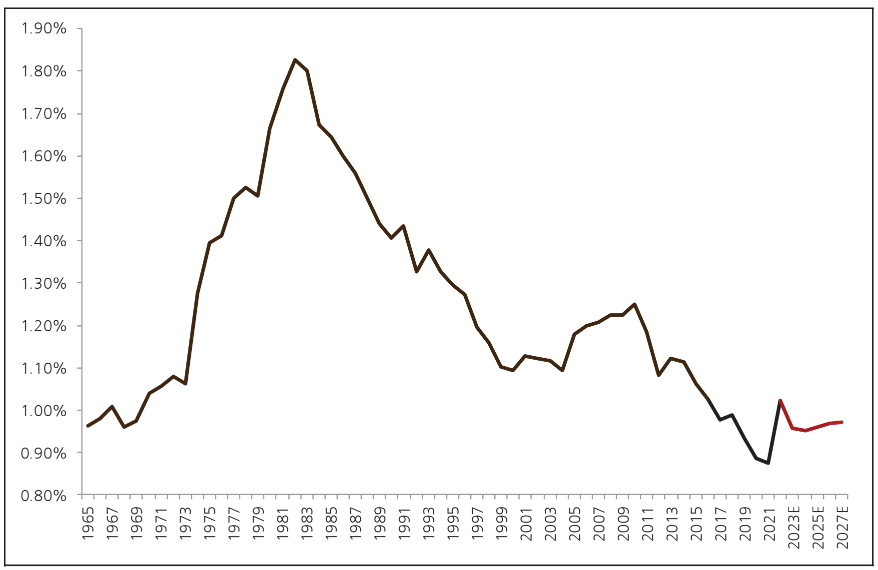
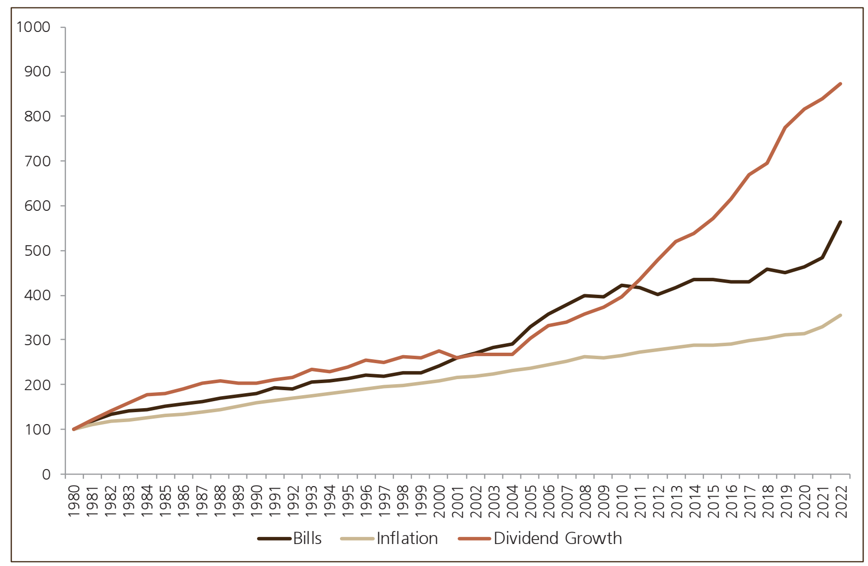


Figure 31: Increase in Electric Bills, Inflation, and Annual Regulated Utility Dividends since 1980



Source for Figures 30-31:- US Bureau of Economic Analysis, Energy Information Administration, FactSet, UBS Estimates, EEI Annual Financial Review, Freddie Mac 2019 Household formation study: U.S. Population Growth: Where is housing demand strongest?

UBS

US Electric Bills – Inflation - O&M Headroom/Flex Matters

In the current inflationary environment O&M Headroom matters:

- Low O&M comparatively can lead to better regulatory outcomes
- Higher non-fuel O&M may lead to an opportunity to flex to mitigate customer bill pressures and lower regulatory risks around rate cases

Figure 32: Non-Fuel O&M per Customer

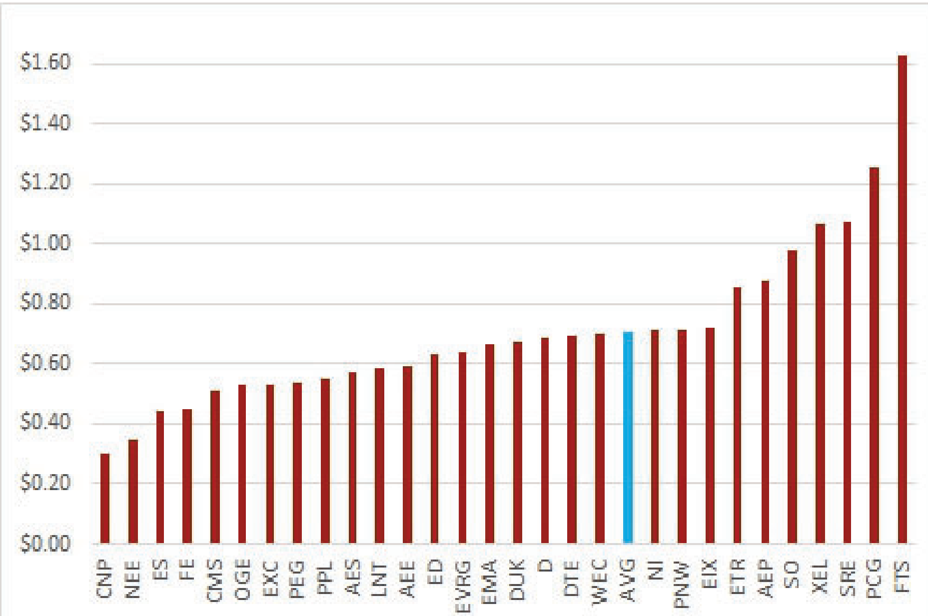
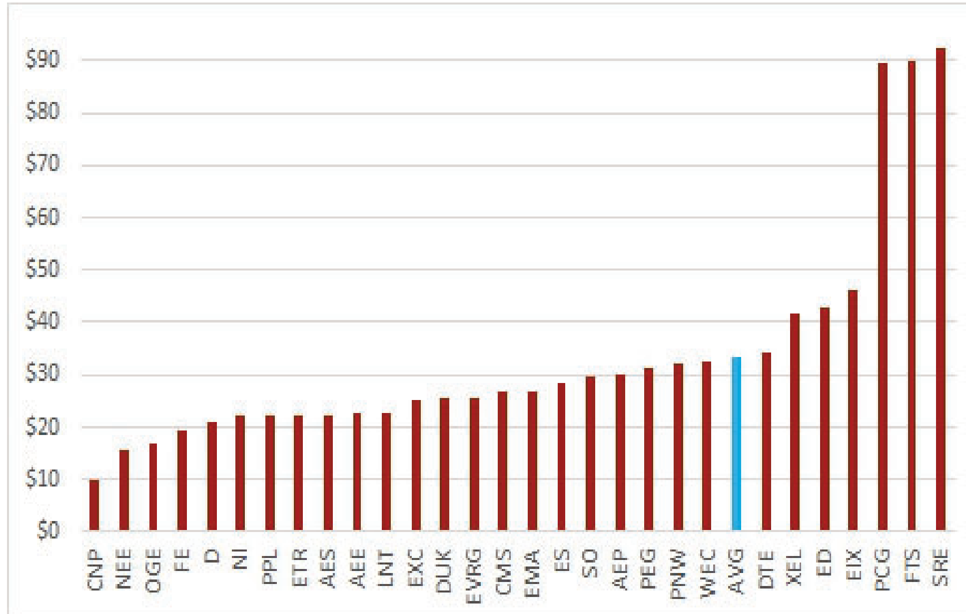


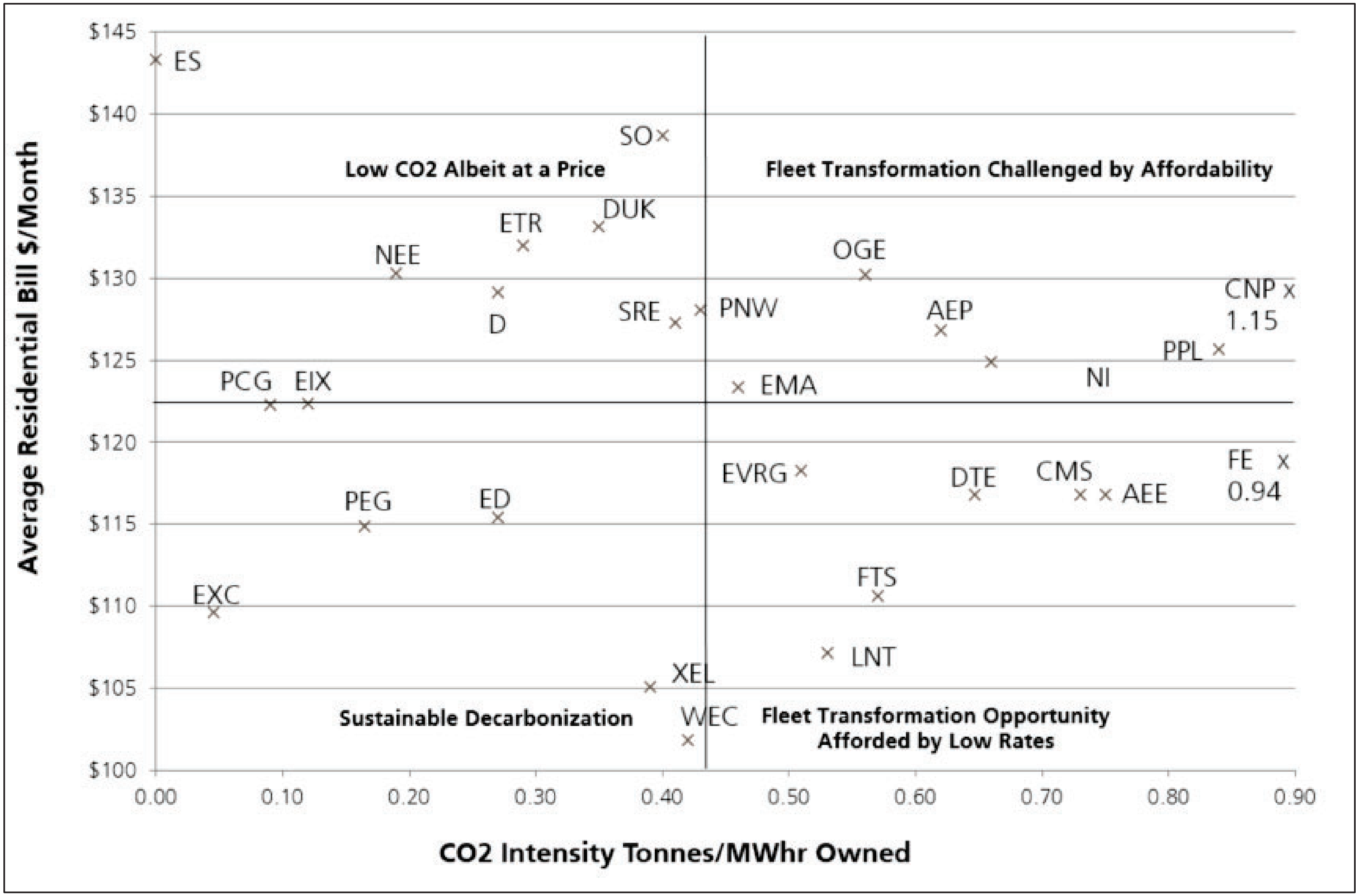
Figure 33: Non-Fuel O&M per MWh



Source for Figures 32-33: S&P Global Market Intelligence, UBS Estimates

Low Bills Connect Regulators with Customers

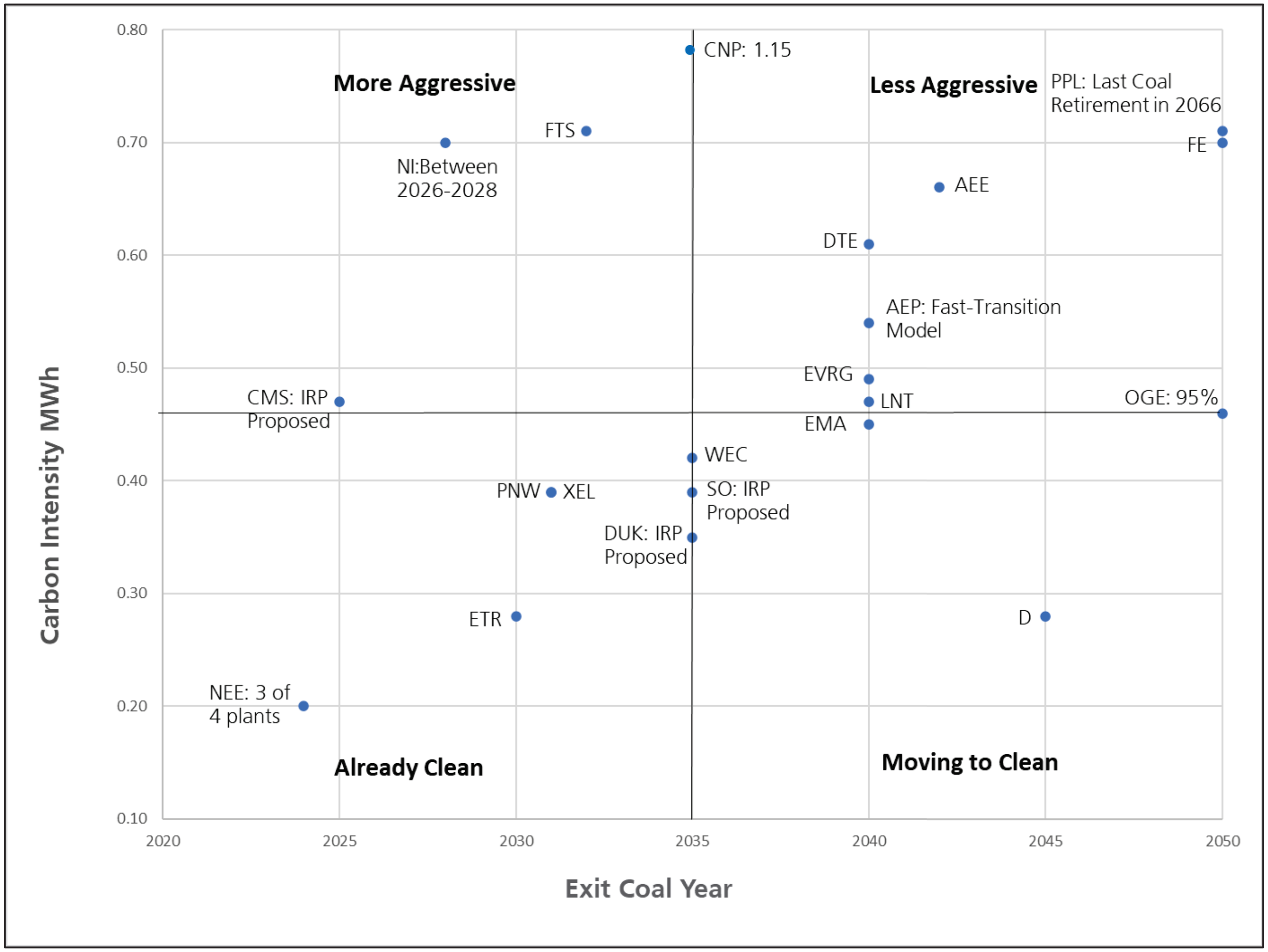
Figure 34: Residential Bill - CO2 Intensity and Customer Costs



Source: S&P Capital IQ Pro, UBS Research, Edison Electric Institute ESG/Sustainability Templates

Coal Retirement Goals vs. Carbon Intensity

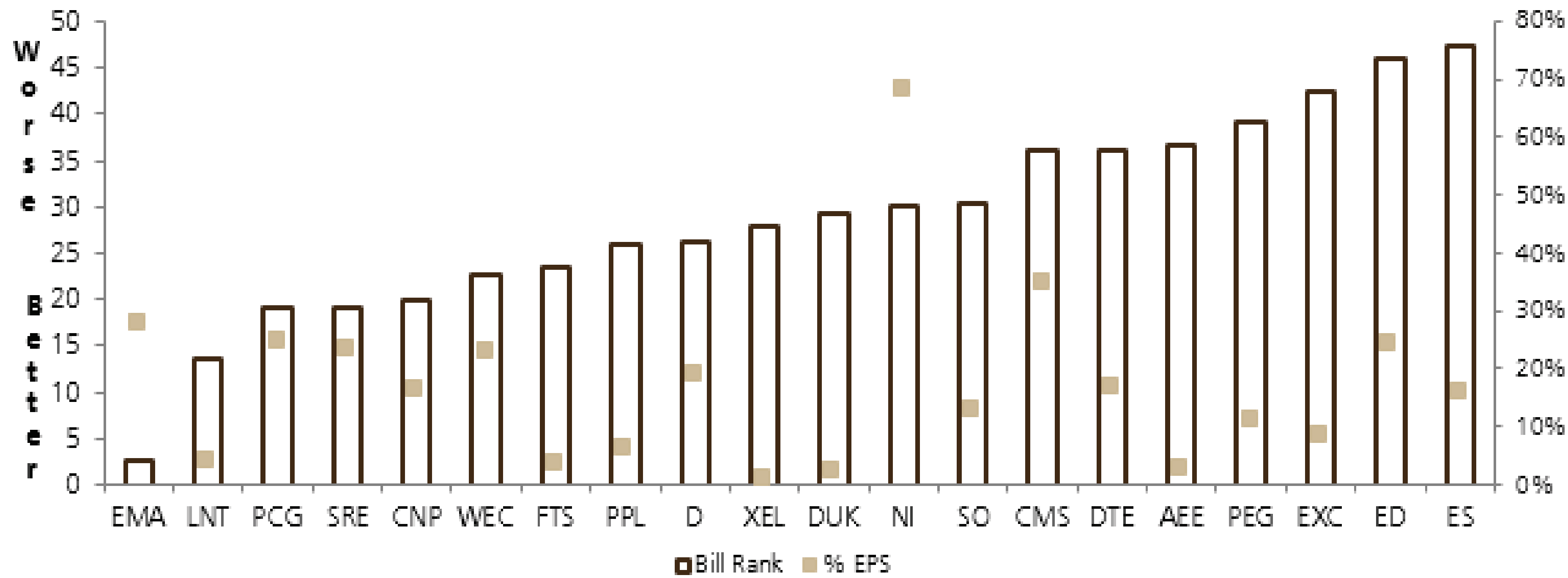
Figure 35: Coal Retirement Goals vs. Carbon Intensity



Source: Company Reports, ESG/Sustainability Report

Gas Bills vs. Regulation and Scale

Figure 36: Gas LDCs

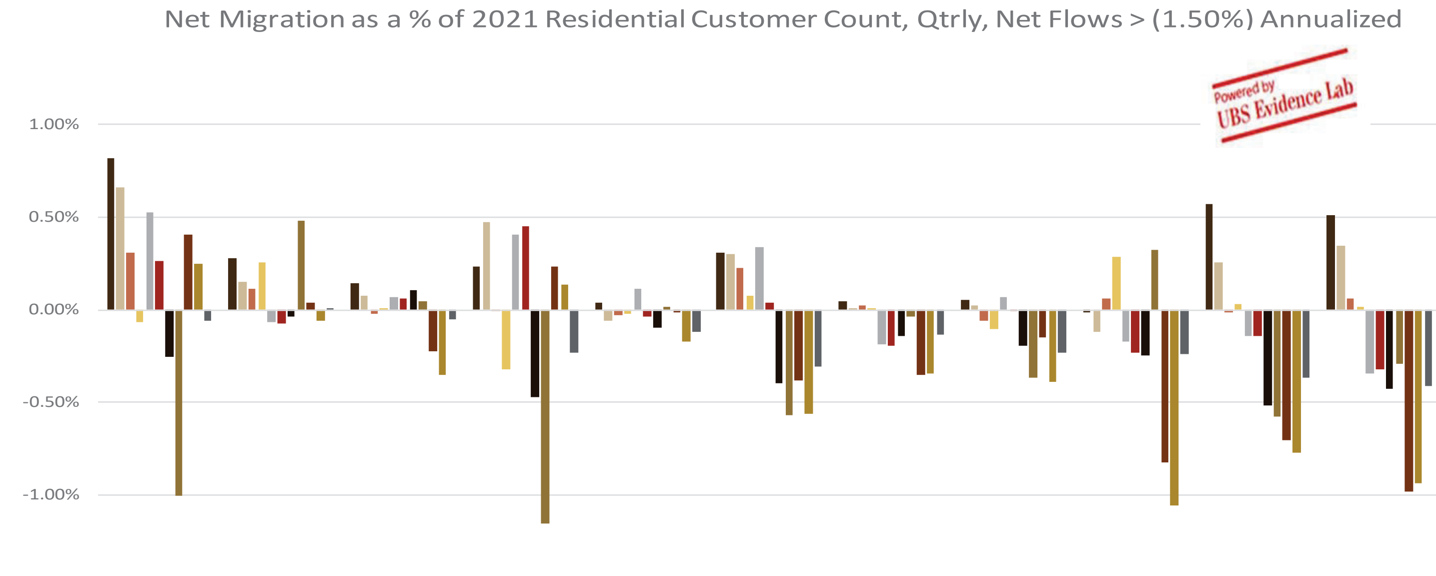


Note: for NI we have increased the gas EPS% by 5% ahead of NI's intention to sell 19.9% of NIPSCO
Source: EIA, AGA, UBS Equity Research

UBS Evidence Lab inside – Net Migration Update

Utilities with net migration flows greater than (1.50%): PNW, UTL, NEE, PNM, CNP, EMA, DUK, FE, BKH, AVA, and IDA.

Figure 37: Top Eleven Utility Service Territories by Net Migration Since 3Q 2020



	Pinnacle West Capital Corp	Unitil Corp	NextEra Energy Inc	PNM Resources	CenterPoint Energy Inc	Emera Inc	Duke Energy Corp	FirstEnergy Corp	Black Hills Corp	Avista Corp	Idacorp Inc
3Q 2020	0.82%	0.28%	0.14%	0.24%	0.04%	0.31%	0.05%	0.05%	-0.01%	0.57%	0.51%
4Q 2020	0.66%	0.15%	0.08%	0.48%	-0.06%	0.30%	0.00%	0.02%	-0.12%	0.26%	0.34%
1Q 2021	0.31%	0.12%	-0.02%	-0.01%	-0.03%	0.22%	0.02%	-0.06%	0.06%	-0.02%	0.06%
2Q 2021	-0.07%	0.26%	0.00%	-0.32%	-0.02%	0.07%	0.01%	-0.11%	0.29%	0.03%	0.02%
3Q 2021	0.53%	-0.07%	0.07%	0.41%	0.12%	0.34%	-0.18%	0.07%	-0.17%	-0.14%	-0.35%
4Q 2021	0.27%	-0.08%	0.06%	0.45%	-0.04%	0.04%	-0.19%	-0.01%	-0.23%	-0.14%	-0.32%
1Q 2022	-0.26%	-0.04%	0.11%	-0.47%	-0.10%	-0.40%	-0.14%	-0.19%	-0.25%	-0.52%	-0.43%
2Q 2022	-1.01%	0.48%	0.04%	-1.16%	0.01%	-0.57%	-0.04%	-0.37%	0.32%	-0.58%	-0.29%
3Q 2022	0.40%	0.03%	-0.22%	0.23%	-0.01%	-0.38%	-0.35%	-0.15%	-0.82%	-0.71%	-0.98%
4Q 2022	0.25%	-0.06%	-0.35%	0.14%	-0.17%	-0.56%	-0.34%	-0.39%	-1.06%	-0.78%	-0.94%
1Q 2023	-0.06%	0.01%	-0.05%	-0.24%	-0.12%	-0.31%	-0.13%	-0.23%	-0.24%	-0.37%	-0.41%

3Q 2020 4Q 2020 1Q 2021 2Q 2021 3Q 2021 4Q 2021 1Q 2022 2Q 2022 3Q 2022 4Q 2022 1Q 2023

Source: UBS Evidence Lab (> UBS Evidence Lab), USPS, UBS Equity Research Estimates

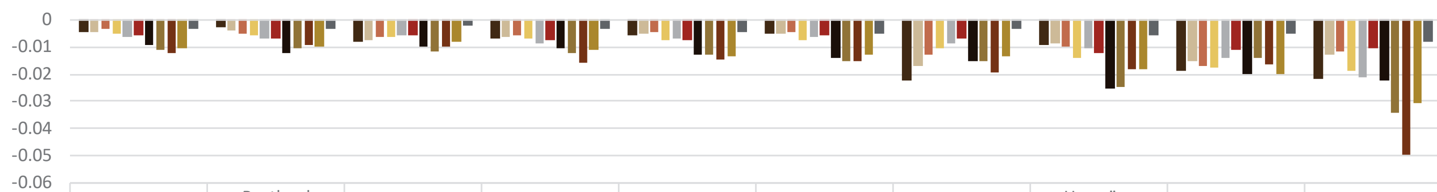
UBS

UBS Evidence Lab inside – Net Migration Update

Utilities with the highest negative outflows greater than (2.5%): AEE, POR, PCG, EVRG, XEL, OGE, ED, HE, MDU, and MGEE.

Figure 38: Bottom Ten Utility Service Territories by Net Migration Since 3Q 2020

Net Migration as a % of 2021 Residential Customer Count, Qtrly, Net Outflows > (2.5%) Annualized



	Ameren Corp	Portland General Electric Co	PG&E Corp	Evergy, Inc	Xcel Energy Inc	OGE Energy Corp	Consolidated Edison Inc	Hawaiian Electric Industries Inc	MDU Resources Group Inc	MGE Energy Inc
■	-0.45%	-0.29%	-0.83%	-0.69%	-0.54%	-0.53%	-2.25%	-0.93%	-1.88%	-2.20%
■	-0.44%	-0.40%	-0.77%	-0.65%	-0.49%	-0.52%	-1.67%	-0.88%	-1.54%	-1.25%
■	-0.32%	-0.49%	-0.63%	-0.57%	-0.44%	-0.46%	-1.29%	-0.96%	-1.69%	-1.17%
■	-0.50%	-0.56%	-0.64%	-0.68%	-0.72%	-0.75%	-1.05%	-1.38%	-1.74%	-1.85%
■	-0.62%	-0.70%	-0.59%	-0.84%	-0.70%	-0.62%	-0.88%	-1.04%	-1.43%	-2.11%
■	-0.55%	-0.70%	-0.55%	-0.76%	-0.73%	-0.54%	-0.69%	-1.23%	-1.11%	-1.04%
■	-0.93%	-1.21%	-0.98%	-1.05%	-1.25%	-1.43%	-1.51%	-2.50%	-1.99%	-2.22%
■	-1.10%	-1.03%	-1.15%	-1.19%	-1.29%	-1.55%	-1.52%	-2.46%	-1.42%	-3.44%
■	-1.23%	-0.94%	-0.96%	-1.57%	-1.48%	-1.54%	-1.94%	-1.83%	-1.63%	-4.94%
■	-1.04%	-0.96%	-0.80%	-1.10%	-1.32%	-1.27%	-1.31%	-1.84%	-1.97%	-3.05%
■	-0.33%	-0.31%	-0.21%	-0.32%	-0.46%	-0.52%	-0.34%	-0.55%	-0.50%	-0.81%

■ 3Q 2020 ■ 4Q 2020 ■ 1Q 2021 ■ 2Q 2021 ■ 3Q 2021 ■ 4Q 2021 ■ 1Q 2022 ■ 2Q 2022 ■ 3Q 2022 ■ 4Q 2022 ■ 1Q 2023

Powered by UBS Evidence Lab

Source: UBS Evidence Lab (> UBS Evidence Lab), USPS, UBS Equity Research Estimates

UBS

UBS Evidence Lab inside – Net Migration Update

Methodology:

UBS Evidence Lab is a sell-side team of experts that work across 55+ specialized labs creating insight-ready datasets. The experts turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. Since 2014, UBS Research analysts have utilized the expertise of UBS Evidence Lab for insight-ready datasets on companies, sectors, and themes, resulting in the production of thousands of differentiated UBS Research reports. UBS Evidence Lab does not provide investment recommendations or advice but provides insight-ready datasets for further analysis by UBS Research and by clients. All published UBS Evidence Lab content is available via UBS Neo. The amount and type of content available may vary. Please contact your UBS sales representative if you wish to discuss access.

US Residential Migration Monitor: UBS Evidence Lab collects zip-code level change of address data from the US Postal Service and groups this data into more specific regional categories for comparison purposes. The data are also indexed and netted (inflows minus outflows) for easier comparison. This report leverages the following UBS Evidence Lab asset: US Utility Residential Migration Monitor. Data are grouped into utility holding company service territories for comparison purposes.

Data are grouped into utility holding company service territories for comparison purposes.

Valuation Methodology

Valuation Methodology

Our valuation methodology for the group is price-to-earnings based. Seven adjustments apply:

1. Group Valuation Bias: Flowing from our valuation work +5% for Regulated Utility sustainable overvaluation to corporate bonds.
2. Growth Adjustment: The greatest differentiator of performance in utilities is dividend and earnings growth. Therefore, we adjust our valuations based on the growth quartile each utility occupies. First quartile receives a 4% premium, second quartile 2%, third quartile -2%, and fourth quartile -4%.
3. Regulatory Adjustment: Our proprietary regulatory rankings correlate with price-to-book ratios over time. Price-to-book is the third most significant performance factor behind dividend and earnings growth. Our valuation adjustments for regulation are as follows: First quartile jurisdictions receive 10%, second quartile 5%, third quartile -5%, and fourth quartile -10%.
4. Clean Energy Growth Premium. A 5% premium for companies that have a unique decarbonization growth opportunity on a risk adjusted basis.
5. Earnings Consistency Adjustment: For companies that fall in the top quartile of % Time Beat/Meet, we include +4%.
6. Multi Utility Diversified Valuation: For multi utilities (those with more than 15% diversified or foreign earnings), we perform a sum-of-the-parts analysis applying business/region appropriate valuations to those diversified businesses.
7. One-off Adjustments: In special situations, we value risk on an issue-specific basis. Common areas where we apply such an adjustment would include large project construction risk, legal risk, announced M&A completion risk.

Regulated Valuation Methodology Matrix

Figure 39: Regulated Valuation Methodology Matrix

Investment Opinion	Ticker	Reg Group Premium Discount	Quartile Premium Discount	EPS Growth Premium Discount	Clean Energy Growth	EPS Guidance Reliablity Adjustments	Specific Adjustments	Prem/Disc Regulated Valuation	Business Value
Buy	AES	5%	10%	4%				19%	$24
Neutral	LNT	5%	5%	(4%)				6%	$0
Neutral	AEE	5%	5%	2%		4%		16%	$0
Buy	AEP	5%	5%	(2%)	5%	4%		17%	$0
Neutral	CMS	5%	10%	4%				19%	$0
Buy	CNP	5%	(5%)	4%	5%	4%		13%	$0
Neutral	ED	5%	(10%)	(2%)	5%		10%	8%	$0
Neutral	D	5%	(5%)	(4%)				(4%)	$0
Neutral	DTE	5%	10%	(2%)		4%		17%	$0
Neutral	DUK	5%	5%	(4%)				6%	$0
Buy	EIX	5%	(5%)	(2%)			(15%)	(17%)	$0
Buy	EMA	5%	5%	(4%)	5%			11%	$0
Neutral	ETR	5%	(10%)	2%				(3%)	$0
Neutral	ES	5%	(10%)	2%	5%			2%	$0
Neutral	EVRG	5%	(10%)	(2%)				(7%)	$0
Buy	EXC	5%	(5%)	4%	5%			9%	$0
Buy	FE	5%	5%	2%			(5%)	7%	$0
Sell	FTS	5%	(10%)	(2%)			5%	(2%)	$0
Buy	NEE	5%	10%	2%	5%			22%	$49
Neutral	NI	5%	5%	4%				14%	$0
Neutral	OGE	5%	5%	(4%)	5%			11%	$0
Neutral	PCG	5%	(5%)	4%			(25%)	(21%)	$0
Sell	PNW	5%	(10%)	(4%)			(8%)	(17%)	$0
Buy	PPL	5%	(5%)	4%		4%		8%	$0
Buy	PEG	5%	5%	(4%)	5%			11%	$0
Buy	SRE	5%	(5%)	2%	5%	4%		11%	$62
Buy	SO	5%	10%	2%				17%	$0
Neutral	WEC	5%	10%	(2%)	5%	4%		22%	$0
Neutral	XEL	5%	(5%)	4%	5%	4%		13%	$0
Water									
Sell	AWR		5%	4%				9%	$0
Neutral	AWK		5%	4%				9%	$0
Neutral	CWT		5%	4%				9%	$0
Buy	SJW		5%	4%				9%	$0
Buy	WTRG		5%	2%				7%	$12

Source: FactSet, UBS Estimates
Updated as of: 03/31/2023

North America Regulated Utility Active Ratings Summary

Figure 40: North America Regulated Utilities & Power Active Ratings

Rating	Ticker	3/31/2023	UBS Price Target	Total Return inc. Div. Yld	UBS 2021A EPS	UBS 2022A EPS	UBS 2023E EPS	UBS 2024E EPS	2024 P/E Ratio	2024 Prem/ Disc	Current Dividend Yield	5 Yr EPS Growth	5 Yr DPS Growth
Undervalued Growth Compounding Utilities													
Buy	AEP	$90.99	$111	25%	$4.74	$5.09	$5.25	$5.64	16.1x	(5%)	3.5%	5.6%	7.0%
Buy	SO	$69.58	$79	17%	$3.41	$3.60	$3.65	$4.05	17.2x	2%	3.9%	7.6%	(6.5%)
Buy	EXC	$41.89	$47	15%	$1.83	$2.27	$2.36	$2.54	16.5x	(2%)	3.2%	7.4%	5.8%
Buy	CNP	$29.46	$33	14%	$1.64	$1.38	$1.49	$1.64	18.0x	6%	2.4%	7.4%	7.9%
Higher Growth Multi-Utilities													
Buy	NEE	$77.08	$102	35%	$2.55	$2.90	$3.13	$3.43	22.5x	33%	2.2%	6.4%	10.0%
Buy	AES	$24.08	$30	27%	$1.52	$1.67	$1.71	$1.88	12.8x	(24%)	2.7%	9.4%	5.1%
Buy	SRE	$151.16	$181	23%	$8.43	$9.21	$8.98	$9.58	15.8x	(7%)	3.0%	6.9%	6.4%
Value Utilities													
Buy	FE	$40.06	$46	19%	$2.60	$2.41	$2.54	$2.63	15.2x	(10%)	3.9%	6.3%	2.4%
Buy	PPL	$27.79	$32	18%	$1.05	$1.41	$1.59	$1.74	16.0x	15%	3.1%	7.6%	(6.5%)
Buy	EMA	$55.52	$63	18%	$2.81	$3.03	$3.29	$3.39	16.4x	(3%)	4.8%	4.6%	4.6%
Buy	PEG	$62.45	$68	12%	$3.65	$3.47	$3.46	$3.67	17.0x	1%	3.5%	4.9%	6.6%
Buy	EIX	$70.59	$75	10%	$4.59	$4.63	$4.77	$5.18	13.6x	(19%)	4.0%	5.8%	4.0%
Sells													
Sell	FTS	$57.45	$52	(6%)	$2.59	$2.78	$2.97	$3.18	18.0x	7%	3.8%	5.9%	4.6%
Sell	PNW	$79.24	$66	(12%)	$3.74	$4.26	$4.03	$4.69	16.9x	(0%)	4.3%	5.2%	4.1%
					20A EBITDA	21A EBITDA	22E EBITDA	23E EBITDA	23 EV/EBITDA	Prem/Disc	Net Debt/EBITDA		
Sell	NRG	$34.29	$30	(12%)	$1,977	$2,404	$1,848	$3,073	5.9x	(5%)	4.5x		
Power Infrastructure					20A EBITDA	21A EBITDA	22E EBITDA	23E EBITDA	23 EV/EBITDA	Prem/Disc	Net Debt/EBITDA		
Buy	VST	$24.00	$37	56%	$3,685	$1,908	$2,994	$3,699	5.9x	(18%)	2.7x		
Buy	CEG	$78.50	$108	39%	$3,229	$1,511	$3,425	$3,675	8.6x	(19%)	2.0x		

Source: FactSet, UBS Estimates

Power

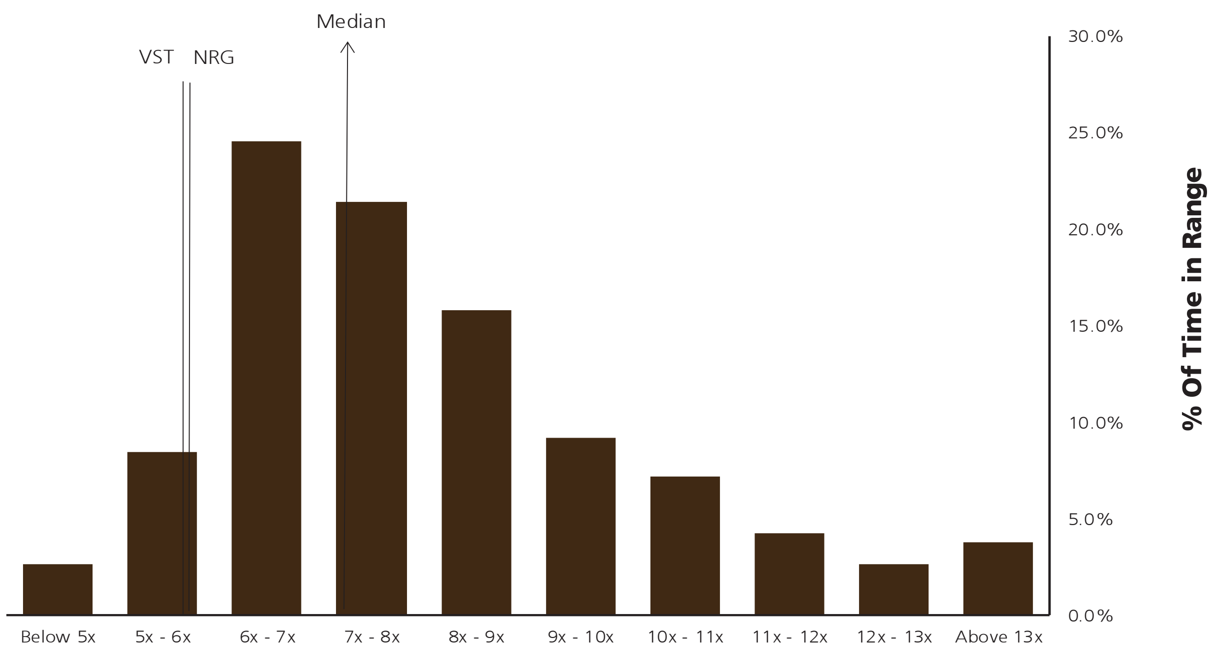
Power: Undervalued on EBITDA and Attractive Free Cash Yield

Figure 41: US Power Exposed Stocks

Rating	Ticker	Company	3/31/2023	Price Target	Potential % Return to Target	% Regulated	2023E EBITDA	2024E EBITDA	Power 2023E EV/EBITDA	Power 2023E Net Debt/ EBITDA	Power 2022A FCF Yield
Buy	VST	Vistra Energy Corp	$24.00	$37	58.9%	0%	$3,699	$4,135	5.9x	4.1x	42%
Sell	NRG	NRG Energy	$34.29	$30	-8.4%	0%	$3,073	$3,233	5.9x	3.7x	39%
Power Average					**29.1%**				**13.4x**	**2.6x**	**27%**

Source: Company Reports, FactSet, UBS Estimates

Figure 42: Historical EV/EBITDA Multiple for Power Median Multiple 7.1x



Source: Company Reports, FactSet, UBS Estimates

CEG Infrastructure Comps

Figure 43: Toll Roads, Railroads, and Clean Power

COMPANY NAME	Currency	TICKER	UBS Rating	Price	Shares	MktCap	Net Debt	UBSe '24 EV/EBITDA	Cons. '24 EV/EBITDA	UBSe 2024 EBITDA
Toll Roads										
Transurban Group	A$	TCL-ASX	Buy	$ 14.21	3,081	$ 43,775	$ 15,754	24.8x	19.9x	$ 2,405
Railroads										
CSX Corp	US$	CSX-USA	Neutral	$ 29.94	2,063	$ 61,754	$ 16,517	11.3x	10.1x	$ 6,905
Canadian National Railway	US$	CNI-USA	Buy	$ 117.97	671	$ 79,188	$ 11,116	9.9x	12.2x	$ 9,149
Canadian Pacific Railway	US$	CP-USA	Buy	$ 76.94	931	$ 71,621	$ 14,370	9.9x	15.2x	$ 8,670
Norfolk Southern Corp.	US$	NSC-USA	Neutral	$ 212.00	228	$ 48,290	$ 15,670	10.8x	9.7x	$ 5,932
Union Pacific Corp.	US$	UNP-USA	Neutral	$ 201.26	612	$ 123,146	$ 33,928	12.8x	10.1x	$ 12,287
Average								**10.9x**	**11.4x**	
Clean Power										
AES Corp.	US$	AES-USA	Buy	$ 24.08	669	$ 16,105	$ 21,258	8.3x	8.7x	$ 4,479
Clearway Energy, Inc.	US$	CWEN-USA	Buy	$ 31.33	82	$ 2,578	$ 6,371	8.2x	8.2x	$ 1,086
NextEra Energy Partners	US$	NEP-USA	Buy	$ 60.75	87	$ 5,257	$ 5,030	11.0x	7.5x	$ 934
Ormat Technologies	US$	ORA-USA	Buy	$ 84.77	60	$ 5,060	$ 1,826	11.7x	12.1x	$ 587
Orsted A/S	DKK	ORSTED-CSE	Buy	583.40 kr.	420	245,250.32 kr.	$ 49,965	9.2x	12.1x	32,218.41 kr.
Atlantica Sustainable Infrastructure	US$	AY-USA	Neutral	$ 29.56	116	$ 3,431	$ 4,836	9.4x	8.6x	$ 884
Average								**9.6x**	**9.6x**	
OVERALL AVERAGE								**11.4x**	**11.2x**	
Constellation Energy Corp (1)	US$	CEG-USA	Buy	$78.50	302	$ 23,702	$ 6,677	8.6x	8.4x	$ 3,546
							At 8% Discount	**11x**	**10x**	
(1) UBSe '24 EV/EBITDA incorporates value of share buybacks										

Source: Company Reports, FactSet, Prices as of market close 3/31/2023
(1) UBSe '24 EV/EBITDA incorporates value of share buybacks

Water

Wading Into the Waters

- Good fundamentals: 1) 7% EPS growth; 2) Low risk; 3) Limited refinancing risk and 4) ESG.
- Market cap constrained.
- Environmental Protection Agency proposal on PFAS represents implementation risk.
- 50,000 water systems and constructive regulation provide for ongoing consolidation opportunity.

Figure 44: Regulated Water Utilities

Rating	Ticker	3/31/23	Price Target	Total Return inc. Div. Yld	UBS 2020A EPS	UBS 2021A EPS	UBS 2022A EPS	UBS 2023E EPS	UBS 2024E EPS	2024 P/E Ratio	2024 Prem/ Disc	Current Dividend Yield	5 Yr EPS Growth	5 Yr DPS Growth	Regulatory Quartile
Buy	WTRG	$43.65	$51	19%	$1.58	$1.67	$1.77	$1.88	$2.05	21.3x	(20%)	2.5%	8.7%	7.0%	2nd
Buy	SJW	$76.13	$85	13%	$2.14	$2.03	$2.43	$2.47	$2.80	27.2x	2%	1.8%	6.3%	7.0%	2nd
Neutral	CWT	$58.20	$62	8%	$1.97	$1.96	$1.77	$2.00	$2.17	26.8x	1%	1.6%	8.4%	5.0%	2nd
Neutral	AWK	$146.49	$149	4%	$3.63	$4.25	$4.51	$4.79	$5.18	28.3x	6%	1.8%	7.9%	8.0%	2nd
Sell	AWR	$88.89	$83	(5%)	$2.34	$2.56	$2.11	$2.73	$2.93	30.3x	14%	1.7%	10.4%	6.0%	2nd
Water Utility Average										**26.6x**		**1.9%**	**8.3%**	**7.4%**	

Source: FactSet, UBS Estimates

Water Valuation Relative Yield to Baa

Water utilities trade at 1 standard deviation above fair value on relative P/E to S&P 500.

On average, Waters historically trade at ~47% premium to S&P 500 on relative P/E basis.

Water utilities are 8% overvalued based on the relationship to the corporate bond.

The average P/E over the last 5 years is 29x and since 2008 it is 23x.

Fig 45: Relative Value of Water Utility FY2 P/E Ratios vs. S&P 500

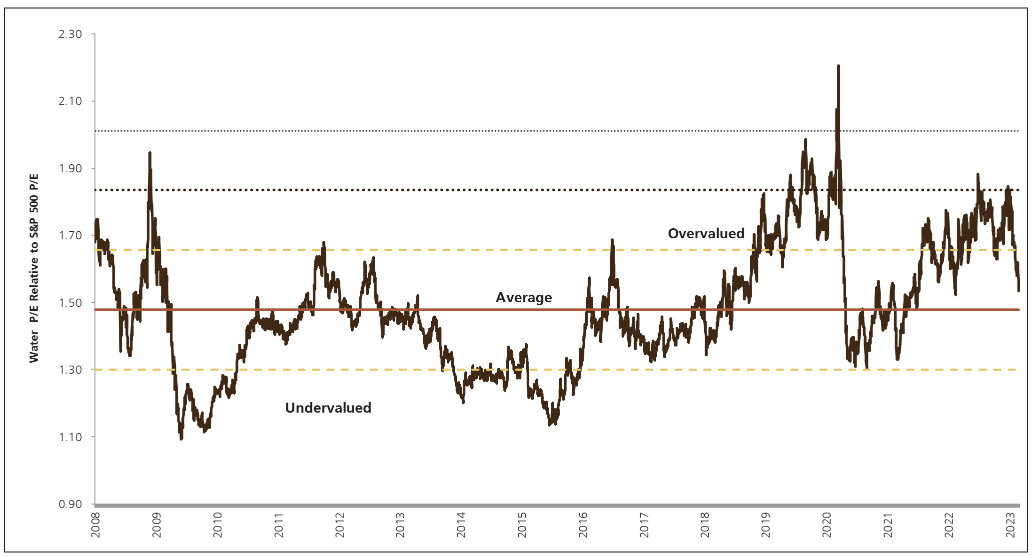
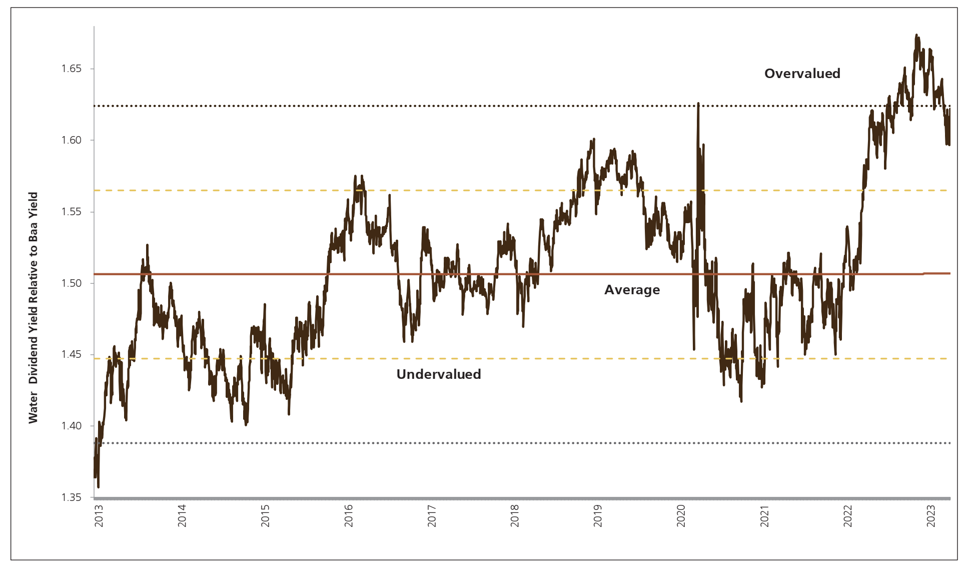


Fig 46: Relative Value of Water Utility Dividend Yields to Baa Corporate Bond Yields



UBS

Source: FactSet, UBS Estimates

Water Valuation Rate Base Growth & Cap-ex

The sector benefits from 8% rate base growth from:

1. Water system replacement and well replacement
2. Environmental upgrades
3. Desalination
4. M&A

Figure 47: Relative Yield to Baa Corporate Bond

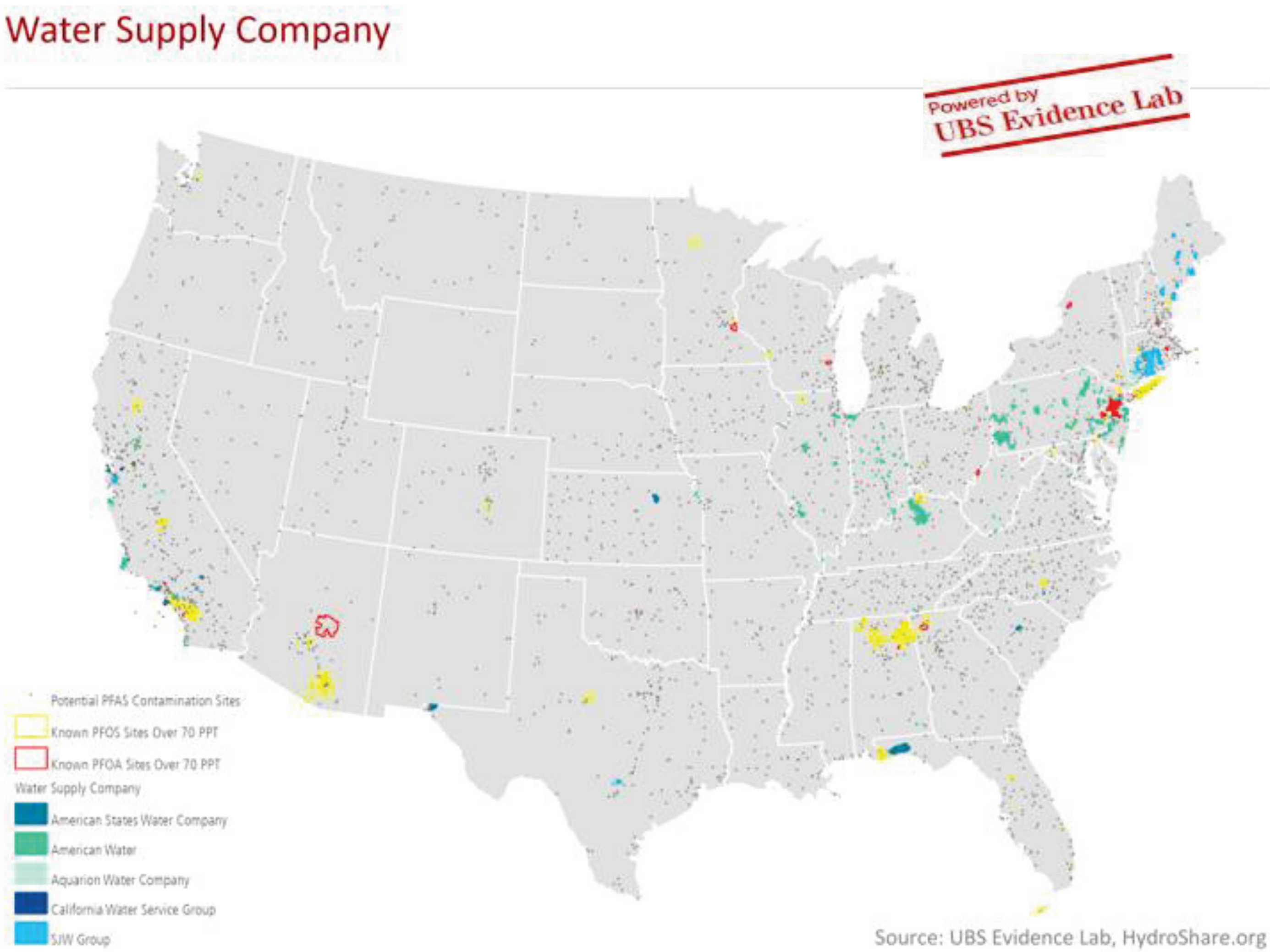
Water Utility Cap-ex	2020A	2021A	2022A	2023E	2025E	2026E	2027E
American States Water	$105	$114	$145	$166	$155	$155	$155
American Water Works	$1,957	$1,900	$2,297	$2,500	$2,650	$2,650	$2,650
Essential Utilities	$550	$550	$576	$650	$650	$650	$650
California Water	$299	$293	$327	$360	$365	$365	$365
SJW Group	$199	$234	$151	$255	$255	$255	$255
Total	$3,110	$3,091	$3,496	$3,931	$4,075	$4,075	$4,075

Water Utility Rate Base	2020A	2021A	2022A	2023E	2025E	2026E	2027E	CAGR '21-'26	CAGR '22-'27
American States Water	$916	$980	$1,238	$1,352	$1,576	$1,686	$1,795	11.5%	7.7%
American Water Works	$15,402	$16,304	$17,800	$19,784	$23,955	$25,900	$27,786	9.7%	9.3%
California Water	$1,597	$1,820	$1,950	$2,240	$2,740	$2,990	$3,240	10.4%	10.7%
Essential Utilities	$5,472	$5,900	$6,382	$7,300	$7,900	$8,207	$8,500	6.8%	5.9%
SJW Group	$1,657	$1,743	$1,980	$2,133	$2,424	$2,562	$2,695	8.0%	6.4%
Total		**$26,747**	**$29,350**	**$32,809**	**$38,595**	**$41,345**	**$44,017**	**8.9%**	**7.6%**
Annual Growth			9.7%	11.8%	7.9%	7.1%	6.5%		

Source: FactSet, company reports, UBS Securities LLC

UBS Evidence Lab Inside – PFAS Contamination Sites

Fig 48: PFAS Contamination Sites



UBS

UBS Evidence Lab Inside – PFAS Contamination Sites

Methodology:

UBS Evidence Lab is a sell-side team of experts that work across 55+ specialized labs creating insight-ready datasets. The experts turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. Since 2014, UBS Research analysts have utilized the expertise of UBS Evidence Lab for insight-ready datasets on companies, sectors, and themes, resulting in the production of thousands of differentiated UBS Research reports. UBS Evidence Lab does not provide investment recommendations or advice but provides insight-ready datasets for further analysis by UBS Research and by clients. All published UBS Evidence Lab content is available via UBS Neo. The amount and type of content available may vary. Please contact your UBS sales representative if you wish to discuss access.

Appendix

Electric Utility Equity Issuance

Figure 49: Equity Issuance

Dollars in Millions									Conversion/		Block
								Total	DRIP/	Block	Equity
Ticker	Company	2022A	2023E	2024E	2025E	2026E	2027E	'23-'27	Programs	Equity	Remaining
AES	AES Corp	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
LNT	Alliant Energy	$25	$250	$150	$150	$275	$200	$1,025	$1,025	$0	$0
AEE	Ameren Corp	$333	$400	$600	$600	$600	$600	$2,800	$2,800	$0	$0
AEP	American Electric Power	$827	$950	$200	$500	$500	$600	$2,750	$2,750	$0	$0
CNP	Centerpoint Energy	$0	$440	$0	$250	$250	$0	$940	$940	$0	$0
CMS	CMS Energy	$69	$440	$0	$250	$250	$250	$1,190	$750	$440	$0
ED	Consolidated Edison	$57	-$1,000	$0	$950	$900	$900	$1,750	-$1,000	$2,750	$2,750
D	Dominion Energy	$1,866	$2,600	$200	$200	$200	$200	$3,400	$800	$2,600	$0
DTE	DTE Energy	$1,300	$50	$50	$50	$50	$50	$250	$250	$0	$0
DUK	Duke Energy	$9	$0	$0	$0	$0	$425	$425	$425	$0	$0
EIX	Edison International	$13	$350	$250	$250	$250	$250	$1,350	$1,350	$0	$0
EMA	Emera Inc. (C$)	$277	$520	$520	$520	$520	$520	$2,600	$2,600	$0	$0
ETR	Entergy Corp	$885	$235	$235	$825	$825	$825	$2,945	$2,945	$0	$0
EVRG	Evergy	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
ES	Eversource Energy	$0	$600	$600	$600	$600	$600	$3,000	$3,000	$0	$0
EXC	Exelon	$563	$250	$100	$75	$250	$250	$925	$925	$0	$0
FE	FirstEnergy Corp	$0	$100	$100	$100	$100	$100	$500	$500	$0	$0
FTS	Fortis Inc. (C$)	$53	$450	$450	$450	$450	$235	$2,035	$2,035	$0	$0
NEE	NextEra Energy	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
NI	NiSource Inc.	$154	$0	$0	$115	$400	$400	$915	$915	$0	$0
OGE	OGE Energy Corp	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
PCG	PG&E Corp	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
PNW	Pinnacle West Capital Corp	$0	$0	$500	$0	$0	$0	$500	$0	$500	$500
PPL	PPL Corporation	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
PEG	Public Service Ent Group	-$500	$0	$0	$0	$0	$0	$0	$0	$0	$0
SRE	Sempra Energy	-$474	$0	$0	$0	$0	$0	$0	$0	$0	$0
SO	Southern Company	$1,510	$0	$0	$0	$0	$0	$0	$0	$0	$0
WEC	WEC Energy Group	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
XEL	Xcel Energy	$322	$150	$150	$150	$150	$150	$750	$750	$0	$0
AWR	American States Water	$4	$0	$10	$20	$20	$20	$70	$70	$0	$0
AWK	American Water Works	$0	$1,688	$25	$25	$25	$300	$2,063	$375	$1,688	$300
CWT	California Water Service Group	$107	$15	$20	$25	$25	$25	$110	$110	$0	$0
WTRG	Essential Utilities	$79	$200	$200	$50	$50	$50	$550	$550	$0	$0
SJW	SJW Group	$39	$40	$25	$25	$25	$25	$140	$140	$0	$0
	Total	**$7,517**	**$8,728**	**$4,385**	**$6,180**	**$6,715**	**$6,975**	**$32,983**	**$25,005**	**$7,978**	**$3,550**
									76%	24%	% Total

(b) Includes equity linked offering
Source: FactSet, Bloomberg, Company Reports, UBS Research

Business Mix Based on 2021 EPS

Figure 50: Business Mix

Ticker	Electric Total	Electric Generation	Electric Transmission	Electric Distribution	Gas Total	Gas Distribution	Gas Trans. Midstream	Water	Gas LNG	Unregulated	Ticker
AES	8%	2%	1%	4%	0%	0%	0%	0%	3%	92%	AES
LNT	94%	52%	4%	38%	4%	4%	0%	0%	0%	2%	LNT
AEE	97%	32%	28%	37%	3%	3%	0%	0%	0%	0%	AEE
AEP	95%	22%	42%	31%	0%	0%	0%	0%	0%	5%	AEP
CMS	63%	26%	0%	37%	35%	35%	0%	0%	0%	3%	CMS
ED	68%	2%	10%	56%	24%	24%	0%	0%	0%	8%	ED
D	69%	27%	21%	20%	19%	19%	0%	0%	0%	13%	D
DTE	68%	38%	0%	30%	17%	17%	0%	0%	0%	16%	DTE
DUK	93%	49%	15%	30%	2%	2%	0%	0%	0%	4%	DUK
EIX	100%	6%	36%	59%	0%	0%	0%	0%	0%	0%	EIX
EMA	103%	62%	12%	28%	32%	28%	4%	0%	0%	-34%	EMA
ETR	100%	41%	25%	34%	0%	0%	0%	0%	0%	0%	ETR
EVRG	100%	54%	17%	29%	0%	0%	0%	0%	0%	0%	EVRG
ES	89%	1%	40%	49%	8%	8%	0%	3%	0%	0%	ES
EXC	92%	0%	23%	69%	8%	8%	0%	0%	0%	0%	EXC
FE	100%	6%	33%	61%	0%	0%	0%	0%	0%	0%	FE
FTS	93%	13%	65%	15%	4%	4%	0%	0%	3%	0%	FTS
NEE	59%	29%	9%	22%	0%	0%	0%	0%	0%	41%	NEE
NI	35%	46%	26%	28%	65%	65%	0%	0%	0%	0%	NI
OGE	74%	26%	19%	29%	0%	0%	0%	0%	0%	26%	OGE
PCG	75%	14%	22%	39%	25%	25%	0%	0%	0%	0%	PCG
PNW	100%	40%	18%	42%	0%	0%	0%	0%	0%	0%	PNW
PPL (a)	90%	27%	32%	31%	10%	10%	0%	0%	0%	0%	PPL
PEG	57%	0%	37%	20%	25%	11%	14%	0%	0%	17%	PEG
SRE	47%	1%	23%	23%	28%	23%	5%	0%	14%	11%	SRE
SO	75%	39%	14%	22%	17%	13%	5%	0%	0%	8%	SO
WEC	68%	23%	11%	35%	27%	23%	4%	0%	0%	5%	WEC
XEL	99%	42%	29%	28%	1%	1%	0%	0%	0%	0%	XEL

(a) Includes Rhode Island Energy

Source: S&P Capital IQ, Company Reports, UBS Research

Share of Generation from Fuel Source

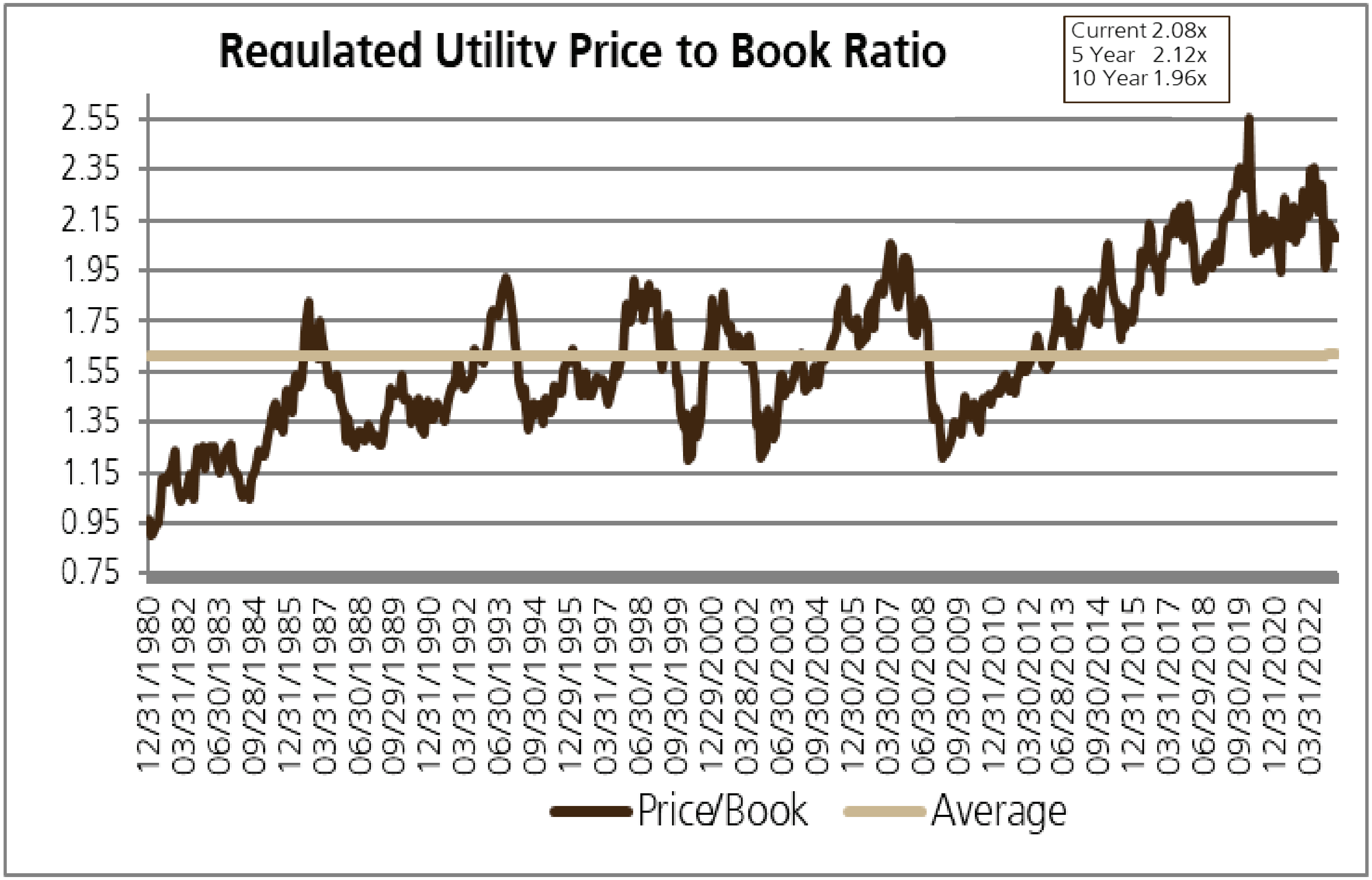
Figure 51: Percentage Generation from Fuel Source

% Generation from Fuel Source - 2021 Company	Ticker	Purchased Power	Generation	Nuclear	Coal	Gas	Solar	Wind	Oil	Water	Geothermal	Biomass	Other
Alliant Energy Corporation	LNT	21%	79%	0%	28%	33%	0%	17%	0%	1%	0%	0%	0%
Ameren Corporation	AEE	49%	51%	6%	40%	1%	0%	2%	0%	3%	0%	0%	0%
American Electric Power Company, Inc.	AEP	49%	51%	11%	30%	7%	0%	2%	0%	1%	0%	0%	0%
CMS Energy Corporation	CMS	41%	59%	0%	20%	30%	0%	5%	0%	3%	0%	0%	0%
Centerpoint Energy	CNP	0%	100%	0%	98%	1%	1%	0%	0%	0%	0%	0%	0%
Consolidated Edison, Inc.	ED	87%	13%	0%	0%	6%	7%	0%	0%	0%	0%	0%	0%
Dominion Energy, Inc.	D	13%	87%	37%	9%	36%	2%	0%	0%	2%	0%	0%	0%
DTE Energy Company	DTE	9%	91%	21%	56%	6%	0%	5%	0%	2%	0%	0%	0%
Duke Energy Corporation	DUK	21%	79%	30%	16%	29%	1%	1%	0%	1%	0%	0%	0%
Edison International	EIX	89%	11%	6%	0%	2%	0%	0%	0%	2%	0%	0%	0%
Emera	EMA	23%	77%	0%	0%	70%	6%	0%	0%	0%	0%	0%	0%
Eversource Energy	ES	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Entergy Corporation	ETR	23%	77%	28%	6%	43%	0%	0%	0%	0%	0%	0%	0%
Evergy, Inc.	EVRG	39%	61%	14%	45%	2%	0%	0%	0%	0%	0%	0%	0%
Exelon Corporation	EXC	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
FirstEnergy Corp.	FE	87%	13%	0%	13%	0%	0%	0%	0%	0%	0%	0%	0%
Fortis Inc.	FTS	29%	71%	0%	23%	47%	0%	1%	0%	0%	0%	0%	0%
NextEra Energy, Inc.	NEE	0%	100%	25%	0%	50%	5%	19%	1%	0%	0%	0%	0%
NiSource Inc.	NI	49%	51%	0%	15%	34%	0%	3%	0%	0%	0%	0%	0%
OGE Energy Corp.	OGE	49%	51%	0%	15%	34%	0%	3%	0%	0%	0%	0%	0%
PG&E Corporation	PCG	73%	27%	17%	0%	6%	0%	0%	0%	4%	0%	0%	0%
Public Service Enterprise Group Incorporated	PEG	56%	44%	44%	0%	0%	0%	0%	1%	0%	0%	0%	0%
Pinnacle West Capital Corporation	PNW	19%	81%	28%	21%	30%	2%	0%	0%	0%	0%	0%	0%
PPL Corporation	PPL	51%	49%	0%	40%	8%	0%	0%	0%	1%	0%	0%	0%
Southern Company	SO	12%	88%	16%	18%	47%	1%	3%	0%	4%	0%	0%	0%
Sempra Energy	SRE	98%	2%	0%	0%	2%	0%	0%	0%	0%	0%	0%	0%
WEC Energy Group, Inc.	WEC	30%	70%	0%	34%	27%	0%	8%	0%	1%	0%	0%	0%
Xcel Energy Inc.	XEL	51%	49%	9%	18%	12%	0%	9%	0%	1%	0%	0%	0%

Source: S&P Capital IQ, Company Reports, UBS Research

Long-Term Price/Book Ratio

Figure 52: Long-Term Price to Book Ratio



Source: FactSet, UBS Research

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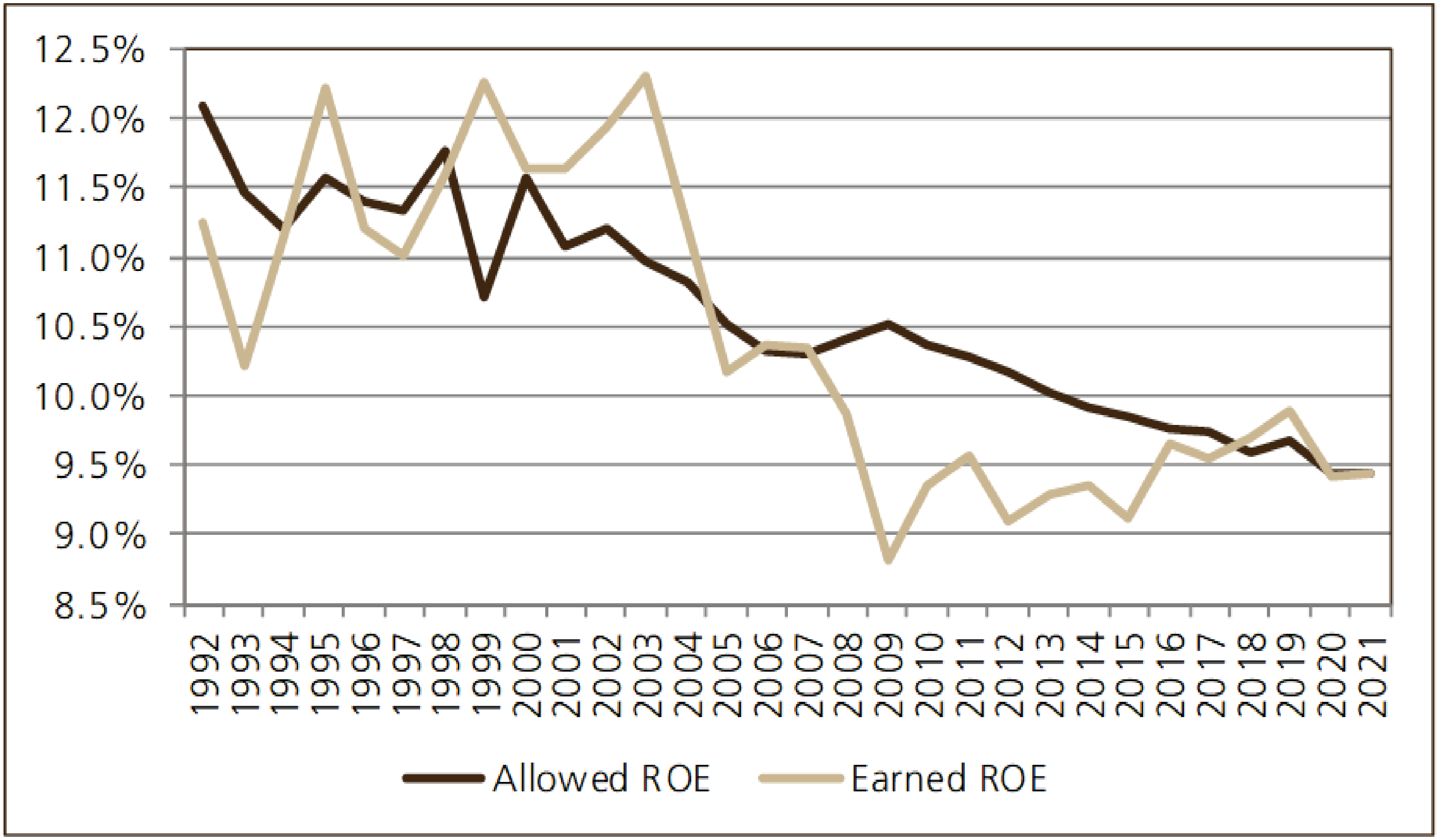
Utility Allowed and Earned ROE

Figure 53: Utility Allowed and Earned ROE



Source: S&P Global Capital IQ Pro, UBS Research, FactSet

Utility and Power Transaction Multiple History

Figure 54: Utility and Power Transaction Multiple History by Sold Asset Class

Multiples by Sold Asset Class – Since 1995	LTM P/E	FY1 P/E	EV/ EBITDA	Price/ Book	Price Rate base	Price Change	Announced Transactions	Failed Transactions	% Completion
Electric/Gas	22.5x	21.2x	11.1x	1.79	238	7.0%	18	2	89%
Electric/Electric	20.5x	21.3x	9.5x	1.75	1.23	7.6%	60	15	75%
Gas/Gas	19.4x	21.7x	11.7x	2.35	1.73	11.5%	5	0	100%
IPP	N/A	18.2x	6.1x	0.81	N/A	20.5%	8	1	88%
PE/Electric	19.2x	20.5x	9.8x	2.25	1.17	15.7%	12	2	83%
Total (All Transactions)	20.2x	21.7x	9.7x	1.76	1.30	10.0%	103	20	81%
Since 1/1/14									
Electric/Gas	24.3x	22.1x	12.3x	1.65	238	27.0%	7	1	86%
Electric/Electric	26.3x	22.0x	12.9x	1.99	1.43	8.8%	20	4	80%
Gas/Gas	25.4x	26.2x	12.9x	2.81	1.99	N/A	2	0	100%
IPP	N/A	36.3x	7.4x	1.30	N/A	18.1%	4	0	100%
PE/Electric	25.4x	24.2x	11.6x	2.67	1.17	13.3%	4	0	100%
Total (All Transactions)	23.0x	23.1x	10.5x	1.95	1.56	9.2%	37	5	86%

Source: FactSet, S&P Global Capital IQ Pro, UBS Equity Research

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Utility and Power Transaction Multiple History

Figure 55: Utility and Power Transaction Multiple History by Sold Asset Class

Multiples by Sold Asset Class - Since 1995	FY1 P/E	EV/ EBITDA	Price/ Book	Price Change	Price Rate base	Announced Transactions	Failed Transactions	% Completion
Regulated Electric	21.4x	9.8x	1.84x	8.8%	122.4x	72	17	76%
Regulated Gas Distribution	21.3x	11.3x	1.90x	7.6%	194.6x	23	2	91%
Power Assets	36.3x	6.1x	0.81x	20.5%	N/A	8	1	88%
Total	**21.7x**	**9.7x**	**1.76x**	**10.0%**	**1.30x**	**103**	**20**	**81%**
Since 1/1/14						**Transactions**		
Regulated Electric	21.9x	11.7x	2.08x	9.8%	1.43x	20	4	80%
Regulated Gas Distribution	22.4x	11.8x	2.18x	17.5%	1.99x	9	1	89%
Power Assets	36.3x	7.4x	1.30x	18.1%	N/A	8	0	100%
Total	**23.1x**	**10.5x**	**1.95x**	**9.2%**	**1.56x**	**37**	**5**	**86%**

Source: FactSet, S&P Capital IQ Pro, UBS Equity Research

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Valuation Method and Risk Statement

Our valuation methodology for the group is price-to-earnings based. The adjustments applied fall into 7 categories. These are as follows: 1) Reflects sustainable 5% premium on a relative yield basis to corporate bonds; 2) Growth Adjustment: We adjust our valuations based on the growth quartile each utility occupies. First quartile receives a 4% premium, second quartile a 2% premium, third quartile a 2% discount and fourth quartile a 4% discount; 3) Regulatory Adjustment: Our valuation adjustments for regulation are based on our proprietary Regulatory Rankings. First quartile jurisdictions receive 10%, second quartile 5%, third quartile -5% and fourth quartile -10%; 4) Clean Energy Growth Premium: A 5% premium for companies that have a unique decarbonization growth opportunity on a risk adjusted basis; 5) Earnings Consistency Adjustment: For companies that fall in the top quartile of % Time Beat/Meet, we include +4%; 6) Multi Utility Diversified Valuation: For multi utilities (those with more than 15% diversified or foreign earnings), we perform a sum-of-the-parts analysis applying business/region appropriate valuations to those diversified businesses; 7) One-off Adjustments: In special situations, we value risk on an issue-specific basis. Common areas where we apply such an adjustment include: ESG advantage, large project construction risk, legal risk, and announced M&A completion risk. We identify the following risk factors for the sector overall: rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity risk to the transmission grid and/or customer data, and extreme weather events.

For water utilities risks include, but are not limited to: rising interest rate; regulatory and policy risks; operational risks; construction risks; water quality, safety and contamination risk; physical risk to the water sources, treatment or delivery systems; cybersecurity risk; drought and extreme weather events. We value water utilities on a price-to-earnings basis on our 2024 estimates. Our valuation methodology is premised upon a group valuation bias, forecast 5 year earnings growth, our proprietary analysis of regulatory jurisdictional rankings, exposure to states with fair value legislation, and in some cases a company-specific adjustment.

Required Disclosures

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UBS Investment Research: Global Equity Rating Definitions

12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	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.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. In some cases, this yield may be based on accrued dividends. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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UBS Securities LLC: Ross Fowler, CFA; Gregg Orrill, William Appicelli, CFA

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Company Disclosures

Company Disclosures

Company Name	Reuters	12-month rating	Price	Price date
AES Corp[16]	AES.N	Buy	US$24.08	31 Mar 2023
Alliant Energy Corp[16]	LNT.O	Neutral	US$53.40	31 Mar 2023
Ameren Corp[16]	AEE.N	Neutral	US$86.39	31 Mar 2023
American Electric Power Inc[16,7,6b]	AEP.O	Buy	US$90.99	31 Mar 2023
American States Water Co[16]	AWR.N	Sell	US$88.89	31 Mar 2023
American Water Works Co[16]	AWK.N	Neutral	US$146.49	31 Mar 2023
CMS Energy Corp[16]	CMS.N	Neutral	US$61.38	31 Mar 2023
California Water Service Group[16]	CWT.N	Neutral	US$58.20	31 Mar 2023
CenterPoint Energy Inc[16]	CNP.N	Buy	US$29.46	31 Mar 2023
Consolidated Edison Inc[16]	ED.N	Neutral	US$95.67	31 Mar 2023
Constellation Energy Corp[16]	CEG.O	Buy	US$78.50	31 Mar 2023
DTE Energy Co[16]	DTE.N	Neutral	US$109.54	31 Mar 2023
Dominion Energy Inc[16,7,6b]	D.N	Neutral	US$55.91	31 Mar 2023
Duke Energy Corp[16,7,6b,6c]	DUK.N	Neutral	US$96.47	31 Mar 2023
Edison International[16]	EIX.N	Buy	US$70.59	31 Mar 2023
Emera Inc	EMA.TO	Buy	C$55.52	31 Mar 2023
Entergy Corp[16,7,6b,6c]	ETR.N	Neutral	US$107.74	31 Mar 2023
Essential Utilities Inc[16]	WTRG.N	Buy	US$43.65	31 Mar 2023
_[16]	-	No Rating	-	-
Eversource Energy[16,7,6b]	ES.N	Neutral	US$78.26	31 Mar 2023
Exelon Corp[16,7,6b,6c]	EXC.O	Buy	US$41.89	31 Mar 2023
FirstEnergy Corp[16]	FE.N	Buy	US$40.06	31 Mar 2023
Fortis Inc[16]	FTS.TO	Sell	C$57.45	31 Mar 2023
NRG Energy Inc[16]	NRG.N	Sell	US$34.29	31 Mar 2023
NextEra Energy Inc[2,4,5,16,7,6a]	NEE.N	Buy	US$77.08	31 Mar 2023
NiSource Inc.[16]	NI.N	Neutral	US$27.96	31 Mar 2023
OGE Energy Corp[16]	OGE.N	Neutral	US$37.66	31 Mar 2023
PG&E Corp[16,7,6b,6c]	PCG.N	Neutral	US$16.17	31 Mar 2023
PPL Corp[16]	PPL.N	Buy	US$27.79	31 Mar 2023
Public Service Enterprise Group[16,7,6b]	PEG.N	Buy	US$62.45	31 Mar 2023
SJW Group[16]	SJW.N	Buy	US$76.13	31 Mar 2023
Sempra[16]	SRE.N	Buy	US$151.16	31 Mar 2023
Southern Co[13,16]	SO.N	Buy	US$69.58	31 Mar 2023
Vistra Corp.[4,16,6a]	VST.N	Buy	US$24.00	31 Mar 2023
WEC Energy Group Inc[16]	WEC.N	Neutral	US$94.79	31 Mar 2023
Xcel Energy Inc[16]	XEL.O	Neutral	US$67.44	31 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.

Upgrade to Buy - Path Clearing For Re-Rate Higher

We Think the Stock Deserves a Premium Valuation

We upgrade shares of NiSource to Buy from Neutral with a $31 target price. Constructive regulatory developments over the past six months in Indiana, Ohio and Pennsylvania in conjunction with the earnings re-base management undertook in Q4'22 has put the company on a trajectory, we believe, to re-rate higher. NI trades at a 3% discount vs. peers on 2025, which implies a ~6% or lower EPS growth rate, despite our view that growth is close to 7% through 2027. The stock has several catalysts upcoming between now and middle of Q4'23 with the sale of the NIPSCO minority interest and a potential for a positive capex revision around renewable generation projects. A continued focus on cost management (flat O&M assumed through 2027) and a steep decline in natural gas prices YTD helps to keep cost to customers more affordable and leaves bill headroom for capital investment. Coupling this with minimal rate case risk in the near term, we believe this positions the stock well to outperform in the 2H of 2023.

Why Now?

In the coming months, we expect NiSource to announce a transaction for the 19.9% minority interest stake in the NIPSCO utility. The company told investors of its intention to sell at the Investor Day in November '22. We assume a transaction multiple of ~1.45x EV/Rate Base for proceeds of $1.9-2.0bn, with a reasonable range of outcomes in the 1.35-1.65x based on historical comps. Proceeds in excess of our assumptions would allow for additional strengthening of the balance sheet within the 14-16% FFO/Debt target and fund additional growth. We believe there's an opportunity for up to $500mm of additional capex (3-4c upside to our EPS) related to renewable generation if the company decides to utilize the tax credit transferability provision under the IRA in lieu of tax equity financing. Based on messaging from management, we expect an announcement and close on the NIPSCO minority sale in 2H'23. The company will need FERC approval, but will not need explicit approval from Indiana regulators. We project a decision on the potential incremental capex could come on or before the 3Q earnings update, likely in early November.

Valuation:

Our $31 TP is unchanged. We now apply a 10% premium or 17.2x our '25 est. of $1.80 vs. prior valuation of 14% premium or 18.4x our '24 estimate of $1.68. Our prem. reflects +5% for overall group attractiveness, +3% for second quartile regulation (down from +5%) and +2% for second quartile EPS growth (down from +4% for 1st quartile).

Equities

Americas
Electric Utilities

12-month rating	**Buy** *Prior : Neutral*
12m price target	**US$31.00**
Price (05 Jun 2023)	**US$26.77**
RIC: NI.N **BBG:** NI US	

Trading data and key metrics

52-wk range	US$31.77-24.15
Market cap.	US$12.0b
Shares o/s	447m (COM)
Free float	99%
Avg. daily volume ('000)	1,128
Avg. daily value (m)	US$31.3
Common s/h equity (12/23E)	US$6.31b
P/BV (12/23E)	1.9x
Net debt to EBITDA (12/23E)	6.3x

EPS (UBS, diluted) (US$)

	12/23E	
	UBS	Cons.
Q1	0.77	0.77
Q2E	0.13	0.15
Q3E	0.11	0.15
Q4E	0.56	0.50
12/23E	1.57	1.57
12/24E	1.68	1.67
12/25E	1.80	1.80

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Highlights (US$m)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Revenues	4,697	4,900	5,851	5,977	6,271	6,531	6,781	7,006
EBIT (UBS)	1,031	1,046	1,162	1,145	1,337	1,483	1,634	1,760
Net earnings (UBS)	507	573	649	698	752	807	874	956
EPS (UBS, diluted) (US$)	1.32	1.37	1.46	1.57	1.68	1.80	1.91	2.03
DPS (net) (US$)	0.88	0.90	0.96	1.02	1.08	1.14	1.20	1.20
Net (debt) / cash	(10,501)	(11,253)	(12,821)	(13,068)	(14,486)	(16,197)	(17,020)	(17,692)
Profitability/valuation	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
EBIT (UBS) margin %	22.0	21.3	19.9	19.2	21.3	22.7	24.1	25.1
ROIC (EBIT) %	7.5	7.4	7.4	6.6	7.3	7.4	7.5	7.6
EV/EBITDA (UBS core) x	9.9	10.4	11.3	11.1	10.0	9.6	9.1	8.7
P/E (UBS, diluted) x	18.6	17.9	19.6	17.1	15.9	14.9	14.0	13.2
Equity FCF (UBS) yield %	(6.0)	(6.2)	(7.2)	(14.4)	(7.6)	(10.7)	(5.4)	(3.7)
Dividend yield (net) %	3.6	3.6	3.3	3.8	4.0	4.3	4.5	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$ 26.77 on 05-Jun-2023

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

PIVOTAL QUESTIONS

Q: Can NI grow earnings at 6-8% through 2027?
Yes. The company has a $30bn back log of infrastructure investments over the next 10 years, supporting our '23-'26 EPS of $1.57/$1.68/$1.80/$1.91. The growth is driven in part by a net zero carbon emission target by 2040. The company lowered its growth trajectory modestly in Nov'22 to create a more durable and affordable plan for customers. The regulatory backdrop is second quartile in our rankings and represents a supportive investment environment, as evidenced by the constructive outcomes in IN, OH and PA over the past six months. NIPSCO sale will remove the last near-term overhang on the stock.

Q: Is there execution risk around the NIPSCO asset sale?
Minimal. The 19.9% minority interest won't trigger an tax leakage issues for NI and it will not require approval by the Indiana regulators. Based on historical transaction comps and a similar transaction Duke announced in early 2021 (see note here). We think $1.9-2.0bn in proceeds is a reasonable outcome. Additionally, given the absolute size of the valuation we estimate and the fact it's a minority interest which should create less operational frictions vs. an outright asset sale, we think this should appeal to a wider audience of buyers than perhaps other assets coming to market.

UBS VIEW

We upgrade shares of NI to Buy. We see the story as de-risking, with little near term rate case risk and stock that is trading at discount multiple despite above average earnings growth and regulatory support. There are several catalysts upcoming with NIPSCO minority sale and capex update that may show continued execution and propel re-rating higher.

EVIDENCE

Indiana, Ohio and Pennsylvania represent ~90% of the operations and all fall within our top three tiers for our regulatory ranking, which supports our view the company has the appropriate investment recovery framework in place. NI also has a decade long plus track record for meeting or exceeding initial EPS guidance. In the last 10 years the company has delivered earnings that beat initial EPS guidance 9 times.

WHAT´S PRICED IN?

The stock trades at a 3% discount vs. peers on 2025, which implies a ~6% or lower EPS growth rate, despite our view that growth is close to 7% through 2027. NI is trading at a 14% discount to it's 5 YR FY2 P/E position vs. the group at a 13% discount. We see downside largely priced in here at the modest discount to the group average multiple.

UPSIDE/DOWNSIDE SPECTRUM

Value drivers	Regulatory Ranking	EPS Growth	Capex	O&M
$35.00 upside	+9%/1st Quartile	8.0%	+500mm	1% reduction
$31.00base	+3%/2nd Quartile	7.0%	-	Flat
$23.75 downside	-3%/3rd Quartile	5.5%	-1,250mm	1.5% increase

Source: FactSet, UBS Estimate

COMPANY DESCRIPTION

NI is a fully regulated gas and electric utility serving customers in 6 states in the Midwest and Mid-Atlantic. NI is a gas distribution utility with 3.2 million customers in IN, KY, MD, OH, PA and VA. 90% of the operations are in IN, PA and OH. NI's mix of operating earnings is ~60% gas and ~40% electric.

Pivotal Question: Can NiSource deliver on the 6-8% earnings growth and drive multiple expansion?

We view Nisource as a company that is exiting a multi-year period that saw operational challenges, management changes and asset portfolio turnover and and poised to deliver on earnings growth. As figure 1 shows, the stock began a long run way of underperformance following a large explosion on its gas system in Massachusetts in September of 2018. This lead to the company divesting the Columbia Gas of Massachusetts at roughly 1.0x rate base (see note here) to Eversource in 2020 and then requiring a $800mm+ equity unit issuance for balance sheet repair in 2021. In early 2022, the current CEO, Llyod Yates, took on the leadership role after having served on the Board of Directors for NiSource. The company then initiated a strategic review of its asset portfolio. This led to an initial period of outperformance for the stock, but it ultimately gave most of that relative performance back into and at the Analyst Day update in November 2022. At that meeting, NI took steps that at the time we viewed as prudent and necessary. They lowered the EPS growth rate from 7-9% to 6-8%, which reflected a push out of the capital expenditure profile and slowing rate base growth to put an emphasis on customer affordability and balance sheet improvement. Management also decided to sell a minority interest in its NIPSCO subsidiary to help fund capex growth in lieu of block equity. Please see our note Moderating Growth Outlook to Achieve Long-Term Goals for more details around the Analyst Day.

Figure 1: Relative Stock Performance for NI vs. XLU Since 1/1/2018

Source: FactSet, Company Reports, UBS

We see the multi-year reset Nisource has undergone as now winding down, with the NIPSCO sale the last piece to complete. Following a transaction, the company will be on a path of stable capex deployment underpinned by $30bn of infrastructure investment over the next ten years. The states in which NiSource operates that comprise ~90% of its operations are Indiana (44%), Ohio (28%) and Pennsylvania (17%). As shown in Figure 2, these states are all in the top three tiers and supports our valuation view of Nisource warranting a premium for 2nd quartile regulation.

In Ohio, Nisource was able to reach a settlement premised on a 9.60% ROE and increased revenues, net of riders by $68.2mm that was approved in January. In Pennsylvania, the company reached a black box settlement that went into effect in December '22 that increased revenues by $44.5mm. In March, NI reached a settlement in its NIPSCO electric rate case, driven by a 9.8% ROE and a $292mm revenue increase. See our note on that case here: Settlement Reached in NIPSCO GRC. Overall, we see all of these outcomes as constructive relative to the 6-8% annual EPS growth guidance NI presents off the $1.37/shr base for 2021. In another sign of the new regime, one of the push backs coming out of the Analyst Day in November was that the guidance for 2023 was $1.50-$1.57, which was below the 6-8% EPS CAGR range, but in February, NI raised full year guidance for 2023 to $1.54-$1.60, which put them firmly back in the 6-8% annual EPS growth range. We view this as the type of actions of premium companies.

We think NI may have up to $500mm of capex upside that could be communicated later this year. The company has $3.0bn of generation capex in it's plan. $1.0bn is placeholder capex that likely will turn into a gas plant. The remaining $2.0bn is tied to eight renewable generation projects. Four of these projects have secured tax equity funding and NI's share of that, net of tax equity is $1.0bn. The remaining $1.0bn of investment is also earmarked to employ tax equity. If NI is able to utilize tax credit transferability under the IRA, we think this could increase NI's investment to $1.5bn while keeping the impact to customers neutral if not slightly favorable. Depending on timing, we think it could add 2-3% or 3-4c to NI's EPS in '25/'26.

Figure 2: UBS Regulatory Jurisdiction Rankings - Updated in May 2023

TIER 1	TIER 2	TIER 3	TIER 4	TIER 5
		New Jersey		
		Louisiana		
		Massachusetts		
		Oregon		
		South Carolina		
		Tennessee		
	Arkansas	Washington		
Florida	Indiana	Newfoundland & Labrador	Rhode Island	Alberta
British Columbia	Kentucky	Ontario	Nova Scotia	District of Columbia
North Carolina	Michigan	Virginia	West Virginia	Mississippi
Utah	California	Wyoming	Alaska	New Mexico
Wisconsin	FERC	Ohio	Kansas	Connecticut
Iowa	Missouri	Oklahoma	Minnesota	Maine
Alabama	North Dakota	Texas	Nevada	Montana
Georgia	Colorado	Maryland	New Hampshire	South Dakota
Idaho	Delaware	Prince Edward Island	Nebraska	Vermont
Pennsylvania	Illinois	Hawaii	New York	Arizona

Source: Canadian Provincial Regulatory Websites, S&P Capital IQ Pro, FactSet, UBS Estimates

In Figure 3 & 4, we highlight our sensitivities for the NIPSCO sales process. We see as combined electric and gas rate base of $6.8bn (excluding deferred taxes), split 70% electric and 30% gas. The 19.9% minority interest sales will allow NI defer any tax leakage. We assume a ~1.45x EV/Rate base multiple, which is consistent with the regulated electric multiple since 2014 of 1.42x. While the 30% gas exposure may pull the multiple up, we think the higher interest rate environment may weigh on valuations relative to the transaction periods for the comps in Fig 4. We think the proceeds from the sale will support a 14-16% FFO/Debt range that management targets. The company will likely need to turn on its at-the-market equity program modestly in 2025 ($115mm) and ramp to $400mm in '26 and '27.

Figure 3: NIPSCO Sale Sensitivities

	2024 P/E	EV / Rate Base	Proceeds ($mm)
	16.36x	1.35x	$1,575
	17.24x	1.40x	$1,633
Base Case	18.25x	1.46x	$1,700
	19.00x	1.50x	$1,750
	19.88x	1.55x	$1,808
	20.76x	1.60x	$1,866
	21.64x	1.65x	$1,925

16.20x < Current Multiple on '24 Earnings

Source: UBS Estimates, Company Reports

Figure 4: Utility and Power Transaction Multiple History by Sold Asset Class

Multiples by Sold Asset Class - Since 1995	FY1 P/E	EV/ EBITDA	Price/ Book	Price Change	Price Rate base	Announced Transactions	Failed Transactions	% Completion
Regulated Electric	21.4x	9.8x	1.84x	8.8%	1.22x	72	18	75%
Regulated Gas Distribution	21.3x	11.3x	1.90x	7.6%	1.95x	23	2	91%
Power Assets	36.3x	6.1x	0.81x	20.5%	N/A	9	1	89%
Total	**21.7x**	**9.7x**	**1.76x**	**10.0%**	**1.30x**	**104**	**21**	**80%**
Since 1/1/14						Transactions		
Regulated Electric	21.9x	11.7x	2.08x	9.8%	1.43x	20	5	75%
Regulated Gas Distribution	22.4x	11.8x	2.18x	17.5%	1.99x	9	1	89%
Power Assets	36.3x	7.4x	1.30x	18.1%	N/A	9	0	100%
Total	**23.1x**	**10.5x**	**1.95x**	**9.2%**	**1.56x**	**38**	**6**	**84%**

Source: FactSet, S&P Captial IQ Pro, UBS Estimates

UPSIDE/DOWNSIDE SPECTRUM

Risk is skewed 2.7:1 to the upside

Value drivers	Regulatory Ranking	EPS growth	Capex	O&M
$35.00 upside	+9%/1st Quartile	8.0%	+$500mm	1% reduction
$31.00 base	+3%/2nd Quartile	7.0%	-	Flat
$23.75 downside	-3%/3rd Quartile	5.5%	-$1,250mm	1.5% increase

Source: FactSet, UBS Estimates

UPSIDE ($35.00): Our $35 upside case reflects a 23% premium to the Regulated Utility average or 18.8x $1.86 in 2025E. An incremental $500 million of investment and a 1% reduction in O&M is the driver for 8% EPS growth. The valuation includes +5% for the 12 month undervaluation on a relative yield basis to the Baa corporate bond, +9% for first quartile regulation, +4% for first quartile EPS growth and +5% for a clean energy transition, under the assumption of a faster energy transition plan being deployed.

BASE ($31.00): Our $31 price target is at a 10% premium to the Regulated Utility average P/E or 16.8x $1.80 in 2025E. The valuation includes +5% for the 12 month undervaluation on a relative yield basis to the Baa corporate bond, +3% for second quartile regulation, +2% for second-quartile EPS growth.

DOWNSIDE ($23.75): Our $23.75 downside case is at a -4% discount to the Regulated Utility average 2025E P/E, or 15.25x $1.70 in 2025E. The downside case reflects a $1.25 billion reduction in investment as placeholder capex is removed from the plan and a 1.5% increase in O&M. The premium includes +5% for the 12 month undervaluation on a relative yield basis to the Baa corporate bond, +3% for second quartile regulation, -2.0% for second-quartile EPS growth.

NiSource Inc. (NI.N)

Income Statement (US$m)	12/20	12/21	12/22	12/23E	%ch	12/24E	%ch	12/25E	12/26E	12/27E
Revenues	**4,697**	**4,900**	**5,851**	**5,977**	2.2	**6,271**	4.9	**6,531**	**6,781**	**7,006**
Gross profit	3,587	3,507	3,740	3,866	3.4	4,160	7.6	4,420	4,670	4,895
EBITDA (UBS)	**1,794**	**1,794**	**1,982**	**2,064**	4.1	**2,349**	13.9	**2,607**	**2,854**	**3,076**
Depreciation & amortisation	(762)	(748)	(821)	(919)	-12.0	(1,012)	-10.1	(1,124)	(1,220)	(1,316)
EBIT (UBS)	**1,031**	**1,046**	**1,162**	**1,145**	-1.5	**1,337**	16.8	**1,483**	**1,634**	**1,760**
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	29	41	52	52	0.0	52	0.0	52	52	52
Net interest	(371)	(341)	(362)	(351)	2.8	(380)	-8.3	(451)	(512)	(528)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Pre-tax profit	**689**	**746**	**852**	**845**	-0.8	**1,009**	19.4	**1,085**	**1,174**	**1,285**
Tax	(127)	(118)	(136)	(96)	29.3	(135)	-40.5	(151)	(169)	(192)
Profit after tax	**563**	**628**	**716**	**749**	4.6	**874**	16.7	**934**	**1,006**	**1,093**
Preference dividends	(55)	(55)	(55)	(55)	0.0	(55)	0.0	(55)	(55)	(55)
Minorities	0	0	(12)	4	-	(67)	-	(71)	(76)	(81)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	**507**	**573**	**649**	**698**	7.6	**752**	7.8	**807**	**874**	**956**
Net earnings (UBS)	**507**	**573**	**649**	**698**	7.6	**752**	7.8	**807**	**874**	**956**
Tax rate (%)	18.4	15.8	16.0	11.4	-28.8	13.4	17.7	13.9	14.4	14.9

Per Share (US$)	12/20	12/21	12/22	12/23E	%ch	12/24E	%ch	12/25E	12/26E	12/27E
EPS (UBS, diluted)	1.32	1.37	1.46	1.57	7.2	1.68	7.2	1.80	1.91	2.03
EPS (local GAAP, diluted)	1.32	1.37	1.46	1.57	7.2	1.68	7.2	1.80	1.91	2.03
EPS (UBS, basic)	1.32	1.37	1.46	1.57	7.2	1.68	7.2	1.80	1.91	2.03
DPS (net) (US$)	0.88	0.90	0.96	1.02	6.3	1.08	5.9	1.14	1.20	1.20
Cash EPS (UBS, diluted) [1]	3.30	3.17	3.31	3.63	9.6	3.95	8.6	4.30	4.58	4.83
Book value per share	12.93	12.77	13.52	14.10	4.3	14.78	4.8	15.63	16.81	17.99
Average shares (diluted)	385	417	443	445	0.4	447	0.5	449	457	470

Balance Sheet (US$m)	12/20	12/21	12/22	12/23E	%ch	12/24E	%ch	12/25E	12/26E	12/27E
Cash and equivalents	126	95	41	64	58.0	75	16.5	89	189	68
Other current assets	1,534	1,826	2,544	2,544	0.0	2,544	0.0	2,544	2,544	2,544
Total current assets	**1,659**	**1,921**	**2,584**	**2,608**	0.9	**2,619**	0.4	**2,632**	**2,733**	**2,611**
Net tangible fixed assets	16,620	17,882	19,843	20,396	2.8	22,177	8.7	24,403	26,073	27,647
Net intangible fixed assets	1,738	1,809	1,738	1,738	0.0	1,738	0.0	1,738	1,738	1,738
Investments / other assets	2,024	2,546	2,572	2,722	5.8	2,872	5.5	3,022	3,172	3,322
Total assets	**22,041**	**24,157**	**26,737**	**27,464**	2.7	**29,406**	7.1	**31,796**	**33,716**	**35,318**
Trade payables & other ST liabilities	1,753	2,128	2,869	2,869	0.0	2,869	0.0	2,869	2,869	2,869
Short term debt	526	618	1,792	1,783	-0.5	3,038	70.4	1,788	1,762	1,762
Total current liabilities	**2,279**	**2,746**	**4,661**	**4,652**	-0.2	**5,907**	27.0	**4,657**	**4,631**	**4,631**
Long term debt	9,220	9,183	9,524	9,803	2.9	9,977	1.8	12,951	13,901	14,451
Other long term liabilities	4,704	5,280	4,651	4,828	3.8	5,040	4.4	5,268	5,514	5,784
Preferred shares	880	1,547	1,547	1,547	0.0	1,547	0.0	1,547	1,547	1,547
Total liabilities (incl pref shares)	**17,083**	**18,756**	**20,381**	**20,829**	2.2	**22,470**	7.9	**24,422**	**25,593**	**26,413**
Common s/h equity	**4,958**	**5,401**	**6,029**	**6,308**	4.6	**6,609**	4.8	**7,047**	**7,797**	**8,579**
Minority interests	0	0	326	326	0.0	326	0.0	326	326	326
Total liabilities & equity	**22,040**	**24,157**	**26,737**	**27,464**	2.7	**29,406**	7.1	**31,796**	**33,716**	**35,318**

Cash Flow (US$m)	12/20	12/21	12/22	12/23E	%ch	12/24E	%ch	12/25E	12/26E	12/27E
Net income (before pref divs)	563	628	704	753	7.0	807	7.2	862	930	1,011
Depreciation & amortisation	762	748	821	919	12.0	1,012	10.1	1,124	1,220	1,316
Net change in working capital	(249)	(206)	(203)	28	-	62	125.0	78	97	120
Other operating	120	48	0	0	-	0	-	0	0	0
Operating cash flow	**1,196**	**1,218**	**1,322**	**1,700**	28.6	**1,881**	10.7	**2,064**	**2,246**	**2,448**
Tangible capital expenditure	(1,758)	(1,838)	(2,203)	(3,422)	-55.3	(2,793)	18.4	(3,350)	(2,890)	(2,890)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) & disposals	0	0	0	0	-	0	-	0	0	0
Other investing	879	(367)	0	0	-	0	-	0	0	0
Investing cash flow	**(879)**	**(2,205)**	**(2,203)**	**(3,422)**	-55.3	**(2,793)**	18.4	**(3,350)**	**(2,890)**	**(2,890)**
Equity dividends paid	(322)	(345)	(382)	(419)	-9.8	(451)	-7.8	(484)	(525)	(574)
Share issues / (buybacks)	211	1,140	141	0	-	0	-	115	400	400
Other financing	(219)	131	(55)	(55)	0.0	(55)	0.0	(55)	(55)	(55)
Change in debt & pref shares	82	31	285	279	-2.1	1,429	NM	1,724	924	550
Financing cash flow	**(248)**	**956**	**(10)**	**(195)**	NM	**923**	-	**1,300**	**744**	**321**
Cash flow inc/(dec) in cash	**69**	**(31)**	**(892)**	**(1,917)**	-115.1	**11**	-	**14**	**100**	**(122)**
FX / non cash items	(91)	0	837	1,941	131.8	0	-100.0	0	0	0
Balance sheet inc/(dec) in cash	**(23)**	**(31)**	**(54)**	**24**	-	**11**	-55.0	**14**	**100**	**(122)**

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)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
P/E (local GAAP, diluted)	18.6	17.9	19.6	17.1	15.9	14.9	14.0	13.2
P/E (UBS, diluted)	18.6	17.9	19.6	17.1	15.9	14.9	14.0	13.2
P/CEPS	7.4	7.8	8.7	7.4	6.8	6.2	5.8	5.5
Equity FCF (UBS) yield %	(6.0)	(6.2)	(7.2)	(14.4)	(7.6)	(10.7)	(5.4)	(3.7)
Dividend yield (net) %	3.6	3.6	3.3	3.8	4.0	4.3	4.5	4.5
P/BV	1.9	1.9	2.1	1.9	1.8	1.7	1.6	1.5
EV/revenues (core)	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
EV/EBITDA (UBS core)	9.9	10.4	11.3	11.1	10.0	9.6	9.1	8.7
EV/EBIT (core)	17.2	17.9	19.3	20.0	17.6	16.8	15.9	15.1
EV/OpFCF (core)	9.9	10.4	11.3	11.1	10.0	9.6	9.1	8.7
EV/op. invested capital	1.3	1.3	1.4	1.3	1.3	1.2	1.2	1.2

Enterprise value (US$m)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Market cap.	9,340	10,029	12,294	11,964	11,964	11,964	11,964	11,964
Net debt (cash)	10,133	10,877	12,037	12,945	13,777	15,342	16,609	17,356
Buy out of minorities	0	0	326	326	326	326	326	326
Pension provisions/other	336	326	326	326	326	326	326	326
Total enterprise value	**19,809**	**21,231**	**24,984**	**25,561**	**26,394**	**27,958**	**29,225**	**29,973**
Non core assets	(2,024)	(2,546)	(2,572)	(2,722)	(2,872)	(3,022)	(3,172)	(3,322)
Core enterprise value	**17,785**	**18,686**	**22,412**	**22,839**	**23,522**	**24,936**	**26,053**	**26,651**

Growth (%)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Revenue	(9.4)	4.3	19.4	2.2	4.9	4.1	3.8	3.3
EBITDA (UBS)	1.7	0.0	10.5	4.1	13.9	11.0	9.5	7.8
EBIT (UBS)	(1.5)	1.4	11.1	(1.5)	16.8	10.9	10.2	7.7
EPS (UBS, diluted)	0.1	4.0	6.6	7.2	7.2	6.9	6.3	6.4
Net DPS	5.4	1.7	7.3	6.3	5.9	5.6	5.3	0.0

Margins & Profitability (%)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Gross profit margin	NM	71.6	63.9	64.7	66.3	67.7	68.9	69.9
EBITDA margin	38.2	36.6	33.9	34.5	37.5	39.9	42.1	43.9
EBIT (UBS) margin	22.0	21.3	19.9	19.2	21.3	22.7	24.1	25.1
Net earnings (UBS) margin	10.8	11.7	11.1	11.7	12.0	12.4	12.9	13.6
ROIC (EBIT)	7.5	7.4	7.4	6.6	7.3	7.4	7.5	7.6
ROIC post tax	6.1	6.2	6.2	5.9	6.3	6.4	6.4	6.5
ROE (UBS)	10.1	11.1	11.4	11.3	11.6	11.8	11.8	11.7

Capital structure & Coverage (x)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Net debt / EBITDA	5.9	6.3	6.5	6.3	6.2	6.2	6.0	5.8
Net debt / total equity %	211.8	208.4	201.7	197.0	208.9	219.7	209.5	198.7
Net debt / (net debt + total equity) %	67.9	67.6	66.9	66.3	67.6	68.7	67.7	66.5
Net debt/EV %	52.7	51.2	48.2	50.6	52.2	54.9	56.8	57.9
Capex / depreciation %	NM	NM	NM	NM	NM	NM	NM	NM
Capex / revenue %	NM	NM	NM	NM	NM	NM	NM	NM
EBIT / net interest	2.8	3.1	3.2	3.3	3.5	3.3	3.2	3.3
Dividend cover (UBS)	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.7
Div. payout ratio (UBS) %	66.6	65.2	65.6	65.0	64.2	63.4	62.8	59.0

Revenues by division (US$m)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Others	4,697	4,900	5,851	5,977	6,271	6,531	6,781	7,006
Total	**4,697**	**4,900**	**5,851**	**5,977**	**6,271**	**6,531**	**6,781**	**7,006**

EBIT (UBS) by division (US$m)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Others	1,031	1,046	1,162	1,145	1,337	1,483	1,634	1,760
Total	**1,031**	**1,046**	**1,162**	**1,145**	**1,337**	**1,483**	**1,634**	**1,760**

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

Forecast returns

Forecast price appreciation	+15.8%
Forecast dividend yield	3.9%
Forecast stock return	+19.7%
Market return assumption	9.5%
Forecast excess return	+10.2%

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

We apply a 10% premium valuation for NI, which reflects +5% for overall group attractiveness, +3% for second quartile regulation and +2% for second quartile EPS growth. This drives a target multiple of 17.25x and a $31 target price.

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.

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)	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)	4
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)	4
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)	4
7. What's driving the difference?	
8. Is there an upcoming catalyst for the company over the next three months?	
9. Is there an actual or approximate date for the catalyst?	
10. Is the catalyst date an actual or approximate date?	
11. What is the catalyst?	

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	54%	22%
Neutral	FSR is between -6% and 6% of the MRA.	36%	21%
Sell	FSR is > 6% below the MRA.	10%	18%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2023.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$26.77	05 Jun 2023

Source: UBS. All prices as of local market close. Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date.
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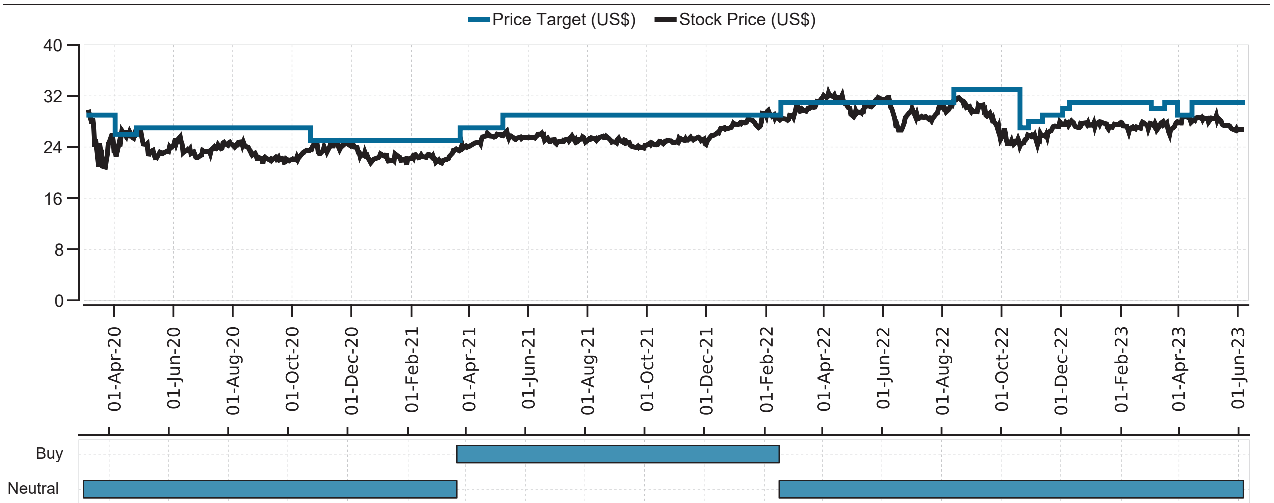
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2020-03-05	29.63	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy

Date	Stock Price (US$)	Price Target (US$)	Rating
2022-02-15	28.26	31.00	Neutral
2022-08-12	31.14	33.00	Neutral
2022-10-19	24.88	27.00	Neutral
2022-10-28	25.89	28.00	Neutral
2022-11-11	25.81	29.00	Neutral
2022-12-02	27.57	30.00	Neutral
2022-12-09	27.39	31.00	Neutral
2023-03-03	27.70	30.00	Neutral
2023-03-17	27.47	31.00	Neutral
2023-03-30	27.84	29.00	Neutral
2023-04-14	27.85	31.00	Neutral

Source: UBS;as of 05-Jun-2023. All prices as of local market close. Ratings as of date shown.

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First Read

NiSource Inc.

NIPSCO Minority Sale Announced

What Happened?

This morning, Nisource announced a 19.9% minority interest sale of its NIPSCO utility to Blackstone for equity proceeds of $2.15bn. The company had been actively marketing the asset and a sale was expected. The rate base multiple was 1.85x based on year-end '22 rate base at NIPSCO of $7.7bn and NI estimates 32.5x trailing P/E. Blackstone will also provide an equity commitment letter of $250mm to support it's pro rata share of NIPSCO's capital plan. The company expects the $250mm to be drawn down over the next three years. The transaction requires FERC approval and is targeting to close by year-end 2023.

What's Our Take?

We believe investors should view the transaction favorably. The $2.15bn is modestly more than our expectations of $1.95bn and fully supportive of the current guidance plan of 6-8% EPS growth through 2027. This was a catalyst for the stock and helps to further de-risk the story. The sale will help improve the balance sheet metrics for Nisource and ensure they can achieve the 14-16% FFO/Debt targeted range. The company should initially be at the higher end of the range post-close and it will moderate lower within the range over the coming years. For more details, see our 6/6/23 upgrade note here: Upgrade to Buy - Path Clearing For Re-Rate Higher

How is the Company's Outlook Impacted?

Reaffirmed. The company reiterated the guidance for 2023 of $1.54-$1.60, long term EPS growth of 6-8% and FFO/Debt target of 14-16%. Management also reaffirmed that post close, no common equity issuances will be needed until at least 2025, at which point the company expects to utilize the ATM program to fund maintenance equity needs.

Valuation:

We maintain our Buy rating and $31 target.

Equities

Americas
Electric Utilities

12-month rating	**Buy**
12m price target	**US$31.00**
Price (16 Jun 2023)	**US$27.38**

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

Trading data and key metrics

52-wk range	US$31.71-24.15
Market cap.	US$12.2b
Shares o/s	447m (COM)
Free float	99%
Avg. daily volume ('000)	1,052
Avg. daily value (m)	US$29.1
Common s/h equity (12/23E)	US$6.31b
P/BV (12/23E)	1.9x
Net debt to EBITDA (12/23E)	6.3x

EPS (UBS, diluted) (US$)

	12/23E	
	UBS	**Cons.**
Q1	0.77	0.77
Q2E	0.13	0.15
Q3E	0.11	0.15
Q4E	0.56	0.50
12/23E	1.57	1.57
12/24E	1.68	1.67
12/25E	1.80	1.80

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Highlights (US$m)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Revenues	4,697	4,900	5,851	5,977	6,271	6,531	6,781	7,006
EBIT (UBS)	1,031	1,046	1,162	1,145	1,337	1,483	1,634	1,760
Net earnings (UBS)	507	573	649	698	752	807	874	956
EPS (UBS, diluted) (US$)	1.32	1.37	1.46	1.57	1.68	1.80	1.91	2.03
DPS (net) (US$)	0.88	0.90	0.96	1.02	1.08	1.14	1.20	1.20
Net (debt) / cash	(10,501)	(11,253)	(12,821)	(13,068)	(14,486)	(16,197)	(17,020)	(17,692)
Profitability/valuation	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
EBIT (UBS) margin %	22.0	21.3	19.9	19.2	21.3	22.7	24.1	25.1
ROIC (EBIT) %	7.5	7.4	7.4	6.6	7.3	7.4	7.5	7.6
EV/EBITDA (UBS core) x	9.9	10.4	11.3	11.2	10.1	9.7	9.2	8.8
P/E (UBS, diluted) x	18.6	17.9	19.6	17.5	16.3	15.2	14.3	13.5
Equity FCF (UBS) yield %	(6.0)	(6.2)	(7.2)	(14.1)	(7.5)	(10.5)	(5.3)	(3.6)
Dividend yield (net) %	3.6	3.6	3.3	3.7	3.9	4.2	4.4	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$ 27.38 on 16-Jun-2023

Forecast returns

Forecast price appreciation	+13.2%
Forecast dividend yield	3.8%
Forecast stock return	+17.1%
Market return assumption	9.7%
Forecast excess return	+7.3%

Company Description

NI is a fully regulated gas and electric utility serving customers in six states in the Midwest and Mid-Atlantic. NI is a gas distribution utility with 3.2 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NI is an integrated electric utility serving 0.5 million customers in Indiana. NI's mix of operating earnings is 60% gas and 40% electric.

Valuation Method and Risk Statement

We apply a 10% premium valuation for NI, which reflects +5% for overall group attractiveness, +3% for second quartile regulation and +2% for second quartile EPS growth. This drives a target multiple of 17.25x and a $31 target price.

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.

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)	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)	4
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)	4
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)	4
7. What's driving the difference?	
8. Is there an upcoming catalyst for the company over the next three months?	
9. Is there an actual or approximate date for the catalyst?	
10. Is the catalyst date an actual or approximate date?	
11. What is the catalyst?	

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	54%	22%
Neutral	FSR is between -6% and 6% of the MRA.	36%	21%
Sell	FSR is > 6% below the MRA.	10%	18%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2023.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. In some cases, this yield may be based on accrued dividends. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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UBS Securities LLC: Ross Fowler, CFA, William Appicelli, CFA.

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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[4,5,16,7]	NI.N	Buy	US$27.38	16 Jun 2023

Source: UBS. All prices as of local market close. Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date.

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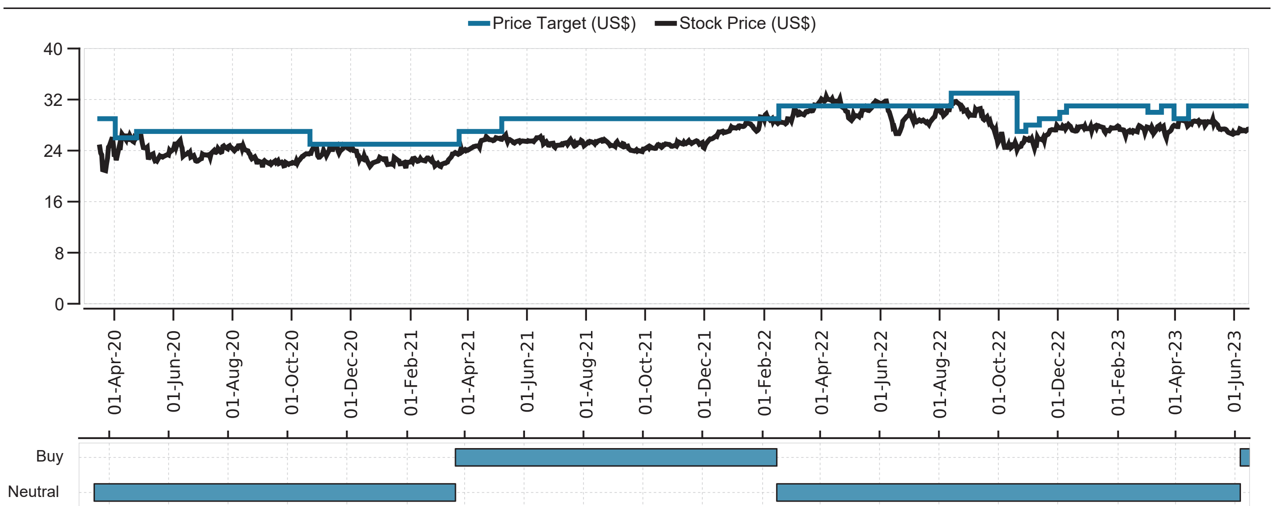
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2020-03-16	20.94	29.00	Neutral

Date	Stock Price (US$)	Price Target (US$)	Rating
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy
2022-02-15	28.26	31.00	Neutral
2022-08-12	31.14	33.00	Neutral
2022-10-19	24.88	27.00	Neutral
2022-10-28	25.89	28.00	Neutral
2022-11-11	25.81	29.00	Neutral
2022-12-02	27.57	30.00	Neutral
2022-12-09	27.39	31.00	Neutral
2023-03-03	27.70	30.00	Neutral
2023-03-17	27.47	31.00	Neutral
2023-03-30	27.84	29.00	Neutral
2023-04-14	27.85	31.00	Neutral
2023-06-06	26.96	31.00	Buy

Source: UBS;as of 16-Jun-2023. All prices as of local market close. Ratings as of date shown.

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UBS

First Read

NiSource Inc.

Q1 Earnings Inline, LT Outlook Reaffirmed

Q: How did the results compare vs expectations?

A: Inline. The company reported adjusted Q1'23 earnings of $0.77/ per share vs. UBS/ consensus of $0.76/$0.75 per share. The company reported $0.75 per share for Q1'22.

Q: What were the most noteworthy areas in the results?

A: The company removed the impact of weather from its adjusted earnings, but weather would've been a 6c negative in the quarter relative to the operating number. The company saw higher revenues at both the electric and gas segments, but this was largely offset by higher interest and D&A. The company also benefited from higher corporate owned life insurance, while also facing a modestly higher tax rate in the quarter.

Q: Has the company's outlook/guidance changed?

A: No. The company reaffirmed 2023 full year EPS guidance of $1.54-1.60 and longer-term guidance of 6-8% annual EPS guidance through 2027 driven by 8-10% rate base growth. The company remains on track to transact a minority interest in the NIPSCO subsidiary in 2023.

Q: How would we expect investors to react?

A: Neutral. The print looks inline with expectations. We expect questions to focus on the sales process at NIPSCO, efforts to keep O&M flat going forward and the recently announced NIPSCO settlement.

Key Metrics ()

	Consensus estimates	UBS estimates	Actual	% diff vs. UBS
Adjusted EPS	$0.75	$0.76	$0.77	1.3%

Source: Company Reports, UBS Estimates, FactSet

Equities

Americas
Electric Utilities

12-month rating	**Neutral**
12m price target	**US$31.00**
Price (02 May 2023)	**US$27.91**

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

Trading data and key metrics

52-wk range	US$31.77-24.15
Market cap.	US$12.7b
Shares o/s	446m (COM)
Free float	99%
Avg. daily volume ('000)	1,162
Avg. daily value (m)	US$32.1
Common s/h equity (12/23E)	US$6.31b
P/BV (12/23E)	2.0x
Net debt to EBITDA (12/23E)	6.3x

EPS (UBS, diluted) (US$)

	12/23E	
	UBS	Cons.
Q1E	0.76	0.75
Q2E	0.13	0.15
Q3E	0.11	0.14
Q4E	0.45	0.50
12/23E	1.45	1.55
12/24E	1.56	1.67
12/25E	1.68	1.79

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Highlights (US$m)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Revenues	4,697	4,900	5,851	5,972	6,261	6,521	6,771	6,996
EBIT (UBS)	1,031	1,046	1,162	1,140	1,327	1,473	1,624	1,750
Net earnings (UBS)	507	573	597	642	692	747	814	896
EPS (UBS, diluted) (US$)	1.32	1.37	1.35	1.45	1.56	1.68	1.80	1.92
DPS (net) (US$)	0.88	0.90	0.96	1.02	1.08	1.14	1.20	1.20
Net (debt) / cash	(10,501)	(11,253)	(12,821)	(13,070)	(14,494)	(16,210)	(17,039)	(17,716)
Profitability/valuation	**12/20**	**12/21**	**12/22**	**12/23E**	**12/24E**	**12/25E**	**12/26E**	**12/27E**
EBIT (UBS) margin %	22.0	21.3	19.9	19.1	21.2	22.6	24.0	25.0
ROIC (EBIT) %	7.5	7.4	7.4	6.6	7.3	7.4	7.5	7.6
EV/EBITDA (UBS core) x	9.9	10.4	11.3	11.5	10.4	9.9	9.4	8.9
P/E (UBS, diluted) x	18.6	17.9	21.4	19.7	18.2	17.0	15.9	14.8
Equity FCF (UBS) yield %	(6.0)	(6.2)	(7.6)	(14.0)	(7.7)	(10.6)	(5.6)	(4.0)
Dividend yield (net) %	3.6	3.6	3.3	3.6	3.8	4.0	4.2	4.2

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US$ 27.91 on 02-May-2023

Forecast returns

Forecast price appreciation	+11.1%
Forecast dividend yield	3.7%
Forecast stock return	+14.8%
Market return assumption	9.1%
Forecast excess return	+5.6%

Company Description

NI is a fully regulated gas and electric utility serving customers in six states in the Midwest and Mid-Atlantic. NI is a gas distribution utility with 3.2 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NI is an integrated electric utility serving 0.5 million customers in Indiana. NI's mix of operating earnings is 60% gas and 40% electric.

Valuation Method and Risk Statement

Risks include, but are not limited to, the following: changes to the regulatory environment, ability to achieve favorable returns on investment projects, and ability to continue to reinvest in the business for growth. Our $31 price target is based off a 14% premium to the regulated group average or 19.8x our 2024 estimate of $1.56. The premium consists of +5% for the group undervaluation, +5% for second quartile regulation and +4% for first quartile EPS growth.

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)	3
3. Over the last 3-6 months in broad terms have things been improving/no change/getting worse for this stock? Rate on a scale of 1-5 (1 = getting a lot worse, 3 = not much change, 5 = getting a lot better, N/A = no view)	3
4. Relative to the current CONSENSUS EPS forecast, is the next company EPS update likely to lead to: (1 = negative surprise vs consensus, 3 = in-line with consensus, 5 = positive surprise vs consensus expectations, N/A = no view)	3
5. What’s driving the difference?	
6. Relative to YOUR current earnings forecast, is there relatively greater risk at the next earnings result of:(1 = downside skew risk to earnings, 3 = equal upside or downside risk to earnings, 5 = upside skew risk to earnings, N/A = no view)	3
7. What’s driving the difference?	
8. Is there an upcoming catalyst for the company over the next three months?	
9. Is there an actual or approximate date for the catalyst?	
10. Is the catalyst date an actual or approximate date?	
11. What is the catalyst?	

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	54%	22%
Neutral	FSR is between -6% and 6% of the MRA.	36%	21%
Sell	FSR is > 6% below the MRA.	10%	18%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2023.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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Company Name	Reuters	12-month rating	Price	Price date
NiSource Inc.[16]	NI.N	Neutral	US$27.91	02 May 2023

Source: UBS. All prices as of local market close. Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date.
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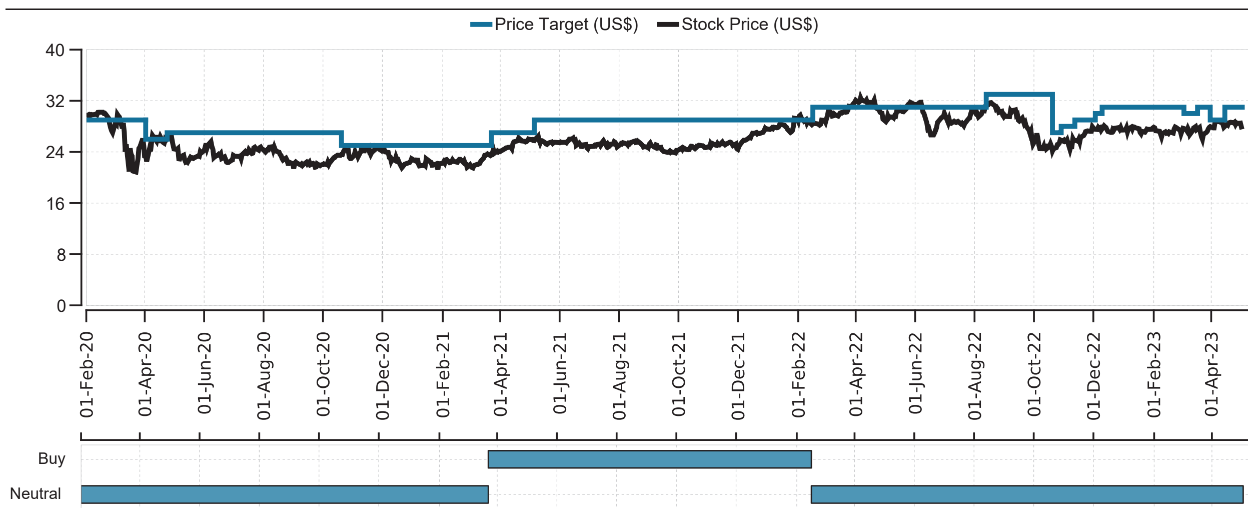
NiSource Inc. (US$)



Date	Stock Price (US$)	Price Target (US$)	Rating
2020-01-31	29.31	29.00	Neutral
2020-04-01	23.06	26.00	Neutral
2020-04-23	25.85	27.00	Neutral
2020-10-19	23.47	25.00	Neutral
2021-03-22	23.42	27.00	Buy
2021-05-05	25.78	29.00	Buy

Date	Stock Price (US$)	Price Target (US$)	Rating
2022-02-15	28.26	31.00	Neutral
2022-08-12	31.14	33.00	Neutral
2022-10-19	24.88	27.00	Neutral
2022-10-28	25.89	28.00	Neutral
2022-11-11	25.81	29.00	Neutral
2022-12-02	27.57	30.00	Neutral
2022-12-09	27.39	31.00	Neutral
2023-03-03	27.70	30.00	Neutral
2023-03-17	27.47	31.00	Neutral
2023-03-30	27.84	29.00	Neutral
2023-04-14	27.85	31.00	Neutral

Source: UBS;as of 02-May-2023. All prices as of local market close. Ratings as of date shown.

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UBS Evidence Lab Inside: 1Q 2023 Preview & Weather Data by Service Territory

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UBS Evidence Lab Inside: Weather Data By Utility Service Territory

Weather will be the main topic into 1Q 2023 earnings season and likely to make reporting season this quarter more meaningful than is typically the case. While we don't expect companies with significant weather related headwinds to lower annual guidance, investors will be keenly focused on the credibility of management's explanations around drivers to get back toward the midpoint of annual guidance ranges in cases where the weather headwind was significant. The biggest weather headwinds on HDDs where utilities are not decoupled were ETR, SO, CNP, AEP, PPL, AES, and AEE. Outliers where weather was not a major headwind are XEL, NEE, and EMA. We worked with UBS Evidence Lab to collect weather data and to consolidate the local weather data by utility service territory and then collectively by publically listed utility company. This data is produced monthly. The data is for the United States only, so for Emera and Fortis the data only incorporates their US service territories. Fig. 5 shows the HDD data by utility company, and also lists if and where that company is decoupled.

Regulated Utilities

For regulated utilities, we are lower than consensus estimates for AEP, CMS, D, DTE, DUK, ETR, OGE and SRE, mainly driven by significantly warmer than normal weather. Beyond that we are lower on AEP related to higher interest costs being front end for the year; for CMS around significant storm costs in the quarter; for D on higher interest expense and the absence of solar ITCs; for DTE also on storm costs; for DUK the absence of commercial renewables and higher interest costs; for ETR higher interest expense, D&A and share dilution; for OGE the absence of a gain on Energy Transfer stock from 1Q '22; and for SRE higher interest expense and the reduction in CA jurisdictional ROEs in '23 vs. '22. Beats are likely to be differentiated in the quarter with our estimates for LNT, EIX NEE, PEG, and XEL all marginally ahead of consensus. Key calls this quarter in our view are AEP post the Kentucky Sale not moving forward, AWR around the CA rate case, CMS around the gas rate case staff testimony, DTE on offsets to achieve the 2023 range and the unregulated business, DUK on the commercial renewables sales process, EVRG on regulatory and legislative updates, PCG with incoming CFO Carolyn Burke and a cost and procurement savings update, and SRE where we expect the forward guidance outlook on EPS and capital expenditures post the Oncor rate case outcome and the FID decision on Port Arthur Phase 1.

Power Infrastructure

For power we are expecting $947mln in adjusted EBITDA for CEG driven by higher market and portfolio conditions from advantageous hedge pricing more than offsetting higher costs. For NRG we expect adjusted EBITDA on a stand alone basis of $524mln and on a consolidated basis inclusive of Vivint Smart Home of $585mln versus $509mln stand alone in 1Q 2022 and consensus estimates of $632mln. On the call we expect management to discuss the Vivint transaction post close, and provide an update on consolidation of EBITDA given different treatment between Vivint and NRG around capitalized costs and costs of goods sold above and below the EBITDA line. For VST we expect Adj. EBITDA of $594mln in 1Q 2023 vs. $541mln in 1Q 2022 and consensus estimates of $712mln. On the call we expect investors to be focused an update on the progress toward closing the Energy Harbor acquisition, hedging strategy and free cash flow allocation.

Figure 1: Electric Utilities Coverage Universe

Rating	Ticker	4/18/23	Price Target	Total Return inc. Div. Yld	UBS 2020A EPS	UBS 2021A EPS	UBS 2022A EPS	UBS 2023E EPS	UBS 2024E EPS	2024 P/E Ratio	2024 Prem/ Disc	Current Dividend Yield	5 Yr EPS Growth	5 Yr DPS Growth	Regulatory Quartile
Buy	NEE	$78.30	$105	36%	$2.31	$2.55	$2.90	$3.13	$3.43	22.8x	33%	2.2%	6.4%	10.0%	1st
Buy	AEP	$92.47	$115	28%	$4.46	$4.74	$5.09	$5.25	$5.64	16.4x	(5%)	3.4%	5.6%	7.0%	2nd
Buy	AES	$24.42	$30	25%	$1.44	$1.52	$1.67	$1.71	$1.88	13.0x	(25%)	2.6%	9.4%	5.1%	1st
Buy	SRE	$156.02	$181	19%	$8.00	$8.43	$9.21	$8.98	$9.58	16.3x	(5%)	2.9%	6.9%	6.4%	3rd
Neutral	DTE	$112.04	$129	18%	$5.62	$5.99	$6.10	$6.25	$6.69	16.7x	(3%)	3.2%	6.1%	4.4%	1st
Buy	FE	$40.48	$46	17%	$2.38	$2.60	$2.41	$2.54	$2.63	15.4x	(10%)	3.9%	6.3%	2.4%	2nd
Buy	EMA	$57.76	$65	17%	$2.68	$2.81	$3.03	$3.29	$3.39	17.1x	(1%)	4.6%	4.6%	4.6%	2nd
Buy	SO	$72.58	$82	17%	$3.25	$3.41	$3.60	$3.65	$4.05	17.9x	4%	3.7%	6.6%	2.9%	1st
Buy	EIX	$72.11	$81	16%	$4.52	$4.59	$4.63	$4.77	$5.18	13.9x	(19%)	3.9%	5.8%	4.0%	3rd
Buy	PPL	$28.49	$32	15%	$2.40	$1.05	$1.41	$1.60	$1.70	16.7x	(3%)	3.1%	7.1%	-6.5%	3rd
Neutral	ETR	$108.58	$121	15%	$5.62	$6.02	$6.42	$6.71	$7.18	15.1x	(12%)	3.8%	6.6%	2.3%	4th
Buy	EXC	$42.85	$48	15%	$1.78	$1.83	$2.27	$2.36	$2.54	16.9x	(2%)	3.2%	7.4%	5.8%	3rd
Buy	PEG	$63.81	$71	15%	$3.43	$3.65	$3.47	$3.46	$3.67	17.4x	1%	3.4%	4.9%	6.6%	2nd
Neutral	OGE	$37.24	$41	15%	$2.03	$2.36	$3.32	$2.01	$2.10	17.7x	3%	4.4%	3.1%	3.0%	2nd
Neutral	CMS	$60.52	$67	14%	$2.67	$2.65	$2.89	$3.12	$3.37	17.9x	4%	3.0%	8.1%	6.7%	1st
Neutral	NI	$28.19	$31	13%	$1.32	$1.37	$1.35	$1.45	$1.56	18.0x	5%	3.3%	7.4%	6.0%	2nd
Neutral	DUK	$97.41	$106	13%	$5.25	$5.24	$5.55	$5.63	$5.97	16.3x	(5%)	4.1%	5.2%	3.6%	2nd
Neutral	WEC	$95.74	$105	13%	$3.79	$4.11	$4.46	$4.62	$4.94	19.4x	13%	3.0%	6.3%	6.7%	1st
Neutral	PCG	$16.90	$19	12%	$1.61	$1.08	$1.10	$1.23	$1.36	12.4x	(28%)	0.0%	10.2%	0.0%	3rd
Buy	CNP	$30.23	$33	11%	$1.44	$1.64	$1.38	$1.49	$1.64	18.5x	7%	2.3%	7.4%	7.9%	3rd
Neutral	AEE	$88.29	$95	10%	$3.50	$3.82	$4.14	$4.36	$4.71	18.7x	9%	2.7%	7.1%	6.0%	2nd
Neutral	EVRG	$61.74	$65	9%	$3.10	$3.58	$3.71	$3.65	$3.99	15.5x	(10%)	3.8%	5.5%	6.6%	4th
Neutral	LNT	$54.34	$57	8%	$2.43	$2.65	$2.80	$2.90	$3.08	17.6x	2%	3.1%	5.5%	6.0%	1st
Neutral	ES	$78.38	$82	8%	$3.64	$3.54	$4.05	$4.36	$4.64	16.9x	(2%)	3.3%	6.7%	6.0%	4th
Neutral	D	$57.36	$59	8%	$3.54	$3.86	$4.10	$3.99	$3.53	16.2x	(6%)	4.7%	1.4%	2.2%	3rd
Neutral	XEL	$69.76	$72	6%	$2.79	$2.96	$3.17	$3.40	$3.68	19.0x	10%	2.8%	7.4%	6.0%	3rd
Neutral	ED	$97.52	$96	2%	$4.15	$4.37	$4.57	$4.85	$5.14	19.0x	10%	3.2%	6.0%	5.5%	4th
Sell	FTS	$59.37	$54	(5%)	$2.57	$2.59	$2.78	$2.97	$3.18	18.6x	8%	3.7%	5.9%	4.6%	4th
Sell	PNW	$79.01	$68	(10%)	$3.93	$3.74	$4.26	$4.03	$4.69	16.9x	(2%)	4.3%	5.2%	4.1%	4th
Electric Utility Average										**17.2x**		**3.4%**	**6.3%**	**4.7%**	

Source: FactSet, Company Reports, UBS Estimates

Figure 2: Water Utility Coverage Universe

Rating	Ticker	4/18/23	Price Target	Total Return inc. Div. Yld	UBS 2020A EPS	UBS 2021A EPS	UBS 2022A EPS	UBS 2023E EPS	UBS 2024E EPS	2024 P/E Ratio	2024 Prem/ Disc	Current Dividend Yield	5 Yr EPS Growth	5 Yr DPS Growth	Regulatory Quartile
Buy	WTRG	$42.63	$51	22%	$1.58	$1.67	$1.77	$1.88	$2.05	20.8x	(22%)	2.6%	8.7%	7.0%	2nd
Neutral	CWT	$57.70	$65	14%	$1.97	$1.96	$1.77	$2.00	$2.17	26.6x	(1%)	1.6%	8.4%	5.0%	2nd
Buy	SJW	$77.19	$85	12%	$2.14	$2.03	$2.43	$2.47	$2.80	27.5x	3%	1.8%	6.3%	7.0%	2nd
Neutral	AWK	$148.10	$156	7%	$3.63	$4.25	$4.51	$4.79	$5.18	28.6x	7%	1.8%	7.9%	8.0%	2nd
Sell	AWR	$88.93	$88	1%	$2.34	$2.56	$2.11	$3.11	$2.93	30.3x	14%	1.7%	10.4%	6.0%	2nd
Water Utility Average										**26.7x**		**1.9%**	**8.2%**	**7.4%**	

Source: FactSet, Company Reports, UBS Estimates

Figure 3: IPP Coverage Universe

Rating	Ticker	4/18/23	Price Target	Total Return inc. Div. Yld	UBS 2019A EBITDA	UBS 2020A EBITDA	UBS 2021A EBITDA	UBS 2022A EBITDA	UBS 2023E EBITDA	2023 EV/ EBITDA Ratio	2023 Prem/ Disc	2022A Net Debt/ EBITDA	2022A FCF Yield
Buy	**VST**	$24.31	$37	54%	$3,325	$3,685	$1,908	$2,994	$3,699	5.9x	-5%	2.7x	19%
Sell	**NRG**	$34.66	$30	(13%)	$1,776	$1,977	$2,404	$1,848	$3,073	5.5x	-22%	4.5x	42%
AVERAGE										**5.7x**		**3.6x**	**30%**

Source: FactSet, Company Reports, UBS Estimates

Figure 4: 1Q'23E UBS Utility and Power EPS Estimates

US Companies in US$		Quarterly						Annual					
Company	Ticker	Scheduled Reporting Date	1Q'23E UBS	1Q'23E Consensus	UBS vs. Consensus	UBS Confidence Indicator[1]	1Q'22A Adjusted	2023E UBS	2023E Consensus	UBS vs. Consensus	Trailing 12 Month	2022A	2023E Guidance
ELECTRIC UTILITIES													
AES Corp	AES	5-May	$0.22E	$0.30	($0.08)		$0.22A	$1.71	$1.71	($0.00)	$1.76	$1.67	$1.65-$1.75
Alliant Energy	LNT	5-May	$0.74E	$0.70	$0.04		$0.77A	$2.90	$2.90	$0.00	$2.72	$2.80	$2.82-$2.96
Ameren Corp	AEE	5-May	$0.97E	$0.99	($0.02)		$0.97A	$4.36	$4.36	($0.00)	$4.16	$4.14	$4.25-$4.45
American Electric Power	AEP	4-May	$1.11E	$1.31	($0.20)		$1.22A	$5.25	$5.29	($0.04)	$5.18	$5.09	$5.19-$5.39
CenterPoint Energy	CNP	27-Apr	$0.47E	$0.51	($0.04)		$0.47A	$1.49	$1.49	($0.00)	$1.11	$1.38	$1.48-$1.50
CMS Energy	CMS	27-Apr	$0.67E	$1.24	($0.57)		$1.20A	$3.12	$3.10	$0.02	$2.93	$2.89	$3.06-$3.12
Consolidated Edison	ED	TBA	$1.50E	$1.63	($0.13)		$1.47A	$4.85	$4.86	($0.01)	$4.70	$4.57	$4.75-$4.95
Dominion Energy	D	5-May	$0.94E	$1.10	($0.16)		$1.18A	$3.99	$4.16	($0.17)	$4.04	$4.10	N/A
DTE Energy	DTE	27-Apr	$1.29E	$1.95	($0.66)		$2.31A	$6.25	$6.24	$0.01	$5.77	$5.62	$6.09-$6.40
Duke Energy	DUK	9-May	$1.16E	$1.37	($0.21)		$1.30A	$5.63	$5.64	($0.01)	$5.40	$5.55	$5.55-$5.75
Edison International	EIX	2-May	$1.04E	$0.98	$0.06		$1.07A	$4.77	$4.72	$0.04	$4.54	$4.63	$4.55-$4.85
Emera Inc (C$)	EMA-TSE	12-May	$0.91E	$0.98	($0.07)		$0.92A	$3.29	$3.22	$0.07	$2.91	$3.03	N/A
Entergy Corp	ETR	26-Apr	$1.13E	$1.57	($0.44)		$1.32A	$6.71	$6.71	($0.00)	$6.70	$6.42	$6.55-$6.85
Evergy, Inc	EVRG	5-May	$0.59E	$0.57	$0.02		$0.58A	$3.65	$3.64	$0.01	$3.74	$3.71	$3.55-$3.75
Eversource Energy	ES	3-May	$1.35E	$1.36	($0.01)		$1.30A	$4.36	$4.37	($0.01)	$4.16	$4.05	$4.25-$4.43
Exelon Corp	EXC	3-May	$0.60E	$0.66	($0.06)		$0.64A	$2.36	$2.36	($0.00)	$2.28	$2.27	$2.30-$2.42
FirstEnergy Corp	FE	27-Apr	$0.61E	$0.61	$0.00		$0.60A	$2.54	$2.53	$0.02	$2.43	$2.41	$2.44-$2.64
Fortis Inc (C$)	FTS-TSE	3-May	$0.83E	$0.82	0.01		$0.78A	$2.97	$2.96	$0.01	$2.82	$2.78	N/A
NextEra Energy	NEE	25-Apr	$0.70E	$0.59	$0.11		$0.74A	$3.13	$3.11	$0.02	$2.76	$2.90	$2.98-$3.13
NiSource Inc.	NI	3-May	$0.76E	$0.82	($0.06)		$0.75A	$1.45	$1.55	($0.10)	$1.41	$1.35	$1.54-$1.60
OGE Energy Corp (2)	OGE	4-May	$0.17E	$0.38	($0.21)		$0.24A	$2.01	$2.01	($0.00)	$2.24	$3.32	$1.93-$2.07
PG&E Corp	PCG	4-May	$0.30E	$0.30	$0.00		$0.30A	$1.23	$1.22	$0.01	$1.10	$1.10	$1.19-$1.23
Pinnacle West Capital Corporation	PNW	4-May	$0.12E	$0.13	($0.01)		$0.15A	$4.03	$4.08	($0.05)	$4.25	$4.26	$3.95-$4.15
PPL Corporation	PPL	TBA	$0.43E	$0.46	($0.03)		$0.41A	$1.60	$1.59	$0.01	$1.45	$2.40	$1.50-$1.65
Public Service Enterprise Group	PEG	2-May	$1.31E	$1.14	$0.18		$1.33A	$3.46	$3.44	$0.02	$3.28	$3.47	$3.40-$3.50
Sempra Energy	SRE	4-May	$2.65E	$2.91	($0.26)		$2.91A	$8.98	$8.98	$0.00	$9.21	$9.21	$8.60-$9.20
Southern Company	SO	27-Apr	$0.69E	$0.77	($0.08)		$0.97A	$3.65	$3.61	$0.04	$3.41	$3.60	$3.55-$3.65
WEC Energy Group	WEC	1-May	$1.58E	$1.69	($0.11)		$1.79A	$4.62	$4.61	$0.01	$4.36	$4.46	$4.58-$4.62
Xcel Energy	XEL	27-Apr	$0.78E	$0.73	$0.05		$0.70A	$3.40	$3.38	$0.02	$3.20	$3.17	$3.30-$3.40
Average			$0.88	$0.99	($0.10)	-10.3%	$0.99	$3.72	$3.72	($0.00)	$3.59	$3.67	
WATER UTILITIES													
American States Water	AWR	11-May	$0.84E	$0.51	$0.33		$0.38A	$3.11	$2.85	$0.26	$0.55	$2.55	N/A
American Water Works Company	AWK	27-Apr	$0.93E	$0.94	$0.20		$0.87A	$4.79	$4.77	$0.01	$3.62	$4.51	$4.72-$4.82
California Water	CWT	27-Apr	-$0.04E	$0.02	($0.06)		$0.02A	$2.00	$1.95	$0.05	$0.35	$1.96	N/A
Essential Utilities	WTRG	9-May	$0.67E	$0.76	($0.44)		$0.76A	$1.88	$1.87	$0.01	$1.01	$1.77	$1.85-$1.90
SJW Group	SJW	1-May	$0.06E	$0.22	($0.16)		$0.12A	$2.47	$2.46	$0.00	$1.09	$2.06	$2.40-$2.50
Average			$0.78	$0.86	($0.15)	-17.5%	$0.44	$35.00	$2.86	$0.02	$1.66	$2.75	
IPPS - Adjusted EBITDA not EPS	**US$mlns**												
Constellation Energy	CEG	4-May	$947E	$791	$156		$866A	$3,129	$3,116	$13	N/A	$2,667	$2,900-$3,300
NRG Energy	NRG	TBA	$585E	$632	($47)		$509A	$3,073	$2,845	$228	N/A	$1,754	$2,270-$2,470
Vistra Energy	VST	9-May	$594E	$712	($118)		$541A	$3,699	$3,590	$109	N/A	$3,115	$3,400-$4,000
Average			$709	$712	($3)	-0.4%	$639	$3,300	$3,184	$117		$2,512	

1. UBS Confidence Indicator: Green = high confidence in estimate vs. consensus; Red = low confidence in estimate vs. consensus; Yellow = mid confidence in estimate vs. consensus
2. 2022 EPS guidance reflects OG&E.
Source: FactSet, company filings, UBS Equity Research

Source: FactSet, Company Reports, UBS Securities LLC Estimates

Regulated Utilities 1Q'23 Preview

No Winter Wonderland in 2023, at Least for Utilities

The story of the quarter in our view will be the extremely mild winter weather both versus normal expectations and year over year when compared to 1Q 2022. Figure 5 below shows weather data by company for our coverage universe and the vast majority of companies show year over year HDDs lower by between 12% and 27%. The notable exceptions where there is no decoupling, are Florida with EMA (US data only) down 7% year over year and NEE down 1% year over year, Arizona where PNW has an outlier 15% increase in HDDs year over year, and across XEL's various territories where HDDs were only lower by 2%. Companies with large gas LDCs in geographies that usually experience significant heating load could be more at risk for missing numbers. Decoupled companies could stand out in the quarter as weather will not impact earnings.

This weather headwind in the quarter will lead to downward pressure on results and likely downward revisions to consensus estimates into reporting season. The impact should be anticipated by the market given WEC Energy Group's reduction in 1Q '23 guidance to $1.56-$1.58 from $1.68-$1.72. WEC is one of the few companies in our coverage universe that still provides quarterly eps guidance. Despite the reduction in quarterly guidance WEC maintained their annual guidance range of $4.58-$4.62.

We expect similar to WEC, management teams that report lower year on year 1Q '23 results due to weather headwinds to not reduce annual guidance given we are roughly four months into the year. The topic du jour across earnings season will be how management teams plan to mitigate the 1Q results and get back to within their annual guidance ranges. The credibility of the plans will likely be the focus of investors.

This focus is particularly relevant in the current environment where the top to bottom quartile P/E spread remains tight as the market accesses regulatory risks and earnings consistency around a broader debate of which companies deserve top quartile valuation premiums in their share price. Delivering or faltering on guidance given the weather headwinds so far this year could provide an indicator to the market of continued deliverability of earnings guidance and management's ability to execute and mitigate negative risk factors. The very mild winter weather also puts the focus clearly on weather this summer and if mild the challenge to get within or to the midpoint of annual guidance ranges will get significantly harder, and could lead to guidance revisions later in the year.

UBS Evidence Lab Inside: Weather Data

We worked with UBS Evidence Lab to collect weather data and to consolidate that local weather data by utility service territory and then collectively by publically listed utility company. This data is produced monthly, and we believe it can give investors a better gauge of the weather impact on earnings. The full methodology of the climate and weather data collected by UBS Evidence Lab is provided below.

Figure 5: Degree Days by Company

	CDD	Absolute Change	Average	HDD	Absolute Change	Average	% Change	Rank	Electric Decoupling
AES Corp.	0	0	0	2,357	-519	2,851	-18%	21	Yes
Alliant Energy	0	0	0	3,338	-451	3,535	-12%	7	No
Ameren Corp	0	0	0	2,322	-479	2,682	-17%	20	IL Yes/MO No
American Electric Power	6	-1	0	1,296	-366	1,555	-22%	25	No
Centerpoint Energy	230	163	9	627	-425	700	-23%	27	No
CMS Energy	0	0	0	3,063	-566	3,458	-16%	12	No
Consolidated Edison	0	0	0	2,471	-458	2,909	-16%	13	Yes
Dominion Energy	10	-6	0	1,397	-372	1,768	-21%	24	No
DTE Energy	0	0	0	2,930	-550	3,342	-16%	14	No
Duke Energy	14	2	0	1,279	-343	1,681	-21%	22	No
Edison International	0	-5	0	1,654	381	1,254	29%	1	Yes
Emera Inc (C$)	418	72	103	157	-117	155	-7%	6	No
Entergy Corp	101	77	0	894	-493	1,173	-29%	29	No
Evergy	0	0	0	2,339	-319	2,513	-12%	8	No
Eversource Energy	0	0	0	2,896	-403	3,274	-12%	9	CT, MA Yes/NH No
Exelon	0	0	0	2,412	-464	2,673	-16%	15	MD-Yes
FirstEnergy Corp	0	0	0	2,410	-496	2,919	-17%	19	No
Fortis Inc (C$)	0	0	0	2,674	-451	3,197	-14%	10	No
NextEra Energy	364	138	48	233	-146	259	-1%	4	No
NiSource	0	0	0	2,710	-526	3,118	-16%	17	No
OGE Energy Corp	5	-1	0	1,666	-322	1,806	-16%	16	No
PG&E Corp	0	0	0	1,782	330	1,422	23%	2	Yes
Pinnacle West Capital Corp	0	-1	0	1,636	220	1,433	15%	3	No
PPL Corporation	0	0	0	1,886	-504	2,327	-21%	23	RI Yes/KY, PA No
Public Service Ent Group	0	0	0	2,190	-447	2,624	-17%	18	NJ CIP - Yes
Sempra Energy	36	12	0	1,099	-428	1,234	-27%	28	CA Yes/TX No
Southern Company	99	66	0	817	-339	1,123	-23%	26	No
WEC Energy Group	0	0	0	3,646	-620	3,944	-15%	11	No
Xcel Energy	0	0	0	3,513	-54	3,561	-2%	5	No

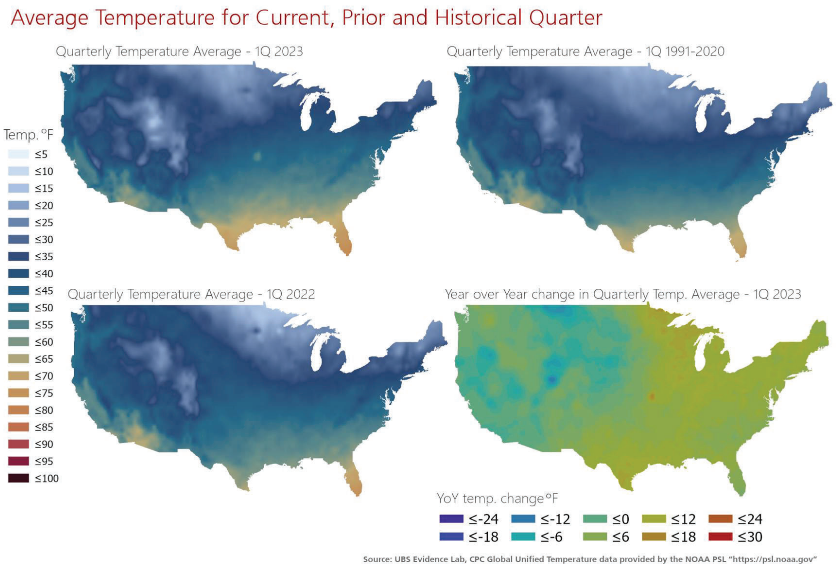
Source: UBS Evidence Lab Inside (>Access Dataset), CPC Global Unified Temperature data provided by the NOAA PSL "https://psl.noaa.gov", UBS Securities LLC, S&P Capital IQ Pro

Figure 6: Degree Days for Companies with Gas Distribution

	HDD	Absolute Change	Average	% Change	Gas Decoupling
Centerpoint Energy	627	-425	700	-23%	
CMS Energy	3,063	-566	3,458	16%	No
Consolidated Edison	2,471	-458	2,909	-16%	Yes
DTE Energy	2,930	-550	3,342	-16%	No
Emera Inc (C$)	2,930	-550	3,342	-7%	
Essential Utilities	2,436	-445	2,942	-18%	No
NiSource	2,710	-526	3,118	-16%	
PG&E Corp	1,782	330	1,422	23%	Yes
Sempra Energy	1,099	-428	1,234	-27%	Yes
WEC Energy Group	3,646	-620	3,944	-15%	No

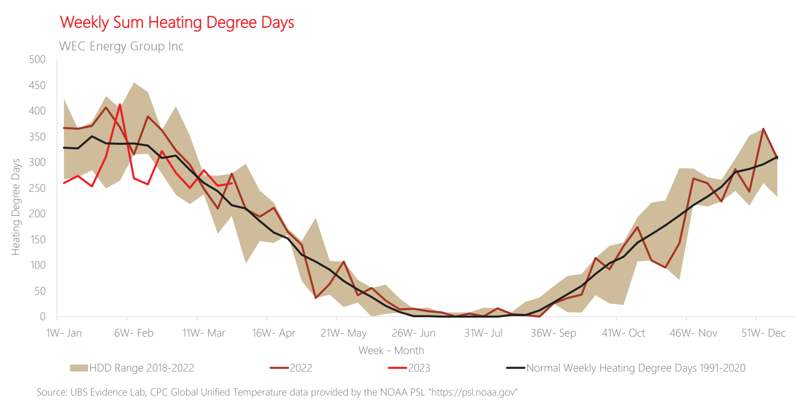
Source: UBS Evidence Lab Inside (>Access Dataset), CPC Global Unified Temperature data provided by the NOAA PSL "https://psl.noaa.gov", UBS Securities LLC, S&P Capital IQ Pro

Figure 7: Degree Days Map Comparison



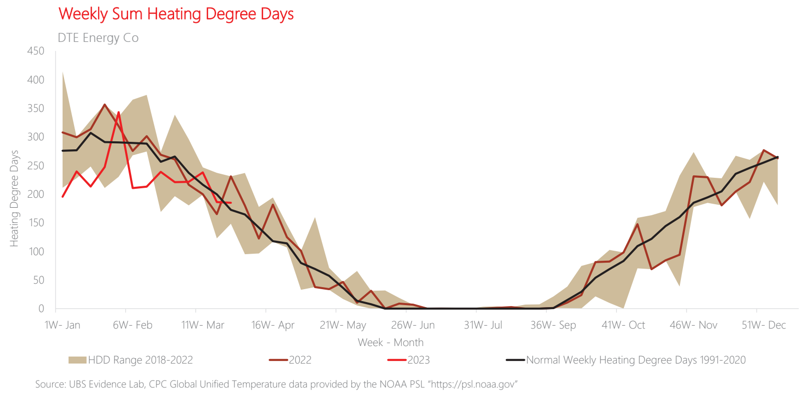
Source: UBS Evidence Lab Inside (>Access Dataset), CPC Global Unified Temperature data provided by the NOAA PSL "https://psl.noaa.gov", UBS Securities LLC

Figure 8: WEC Heating Degree Days



Source: UBS Evidence Lab Inside (>Access Dataset), CPC Global Unified Temperature data provided by the NOAA PSL "https://psl.noaa.gov", UBS Securities LLC

Figure 9: DTE Heating Degree Days



Source: UBS Evidence Lab Inside (>Access Dataset), CPC Global Unified Temperature data provided by the NOAA PSL "https://psl.noaa.gov", UBS Securities LLC

Key Calls this Quarter

American Electric Power

We believe much of the focus will be on the termination of the Kentucky sale. We expect management to lay out the strategy of improving the earned return at that business (trailing ROE is 5.3% vs. authorized ROE of 9.3%) beginning with the mandatory rate case filing coming in June. The company will also update investors on the strategic review of the Retail business. Management has already stated the equity needs will remain unchanged despite the KY sale falling through. We expect questions around whether they would consider any additional asset sales to reduce the common equity needs in the financing plan which currently stand at $2.8bn over'23-'27E. Overall, management should be able to point to successes on the sale of the Contracted Renewables portfolio and recent settlements with intervenors in Arkansas, Louisiana and Oklahoma for nearly 2,000 MWs or $4.7bn of regulated renewable investment as evidence that the long term plan to achieve 6-7% annual EPS growth remains on track. We expect a miss in the quarter, but for full year guidance to be reaffirmed.

American States Water

Management will provide an update on the implications of the proposed decision in the Golden State Water rate case to adopt the settlement. We increased our 2023 EPS estimate to $3.11 from $2.73 to reflect the impact of the retroactive rate increase to 2022 consistent with company guidance on the year-end investor call.

CMS Energy

We look for the quarter to explain the variances and for a better understanding of the gas rate case testimony from Michigan Public Service Commission Staff. CMS faces headwinds from storms and weather in the -$0.50/share range. While the company may not move from the 2023 EPS guidance of $3.06-$3.12 weather will have to turn around at some point in the 2023. We also look for timing of the electric rate case filing.

DTE Energy

DTE has been working on offsets to achieve the 2023 guidance range ($6.09-$6.40) since early in the year following the DTE Electric rate decision which looks like a strength since 1Q'23 results had impact of weather (like 1Q'20) and storms (like 3Q'21) just as CMS experienced. We look for updates on the contingency and on the unregulated businesses.

Duke Energy

The company will update investors on the sales process of its Commercial Renewables segment, which was pushed into a 2H'23 close from mid-year on the last earnings call. It remains early in the year, so we expect the company to reaffirm it's 2023 earning guidance of $5.55-5.75 per share. However, given what we expect to be soft Q1 print and the delay in the sales process, management will have to articulate how they can achieve the earnings guidance for this year (assuming normal weather) and if that would require additional cost cuts above the $75mm of tactical or 1x O&M cuts already assumed in guidance.

Evergy, Inc.

The company will have a lot to address on the call regarding recent regulatory and legislative updates. We expect them to provide color around 1) the long anticipated Kansas general rate case filing; 2) the recent negative ruling from the Missouri PSC around the approval of the Persimmon Creek wind farm and what the go forward strategy will be for that asset, which likely will include pursing it to be included in rate base in Kansas in lieu of Missouri 3) The recent legislation passed in Kansas that will lower the ROE on a large portion of the transmission rate base by 100bps. While the company won't be providing any financial guidance update on this call, questions around the sustainably of the 6-8% EPS growth beyond 2025, given the above mentioned items, will likely come up as well.

PG&E Corp.

We expect to begin learning more about cost and procurement savings from incoming CFO Carolyn Burke. Other updates include progress toward initiation of the dividend and regulatory dockets at the California Public Utility Commission.

Sempra

On the call we expect management to provide updated 2023 and 2024 guidance as they did not provide this at the typical time on the year end conference call. Now that the Oncor rate case has been fully adjudicated and Port Arthur Phase 1 has taken a positive final investment decision (FID), we expect management to provide updated guidance. Further, management will likely lay out further details around Port Arthur Phase 1 and the balance of the LNG backlog, and an update around progress in the California rate cases, and the trajectory of winter bills into spring at SoCalGas.

Quarterly Earnings Estimate Details

Electric Utilities

AES Corp.

We expect AES will report 1Q'23E EPS of $0.22 versus the $0.30 consensus and $0.22 last year. We assume $0.04 of the annual $0.27 driver for renewable purchased power agreements. We expect supply chain will force the majority of the PPA earnings to 3Q'23 or 4Q'23. Other drivers include the absence of exposure to power prices to deliver on supply obligations in Bulgaria and the absence of charges in Vietnam. The company's strategy to exit coal and replace the supply with renewables will result in weakness at AES Andes consistent with annual guidance. AES investor meeting is May 8 so we do not expect material updates outside of the results.

Figure 10: AES 1Q'23E Earnings Drivers

Q1'22	$0.22
New Renewable PPAs	$0.04
Fluence	$0.02
Absence exposure to Bulgaria prices	-$0.01
Absence Vietnam Charges	-$0.01
Sell-down of Southland	-$0.01
AES Andes Margins	-$0.03
Q1'23 Estimate	$0.22

Source: Company Reports, UBS Estimates

Alliant Energy

We see Q1 earnings modestly below last year and consensus. The combination of above normal weather last year and below weather this year contributes to most of the yoy degradation. We expect the full year guidance of $2.82-2.96 per share to be reaffirmed. Outside of weather, recovery on West Riverside and Edgewater 5 helps earnings this quarter as well as higher AFUDC, while higher interest rates and D&A are headwinds. We expect questions to focus on the Wisconsin rate case which is likely to be filed ahead of the earnings call as well as the pending legal and regulatory proceedings related to 400 MWs of solar and 75 MWs of battery storage in Iowa.

Figure 11: LNT 1Q'23E Earnings Drivers

1Q 2022	**$0.77**
Weather Impact From Q1'22	-$0.03
WP&L rates	$0.04
Temp Normal Sales Grwoth	$0.02
AFUDC	$0.02
Depreciation	-$0.02
Interest expense-regulated	-$0.03
Weather	-$0.04
Tax Timing Benefit	$0.01
1Q 2023	**$ 0.74**

Source: Company Reports, UBS Estimates

Ameren Corp.

AEE's quarter looks flat relative to last year and roughly in line with consensus. We expect FY '23 guidance of $4.25-4.45 to be reaffirmed. Weather and higher interest expense on both ST and LT debt are headwinds yoy, offset by higher ROE at the IL electric business and higher investment balances across the IL electric and gas and the transmission businesses. We expect questions to focus on the the recently announced settlement of the Missouri general rate case, the pending multi-year rate plan filing in Illinois and the competitive bid process for MISO transmission projects.

Figure 12: AEE Q1'23E Earnings Drivers

Q1'22	**$ 0.97**
Ameren Missouri	
Weather to normal	-$0.02
Deviation from normal weather, other	-$0.05
COLI	$0.03
PISA/RESRAM	$0.01
Interest Expense	-$0.02
Ameren IL Nat Gas Investment	$0.01
Ameren Transmission Rate Base	$0.02
Ameren IL Electric - Higher ROE	$0.03
Ameren IL Electric - Higher Rate Base	$0.02
Parent & Other	
Dilution	-$0.01
Interest Expense	-$0.02
Q1'23 Estimate	**$ 0.97**

Source: Company Reports, UBS Estimates

American Electric Power

We expect AEP to see lower year over year earnings that are below consensus, driven primarily by very mild weather and interest costs. It is early in the year and we expect AEP to reaffirm it's 2023 earnings guidance of $5.19-5.39 per share. The company has guided to ~20c of interest costs headwinds for the year and we believe most of that is front end loaded in the 1H'23. We see weather as a cumulative 15c negative impact vs. Q1'22. Positives include lower O&M, higher rates at the Vertically Integrated utilities and the TransCo business.

We believe a lot of the focus will be on the news earlier this week about the termination of the sale of its Kentucky business. We expect management to lay out the strategy of improving the earned return at that business (trailing ROE is 5.3% vs. authorized ROE of 9.3%) beginning with the mandatory rate case filing coming in June. The company will also update investors on the strategic review of the Retail business. While management has already stated the equity needs will remain unchanged despite the KY sale falling through, we expect questions around whether they would consider any additional asset sales to reduce the common equity needs in the financing plan which currently stand at $2.8bn over'23-'27E. Overall, management should be able to point to successes on the sale of the Contracted Renewables portfolio and recent settlements with intervenors in Arkansas, Louisiana and Oklahoma for nearly 2,000 MWs or $4.7bn of regulated renewable investment as evidence that the long term plan to achieve 6-7% annual EPS growth remains on track.

Figure 13: AEP Q1'23E Earnings Drivers

Q1'22	**$ 1.22**
Vertically Integrated	
Load Growth	$0.01
Rates	$0.06
Trans Revenue	$0.02
Weather to Normal	$0.01
Weather	-$0.12
O&M/Other	$0.01
Depreciation	-$0.03
Interest	-$0.04
Other	$0.02
T&D Utilities	
Weather to Normal	-$0.01
Weather	-$0.03
Trans Revneue	$0.03
Other Rates	$0.02
O&M/Other	$0.03
Depreciation	-$0.03
Interest	-$0.03
AEP Trans Holdco	$0.03
Gen & Marketing	-$0.08
Corp & Other	$0.01
Q1'23 Estimate	**$ 1.11**

Source: Company Reports, UBS Estimates

CMS Energy

We expect CMS will report 1Q'23E EPS of $0.67 versus the $1.24 consensus and $1.20 last year. This quarter has a parallel to 1Q'20 when the company experienced weather conditions -$0.18/share versus normal. Degree days increased 16% for CMS versus 1Q'22 when weather was $0.06/share above normal.

The company also experienced significant storms with a 3 front system that led to 480K customer outages and we estimate a -$0.22/share exposure. The company experienced significant storms in 3Q'21 (371K customers out) which led to a -$0.16/share impact. Rate case recovery (+$0.23/share) is an offset.

Work on storm restoration takes the place of other work so that is an automatic offset in some O&M expense. The early year weakness in weather leaves several quarters of weather variability but it will have to improve. We would not expect CMS to lower EPS guidance this early in the year but it puts more pressure on the 2Q update.

Figure 14: CMS 1Q'23E Earnings Drivers

Q1'22	$1.20
Weather to Normal	-$0.06
Weather	-$0.20
Gas Rate Case	$0.15
Electric Rate Case	$0.08
Financing and Dilution	-$0.01
Tax Benefit	-$0.12
Depreciation and other costs	-$0.15
Storm Expense	-$0.22
Q1'23 Estimate	$0.67

Source: Company Reports, UBS Estimates

CenterPoint Energy

We estimate CNP's quarterly earnings are flat with last year and modestly below consensus. Higher electric and gas rates and customer growth are a benefit, offset by higher interest costs, D&A and mild weather. We expect the company to reaffirm it's 2023 earnings guidance of $148-$1.50 per share. We expect questions to focus on the economic conditions in the greater Houston metropolitan area, as well as several pieces of legislation that are pending in Texas. Specifically, SB1015 appears to be making its way through the legislative process having passed the Senate and crossed over to the House. This bill would allow for the distribution rate increases under the DCRF mechanism to be filed twice a year (vs. one time per year now) and allow for filings during years when a general rate case is pending, which is currently not allowed. Another bill, SB1889/HB3042, that would allow for T&D utilities in the state to file rate cases with their actual equity ratio remains pending and has not moved as of yet. The Texas legislative session runs through May 29th.

Figure 15: CNP 1Q'23E Earnings Drivers

1Q 2022	**$**	**0.47**
Electric Customer Growth	$	0.01
Electric Rate Recovery	$	0.04
Electric Higher D&A, Prop. Taxes	$	(0.02)
Gas Rate Recovery	$	0.03
Electric Weather & Usage	$	(0.01)
Gas Weather & Usage	$	(0.03)
Electric & Gas O&M	$	0.01
Corp. Interest Expense	$	(0.03)
Other	$	-
1Q 2023 Estimate	**$**	**0.47**

Source: Company Reports, UBS Estimates

Consolidated Edison

We estimate ED will report 1Q'23E EPS of $1.50 versus the $1.63 consensus and $1.47 last year. The company announced closing of the sale of the clean energy businesses on March 1 in a transaction valued at $6.8 billion. We include in our 1Q'23 EPS estimate the remaining earnings we assumed in our 2023 forecast.

The company did not implement new rates for CECONY electric and gas as a result of the rate settlement awaiting approval from the New York Public Service Commission. We estimate that weather conditions similar to 1Q'20 had a -$0.08/share impact on the steam business. Other drivers include equity dilution somewhat offset by the share buyback and higher interest costs although the $2.25 billon commercial paper facility at the parent was unutilized at year-end.

Figure 16: ED 1Q'23E Earnings Drivers

Q1'22	$1.47
Clean Energy Business ($0.14 versus $0.05)	$0.09
Stock Based Incentive Comp	$0.02
Con Edison Transmission $0.01 versus $0.00	$0.01
Interest and Dilution	-$0.01
Steam Weather	-$0.08
Q1'23 Estimate	$1.50

Source: Company Reports, UBS Estimates

Dominion Energy

We see earnings coming in at $0.94/shr slightly below D's quarterly guidance range of $0.97-$1.12/shr, with weather driving the miss. Higher interest expense, absence of solar ITCs, higher costs and 11c of mild weather drive the yoy decline in earnings. This is partially offset by higher margin at the Millstone nuclear plant and higher rider revenues.

We expect management to provide an interim update on the top to bottom business review that was announced on the Q3'22 call. The recently passed laws in Virginia have set the framework for a new regulatory regime under which Dominion will operate. Management should update the outlook on this front and what to expect in the upcoming rate case filing in July as well as when and if they'll pursue a sale of a non-controlling interest in the company's $10.0bn offshore wind project. We do not expect the company to provide explicit updates around the potential for asset sales and credit repair efforts that are underway.

Figure 17: Dominion Energy 1Q'23E Earnings Drivers

1Q 2022	**$**	**1.18**
Weather Impact	$	(0.11)
O&M / Tax Timing	$	(0.03)
Sales Growth / DEV Margin	$	-
Solar ITC	$	(0.04)
D&A	$	(0.01)
Pension	$	(0.01)
Int Exp	$	(0.12)
Rate Base Growth & Riders	$	0.06
Millstone Margin Improvement	$	0.02
1Q 2023	**$**	**0.94**
Guidance		$0.97-$1.12

Source: Company reports and UBS estimates

DTE Energy

We expect DTE will report $1.29 in 1Q'23 versus the $1.95 consensus and $2.31 last year. Warmer weather likely impacted the company's earnings similar to 1Q'20 when weather reduced EPS by -$0.20/share versus normal. Storms also had a negative impact similar to conditions in 3Q'21 which was a -$0.25/share impact. The absence of a rate increase deferral was a -$0.10/share impact. Conversion of shares in 3Q'22 had a dilutive impact as well.

The company has already announced plans to deliver offsets and we include a +$0.09/ share impact at DTE Electric. DTE Vantage should also deliver a positive comparison consistent with annual guidance.

Figure 18: DTE 1Q'23E Earnings Drivers

Q1'22	$2.31
DTE Electric weather to normal	-$0.03
DTE Electric weather	-$0.11
DTE Electric rates	$0.04
DTE Electric O&M/other	$0.09
DTE Electric - D&A and other	-$0.10
DTE Electric - Storms	-$0.32
DTE Electric absence of deferral	-$0.10
DTE Electric dilution	-$0.03
DTE Gas weather to normal	-$0.06
DTE Gas weather	-$0.11
DTE Gas - O&M	$0.02
DTE Gas D&A and other	-$0.02
DTE Vantage ($0.13 versus $0.07)	$0.06
DTE Energy Trading ($0.00 versus $0.23)	-$0.23
Corp & Other (-$0.15 versus -$0.04)	-$0.11
Q1'23 Estimate	$1.29

Source: Company Reports, UBS Estimates

Duke Energy

We see lower yoy Q1 earnings and a miss vs. consensus driven primarily be mild weather, higher interest costs and the absence of the Commercial Renewables segment. We estimate weather to be an 18c headwind vs. last year, while higher interest costs at the regulated and corporate level are a 13c headwind.

We expect the company will update investors on the sales process of its Commercial Renewables segment, which was pushed into a 2H'23 close from mid-year on the last earnings call. It remains early in the year, so we expect the company to reaffirm it's 2023 earning guidance of $5.55-5.75 per share. However, given what we expect to be a soft Q1 print and the delay in the sales process, management will need to articulate how they can achieve the earnings guidance for this year (assuming normal weather) and if that would require additional cost cuts above the $75mm of tactical or 1x O&M cuts already assumed in guidance.

Figure 19: Duke Energy Q1'23E Earnings Drivers

1Q 2022	$	1.30
Electric Utilities & Infrastructure		
Volumes & Pricing	$	0.02
Weather & Strom Normalization From Q1'22	$	0.10
Weather in Quarter	$	(0.18)
O&M	$	0.07
Riders & Other Retail Margin	$	0.03
Higher D&A	$	(0.04)
AFUDC	$	0.02
Interest Expense	$	(0.07)
GIC - Sale of minority stake	$	(0.01)
Gas Utilities & Infrastructure		
Riders & Other Retail Margin	$	0.02
O&M	$	0.01
Higher D&A & Interest	$	(0.01)
Other		
Commercial Renewables Sale Pending	$	(0.02)
Higher Corp. Interest Expense & Other	$	(0.06)
1Q 2023	**$**	**1.16**

Source: Company Reports, FactSet, UBS Estimates

Edison International

We expect EIX will report 1Q'23E EPS of $1.04 versus the $0.98 consensus and $1.07 last year. A higher debt balance on legacy wildfire claims ($5.65 billion) and higher interest cost on parent debt will have an impact.

Figure 20: Edison International 1Q'23E Earnings Drivers

1Q'22	$1.07
California Jurisdictional Revenue	$0.21
FERC Transmission Revenue	$0.02
O&M and Other	$0.02
Corporate	-$0.05
Net Financing and Other	-$0.08
SCE Legacy Claims Debt $5.65B	-$0.04
Depreciation and Property Taxes	-$0.11
1Q'23 Estimate	$1.04

Source: Company reports, UBS estimates

Emera Inc

We expect Emera to report 1Q 2023 adjusted eps of C$0.91 versus C$0.92 in 1Q 2022 and consensus estimates of C$0.98. FX will be a favorable tailwind with an average exchange rate of 1.35 in 1Q 2023 versus 1.27 in 1Q 2022. This will be slightly offset by FX hedges for 2023 at 52% hedged at 1.31. NM will be slightly better on new base rate and gas and infrastructure will also be higher on customer and rate base growth. Weather won't be too much of a headwind for gas in Florida given there is a high fixed rate component. Tampa Electric will have higher O&M and interest expense offset by higher base rates and customer growth, with weather a headwind given the significant weather benefit in 1Q 2022. NSPI received new rates in February but experienced very mild winter weather. There will be higher interest expense at corporate and while there was similar volatility at Emera Energy year over year pricing was lower all else equal other than a very short polar vortex period.

On the call investors will focus on cash flow, how much 1Q mild weather was a headwind to achieving near cash flow to debt metrics of ~12%. We don't believe the mild 1Q weather prevents a significant impact to achieving target CF metrics. A positive on the conference call is the positive testing result at the Labrador Island Link and an update on in-service, although that is a slight headwind to quarterly results. The cash flow benefit will come to Emera six months from the in service date. Further deferred fuel collection started this month which will not only improve cash flow but lower short term debt financing for the under recovered balances.

Figure 21: Emera 1Q'23E Adj. EPS Drivers (C$)

1Q 2022	$	0.92
FX	$	0.03
Weather	$	(0.04)
Gas & Infrastructure	$	0.02
Florida Electric	$	0.03
Share Dilution	$	-
Other Utilities	$	-
Mkt & Trading	$	(0.02)
Corporate	$	(0.03)
1Q 2023	$	0.91

Source: Company Filings, UBS Estimates

Entergy Corp

We expect ETR to report weaker Q1'23 earnings relative to last year and consensus. The company had 13c of weather and 1x benefits last year, so we see the clean base as $1.19/shr. We expect 12c of below normal weather headwind in the quarter plus dilution from higher shares, higher D&A and interest expense. Partially offsetting these negatives are rate increases in most of the regulated jurisdictions. The Texas GRC is still pending and should not benefit the quarter. We believe the company will reaffirm 2023 guidance of $6.55-6.85. We expect questions to focus around the ongoing SERI litigation and any update on potential for settlement, the Louisiana and NOLA grid resilience filings, load growth outlook and the potential for equity needs beyond 2024.

Figure 22: Entergy 1Q'23E Earnings Drivers

ETR - Earnings Walk Q1'22-Q1'23	
EPS adjusted Q1'21	$1.32
Regulatory Credit for E-Mississippi	$0.00
MSS-4 ROE reserve adjustment	$0.00
True-up of LA & TX cost of debt fron	($0.05)
Adj.: Weather increment	($0.08)
Weather Normal Q4'21	$1.19
Rate Actions	
E - Louisiana FRP (9/1/22)	$0.12
E,G-New Orleans (9/1/22)	$0.02
E-MS FRP	$0.05
E-AR FRP	$0.07
E-TX GRC	$0.00
E-TX TCRF (3/4/2022)	$0.01
Rate Actions	$0.10
SERI Related Refund	($0.01)
Weather vs normal	($0.12)
Additional Drivers	
Utility revenue - volume	$0.01
Utility other O&M	$0.13
Utility taxes & other income taxes	$0.03
Utility depreciation expense	($0.13)
Utility net interest expense	($0.05)
Taxes	($0.01)
Parent & Other	$0.04
Shares	($0.05)
Total	($0.03)
Q1 2023 EPS Estimate	**$1.13**

Source: Company Reports, UBS Estimates

Evergy, Inc.

EVRG's quarter appears to be modestly higher than last year and vs. consensus. While weather is a headwind, sales growth, higher transmission margin and lower O&M help support earnings growth in the quarter. We expect the company to reaffirm 2023 earnings guidance of $3.55-3.75 per share.

The company will have a lot to address on the call regarding recent regulatory and legislative updates. We expect them to provide color around 1) the long anticipated Kansas general rate case filing; 2) the recent negative ruling from the Missouri PSC around the approval of the Persimmon Creek wind farm and what the go forward strategy will be for that asset, which likely will include pursing it to be included in rate base in Kansas in lieu of Missouri 3) The recent legislation passed in Kansas that will lower the ROE on a large portion of the transmission rate base by 100bps which will negatively impact EPS by 4c beginning in 2024. While the company won't be providing any financial guidance update on this call, questions around the sustainability of the 6-8% EPS growth beyond 2025, given the above mentioned items, will likely come up as well.

Figure 23: EVRG 1Q'23E Earnings Drivers

1Q 2022	**$**	**0.58**
Weather to Normal	$	-
Weather vs. Normal	$	(0.06)
Weather Normal Sales Growth	$	0.05
Adj for Tax Timing Issue	$	0.03
Adj for Sibley/Trans Formula Rate	$	(0.02)
Transmission Margin	$	0.03
D&A	$	(0.04)
Interest Expense	$	(0.05)
COLI	$	0.02
O&M	$	0.05
1Q 2023	**$**	**0.59**

Source: Company Reports,UBS Estimates

Eversource Energy (ES)

We expect Eversource Energy to report 1Q'23E EPS of $1.35 versus $1.36 consensus and $1.30 last year. Revenue from rate cases and transmission formula rates represent the biggest drivers in the quarter. The impact of the NStar rate case represents the biggest single driver. This is somewhat offset by higher interest rates which had a -$0.04/share impact in each of the last 2 quarters.

We expect updates on the offshore wind acreage and project strategic review and on the company's cap-ex investments including the solar clusters in Massachusetts. The company appealed the Aquarion rate case and received a stay of the 8.7% allowed ROE from a Connecticut Superior Court Judge in New Britain.

Figure 24: ES 1Q'23E Earnings Drivers

Q1'22	$1.30
Transmission Formula Recovery	$0.04
NST Electric rates	$0.05
NST Gas rates	$0.02
Eversource Gas MA Rates	$0.01
PSNH Rates	$0.01
Property Tax and Depreciation	-$0.03
Interest Expense	-$0.04
Share Dilution	-$0.01
Q1'23 Estimate	$1.35

Source: Company Reports, UBS Estimates

Exelon Corp

We see EXC earnings modestly lower year over year on higher interest costs and the PECO exposure to mild weather. It should be a fairly uneventful quarter and we expect management to reiterate the 2023 guidance of $2.30-2.42 and long-term EPS growth of 6-8%. We expect questions to focus on key regulatory filings for multi-year rate plans at ComEd in Illinois and at BG&E in Maryland.

Figure 25: Exelon Corp. 1Q '23E Drivers

1Q 2022	**$**	**0.64**
Reversal of 1x Charges for Q1'22		0.03
Reversal of 1Q'22 Weather		-0.02
ComEd		
Distribution Investment / ROE	$	0.03
Higher O&M / D&A	$	(0.01)
PECO		
Distribution Rate Increases	$	0.01
Weather	$	(0.04)
Higher O&M / D&A	$	(0.01)
BGE		
Distribution Rate Increases	$	0.01
Higher O&M / D&A	$	(0.01)
PHI		
Reversal of Storm Costs	$	0.01
Rate Increases Distribution and Transmission	$	0.00
Higher O&M / D&A	$	(0.01)
Corporate		
Int Exp / Dilution / Other	$	(0.04)
1Q 2023	**$**	**0.60**

Source: Company Reports, UBS Estimates

FirstEnergy

We expect FE will report 1Q'23E EPS of $0.61 versus the $0.61 consensus and $0.60 last year. Positive drivers include Signal Peak coal, $2.5 million of debt reduction in 1Q'22, and rate base investment and riders. The largest negative driver is the reduction in pension and OPEB earnings which the company estimates is a -$0.38/share driver for the year. The FET transmission sale is an incremental driver for the first 5 months of the year (-$0.04/share total).

Figure 26: FE 1Q'23 Earnings Drivers

Q1'22	$0.60
Signal Peak	$0.05
Net Financing Costs-$2.5 billion @ 5%	$0.04
Transmission Formula Growth	$0.02
O&M Expense Savings	$0.02
Rider Mechanisms	$0.01
Demand	$0.01
Ohio Rate Credits	$0.01
Tax Rate (19%-20% vs. 21%)	$0.01
Weather	-$0.03
Interest Expense at OpCos	-$0.01
FE Transmission Sale	-$0.03
Pension/OPEB	-$0.09
Q1'23 Estimate	$0.61

Source: Company Reports, UBS Estimates

Fortis Inc.

We expect Fortis will report 1Q 2023 Adj. EPS of C$0.83 v. $0.78 in 1Q 2022. Western Canada is decoupled in British Columbia for the gas LDC, so unlike other utilities potentially exposed to milder winter weather we don't see this as a major risk. In addition Alberta on the electric side has a rate structure that is largely fixed charges (75%) which reduces revenue volatility related to demand and weather. There was a +(C $0.01) on timing in 1Q 2022 we don't expect to recur. At ITC we expect rate base growth to be slightly offset by higher financing costs - $600mln in debt refinanced at 3.54% vs. 2.7% previously. While 1Q is a shoulder month in Tucson, unlike a decent proportion of the US, Tuscon did experience colder weather than normal and than in 1Q 2022. Further, COLI had an impact of ($0.02) on market performance in 1Q 2022 that could mostly reverse year over year. Central Hudson had a one time drag of ($0.02) on systems implementation in 1Q 2022 that we do not expect to recur. At Corp & Other we see the likelihood of higher rainfall in Belize, but lower gas volatility at Aiken Creek. There will also be higher financing costs - C$500mln refinanced at 4.34% v. 2.85% previously. There were also higher credit facility balances by C$300mln in 4Q '22 vs. 1Q '22 and rates there have increased generally in the market from sub 3% to over 5%. We also estimate slightly higher weighted average share count on continued DRIP issuance. FX should be +C$0.02/share on an average rate of 1.35 in 1Q 2023 v. 1.26 in 1Q 2022.

Figure 27: Fortis 1Q'23E Drivers (C$)

1Q 2022	$	0.78
Western CA Elec & Gas	$	0.02
US Transmission - ITC	$	0.02
UNS	$	0.02
FX	$	0.02
Central Hudson	$	0.02
Corp. & Other	$	(0.04)
Wtd. Avg. Shares	$	(0.01)
1Q 2023	$	0.83

Source: Company Reports, FactSet, UBS Estimates

NextEra Energy

We expect NEE to report 1Q 2023 adjusted eps of $0.70 versus $0.74 in 1Q 2022 and consensus of $0.61. Drivers year over year are expected to be headwinds from increased financings year over year as well as the incremental equity units. NEE issued $1Bln of 5.05% bonds due 2028 and $750mln in 5.10% bonds due 2023, and $750mln of 5.3% bonds due 2053 on March 3, 2023. The company also completed a remarketing of $2.5Bln in debentures due 2025 that were originally issued in 2020 as components of equity units, the interest rate was reset at 6.051%. In February $1.25B o 2.9% debentures due 2028, $600mln in 5% debentures due 2030, $1Bln of 5.05% debentures due 2033, and $1.15Bln of 5.25% debentures due 2053.

For FPL the ROE band increased year over year to 9.8% - 11.8% with a 10.8% midpoint and the utility showed 11.4% growth in rate base in the 4Q 2022 and had a surplus amortization balance of $1.45Bln. Storm cost and fuel cost recovery in Florida have both been approved by the regulator and there is a flow back approved of $379mln to customer bills as a result of lower natural gas prices. Supply chain issues are a likely topic of conversation on the earnings call, however there has been just under 1GW of solar deployed in 1Q'23 and thirteen different solar sites are already online this year. There could also be headwinds at NEER given that wind resource was 107% versus normal in 1Q 2022 and there were 15 days more of nuclear fuel outages in 1Q 2023 than in 1Q 2022 at Point Beach. On the 4Q 2022 conference call management did indicate an expectation that eps at NEER from new investments would be significantly stronger in

2023 vs. 2022 as supply chain issues cleared and the backlog that resulted from the Department of Commerce circumvention case was deployed. However, we are cautious on this having an impact in 1Q 2023 as our expectation is for these projects to be more weighted to the second half. Investors will be focused on the call for any further color on the ongoing FEC process around campaign contributions in Florida.

NiSource Inc.

We see earnings modestly above last year and 5c below consensus. Electric and gas rate and rider increases are offset by higher interest costs, D&A, pension and share dilution. We expect O&M to be flat, although it could move around in the quarter, guidance for the year is flat. The focus of questions on the call should be around the recently announce NIPSCO rate case settlement, which we viewed positively, and any updates on the pending sale of a minority interest in NIPSCO.

Figure 28: NI 1Q'23E Earnings Drivers

Q1'22	$ 0.75
Elec & Gas Rate/Rider Increases	$0.10
O&M	$0.00
D&A	-$0.02
Interest Expense	-$0.05
Other	-$0.02
Dilution	-$0.01
Q1'23 Estimate	**$ 0.76**

Source: Company Reports, FactSet, UBS Estimates

OGE Energy

We expect OGE to report 1Q'23 EPS of $0.17 versus the $0.38 consensus and $0.24 last year. The absence of a $0.06/share gain on Energy Transfer stock represents the largest driver. The absence of a depreciation adjustment in 1Q'22 contributes most of the -$0.05/share change in that line item. OGE's 2023 guidance drivers include +$0.20/share of investment recovery including Arkansas. We weight that a bit more to 1Q'23. The increase in interest at OG&E reflects $450 million issued at 5.4% early in 2023.

Figure 29: OGE 1Q'23 Earnings Drivers

Q1'22	$0.24
OG&E ($0.17 versus $0.18)	
Customer growth	$0.02
Weather to Normal	-$0.02
Weather Versus Normal	-$0.01
Rates	$0.05
AFUDC	$0.02
Arkansas	$0.01
O&M	-$0.01
Interest	-$0.02
Depreciation	-$0.05
Parent, Other ($0.00 vs $0.06)	-$0.06
Q1'23 Estimate	$0.17

Source: Company Reports, FactSet, UBS Estimates

PG&E Corp.

We estimate PCG will report $0.26 versus the $0.28 consensus and $0.28 last year.

PCG's quarter benefits from the Catastrophic Event Memo account (CEMA) which defers costs for recovery outside of a rate case cycle. The company's rate case awaits a proposed decision and covers 2023-2025. The 1Q'23 result will not reflect an increase as part of the regular rate case cycle. Our quarterly comparison does not include the "rate base growth" driver as a consequence. As other companies may report, PCG's work responding to weather events took the place of other work.

Figure 30: PCG 1Q'23E Earnings Drivers

1Q'22	$0.30
Cost Cuts	$0.02
Redeployment and Other	-$0.01
Term Loan B - PCG - $2.7B floating	-$0.01
1Q'23 Estimate	$0.30

Source: Company Reports, FactSet, UBS Estimates

Pinnacle West Capital

PNW should be one of the few companies to benefit from favorable weather in the quarter and we see results as modestly above consensus. The weather boost should add 8c relative to normal, while customer growth and higher sales adds 5c. Pension and higher interest costs are the key headwinds. We expect the company to reaffirm the 2023 earnings guidance of $3.95-4.15 per share. The questions will focus on the impact to earnings from the recent favorable court decision in Arizona around the 2021 GRC, the sales and customer growth outlook in the service territory and the pending GRC in front of the Arizona Corporation Commission.

Figure 31: PNW 1Q'23E Earnings Drivers

Q1'22	**$ 0.15**
Weather to Normal	-$0.01
Weather vs Normal	$0.08
Transmission	$0.03
Sales/Customer Growth	$0.05
LFCR	$0.00
Depreciation	-$0.02
O&M	-$0.01
Interest net of AFUDC	-$0.06
Pension	-$0.09
Q1'23 Estimate	**$ 0.12**

Source: Company Reports, FactSet, UBS Estimates

PPL Corporation

We estimate PPL will report $0.43 versus the $0.46 consensus and $0.41 last year. Rhode Island Energy did not close until 2Q'23 do the $0.05/share contribution compares to $0.00/share in 1Q'22. PPL experienced the impacts of weather in KY and PA. Overall, degree days declined 21% from 1Q'22. The RI gas business is decoupled which offsets the impact of weather on the gas distribution business. A milestone to watch in the Kentucky CPCN process is intervenor testimony on May 25. Removing KY Clean Energy Transition from Forecast

Figure 32: PPL 1Q'23E Earnings Drivers

Q1'22	$0.41
Rhode Island Energy	$0.05
PA Transmission	$0.01
PA Weather	-$0.01
PA Operations	$0.01
Kentucky Weather versus Normal	-$0.03
Interest Expense	-$0.01
Q1'23 Estimate	$0.43

Source: Company Reports, FactSet, UBS Estimates

Public Service Enterprise Group

PEG's quarterly report should surprise to the upside relative to consensus. We believe the margin benefit at PEG Power will be more front end loaded in the 1h, while the pension hit will get worse later in the year after the ~$50mm of positive amortization rolls off in May. We expect the company to reaffirm guidance $3.40-3.50 for 2023. The questions should focus on the sales process around the remaining offshore wind interests, costs around the nuclear operations, and efforts to make-up for the ~10c of tax benefits that materialized in 2022 vs. original assumption of 2023.

Figure 33: PEG 1Q'23E Earnings Drivers

PSEG Consolidated 1Q 2022	**$**	**1.33**
PSE&G		
1Q 2022	**$**	**1.01**
Transmission	$	-
Gas Margin	$	0.04
Electric Margin	$	0.02
Dist. O&M	$	(0.02)
D&A, Int.	$	(0.03)
Pension & OPEB	$	(0.05)
Taxes, Other	$	-
1Q 2023	**$**	**0.97**
Carbon Free, Infrastructure, & Other		
1Q 2022	**$**	**0.32**
Generation & Capacity	$	0.06
O&M	$	0.01
Lower Power D&A	$	(0.01)
Interest Expense	$	(0.03)
Parent	$	(0.01)
Taxes & Other	$	-
1Q 2023	**$**	**0.34**
PSEG Consolidated 1Q 2023	**$**	**1.31**

Source: Company Reports, FactSet, UBS Estimates

Southern Company

We see SO reporting 1c light of the quarterly guidance number of 70c per share. Warmer weather and higher D&A are the biggest yoy negative drivers, while lower O&M and customer growth/usage the biggest positive drivers. We expect the company to reaffirm the 2023 guidance of $3.55-3.65 per share. Most of the call is likely to focus on the status of the Vogtle nuclear construction project. Unit 3 is expected to be completed in the next two month, while Unit 4 should be on track for COD by the end of the year or early Q1'24.

Figure 34: SO 1Q'23E Drivers

1Q 2022	**$**	**0.97**
Normalized and Warmer Weather	$	(0.11)
Growth & Usage	$	0.06
Non-Fuel O&M	$	0.04
Higher Property Tax & Franchise Fees	$	(0.03)
Reulated Interest Expense / ADIT	$	(0.01)
D&A	$	(0.14)
SoCo Gas	$	(0.03)
Parent Interest Expense	$	(0.04)
Share Dilution	$	(0.02)
1Q 2023	**$**	**0.69**
Quarterly Guidance	$	0.70

Source: Company Reports, FactSet, UBS Estimates

Sempra Energy

We expect Sempra will report 1Q 2023 Adj. EPS of $2.65 v. $2.91 in 1Q 2022. Earnings will be lower at SDG&E and SoCalGas due to the reduction in ROEs for the CPUC rate base of 25bp and increased interest expense year over year. Rate base regulated by the CPUC is ~$10.2Bln at SDG&E and ~$12.1Bln at SoCalGas and at a 52% equity ratio, 25bps points is approximately ($0.08)/share of annual drag or ($0.02)/share for the quarter. Earnings will also be lower year over year at the California utilities due to higher interest expense related to debt issuances. Debt issuances at SDG&E were several tranches totaling ~$1Bln at 3.4% in March 2022, and another $800mln at 5.4% in March 2023. At SoCalGas debt issuances were $700mln at 3% in March 2022 and $600mln at 6.4% in November 2022. This will be a quarterly drag of approximately ($0.05)/share. FERC rate base on California transmission will be a mild offset to drag at ~$400mln in higher rate base year on year at a 55.3% actual equity ratio and a 10.6% ROE or ~+$0.02/share.

At Oncor management guidance from the 4Q 2021 conference call was a range of $690-$750mln annually or a mid-point of $720mln on normalized weather. Seasonally ~20% of Oncor earnings are in 1Q, which is $144mln vs. $162mln in 1Q 2022. Weather was slightly cooler year over year with 523 HDD vs. 721 HDDs. Oncor will have a ($0.06)/ share drag on growth offset by less favorable weather. Additionally guidance at 4Q 2021 used a 9.8% ROE and based on the recent Oncor general rate case 2023 should have a 9.7% ROE. At 10bps of ROE reduction on $22.6Bln in rate base an d a 42.5% equity ratio is a ($0.04)/share annual drag or ($0.01)/share in 1Q 2023 year over year.

At SIP we expect ~$144mln in earnings vs. $221 in 1Q 2022 given the reduction in ownership stakes. Our estimate for 1Q 2023 is the $223mln in SIP earnings in 4Q 2022, adjusted down for the $23mln in non-recurring asset supply and optimization earnings and the $56mln in non-recurring excess production at Cameron LNG.

At corporate management guidance for 2023 was for a drag of 265-285mln or a $275 annual midpoint, which is a $69mln drag per quarter vs. a $93mln drag in 1Q 2022 or a +$0.10/share benefit year over year.

On the call we expect management to provide updated 2023 and 2024 guidance as they did not provide this at the typical time on the year end conference call. Now that the Oncor rate case has been fully adjudicated and Port Arthur Phase 1 has taken a positive final investment decision (FID), we expect management to provide updated guidance. Further, management will likely lay out further details around Port Arthur Phase 1 and the balance of the LNG backlog, and an update around progress in the California rate cases, and the trajectory of winter bills into spring at SoCalGas.

Figure 35: Sempra 1Q '23E EPS Drivers

1Q 2022	**$**	**2.91**
FERC Rate Base	$	0.02
CA Utilities Lower ROE 25bps	$	(0.02)
CA Utiltites Higher Int. Expense	$	(0.05)
Oncor 9.7% ROE v. 9.8% ROE in Guidance	$	(0.01)
Oncor Texas Growth v. Lower HDDs	$	(0.06)
SIP Nonrecurring Asset Supply & Optimization	$	(0.07)
SIP Nonrecurring Excess Production at Cameron	$	(0.17)
Corp & Other	$	0.10
Share Count	$	-
1Q 2023	**$**	**2.65**

Source: Company Filings, UBS Estimates

WEC Energy Group

We expect the company to be at the high end of the revised quarterly guidance range of $1.56-1.58, after the they lowered the range on 3/27 from $1.68-1.72 due to extraordinarily mild weather in the quarter. We expect the call to focus on the cost offsets the company can achieve to it's 2023 earnings guidance of $4.58-4.62.

Figure 36: WEC Energy Group 1Q'23E Earnings Drivers

1Q 2022	**$**	**1.79**
Utility Operations		
Weather		($0.14)
Economic Recovery Impacts		$0.00
Wisconsin Amortization Items		$0.00
Rate Relief and Additional CapEx		$0.06
Fuel Costs Band		($0.02)
Interest Expense		($0.03)
Day to Day O&M/Earnings Sharing		($0.03)
D&A		($0.05)
ATC		
Capital Investments		$0.00
Energy Infrastructure		
Production Tax Credits		$0.02
Corp & Other		
Taxes & Other		($0.02)
1Q 2023	**$**	**1.58**
Revised Qtr Guidance (as of 3/27)		1.56-1.58
Initial Qtr Guidance		1.68-1.72

Source: Company Filings, UBS Estimates

Xcel Energy (XEL)

We expect XEL to report 1Q'23E EPS of $0.78 versus the $0.73 consensus and $0.70 last year. Regulatory recovery in multiple jurisdictions including interim rates adds $0.14/ share. XEL avoided severely negative weather in their jurisdictions. O&M expense timing benefits 1Q'23 as work builds later in the year. The depreciation, interest and property tax drivers are consistent with recently reported quarters.

Figure 37: Xcel Energy Q1'23E Earnings Drivers

Q1'22	$0.70
Weather to Normal	$0.02
Weather vs Normal	-$0.01
Capital Rider	$0.03
Regulatory Recovery	
Minnesota/North Dakota	$0.06
Colorado	$0.03
Wisconsin	$0.01
South Dakota	$0.02
New Mexico	$0.02
O&M	$0.06
Depreciation	-$0.10
Interest Expense	-$0.04
Property Tax	-$0.02
Q1'23 Estimate	$0.78

Source: Company Reports, FactSet, UBS Estimates

Power

Constellation Energy

We expect Constellation Energy to report Adj. EBITDA of $947mln in 1Q 2023 vs. $866mln in 1Q 2022 and $791mln consensus estimates. Drivers will be higher quarter over quarter O&M in line with guidance of $275mln in higher O&M in 2023 versus 2022. Nuclear fuel expenses will also be higher by $225mln however, that is a capital expense and will not increase amortization until it is used in the reactor. Capacity revenues will be lower in line with lower cleared MWs of capacity and lower prices quarter over quarter. CTV investments should be a benefit when compared to 1Q 2022 given relative market performance year over year. Nuclear outages are guided higher year on year with 14 in 2023 versus 11 in 2022. Market & Portfolio impacts will be a tailwind in 1Q 2023 on higher achieved and hedged market pricing in line with the forecast of $1Bln of higher gross margin in 2023 when compared to 2022. An offset will be lower pricing at the CMC plants in Illinois which will reset to $30.30/MWh from NI Hub pricing of ~$33.75/MWh in 1Q 2022. We don't believe nuclear capacity factors will be impacted from mild winter weather.

On the call we expect investors to be focused on costs given the increase in cost guidance across 2022, although we don't think there are material cost increases from here. Further focus will be around an update on progress on growth initiatives and any color on allocation of remaining free cash flows in 2023 and 2024.

Figure 38: CEG 1Q'23E Adj. EBITDA

1Q 2022	$	866
Labor, Contracting, Materials	$	(130)
Capacity Revenues	$	(110)
Market & Port. Conditions	$	360
Lower CMC Revenues	$	(115)
Impact of CTV Investments	$	75
Nuclear Outages	$	(20)
Other	$	21
1Q 2023	**$**	**947**

Source: Company Reports,UBS Estimates

NRG Energy

We expect NRG to report 1Q 2023 adjusted EBITDA on a stand alone basis of $524mln and on a consolidated basis inclusive of Vivint Smart Home of $585mln versus $509mln stand alone in 1Q 2022 and consensus estimates of $632mln. We expect that the Limestone outage from 1Q 2022 will be roughly a wash with the Parrish outage in 1Q 2023. There will be slight positive drivers around coal supply chain and ancillaries. PJM asset sales zeros out and we see a $20mln headwind to the results in 1Q 2023. The Astoria plant was also sold early in 2022 and we estimate a $5mln headwind. On direct energy synergies, management guidance was for $110mln year over year in 2023 vs. 2022 but synergies saw significant outperformance in 4Q '22. On a seasonal quarter over quarter basis we expect a $30mln tailwind in the quarter from direct energy synergies. For Vivint we used the $735mln annual guidance from management and included one month at ~$60mln.

On the call we expect management to discuss the Vivint transaction post close, and provide an update on consolidation of EBITDA given different treatment between Vivint and NRG around capitalized costs and costs of goods sold above and below the EBITDA line. We do anticipate that purchase accounting will push a significant proportion of historical capitalized costs to goodwill, so it will be more of an accounting shift on a go forward basis.

Figure 39: NRG Energy 1Q 2023 Adj. EBITDA by Segment

US$mlns	1Q 2022	1Q 2023
Texas	198	218
East	325	320
West/Services/Other	-14	-14
Vivint Home	0	61
Corp/Elim	0	0
Adjusted EBITDA	**509**	**585**

Source: Company Filings, UBS Equity Research Estimates

Vistra Corp

We expect VST to report Adj. EBITDA of $594mln in 1Q 2023 vs. $541mln in 1Q 2022 and consensus estimates of $712mln. Headwinds to results will be lower 1Q pricing post Uri and weatherization and reliability efforts, particularly for winter. Other headwinds will be a first half 2023 impact of the NOPEC retail assignments in PJM where contract pricing will not roll off until May 2023. Lower capacity revenues on lower capacity auction pricing, particularly in 1Q. Weather was also mild in Texas this past winter year over year but shouldn't be a major headwind even though Vistra has a slightly higher open position in 1Q 2023.

On the call we expect investors to be focused an update on the progress toward closing the Energy Harbor acquisition, hedging strategy and free cash flow allocation.

Figure 40: Vistra Corp. 1Q 2023 EBITDA by Segment, Year over Year change

US$mln	1Q 2022	1Q 2023	Variance
Retail	163	172	9
Texas	171	214	43
East	148	150	2
West	25	25	-
Sunset	50	50	-
Corp/Other	(10)	(10)	-
Asset Closure	(6)	(6)	-
Total	**541**	**594**	**53**

Source: Company Press Releases & Earnings Presentations, UBS Equity Research Estimates.

Water Utilities

American States Water (AWR)

We expect American States Water to report 1Q'23 EPS of $0.84 versus the $0.51 consensus and $0.38 last year. AWR received an Administrative Law Judge's decision approving the rate settlement. We estimate a $0.38/share impact from the 2022 retroactive rate increase based upon management's guidance on the year-end investor call. The company continues to evaluate that impact, however, as disclosed in a press release on April 18. We are also increasing our 2023 EPS estimate by $0.38 to $3.11 from $2.73. We have already included the 2024 and 2025 impacts of the rate settlement in our forecasts. AWR expects California Public Utility Commission approval in 2Q'23.

Figure 41: American States Water 1Q'23E Earnings Drivers

Q1'22	$0.38
2022 Water rate increase impact	$0.38
2023 Water rate increase impact	$0.04
Water Utility ($0.65 versus $0.23)	
Electric Utility ($0.08 versus $0.07)	$0.01
Contract Services ($0.12 versus $0.08)	$0.04
Parent (-$0.01 versus $0.00)	-$0.01
Q1'23 Estimate	$0.84

Source: Company reports, UBS estimates

American Water Works (AWK)

We expect American Water Works to report 1Q'23 EPS of $0.93 versus the $0.94 consensus estimate and $0.87 last year. The drivers generally follow the company's guidance waterfall provided with year-end results. Normalizing adjustments from 1Q'22 include -$0.04/share for Home Services and +$0.02/share for the New York American sale.

AWK stands out for their disclosure on environmental cap-ex of $195 million for 2023 and $800 million over 5 years.

Figure 42: American Water Works 1Q'23E Earnings Drivers

Q1'22	**$0.87**
Revenue	$0.26
Inflationary Costs	-$0.07
Depreciation	-$0.08
Operations and Maintenance	-$0.02
Equity Dilution	-$0.01
Q1'22 adjustments HOS, NY American	-$0.02
Debt Financing	-$0.01
Q1'23 Estimate	**$0.93**

Source: Company reports, UBS estimates

California Water Service Group (CWT)

We expect California Water Service to report 1Q'23 EPS of a loss of -$0.04 versus the $0.02 consensus and $0.02 last year. We estimate a reduction in water deliveries in the -5% to -8% range impacts results. This is somewhat offset by lower operating expenses. Mark-to-market of an employee fund likely reverses from last year.

Figure 43: California Water Service Group 1Q'23E Earnings Drivers

Q1'22	$0.02
Operating Expenses	$0.03
Mark-to-Market	$0.05
Water Deliveries	-$0.15
Other	$0.01
Q1'23 Estimate	-$0.04

Source: Company reports, UBS estimates

Essential Utilities (WTRG)

We expect Essential Utilities to report 1Q'23 EPS of $0.69 versus the $0.76 consensus estimate and $0.76 last year. The company has exposure to weather at Peoples Gas in Pennsylvania that does not have decoupling. The company reaffirmed 2023 EPS guidance of $1.85-$1.90 when they reported year-end earnings on February 27. WTRG plans to ask for weather normalization when they file their rate case in late 2023. The rates driver is consistent with 4Q'22 and we expect an impact from lower demand.

Figure 44: Essential Utilities 1Q'23E Earnings Drivers

Q1'22	**$0.76**
Rates and Surcharges	$0.09
Volume/Growth Water	-$0.01
Inflation and O&M expenses	-$0.06
Weather	-$0.03
Interest and Other	-$0.08
Q1'23 Estimate	**$0.67**

Source: Company reports, UBS estimates

SJW Group

We expect SJW Group to report 1Q'23 EPS of $0.06 versus the $0.17 consensus and $0.12 last year. The CA rate case decision authorizes an incremental $13 million increase for 2023. Expenses items follow closely the company's 4Q'22 drivers. Inflationary pressures should have an impact and represent a potential topic of discussion on the

**UBS Evidence Lab is a sell-side team of experts that work across 55+ specialized labs creating insight-ready datasets. The experts turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. Since 2014, UBS Research analysts have utilized the expertise of UBS Evidence Lab for insight-ready datasets on companies, sectors, and themes, resulting in the production of thousands of differentiated UBS Research reports. UBS Evidence Lab does not provide investment recommendations or advice but provides insight-ready datasets for further analysis by UBS Research and by clients. All published UBS Evidence Lab content is available via UBS Neo. The amount and type of content available may vary. Please contact your UBS sales representative if you wish to discuss access.*

UBS Evidence Lab Climatology practice area is a suite of analysis techniques that leverages atmospheric science based data to measure risks related to climate and weather surrounding key markets and the physical asset of companies. Weather and climate are related but measure different aspects of the short and long term conditions of the atmosphere. The UBS Evidence Lab harvests data from weather stations (both on ground and aerial) and satellite based sources for various weather elements including: temperature and precipitation. For asset based measures, the UBS Evidence Lab leverages a global database of 70+ million business rooftops that is thoroughly cleansed for localization accuracy, ownership, industry, birth and death dates and other key features for each rooftop. The UBS Evidence Lab using advanced geospatial analysis to enhance these rooftops with proprietary weather metrics that explain the quality of a company's physical footprint from the perspective of weather or climate risk. This report leverages the following UBS Evidence Lab asset: US Utility Territory Heating and Cooling Degree Days Monitor.

Detailed Methodology:

Methodology Overview

UBS Evidence Lab Climatology practice area is a suite of analysis techniques that leverages atmospheric science based data to measure risks related to climate and weather surrounding key markets and the physical asset of companies. Weather and climate are related but measure different aspects of the short and long term conditions of the atmosphere. The UBS Evidence Lab harvests data from weather stations (both on ground and aerial) and satellite based sources for various weather elements including: temperature, humidity, precipitation, air pressure and wind.

The Weather Monitor is a specialized product in Climatology practice area that provides a temporal framework to assess changes in key weather elements impacting the business rooftops of the companies in focus. Weather data is collected daily and cleansed for stability of readings; i.e. stations that have poor reporting frequencies are filtered. Then, using detailed geospatial techniques, weather data is apportioned to each business rooftop and aggregate company-level figures are derived. Further, metrics are sequenced to provide customized dates to match reporting conventions of the companies in focus.

In Q1-2018, the Geospatial Team augmented climatology reports by including analysis derived from satellite imagery generated by the Moderate Resolution Imaging Spectroradiometer (MODIS) on NASA's Terra satellite.

In Q2-2018 we further expanded our weather lab by leveraging raster imagery provided by NOAA's Climate Prediction Center (CPC), which normalizes and aggregates daily climate data from thousands of weather stations around the world. This capability has enabled us to report approximate temperature and precipitation measurements for almost any location covered by land on our planet.

Use Cases

For this report, the UBS Evidence Lab calculated average temperature, heating & cooling degree days and normals (1991-2020) for all mentioned metrics within all the service territories of 49 investor-owned electric utilities (IOUs) operating in the United States. Data are grouped into utility holding company service territories for comparison purposes. All together with Net Flow Index taken from US Utility Residential Migration Monitor allow compare weather conditions and combine them to estimate energy consumption.

Definitions & Key Measures

Average Temperature is derived from the CPC Global Unified Temperature data. The Lab used minimum and maximum mean temperature data to create the average temperature raster file for each day since the 1st of January, 2017 with a spatial resolution 0.5x0.5°. Data is organized into daily, aggregated as weekly median in the Fahrenheit degrees.

Normal Weekly Mean Temperature 1991-2020 is derived from the CPC Global Unified Temperature data. The Lab used the 1991-2020 temperature normals data to create the normal daily mean temperature raster with a spatial resolution 0.5x0.5°. The dataset allows compare daily temperature readings with long term means. Data is organized into daily, aggregated as weekly median in the Fahrenheit degrees.

Degree Days are based on the assumption that when the outside temperature is 65°F, we don't need heating or cooling to be comfortable. Degree days are the difference between the daily temperature mean, (high temperature plus low temperature divided by two) and 65°F. If the temperature mean is above 65°F, we subtract 65 from the mean and the result is Cooling Degree Days. If the temperature median is below 65°F, we subtract the mean from 65 and the result is Heating Degree Days. https://www.weather.gov/key/climate_heat_cool

Example 1: The high temperature for a particular day was 90°F and the low temperature was 66°F. The temperature mean for that day was:

(90°F + 66°F) / 2 = 78°F

Because the result is above 65°F:

78°F - 65°F = 13 Cooling Degree Days

Example 2: The high temperature for a particular day was 33°F and the low temperature was 25°F. The temperature mean for that day was:

(33°F + 25°F) / 2 = 29°F

Because the result is below 65°F:

65°F - 29°F = 36 Heating Degree Days

The calculations shown in the two examples above are performed for each day of the year and the daily degree days are accumulated so that we can compare months and seasons. https://www.weather.gov/key/climate_heat_cool

Normal Weekly Cooling and Heating Degree Days 1991-2020 is derived from the CPC Global Unified Temperature data. The Lab used the 1991-2020 temperature normals data to create the normal daily cooling and heating degree days raster with a spatial resolution 0.5x0.5°. Data is organized into daily, aggregated as weekly, quarterly sum and average annual sum.

Net Flow Index - data from US Utility Residential Migration Monitor are separately indexed for inflows and outflows using February 2017 as the base, then combined to provide a net index metric on a going forward basis

Entity Aggregation - Aggregation is based on state-level zipcodes or zipcodes that fall within regional service territories

Coverage Area Visualization

Data Quality

All the housing data is loaded into a global housing data warehouse. Before processing the analytics, several data quality routines and processes are run to validate and enhance the raw data set. Any property that fails a validation check is flagged or cleansed (i.e. filtered from the data set being analyzed). Some data checks are required (i.e. will filter) and some are not (i.e. will only flag the data).

Valuation Method and Risk Statement

North America Utilities: Our valuation methodology for the group is price to earnings based. The adjustments applied fall into 7 categories. These are as follows: 1) Group Valuation Bias: Flowing from our valuation work comparing Baa corporate yields to group dividend yields and RU price to earnings ratios to those for the S&P 500, we incorporate a positive or negative adjustment to our group multiple representing the gap we calculate to the nearest 5%; 2) Growth Adjustment: We adjust our valuations based on the growth quartile each utility occupies. First quartile receives a 4% premium, second quartile a 2% premium, third quartile a 2% discount and fourth quartile a 4% discount; 3) Regulatory Adjustment: Our valuation adjustments for regulation are based on our proprietary Regulatory Rankings. First quartile jurisdictions receive 10%, second quartile 5%, third quartile -5% and fourth quartile -10%; 4) Clean Energy Transition: A potential 5% premium for a risk adjusted clean energy transition growth opportunity; 5) Earnings Consistency Adjustment: For companies that fall in the top quartile of % Time Beat/Meet, we include +4%; 6) Multi Utility Diversified Valuation: For multi utilities (those with more than 15% of unregulated earnings), we perform a sum-of-the-parts analysis applying business/region appropriate valuations to those diversified businesses; 7) One-off Adjustments: In special situations, we value risk on an issue-specific basis. Common areas where we apply such an adjustment include: large project construction risk, legal risk, and announced M&A completion risk. We identify the following risk factors: rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity risk to the transmission grid and/or customer data, and extreme weather events.

IPPs: Our valuation methodology is based on mid-cycle EV/EBITDA multiples of 7.1x.

CEG: Our valuation methodology is based on an infrastructure comp on EV/EBITDA.

Water Utilities: Our valuation methodology for the group is price-to-earnings based. Our methodology includes: 1) Growth Adjustment: We adjust our valuations based on the growth quartile each utility occupies. First quartile receives a 4% premium, second quartile a 2% premium, third quartile a 2% discount and fourth quartile a 4% discount; and 2) Regulatory Adjustment: Our valuation adjustments for regulation are based on our proprietary Regulatory Rankings. First quartile jurisdictions receive 10%, second quartile 5%, third quartile -5% and fourth quartile -10%.

North American utilities: We identify the following risk factors for the sector overall: rising interest rates; regulatory and policy risks; operational risks; construction risks; cybersecurity risk to the transmission grid and/or customer data, and extreme weather events.

IPPs: We identify the following risks for the sector: Power prices, fuel prices, capacity prices, supply and demand for electricity, extreme weather, economic conditions, and cost of financing and collateral hedging.

CEG: We identify the following risks for CEG: Power price volatility above the nuclear PTC price, uranium fuel prices, supply and demand for electricity, cost of financing and nuclear operational risk.

Water Utilities: We identify the following risks: rising interest rate; regulatory and policy risks; operational risks; construction risks; water quality, safety and contamination risk; physical risk to the water sources, treatment or delivery systems; cybersecurity risk; drought and extreme weather events.

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12-Month Rating	Definition	Coverage[1]	IB Services[2]
Buy	FSR is > 6% above the MRA.	54%	22%
Neutral	FSR is between -6% and 6% of the MRA.	36%	21%
Sell	FSR is > 6% below the MRA.	10%	18%
Short-Term Rating	**Definition**	**Coverage[3]**	**IB Services[4]**
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2023.
1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
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Company Name	Reuters	12-month rating	Price	Price date
AES Corp[16]	AES.N	Buy	US$24.42	18 Apr 2023
Alliant Energy Corp[16]	LNT.O	Neutral	US$54.34	18 Apr 2023
Ameren Corp[16]	AEE.N	Neutral	US$88.29	18 Apr 2023
American Electric Power Inc[16,7,6b]	AEP.O	Buy	US$92.47	18 Apr 2023
American States Water Co[16]	AWR.N	Sell	US$88.93	18 Apr 2023
American Water Works Co[16]	AWK.N	Neutral	US$148.10	18 Apr 2023
CMS Energy Corp[16]	CMS.N	Neutral	US$60.52	18 Apr 2023
California Water Service Group[16]	CWT.N	Neutral	US$57.70	18 Apr 2023
CenterPoint Energy Inc[16]	CNP.N	Buy	US$30.23	18 Apr 2023
Consolidated Edison Inc[16]	ED.N	Neutral	US$97.52	18 Apr 2023
Constellation Energy Corp[16]	CEG.O	Buy	US$74.48	18 Apr 2023
DTE Energy Co[16]	DTE.N	Neutral	US$112.04	18 Apr 2023
Dominion Energy Inc[16,7,6b]	D.N	Neutral	US$57.36	18 Apr 2023
Duke Energy Corp[16,7,6b,6c]	DUK.N	Neutral	US$97.41	18 Apr 2023
Edison International[16]	EIX.N	Buy	US$72.11	18 Apr 2023
Emera Inc	EMA.TO	Buy	C$57.79	18 Apr 2023
Entergy Corp[16,7,6b,6c]	ETR.N	Neutral	US$108.58	18 Apr 2023
Essential Utilities Inc[16]	WTRG.N	Buy	US$42.63	18 Apr 2023
Evergy, Inc[16]	EVRG.O	Neutral	US$61.74	18 Apr 2023
Eversource Energy[16,7,6b]	ES.N	Neutral	US$78.38	18 Apr 2023
Exelon Corp[16,7,6b,6c]	EXC.O	Buy	US$42.85	18 Apr 2023
FirstEnergy Corp[16]	FE.N	Buy	US$40.48	18 Apr 2023
Fortis Inc[16]	FTS.TO	Sell	C$59.39	18 Apr 2023
NRG Energy Inc[16]	NRG.N	Sell	US$34.66	18 Apr 2023
NextEra Energy Inc[2,4,5,16,7,6a]	NEE.N	Buy	US$78.30	18 Apr 2023
NiSource Inc.[16]	NI.N	Neutral	US$28.19	18 Apr 2023
OGE Energy Corp[16]	OGE.N	Neutral	US$37.24	18 Apr 2023

Company Name	Reuters	12-month rating	Price	Price date
PG&E Corp[16,7,6b,6c]	PCG.N	Neutral	US$16.90	18 Apr 2023
PPL Corp[16]	PPL.N	Buy	US$28.49	18 Apr 2023
Pinnacle West Capital Corp[16,7,6b]	PNW.N	Sell	US$79.01	18 Apr 2023
Public Service Enterprise Group[16,7,6b]	PEG.N	Buy	US$63.81	18 Apr 2023
SJW Group[16]	SJW.N	Buy	US$77.19	18 Apr 2023
Sempra[16]	SRE.N	Buy	US$156.02	18 Apr 2023
Southern Co[13,16]	SO.N	Buy	US$72.58	18 Apr 2023
Vistra Corp.[4,16,6a]	VST.N	Buy	US$24.31	18 Apr 2023
WEC Energy Group Inc[16]	WEC.N	Neutral	US$95.74	18 Apr 2023
Xcel Energy Inc[16]	XEL.O	Neutral	US$69.76	18 Apr 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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Citi Research
ACTION

31 Jul 2023 19:00:00 ET | 11 pages

NiSource Inc (NI.N)

Earnings Preview

CITI'S TAKE

We caught up with the company ahead of earnings and walked through known and knowable items. We arrived at $0.10 of EPS for Q2.

Q2 Results Expectations — We arrived at a conservative $0.10 EPS driven by yr/yr changes of ~$64M of rate relief, ($6M) of load weakness, ($19M) of O&M headwind, ($7M) of D&A, ($35M) of interest, ($8M) of other AFUDC items, after taxes and ~470M of average diluted shares. We made a modest adjustment for ($0.02) of flex in costs as inflation pressures were likely slightly more than originally guided before some the benefits of Project Apollo materialize. COLI and pension investment may add some noise.

Lower Solar Installation Costs — Given NiSource already received a CPCN amendment for higher installation costs, the recent declines are not likely to trigger any new filings.

Gas Costs in Decline — With the current strips, NiSource estimates that the gas component of the bills is going to decline ~25% in 2023 and further in 2024.

Upcoming Regulatory Events – A key debate point in Nisource's pending Maryland gas case would be the 9.45% ROE recommendation vs. 10.95% ask. Nisource's next step is likely to settle with stakeholders with recent positive trends in US ROEs helping NiSource positioning with rates increasing. Next to watch is Nisource's application for the infrastructure replacement program (phase 3 IRIS) from 2024-2028 in Maryland, submitted in June.

Neutral	
Price (28 Jul 23 16:00)	US$27.75
Target price	US$30.00
Expected share price return	8.1%
Expected dividend yield	3.6%
Expected total return	11.7%
Market Cap	US$11,463M

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

Ryan Levine AC

Xinru Yin

EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2022A	0.75A	0.12A	0.10A	0.50A	1.47A	1.47A	1.70A
2023E	**0.77A**	**0.10E**	**0.17E**	**0.50E**	**1.54E**	**1.57E**	**1.55E**
Previous	0.77A	0.22E	0.28E	0.31E	1.58E	na	na
2024E	**0.63E**	**0.25E**	**0.25E**	**0.51E**	**1.64E**	**1.68E**	**1.68E**
Previous	0.75E	0.26E	0.32E	0.36E	1.69E	na	na
2025E	**na**	**na**	**na**	**na**	**1.82E**	**1.79E**	**1.81E**
Previous	na	na	na	na	1.80E	na	na

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

Click here for Visible Alpha consensus data

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

NI.N: Fiscal year end 31-Dec						Price: US$27.75; TP: US$30.00; Market Cap: US$11,463m; Recomm: Neutral					
Profit & Loss (US$m)	**2021**	**2022**	**2023E**	**2024E**	**2025E**	**Valuation ratios**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Sales revenue	4,900	5,851	6,154	6,368	6,638	PE (x)	20.2	18.9	18.0	17.0	15.2
Cost of sales	-2,141	-2,931	-3,128	-3,167	-3,241	PB (x)	1.9	1.8	1.8	1.7	1.6
Gross profit	2,759	2,919	3,026	3,201	3,397	EV/EBITDA (x)	14.1	12.4	12.6	12.5	12.0
Gross Margin (%)	56.3	49.9	49.2	50.3	51.2	FCF yield (%)	-5.5	-6.4	-12.1	-9.1	-12.0
EBITDA (Adj)	**1,755**	**2,087**	**2,186**	**2,350**	**2,597**	Dividend yield (%)	3.2	3.4	3.7	3.9	4.2
EBITDA Margin (Adj) (%)	35.8	35.7	35.5	36.9	39.1	Payout ratio (%)	65	64	66	66	63
Depreciation	-748	-821	-851	-886	-954	ROE (%)	9.9	12.4	10.3	11.0	11.7
Amortisation	0	0	0	0	0	**Cashflow (US$m)**	**2021**	**2022**	**2023E**	**2024E**	**2025E**
EBIT (Adj)	**1,007**	**1,266**	**1,336**	**1,464**	**1,642**	EBITDA	1,755	2,087	2,186	2,350	2,597
EBIT Margin (Adj) (%)	20.6	21.6	21.7	23.0	24.7	Working capital	-260	-285	-5	-61	-81
Net interest	-341	-362	-459	-528	-599	Other	-281	-380	-537	-672	-765
Associates	0	0	0	0	0	**Operating cashflow**	**1,214**	**1,422**	**1,645**	**1,617**	**1,750**
Non-Op/Except/Other Adj	37	65	24	52	52	Capex	-1,838	-2,203	-3,145	-2,750	-3,250
Pre-tax profit	**703**	**969**	**901**	**988**	**1,095**	Net acq/disposals	0	0	0	0	0
Tax	-118	-165	-178	-196	-218	Other	-367	-367	-171	0	0
Extraord./Min.Int./Pref.div.	-55	-55	-55	-55	-55	**Investing cashflow**	**-2,205**	**-2,570**	**-3,315**	**-2,750**	**-3,250**
Reported net profit	**530**	**749**	**667**	**737**	**822**	Dividends paid	-345	-382	-450	-489	-520
Net Margin (%)	10.8	12.8	10.8	11.6	12.4	**Financing cashflow**	**1,011**	**1,196**	**1,812**	**1,220**	**1,588**
Core NPAT	560	649	691	737	822	**Net change in cash**	**21**	**48**	**142**	**88**	**88**
Per share data	**2021**	**2022**	**2023E**	**2024E**	**2025E**	**Free cashflow to s/holders**	**-624**	**-781**	**-1,500**	**-1,133**	**-1,500**

Per share data	2021	2022	2023E	2024E	2025E
Reported EPS ($)	1.30	1.69	1.49	1.64	1.82
Core EPS ($)	1.37	1.47	1.54	1.64	1.82
DPS ($)	0.89	0.94	1.02	1.09	1.15
CFPS ($)	2.97	3.21	3.67	3.59	3.88
FCFPS ($)	-1.53	-1.76	-3.34	-2.52	-3.33
BVPS ($)	14.55	15.61	15.81	16.44	17.23
Wtd avg ord shares (m)	409	433	439	441	441
Wtd avg diluted shares (m)	409	443	448	450	451
Growth rates	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Sales revenue (%)	4.8	19.4	5.2	3.5	4.2
EBIT (Adj) (%)	61.3	25.7	5.5	9.6	12.2
Core NPAT (%)	10.1	15.8	6.5	6.6	11.5
Core EPS (%)	3.7	6.9	5.2	6.2	11.3
Balance Sheet (US$m)	**2021**	**2022**	**2023E**	**2024E**	**2025E**
Cash & cash equiv.	95	75	148	148	148
Accounts receivables	826	1,042	1,019	1,055	1,096
Inventory	499	752	733	757	783
Net fixed & other tangibles	20,491	22,442	24,748	26,612	28,908
Goodwill & intangibles	1,486	1,486	1,486	1,486	1,486
Financial & other assets	761	939	936	953	971
Total assets	**24,157**	**26,737**	**29,069**	**31,011**	**33,392**
Accounts payable	698	900	800	808	810
Short-term debt	618	1,792	2,584	3,654	5,121
Long-term debt	9,183	9,524	10,940	11,540	12,140
Provisions & other liab	6,385	6,620	6,679	6,687	6,689
Total liabilities	**16,884**	**18,835**	**21,002**	**22,689**	**24,760**
Shareholders' equity	7,273	7,902	8,067	8,322	8,632
Minority interests	0	0	0	0	0
Total equity	**7,273**	**7,902**	**8,067**	**8,322**	**8,632**
Net debt (Adj)	**9,707**	**11,240**	**13,376**	**15,045**	**17,112**
Net debt to equity (Adj) (%)	133.5	142.2	165.8	180.8	198.2

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

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Flash Note | **Energy | Power & Utilities**

August 02, 2023

NiSource Inc
NI | $27.48
Outperform | Target Price/Base Case: $30.00
Company Update

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First Crack at 2Q23

We believe NiSource's 2Q23 earnings release has positive implications for the stock. Q2 EPS is in line with consensus. The company raised its 2023 non-GAAP EPS earnings guidance to upper half of range and reaffirmed annual non-GAAP EPS growth of 6-8% through 2027.

Key Takes:

- NI reported Q2 adjusted diluted Net operating EPS (NOEPS) of $0.11 vs. our estimate of $0.10 and street consensus of $0.11. 2Q23 NOEPS is 8% lower than 2Q22 NOEPS of $0.12.
- Raised 2023 non-GAAP NOEPS guidance range to the upper half of $1.54-$1.60.
  - New mid-pt of $1.59 is slightly higher than consensus/our estimate of $1.57.
- 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
- Reaffirmed long-term 14-16% FFO/Debt target.
- NIPSCO minority sale agreement announced in June, on track to close by year-end.
- No change to equity plan, in 2025+, expect modest ATM program to maintain credit metrics for growth investments
- Settlement in Virginia gas rate case approved

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**: On June 20th, NiSource announced an agreement to sell the 19.9% non-controlling equity interest in NIPSCO for $2.15 billion to an affiliate of Blackstone Infrastructure Partners, Blackstone's (NYSE: BX) dedicated Infrastructure group, with additional equity commitment of $250 million to fund ongoing capital requirements. NiSource intends to use the proceeds to support growth at the utility, pay down debt, and fund capital needs, consistent with the plan laid out at its Investor Day in November 2022. The transaction is still expected to close by year-end 2023, subject to customary closing conditions, including receiving FERC approvals and clearances. In conjunction with the announcement.
- **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 $292MM rate increase compared with $395MM company requested, including a base rate increase and a tracker. The parties agreed on an ROE of 9.80% versus the current 9.75%, and an equity layer of 51.63% versus the current 47.86%. Recall that company requested a 10.4% ROE and a 58.5% equity ratio on a rate base of $5.95B. We view the settlement as constructive, if approved. A final Commission order is expected this month with rates going into effect in September 2023 and March 2024.
- **Maryland gas rate case:** On May 12th, Columbia Gas of Maryland filed a gas rate case, requesting a revenue increase of $8.1MM based on a 10.95% ROE and 52.07% equity layer, with rate base valued at $235.4MM with a test year ending May 31, 2023. Proposed order is scheduled in October and final order is expected in December.
- **Virginia gas rate case**: On May 15th, the Virginia State Corporation Commission issued a final order adopting the settlement reached on December 9th in Columbia Gas of Virginia rate case with $25.8MM revenue 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.

- **Indiana ROFR legislation**: HB 1420 was signed by the Governor on May 1st, which enables Indiana utility companies the right of first refusal (ROFR) to build, own, and operate new transmission lines approved by a regional transmission organization in their service area, and prevents new projects from being bid on by other competitive transmission companies. The legislation would solidify NiSource's position to own and invest in transmission assets, which could be upside to their current capex plan

UBS

Global Research and Evidence Lab
2 August 2023

First Read

NiSource Inc.

In-Line. 2Q'23 Adj. EPS $0.11 v. $0.11 Consensus

Equities

Americas
Electric Utilities

12-month rating	Buy
12m price target	US$31.00
Price (01 Aug 2023)	US$27.48

RIC: NI.N BBG: NI US

Trading data and key metrics

52-wk range	US$31.71-24.15
Market cap.	US$12.3b
Shares o/s	447m (COM)
Free float	99%
Avg. daily volume ('000)	1,118
Avg. daily value (m)	US$30.8
Common s/h equity (12/23E)	US$6.31b
P/BV (12/23E)	1.9x
Net debt to EBITDA (12/23E)	6.2x

EPS (UBS, diluted) (US$)

	12/23E	
	UBS	Cons.
Q1	0.77	0.77
Q2E	0.10	0.12
Q3E	0.11	0.13
Q4E	0.59	0.55
12/23E	1.57	1.57
12/24E	1.68	1.68
12/25E	1.80	1.79

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Q: How did the results compare vs expectations?

A: In-Line. NI reported 2Q'23 Adj. EPS $0.11 v. $0.11 Consensus, $0.10 UBSe, and $0.12 in 2Q'22.

Q: What were the most noteworthy areas in the results?

A: Drivers at Gas Distribution were increased revenue from new rates and capital programs +$60.5mln, lower customer usage ($3.2)mln, lower non-tracked O&M + $0.3mln. And at electric, lower customer usage ($7.8)mln, higher non-tracked O&M related to generation maintenance timing and vegetation management ($5.0)mln.

Q: Has the company's outlook/guidance changed?

A: Management indicated 2023 Adj. EPS in the upper half of the guidance range of $1.54-$1.60, and reiterated guidance of $30Bln in capex in the next 10 years, $15Bln thru '27, no equity before '25, a 14%-16% FFO/debt target, 6%-8% annual long term eps growth through '27 on 8%-10% annual rate base growth over the same term, and a goal of flat O&M.

Q: How would we expect investors to react?

A: Positive on the move to the upper half of the '23 guidance range. Waiting for the call for any updates on progress toward close of the NIPSCO minority stake sale announced in late June, and any comments on the NIPSCO rate case settlement where a vote is expected later in August.

Key Metrics (US$)

	Consensus estimates	UBS estimates	Actual	% diff vs. UBSe
2Q'23 Adj. EPS	$0.11	$0.10	$0.11	+10.0%

Source: Factset, UBS estimates, company data

Highlights (US$m)	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
Revenues	4,697	4,900	5,851	5,977	6,271	6,531	6,781	7,006
EBIT (UBS)	1,031	1,046	1,162	1,145	1,337	1,483	1,634	1,760
Net earnings (UBS)	507	573	649	698	752	807	874	956
EPS (UBS, diluted) (US$)	1.32	1.37	1.46	1.57	1.68	1.80	1.91	2.03
DPS (net) (US$)	0.88	0.90	0.96	1.02	1.08	1.14	1.20	1.20
Net (debt) / cash	(10,501)	(11,253)	(12,821)	(12,868)	(14,286)	(15,997)	(16,820)	(17,492)

Profitability/valuation	12/20	12/21	12/22	12/23E	12/24E	12/25E	12/26E	12/27E
EBIT (UBS) margin %	22.0	21.3	19.9	19.2	21.3	22.7	24.1	25.1
ROIC (EBIT) %	7.5	7.4	7.4	6.7	7.4	7.5	7.6	7.7
EV/EBITDA (UBS core) x	9.9	10.4	11.3	11.2	10.1	9.6	9.2	8.7
P/E (UBS, diluted) x	18.6	17.9	19.6	17.5	16.3	15.3	14.4	13.5
Equity FCF (UBS) yield %	(6.0)	(6.2)	(7.2)	(14.0)	(7.4)	(10.5)	(5.2)	(3.6)
Dividend yield (net) %	3.6	3.6	3.3	3.7	3.9	4.1	4.4	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$ 27.48 on 01-Aug-2023

This report has been prepared by UBS Securities LLC. **ANALYST CERTIFICATION AND REQUIRED DISCLOSURES, INCLUDING INFORMATION ON THE QUANTITATIVE RESEARCH REVIEW PUBLISHED BY UBS, BEGIN ON PAGE 4.** UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Forecast returns

Forecast price appreciation	+12.8%
Forecast dividend yield	3.8%
Forecast stock return	+16.6%
Market return assumption	9.9%
Forecast excess return	+6.7%

Company Description

NI is a fully regulated gas and electric utility serving customers in six states in the Midwest and Mid-Atlantic. NI is a gas distribution utility with 3.2 million customers in Indiana, Kentucky, Maryland, Ohio, Pennsylvania, and Virginia. NI is an integrated electric utility serving 0.5 million customers in Indiana. NI's mix of operating earnings is 60% gas and 40% electric.

Valuation Method and Risk Statement

We apply a 10% premium valuation for NI, which reflects +5% for overall group attractiveness, +3% for second quartile regulation and +2% for second quartile EPS growth. This drives a target multiple of 17.25x and a $31 target price.

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.

Quantitative Research Review

UBS Global Research 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 Global 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 six months? 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 six months? 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)	4
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?	