

US Electric Utilities & IPPs

Power Points: NI beat and raise, higher FY23 base; ERM risk to AVA FY24 guide

Industry Overview

NI: FY23 Beat and raise into FY24 on higher base

NiSource (NI) delivered strong 4Q23 EPS and importantly effectuated a full FY23 “beat and raise”, lifting FY24 EPS guidance 4c at the midpoint to \$1.70-\$1.74, or up 7.5% off the new \$1.60 FY23 EPS base. 4Q23 and FY23 EPS were in line vs BofAe FY23 EPS of \$1.61 and consensus of \$1.59, with both gas distribution and electric operations delivering higher 4Q23 revenue from rates and capital programs to more than offset higher D&A and higher O&M (operation & maintenance) at electric. We continue to see high visibility to above-average growth through an 8-10% rate base CAGR with modest, if any, block equity. We maintain our Buy rating on NI after a strong print and roll-forward into stronger FY24 EPS guide, seeing attractive risk/reward as NI rerates.

NI: ATM equity primarily in plan, will be opportunistic

Mgmt reaffirmed \$600mm equity needed via ATM (at the market) in 2024 and \$200mm-300mm of equity needed via ATM from 2025-2028, with potential to issue more equity via the ATM if any of the \$2bn in upside of incremental capex materializes. However, while NI remains committed to ATM equity issuance whenever possible, management appeared open to opportunistic block equity in the event liquidity and cost basis align with capex needs, although we still view this as situational and not indicative of any change in prospective financing guidance. We still think positive EPS guidance revisions are likely going forward, yet management opted solely to reaffirm confidence in the long-term 6-8% EPS CAGR target from 2023 to 2028, supported by 8-10% rate base CAGR. We view this as conservative given high visibility to the already strong 6-8% EPS growth range, as \$2bn in upside investment to the base \$16bn capex plan could ultimately push actual growth higher (cont. on page 2).

AVA: 4Q23 EPS miss, FY24 guide midpoint beat

Avista Corp (AVA) reported \$1.08 4Q23 EPS, missing BofAe \$1.15 and consensus \$1.14. Non-utility operations' EPS trailed BofA expectation by -7c in 4Q23 and in FY23 and was the primary contributor to the lower-than-expected earnings. 4Q24 EPS included a +14c benefit from additional tax customer credits in the quarter. FY23 EPS of \$2.24 missed revised EPS guidance of \$2.27-\$2.37 and BofAe of \$2.30. FY24 EPS guidance of \$2.36-\$2.56 was slightly higher at the midpoint than consensus' \$2.41 and BofAe \$2.40. However, FY24 guidance was up just 4c vs the initial \$2.37 FY23 guide midpoint.

On the call management called out a 1Q24 ERM (energy recovery mechanism) impact within the 50%/50% sharing band, indicating power supply cost variability could have a \$4-10mn impact in the quarter. However, management expects that the impact could reverse over the course of the year as AVA optimizes its hydro resources on a go-forward basis, and as such projects no significant ERM impact for FY24. We expect any material change to expected snowpack or melt-off conditions could materially affect this assumption going forward, adding what we estimate to be 5-10c EPS risk to the FY24 guide. We maintain our Underperform rating on shares due to an unfavorable risk/reward profile with below-average growth and regulatory uncertainty, in addition to potential shortfall risk in FY24. Further, Avista has one of the larger equity needs relative to market cap in our coverage, and we still expect significant equity issuance (we forecast \$60mn/year through the planning period) could result in meaningful equity

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United States
Electric Utilities

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dilution of 2%+ annually (cont. on page 2).

NI (continued): Balance sheet in focus, M&A not ruled out

We still see ongoing balance sheet recovery to be a primary focal point given what we model to be lower FFO/debt in 2028 relative to management's 14-16% target, though remaining above S&P's downgrade threshold of 13%. That said, we expect earnings growth upside and incremental periodic ATM equity issuance could support credit metrics over the planning period while smoothing out equity needs. Mgmt remains committed to the base organic growth plan but did acknowledge they would consider all options to enhance shareholder value and raise capital more efficiently, which implies openness to accretive M&A – previously NI had dismissed the potential for asset sales beyond the Northern Indiana Public Service Company (NIPSCO) transaction.

Bottom line, we see NiSource results as particularly bullish today. We are surprised shares are not reacting more favorably to the backdrop. We continue to see an overall upside bias to shares. While admittedly some potential shifts in timeline for capex, we see upside potential toward the higher end of targets. Pivoting firmly toward traditional ATM with opportunistic sales should help end ongoing financing concerns about '24 plans. We saw this as more nuance than truly an impact to the long term.

AVA (continued): capex tweaks, WA MYRP

Planned capex at Avista Utilities was raised modestly with a \$25mn increase in 2026 to reflect increased wildfire resiliency spending, amounting to \$1.6bn from 2024 to 2026, one-third of which is transmission- and distribution-oriented. Planned capex for 2024 includes \$500mn at Avista Utilities, \$21mn at AEL&P (Alaska Electric Light & Power) and \$22mn in unregulated investment opportunities. During the quarter, AVA filed its 2024 MYRP (multi-year rate plan), incorporating a request to reduce the volatility of the ERM by adjusting the \$10mn+ band to 95% customer surcharge or rebate and 5% expense or benefit to AVA from 90%/10% currently. For example, we estimate this change would have resulted in a FY23 ERM impact of perhaps -2-3c versus -9c under the current configuration. WE still see significant regulatory risk given AVA's confirmed delay of 4-6% EPS CAGR until 2026 (2025 base year) at the earliest following the WA multi-year rate plan resolution.



Exhibit 1: Stocks mentioned

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AVA	AVA US	Avista Corp	US\$ 33.94	B-3-7
NI	NI US	NiSource Inc	US\$ 26.02	A-1-7

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Price objective basis & risk

Avista (AVA)

Our \$32 PO is based on our 2026E sum-of-the-parts (SOTP) analysis, based on the electric group multiple of 13.6x for electric and 13.4x 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 75% and 25%, 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, with a -1x discount. The Corporate & Other segment is valued with (1) a utility P/E multiple on the HoldCo expenses, (2) nearly offset by the disclosed fair market value of other assets & investments.

Upside/downside 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.

NiSource Inc (NI)

The NiSource \$29 PO is based on a 2025 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 13.9x for gas and 14.4x 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.

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

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT 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
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	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
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	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
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE 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 Corp	VST	VST 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	Paul Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Julien Dumoulin-Smith
UNDERPERFORM				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith



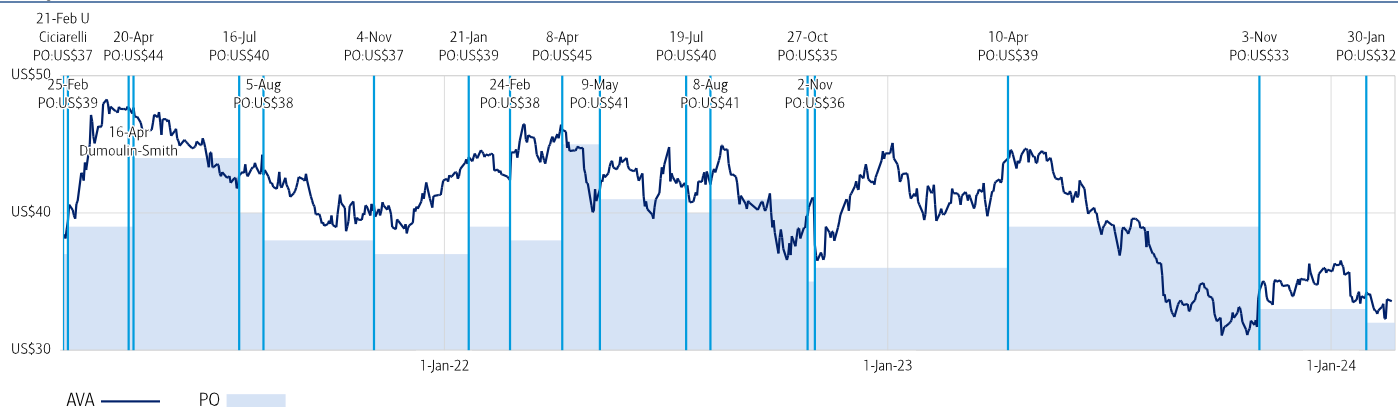
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE 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
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI 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
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR	New Fortress Energy	NFE	NFE US	Cameron Lochridge

Disclosures

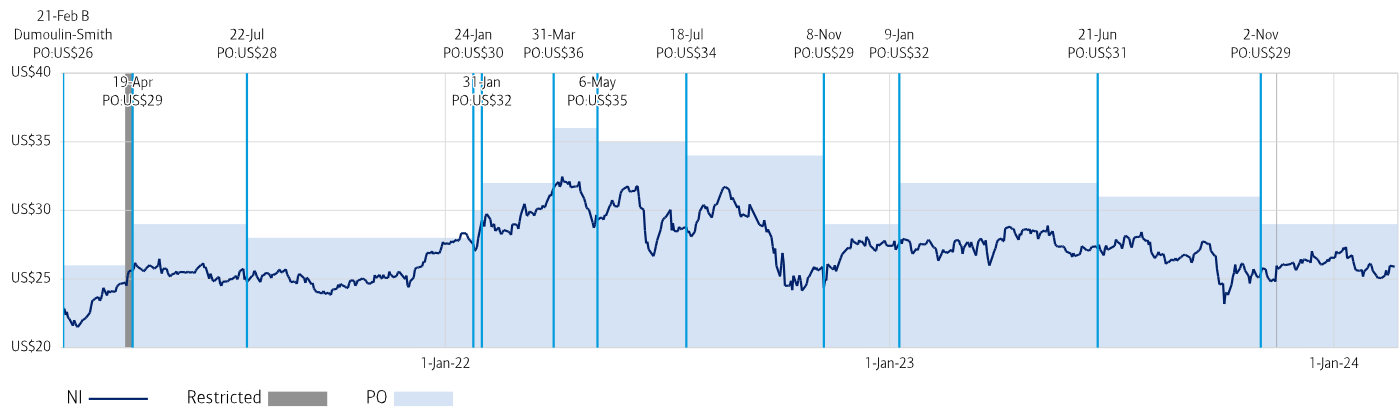
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Avista Corp (AVA) Price Chart



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NiSource Inc (NI) Price Chart



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Equity Investment Rating Distribution: Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{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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