US Utilities & IPPs

PowerPoints: NEE FL, D Datacenters, FE Ohio, WTRG, TA, HE, Bitcoin, & Buffet

Industry Overview

26 February 2024

Equity
United States
Utilities

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NEE: FL PSC Staff recommends reapproval of GRC settle

The Florida Public Service Commission (PSC) Staff filed its memo related to NextEra Energy's (NEE) Florida Power & Light (FPL) general rate case (GRC) remand from the Florida Supreme Court (Docket 20210015-EI). The Staff recommends that the PSC approve a supplemental order affirming the prior 2021 settlement agreement with additional explanation and documentation at the March 5th agenda meeting. The PSC Staff does not recommend a reopening of the record or hosting a new hearing. This is consistent with our expectations and those of most investors we have spoken to on the topic but is still a positive development. *We maintain Neutral on shares of NEE which have a balanced risk/reward profile currently trading at a premium to utility peers.*

D: SC PSC approves datacenter contract with Google

The Public Service Commission (PSC) of South Carolina approved a contract between Dominion Energy South Carolina (Scana) and Google for the ~$500Mn Project Dawson datacenter (Docket 2023-379-E). The PSC unanimous approval states that annual filings will be required to ensure that retail customers do not incur additional costs for the transmission investment or return. Dominion filed that it will have significant redacted capex required for the datacenter. Google will install the substation and related equipment and Dominion will upgrade the transmission. From the filed tariff contract, there is a subsidized electric rate for large customers as well as a further beneficial economic development rate. *We look to learn more about the investment and earnings opportunities in South Carolina at Dominion's Investor Day on Friday March 1st. These kind of high load customers are positive developments for utilities and their customers under the appropriate rate construct, although the extent of the earnings opportunity can be nuanced. We maintain Underperform on shares of D as relatively expensive.*

FE: PUCO resumes investigations into FE and House Bill 6

The Public Utilities Commission of Ohio (PUCO) restarted its investigations into FirstEnergy (FE) and Ohio House Bill 6 on February 21st, lifting the long running stay in place August 2022. The previous requested Department of Justice (DOJ) stay expired February 26, 2024 and the DOJ did not make another six-month request for a subsequent stay. The PUCO has four separate investigations into FE's conduct: political & charitable spending (20-1502-EL-UNC), corporate separation (17-974-EL-UNC), distribution modernization rider audit [DMR] (17-2474-EL-RDR), and delivery capital rider [DCR] (20-1629-EL-RDR). New procedural schedules will follow.

Multiple other jurisdictions have completed their respective investigations into FE and House Bill 6; however, Ohio is the most important jurisdiction for FE. The parallel investigations, grid mod, and electric security plan reviews increase the risk profile for shares. We maintain Underperform on shares of FE which are relatively expensive vs peers.

PUCO: Public Utilities Commission of Ohio
DOJ: Department of Justice
DMR: Distribution modernization rider
DCR: Delivery capital rider
HB: House Bill
SB: Senate Bill

Refer to important disclosures on page 11 to 14. Analyst Certification on page 9. Price Objective Basis/Risk on page 6. 12663674

FE: Intervenor requests the regulatory process slow (Cont)

The Office of the Ohio Consumers' Counsel (OCC) filed with the PUCO following former FirstEnergy CEO's criminal indictment requesting to stay rate increase proceedings (Case 22-704-EL-UNC). The OCC states there are $2.1Bn rate increases pending at PUCO between rider AMI/Grid Mod II ($626Mn capital and $144Mn operating costs) and $1.4Bn Electric Security Plan (ESP Case 23--0301-EL-SSO). The OCC is requesting a stay until after the completion of (1) FE's next Ohio rate case; (2) the pending House Bill 6 investigations; and (3) former PUCO Chair criminal proceedings. The OCC states there is a clear link between the Grid Mod II case and the indicted former PUCO Chair who voted to approve Grid Mod I. FE has filed that it would be challenged to invest in providing reliable service and face risks if the PUCO does not approve the distribution riders as requested. The PUCO Staff and other parties have recommending linking the distribution rider with new rates arising from the 2024 base rate case.

FirstEnergy: Dialing up the capex: FE ramps up utility spending to offset coal mining & pension 09 February 2024

WTRG: Removes long-term guidance unexpectedly

Diversified regulated water and natural gas utility, Essential Utilities (WTRG) reported 4Q23/FY23 adjusted EPS, initiated FY24 guidance, and cautiously withdrew its multi-year EPS forecast with its active Pennsylvania rate case calendar. WTRG has consistently guided to 5-7% EPS CAGR 2022-2025 despite the rate case uncertainty. That multi-year EPS guidance which implied $1.99 FY24 and $2.11 FY25 at the 6% guidance midpoint has been withdrawn. On the conference call, management indicated that "it would be a sign of respect" to remove the growth rate and to avoid "front running" the regulatory process. This is a change from the prior messaging around the growth rate.

$1.86 FY23 adjusted EPS is in-line with BofA/Consensus and at the low-end of the $1.85-$1.90 guidance. 4Q23 benefitted from -$28Mn lower O&M YoY ($0.10 pre-tax per share). 4Q23 effective tax rate was negative -29%, an improvement versus negative -9% 4Q22, this represents +$21Mn YoY benefit or +$0.08 EPS. FY23 effective tax rate was negative -15% favorable versus negative -3% in FY22. This was a ~$50Mn YoY benefit or +$0.19 EPS. When hypothetically using a statutory tax rate, FY23 would have a ~$100Mn GAAP income tax expense versus -$66Mn benefit. $1.96-$2.00 FY24 adjusted EPS was initiated, a small -1% miss vs $2.00 BofA/$1.99 Consensus median. FY24 equity needs are higher than expected at $250Mn via an at-the-market program representing a modest ~2% of average daily volume.

Rate base guidance is extended to 2028 from 2025 and changed to 8% from 8.9% 2022A-2025E.

- Water: 2022-2025 rate base growth guidance range was 6-7% with a 6.8% point estimate. The new rate base growth is 8% (2-3% customer growth).
- Gas: 2022-2025 rate base growth guidance range was 8-10%; however, there was a 13.1% point estimate. The new rate base growth is 10% (minimally changed customer count).

We maintain our Neutral rating on shares of WTRG. After the relative underperformance the valuation appears more attractive than historical levels; however, the significant Pennsylvania rate cases including historical earnings above the authorized levels at the natural gas business creates additional uncertainty.

Essential Utilities: Refreshing our Views with Rate Case Around the Corner – Maintain Neutral 08 May 2023

TA: FY24 guide reaffirmed; Alberta power market uncertainty persists

TransAlta (TA) reported 4Q23 adjusted EBITDA of C$289Mn, a miss versus consensus C$331Mn and BofAe C$350Mn. FCF of C$115Mn essentially matched consensus but declined from $315Mn in the prior-year quarter due to lower adjusted EBITDA, partially offset by lower distributions paid to subsidiaries' non-controlling interests. Shares rose on the announcement of an enhanced share repurchase guide for 2024 representing up to 40% of FY24 FCF being returned to shareholders through the buyback and dividends. We have previously flagged the relative attractiveness of a potential repurchase versus continued development in renewable projects with more challenged economics. TA reiterated FY24 guide provided at 2023 Investor Day, calling for adjusted EBITDA of C$1.15-$1.3Bn in adjusted EBITDA and C$450Mn free cash flow. *We view the ongoing political review of the Alberta electricity market as a primary discussion point on the earnings call today, and a significant overhang to TA's share performance.*

US Utilities & Clean Tech: PowerPoints: Alberta Power Discussions 21 February 2024

TA is down 19% over the past year versus significant appreciation for US-focused independently power producers peers. *We expect market structure uncertainty and comparatively unfavorable prior-year power prices to continue dampening an otherwise favorable secular tailwind for TA, and maintain our Neutral rating.*

In 4Q23, Adj. EBITDA of C$289Mn declined 47% YoY, primarily reflecting the unfavorable impact of comparatively lower merchant and ancillary prices in the Alberta power market. Hydro and Gas EBITDA declined 58% and 47% YoY primarily due to the tough prior-year comparison. Similarly, Energy Transition adj. EBITDA declined 78% YoY, reflecting lower realized settled trades in the quarter on lower price volatility. Production 222GWh, or approximately 4% due to unfavorable weather and lower availability, partially offset by higher renewables production. Availability down to 86.9% in 4Q23 from 89.5% in the prior-year quarter due to planned outages at Gas and Hydro facilities, partially offset by higher availability at Wind and Solar and lower unplanned outages in the Energy Transition business. FCF down 62% YoY on flow through of lower EBITDA.

TransAlta Corporation: Screens attractive but setup complicated by Alberta power market dynamics 13 February 2024

HE: Legislative session is where the action is

Hawaiian Electric Industries (HEI/HE) recently reported 4Q23 and FY23 adjusted EPS but our core focus for shares relates to the wildfire causation datapoints and legislative session. HEI and Hawaiian Electric have been named as defendants in 101 lawsuits related to the 2023 wildfires. Additionally, there have been 150 subrogation claims that HEI will respond to.

Within the legislative session the keys to watch are (1) any third party compensation to reduce potential HE 2023 wildfire liabilities; and (2) liability risk reduction/caps for prospective wildfires, as well as what the total shareholder contributions are in return for the risk reduction [like California AB1054]. Legislation ends May 3rd with first crossover date on March 7th and the second crossover date in April 11th.

House bills (HB) and Senate bills (SB) with recent progress we are watching include: SB3344/HB2700, SB2922/HB2265, SB2997/HB2281, HB2407/SB3096, SB2505, SB3285, HB2517, SB2770, SB2091, HB1547/SB2086, SB3375/HB2729, SB2356, SB2284, and SB2808. We do not believe legislation allowing securitization of 2023 wildfires will be material for shares due to the required prudency review involved, consistent with other states.

SB2922 has had extensive proposed amendments including some that Hawaiian Electric opposed. An amendments added the requirement that public utilities file a "reorganization plan" to (1) separate generation from delivery; (2) enhance governance and control, including potentially an alternative public ownership structure; (3) stronger wildfire safety procedures including linking earnings and executive compensation; and (4) audits of the company.

If there are compensation mechanisms to reduce the potential historical wildfire liability (not the prospective wildfire mitigation plan) such as a tourist fee, that would be constructive for shares.

As to earnings, HE reported $2.04 FY23 adjusted EPS ($1.81 GAAP). After the known $100Mn maturity payment in the quarter, liquidity declined to $137Mn at HEI HoldCo and $106Mn at the utilities, respectively. HEI reaffirmed that it is finalizing a $200-$250Mn customer accounts receivables facility with a regulatory filing forthcoming shortly. The utility dividend $13Mn to HEI HoldCo to meet operating cost needs while the bank dividend remains suspended to preserve the bank's capitalization levels. The company did not disclosure its FY24 or prospective capital investment plans but stated that utility infrastructure spending will be at the low-end of historical levels. The company is "managing to what we can afford in terms of our financial resources" and is shifting spending to wildfire mitigation and resiliency spending with cuts to other non-safety areas. In 2020-2022 capex was $315-$384Mn. The 2Q23 presentation from early August had $370-$410Mn 2023E, $320-$430Mn 2024E, and $330-$540Mn 2025E capex. Within the year's there is $300-$330Mn baseline and annual revenue adjustment (ARA) capex ($304Mn 2022 actual). We would expect FY24 capex closer to $300Mn level, generating $75Mn capital investment savings versus the midpoint of the prior plan. Also, the timing of the $95Mn Department of Energy (DOE) matching funding for the $190Mn grid resiliency program will provide additional liquidity (reduced earnings contribution as well).

We maintain Underperform on shares of HE which are not pricing in either a large enough potential wildfire liability or prospective shareholder cost to secure a more favorable wildfire risk construct.

Nuclear: NJ ZECs sunset 2025 as expected

Consistent with earlier filings and our expectations, the New Jersey Board of Public Utilities (BPU) did not award any zero emission certificates (ZECs) for the ZEC 3 period June 2025-Mary 2028 (Docket EO23080548). PSEG Nuclear (PEG subsidiary) and Constellation Energy Generation (CEG) filed noticed of intent to file in August 2023 but withdrew those requests on November 22nd and November 30th, respectively, ahead of the December 1st deadline. With the Inflation Reduction Act (IRA) establishing Protection Tax Credits (PTCs) for nuclear, the ZEC program is no longer required to support the New Jersey nuclear plants, at current economics. The roll-off of ZECs will generate $200Mn customer savings for PEG customers and $100Mn for the other New Jersey utility customers. While an unrelated element, this is a favorable offset to the large rate increase in PEG's utility base rate cases. *We maintain Buy on shares of PEG which trade an attractive relative valuation. The explicit delinking of the nuclear units from state ratepayers should open up commercial flexibility in the future if the company decides to pursue new avenues, although we do not expect any changes in strategy in the near-term.*

Crypto Mining: EIA demand quantification project delayed

The Energy Information Association (EIA) recently announced that cryptocurrency miners use 0.6-2.3% (25TWh to 91TWh) of all US electric consumption from their analysis. Among the large crypto miners, there is a concentration in Texas, Georgia, and New York. EIA caveats that there is limited information but has calculated ~10GW of demand at the largest 100 sites which would demand 70TWh annually at an 80% utilization factor. Wood Mackenzie estimated that Texas cryptocurrency miners' higher demand increases the power costs +5% on average, representing +$1.8Bn annually

Additionally, the EIA via the Office of Management and Budget (OMB) is conducting an emergency data collection from select 130+ large cryptocurrency miners. The data will be requested monthly February 2024-July 2024. EIA's objective is to assess the absolute level of mining demand, identify geographic concentrations, and calculate the supporting fuel source mix. EIA indicated that a driver of the additional analysis and data collection was a mix of requests from elected officials as well as grid planners. The Texas Blockchain Council filed litigation against the DOE and EIA related to the data collection filing and the DOE agreed to a temporary one month delay of the information request and will sequester the data. Information is expected to be disclosed by the EIA in 2H24.

BRK: Discusses the growing risk profile for utilities

In the 2023 annual report and shareholder letter, Berkshire Hathaway Inc (BRK – Not Covered) described its Energy performance as a "severe disappointment" and generally made cautious statement about the utility construct. Berkshire specifically references the historical wildfire liabilities for Pacific Gas & Electric (PCG) and active potential liabilities for Hawaiian Electric. The full section on regulated utilities is copied below:

“Our second and even more severe earnings disappointment last year occurred at BHE. Most of its large electric-utility businesses, as well as its extensive gas pipelines, performed about as expected. But the regulatory climate in a few states has raised the specter of zero profitability or even bankruptcy (an actual outcome at California’s largest utility and a current threat in Hawaii). In such jurisdictions, it is difficult to project both earnings and asset values in what was once regarded as among the most stable industries in America.

For more than a century, electric utilities raised huge sums to finance their growth through a state-by-state promise of a fixed return on equity (sometimes with a small bonus for superior performance). With this approach, massive investments were made for capacity that would likely be required a few years down the road. That forward-looking regulation reflected the reality that utilities build generating and transmission assets that often take many years to construct. BHE’s extensive multi-state transmission project in the West was initiated in 2006 and remains some years from completion. Eventually, it will serve 10 states comprising 30% of the acreage in the continental United States.

With this model employed by both private and public-power systems, the lights stayed on, even if population growth or industrial demand exceeded expectations. The “margin of safety” approach seemed sensible to regulators, investors and the public. Now, the fixed-but-satisfactory- return pact has been broken in a few states, and investors are becoming apprehensive that such ruptures may spread. Climate change adds to their worries. Underground transmission may be required but who, a few decades ago, wanted to pay the staggering costs for such construction? At Berkshire, we have made a best estimate for the amount of losses that have occurred. These costs arose from forest fires, whose frequency and intensity have increased – and will likely continue to increase – if convective storms become more frequent.

It will be many years until we know the final tally from BHE’s forest-fire losses and can intelligently make decisions about the desirability of future investments in vulnerable western states. It remains to be seen whether the regulatory environment will change elsewhere.

Other electric utilities may face survival problems resembling those of Pacific Gas and Electric and Hawaiian Electric. A confiscatory resolution of our present problems would obviously be a negative for BHE, but both that company and Berkshire itself are structured to survive negative surprises. We regularly get these in our insurance business, where our basic product is risk assumption, and they will occur elsewhere. Berkshire can sustain financial surprises but we will not knowingly throw good money after bad.

Whatever the case at Berkshire, the final result for the utility industry may be ominous: Certain utilities might no longer attract the savings of American citizens and will be forced to adopt the public-power model. Nebraska made this choice in the 1930s and there are many public-power operations throughout the country. Eventually, voters, taxpayers and users will decide which model they prefer.

When the dust settles, America's power needs and the consequent capital expenditure will be staggering. I did not anticipate or even consider the adverse developments in regulatory returns and, along with Berkshire's two partners at BHE, I made a costly mistake in not doing so."

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
Edison International: Higher cost of capital was not upside to the guidance plan. Reiterate Underperform	Paul Zimbardo	23 February 2024
Sunnova Energy: 4Q23 review: messaging misses mark with investors, FY24 numbers likely won't	Julien Dumoulin-Smith	23 February 2024
Sunnova Energy: NOVA shares tumble on ATM, no paydown on convertible debt; attractive opportunity	Julien Dumoulin-Smith	22 February 2024
US Utilities & Clean Tech: PowerPoints: PCG Guide up, ETR, D lower pension income, LNG, ORA, CWEN, & OGS	Julien Dumoulin-Smith	22 February 2024
SolarEdge Technologies: Holding back shipments comes at a cost – Reiterate Underperform	Julien Dumoulin-Smith	22 February 2024
US Electric Utilities & IPPs: Power Points: NI beat and raise, higher FY23 base; ERM risk to AVA FY24 guide	Julien Dumoulin-Smith	21 February 2024
SolarEdge Technologies: Tough print and dimmed outlook – Reiterate Underperform	Julien Dumoulin-Smith	21 February 2024
US Utilities & Clean Tech: PowerPoints: OGE Guide, D/AEP New Nuke?, D M&A, ALE Miss, AGR CT, Alberta	Julien Dumoulin-Smith	21 February 2024

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
NEE	NEE US	NextEra Energy	US$ 56.78	B-2-7
D	D US	Dominion Energy	US$ 47.86	B-3-7
FE	FE US	FirstEnergy	US$ 37.4	B-3-7
WTRG	WTRG US	Essential Utilities	US$ 35.13	B-2-7
TAC	TAC US	TransAlta Corp	US$ 7.33	B-2-7
YTA	TA CN	TransAlta Corp.	C$ 9.9	B-2-7
HE	HE US	Hawaiian Electric	US$ 12.66	C-3-9
PEG	PEG US	Public Service	US$ 60.75	B-1-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Dominion Energy (D)

We value Dominion Energy at $40 using a 2026E sum-of-the-parts analysis. For the utilities we apply the comparable 13.5x electric peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply -1.5x discount for base Virginia and -1.0x for South Carolina. We apply discount adjustments to lower value utility sources in South Carolina (NND nuclear and bill credits). The pension income is valued 4x P/E, consistent with the 12/31/22 valuation levels.

Contracted assets are valued using 2026 EV/EBITDA: 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. The interest rate hedge is valued at the stated $1Bn value 9/30/23 less tax.

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, nuclear accidents, and weather, 8) nuclear performance, 9) inflation, & 10) offshore wind construction.

Essential Utilities (WTRG)
Our Price Objective of $44 is based on a 2025 P/E sum-of-the-parts methodology. The base natural gas (15.8x) and water (24.9x) 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,

FirstEnergy (FE)
Our $30 price objective is based on a sum-of-the-parts valuation. Our multiples are driven by relative P/E premiums/discounts to the 13.4x 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. The unregulated coal mining business Signal peak is valued at 5x P/E

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 and liabilities, 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.

Hawaiian Electric Industries (HE)
Our $7.00 PO for Hawaiian Electric Industries is based on a sum of the parts approach. We apply:

Regulated Utility: A 14.3x base 2025E sector peer forward mean P/E multiple is grossed up +5% to reflect capital appreciation across the sector. We apply a -10% discount to incorporate below-average growth profile and performance-based rates uncertainty related to achievement of performance incentive mechanisms (PIMs). We assume an approximate -$18/sh post-tax liability on an uncertain 50/50 probability of $5.4Bn property damage liable at the utility. There is no inverse condemnation of strict liability statute in HI, but see ongoing litigation risks from Maui fires.

Bank: A 2023E tangible book value median multiple of 1.2x in-line with small/mid-cap regional banking companies. Tangible book value calculation includes held-to-maturity unrealized gains and (losses).

HoldCo & Other: Pacific Current estimated asset value less associated net debt for Pacific Current and the HEI parent HoldCo.

Upside and downside risks are: 1) wildfire liabilities and litigation, 2) political, regulatory, and legislative changes, 3) capital expenditures, 4) inflation and operating costs, 5) bank loss reserves and margins, 6) non-interest income and interest income at the bank, 7) change in banking deposits, 8) commodity prices, 9) achievement of performance incentive mechanisms [PIMs], 10) pandemics, storms, and natural disasters, and 11) liquidity.

NextEra Energy (NEE)
Our $61 PO is derived using an sum-of-the-parts (SOTP) approach, with the utilities and parent segment valued on a 2025E P/E basis, and the generation segment valued on a 2025E EV/EBITDA basis. In addition, we include NEE's ownership stake in NextEra Energy Partners (NEP) as well as the value of fixed fee IDR (DCF, at 10% disc rate). We assign 25E peer multiples of 14.9x for electric and 21.4x for water (grossed up by 5% and 7%, respectively, to reflect capital appreciation) with discount/premium to reflect the growth/risk profile of the businesses. We apply a 15% premium for FPL and Gulf. For NEER, we apply a peer EV/EBITDA multiple of 10.0x, which we adjust depending on asset type. We give contracted renewables an in line multiple with peers. We utilize a DCF (12% discount rate) of new renewable for projects beyond 2024 and include a 12x terminal multiple. We value contracted nuclear on a DCF approach using an 10% discount rate. We apply a 1x premium multiple to pipelines, -6.0x discount to gas infrastructure and -4x discount for supply and trading given lower asset quality, a 0x premium for contracted gas peakers and 1x discount for merchant peakers (other), again based on asset quality.

Risks to our PO are: 1) regulatory/political/legislative outcomes, 2) weather and natural disasters, 3) commodity price changes, 4) fluctuations in stock prices for NextEra Energy Partners, 5) renewable development margins & margin, and 6) election commission review.

Public Service Enterprise Group (PEG)
Our $66 PO is derived from our 2025 sum of the parts valuation. For the regulated utilities we utilize the electric (14.2x) and gas (14.2x) 2025E sector P/E multiples, which we then gross-up by 5% to reflect capital appreciation across the sector. We apply a +10% premium to PSE&G Utility due to increasing comfort with the growth outlook in a favorable jurisdiction. PSE&G Utility offering low-risk transmission & distribution (T&D) profile. The Power business is valued at a 14% 2025 free cash flow yield. The other businesses and corporate drag are valued using a discounted P/E versus utility assets.

Upside/downside risks to achievement of our 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.

TransAlta Corporation (YTA / TAC)
Our C$11.50 PO (TAC US$9) is based on a combination of DCF and multiples analysis. We value segments with a finite asset life (Gas, Energy Transition) and ongoing sustaining Off Coal Agreement, Sustaining Capex, and DevCo using discounted cash flow

valuation, applying a discount rate of 15% to reflect meaningful risk presented by power market dynamics in Alberta and development economics internationally.

We value the Hydro segment at 13x 2025 EBITDA. This is in-line with the multiple agreed as part of Brookfield's 2019 investment.

We value the Energy Mkt segment at a multiple of 4x 2025 EBITDA given potential for earnings volatility and exposure to market fluctuations.

We value the renewables segment at 9X 2025 EBITDA, in line with peer comps.

We apply a 9x EBITDA multiple to parent drag, using an average of segment multiples.

Upside risks are higher merchant prices in Alberta and multiple expansion associated with a greater share of renewable generation in TA's asset mix.

Downside risks are new entrants to the Alberta power market driving prices lower, operating risks, fuel price exposure, and legislation adversely affecting the energy sector eg, carbon pricing.

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
	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
	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
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	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
	SunRun	RUN	RUN US	Julien Dumoulin-Smith

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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]
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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