

US Utilities & Clean Tech

PowerPoints: ES Credit & CT, WEC Capex, PJM Power, AWK NJ, and New Nuclear

Industry Overview

ES: Moody's returns to a negative outlook after Oct D/G

Mid-day January 9th, Moody's Investor Services (Moody's) placed Eversource Energy (ES - Baa2) and subsidiary NSTAR Electric (NSTAR - A2) credit outlooks on negative outlook. Moody's previously placed Eversource Baa1 rating on negative outlook in June 2021 but did not downgrade until October 2023. There is little regulated utility precedent for Moody's to downgrade and place on a stable rating and then return to a negative outlook within a three-month period. Moody's attributed the latest negative outlook to the adverse development for offshore wind with the latest impairments. Moody's believes that NSTAR could face pressures from corporate debt and dividend obligations.

ES: Moody's estimates a ~10% TTM proforma FFO/Debt

Moody's reported a ~10% adjusted pro-forma TTM September 30, 2023 funds from operations (FFO) to debt, even lower than the 10-12% 2019-2022 average. Furthermore, Moody's stated "it will become increasingly challenging for Eversource to improve its financial profile" to achieve the new relaxed 13% Baa2 downgrade threshold. A downgrade of ES credit rating by Moody's will depend on (1) exiting offshore without more delays or impairments; (2) Connecticut and other regulatory jurisdictions being credit supportive; (3) 13% sustained FFO/debt. The language about credit supportive regulatory, including specifically mentioning Connecticut, is new versus the October downgrade "factors that could lead to a downgrade". We maintain Underperform on shares of ES where we expect a rebasing of long-term expectations with the 4Q23 call. Moody's placing on negative outlook increases the pressure for ES to begin issuing equity in 2024 and increase the size of the program. See our latest: [Offshore Wind Goes from Bad to Worse: Latest impairment leaves little value 1/9/24](#).

WEC: Capex set to shift to unreg. infrastructure from IL

WEC Energy (WEC) released an updated investor presentation detailing preliminary long-term capital considerations, as well as its 2023 adjusted EPS guidance and reaffirming the 6.5-7.0% annual EPS growth target 2023-2028. The primary elements of the "capital plan flexibility" are a reduction of Illinois natural gas -\$700 to -\$900Mn, offset by +\$700 to \$900Mn increasing unregulated energy infrastructure investment. Wisconsin utility capital investment could also increase +\$200 to \$400Mn. Shifting to higher ROE unregulated investments as well as more favorable Wisconsin regulatory jurisdiction would enhance the EPS growth profile but net shifting to unregulated would reduce the mix of regulated asset and earnings base unfavorably.

In its current detailed 2023-2025 capital plan which is subject to revision on the 4Q23 call, WEC includes \$509Mn Illinois capex, which was set to increase to \$591-\$601Mn in 2024-2025. Removing \$800Mn over a five year period would imply that capital investment falls to \$400Mn annual average, still higher than depreciation and only -\$100Mn below 2023 level. We downgraded shares of WEC recently as relatively expensive trading at one of the largest premiums in our utility coverage despite an increasingly average profile. See here: [for the latest WEC details here](#).

BofA Securities does and seeks to do business with issuers 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. Refer to important disclosures on page 6 to 10. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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FFO: Funds from operations
Moody's: Moody's Investor Services
PURA: Public Utility Regulatory Authority
TTM: Trailing twelve months
ES: Eversource
WEC: WEC Energy Group
D/G: Downgrade

ES: Credit review and CT latest

Credit: BofA forecasts 12-13% FFO/Debt with \$2Bn equity (Cont.)

Shares of ES underperformed utility peers by over 6pp after the offshore wind news on January 9th. Assuming ~\$500Mn proceeds for offshore wind (which is increasingly has downside risk) and \$2Bn equity issuance, we estimate 12-13% FFO / debt on a normalized basis. We had foreseen FFO / debt improving to ~15% in 2024 based upon the tax equity partnership proceeds as a non-recurring item or 13% without the benefit of tax equity. Moody's forecasts are notably below ours. Further, there is now greater uncertainty there given ES impairments questioning the ability to monetize tax credits and benefit FFO.

Connecticut: PURA supportive of AMI but could require rate case review

The Connecticut Public Utility Regulatory Authority (PURA) issued a final decision in the distribution system planning related to advanced metering infrastructure (AMI) showing that smart meters should have a net present value customer benefit (17-12-03RE02). PURA includes the twenty-year net present value estimate for Avangrid's (AGR) United Illuminating +\$23Mn and Eversource (ES) +\$128Mn. PURA is requesting Final AMI plans from Eversource and Avangrid with additional details. Eversource has proposed \$400Mn capex (\$80Mn per year for five years) for the program. PURA recommends reviewing ES' costs in the 2025 general rate case as the "better opportunity" but also acknowledges that costs are significant and is open to a new docket (17-10-46RE-04, a subset of the rate schedule docket) to consider an AMI cost recovery tracker. A ruling in that proceeding is targeted for November 2024.

The long-awaited PURA decision is positive primarily for Eversource but also Avangrid. Adding +\$400Mn capital for ES would be represent +\$0.05 EPS; however, it remains to be seen whether Eversource will put incremental capital at risk in Connecticut. We will look to see whether Connecticut capex increases, decreases, or stays the same for Eversource in its upcoming 4Q23 refresh. Avangrid has filed indicating that it plans to reduce Connecticut electric distribution capital investment ~\$100Mn per year.

[Eversource Energy: Offshore Wind Goes from Bad to Worse: Latest impairment leaves little value 09 January 2024](#)

Power: PJM cold weather advisory

PJM Interconnection (PJM), the mid-Atlantic grid operator, announced a cold weather advisory for January 14-17 for the western footprint. From January 14-17 the high temperatures in Chicago, Illinois as an example will be 11-degrees Fahrenheit with lows below 0-degrees. With twenty mile per hour wind forecasts, the wind chill/'real feel' is forecasted for negative-20 degrees. In contrast, in Eastern PJM temperatures are forecasted for 20-40 degrees, more consistent with historical normals.

To date this appears to be a relatively minor weather event but we will be closely watching generation performance for potential unforced outages and the associated capacity performance penalties.

[US Electric Utilities & IPPs: PJM Reforms & Elliott Settlements: Our Takes and The Path Forward 02 October 2023](#)

AWK: New Jersey advances new water health rider

The New Jersey legislature recently advanced Assembly Bill 4791 (A4791) titled "Establishes 'Resiliency and Environmental System Investment Charge'". The bill passed the assembly 68-3 and Senate 35-1 on January 8th. The bill creates a Resiliency and Environmental System Investment Charge (RESIC) rider subject to annual caps for eligible investments with recovery at the adjusted weighted average cost of capital. Utilities will make initial filings with three-year projected capex and customer bill impacts followed by semi-annual recovery filings which will be contingent on refreshed base rate case finalization in the past three years. Eligible costs includes the following cost categories: "lake, river, and other intakes; wells and springs; power generation

equipment; pumping equipment; water treatment plant equipment; distribution reservoirs and standpipes; communication equipment; wastewater pumping equipment; wastewater treatment and disposal equipment; and wastewater communication equipment." The annual RESIC cap starts at 2.5% total revenue in year zero (initial filing), grows to 3.5% year one (second filing), 4.5% year two (third filing), and 5% in subsequent "foundational filings".

New Jersey is one of the largest subsidiaries for American Water Works (AWK) with \$4.1Bn disclosed 2022 rate base representing 20-25% of total estimated rate base. Adding a new regulatory mechanism to reduce regulatory lag and provide visibility to capital recovery is positive. We maintain our Underperform on shares of AWK which is relatively expensive.

[American Water Works: Valuation the main holdback. Improving near-term EPS on weather & int. rates 18 December 2023](#)

Nuclear: New nuclear company NuScale reduces headcount

NuScale (ticker SMR - Not Covered) announced January 8th that it was eliminating 154 full-time employee positions, representing 28% of its full-time staff. NuScale estimates \$50-60Mn annualized savings from the headcount reduction as well as other strategic actions. Media reports last week indicated deeper headcount reductions at up to 40% of the workforce. SMR has a ~\$600Mn current market cap, \$117Mn cash & cash equivalents, and \$79Mn restricted cash as of September 30, 2023.

The outlook for small modular reactor and new nuclear in the US has remained challenged and few regulated utilities have included new nuclear in their plans in the 2020s. We continue to watch the pace of new nuclear development for signs of progress.

[Nuclear Primer: What You Need to Know. Pink is the New Green? A Mini Nuke Primer 06 October 2022](#)

BofA Global Research Reports

Title: Subtitle

[Xcel Energy Inc: Long-Term Reset Still In Place for 4Q Despite Setbacks. Reit Buy](#)
[US Utilities & Clean Tech: Year Ahead 2024: Our 24 Themes. Utilities set for a rebound but regulatory risks lurk](#)
[US Utilities & Clean Tech: Our Clean Energy Year Ahead: Top 10 Trends in '24: Progress in Shadow of IRA](#)
[Eversource Energy: Offshore Wind Goes from Bad to Worse: Latest impairment leaves little value](#)
[Duke Energy: Support for linear growth into 2024 and beyond](#)
[SunPower Corp.: 4Q23 preview: challenging 2024 complicated by liquidity resolution](#)
[US Utilities & Clean Tech: PowerPoints: Year Ahead 2024, WEC Guide, VST M&A, XEL/CNP/ALE and D/CEG](#)

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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
ES	ES US	Eversource Energy	US\$ 58	B-3-7
WEC	WEC US	WEC Energy Group Inc	US\$ 85.33	A-3-7
AWK	AWK US	American Water	US\$ 132.74	B-3-7

Source: BofA Global Research

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Price objective basis & risk

American Water Works (AWK)

Our American Water Works (AWK) Price Objective of \$129 is based on a sum-of-the-parts methodology. The market-cap weighted base P/E is the water sector average 2026 19.9x excluding AWK. The base multiple is grossed-up +7% for the sector growth outlook. We apply an in-line multiple to the water utilities as AWK is the primary public water company and has a mix of favorable and unfavorable attributes that largely balance out.

Risks to achievement of the Price Objective (PO) and rating are changes in: 1) regulatory, legislative, and judicial outcomes, 2) ability to execute capital and operating expenditures forecasts, 3) equity needs and credit ratings, 5) pension returns, return on asset assumptions, and discount rates, 6) interest rates, 7) weather and access to water, 8) management changes, 9) military services growth, 10) stock price for exchangeable note, and 11) mergers and acquisitions.

Eversource Energy (ES)

Our sum of the parts based price objective of \$50 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 13.5x electric, 13.5x natural gas, and 20.0x water. For Connecticut electric & gas utilities, we value at -20% discount (-2.8x) to reflect historical challenges and prospective earnings risks. Connecticut water is valued in-line with natural gas. The other utilities are valued at a -15% discount (-2.1x) for below-average consolidated growth and weaker balance sheet metrics. Parent net loss per share is valued at an -1x discount to the electric utility average.

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 review, 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.

WEC Energy Group Inc (WEC)

Our \$78 PO is based on 2026E SoTP, with a large cap electric group multiple of 13.8x and gas regulated multiple of 13.5x. Electric and gas peer P/E multiples are grossed up for a year to reflect capital appreciation across the sector. We apply a 1.0x 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. IL Gas receives a -3x discount given the cautious tone set in the most recent rate case. We give Power the Future (PTF) a -2.0x P/E discount given nonutility risk profile. 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 8.9%, 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.

Upside risks to our PO: better than expected regulatory outcomes driving improved earnings and higher capital spend, lower interest rates, execution on unregulated projects at favorable returns. Downside risks: worse than expected regulatory outcomes driving lower earned returns and lower capital spend, higher interest rates, inability to execute 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				
	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
	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
	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
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	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
	Sempra Energy	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 Energy	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	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVERG	EVERG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	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
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith



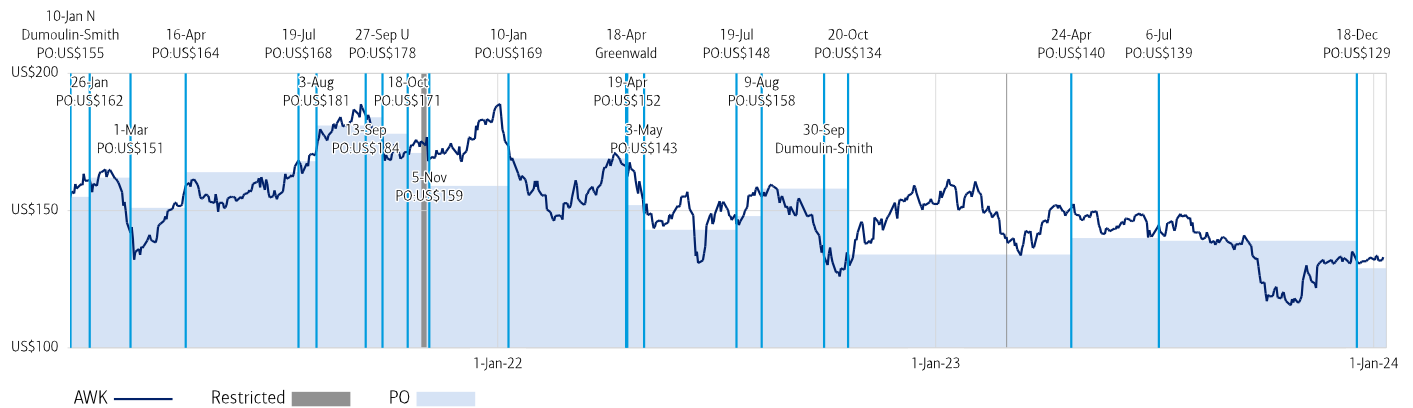
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Pinnacle West	PNW	PNW 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	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA 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
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	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

Disclosures

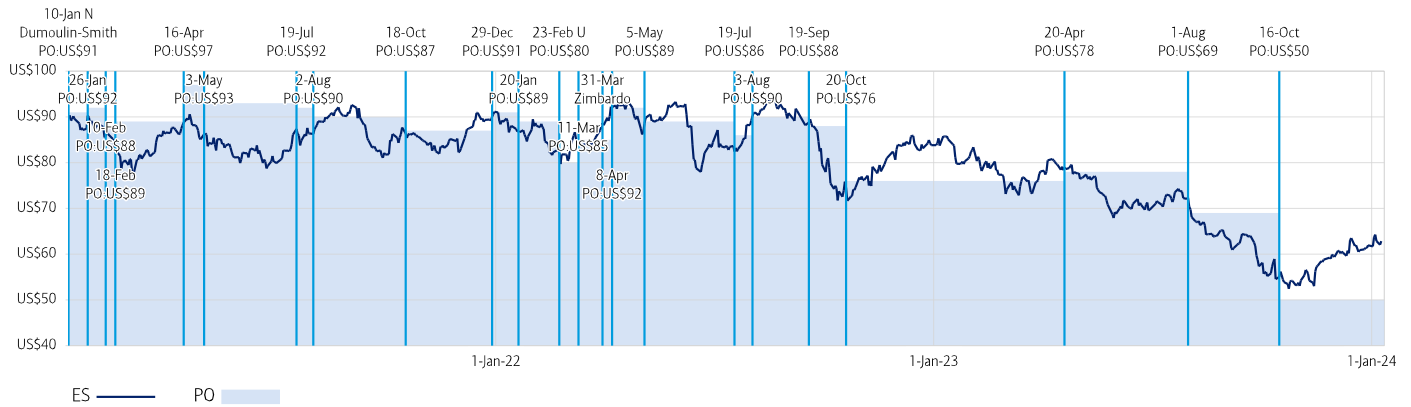
Important Disclosures

American Water (AWK) Price Chart



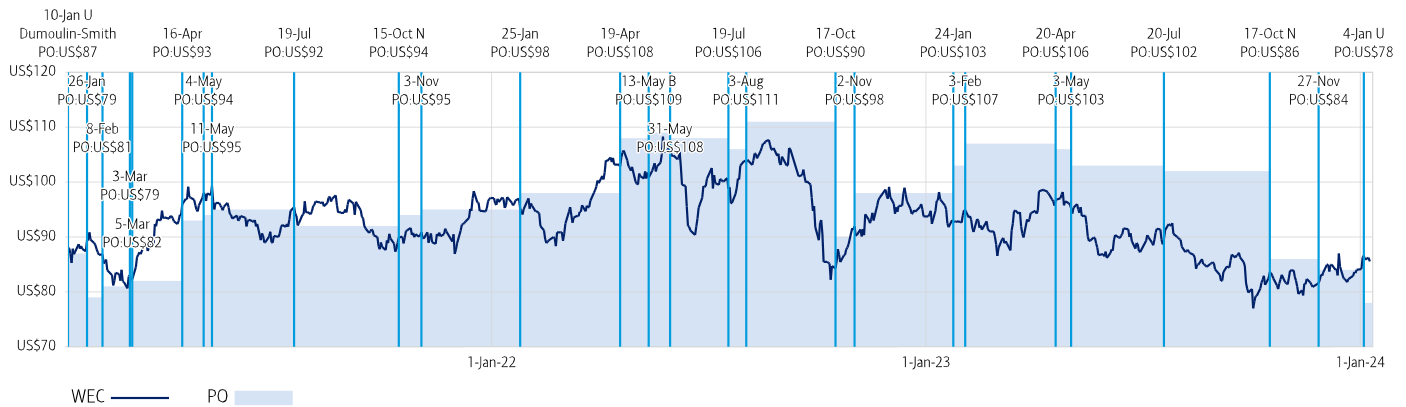
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

Eversource Energy (ES) 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.

WEC Energy Group Inc (WEC) Price Chart

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

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

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