

## US Utilities &amp; Clean Tech

## A Tale of Two Interest Rates: Rise in Short-Term a Pressure. Watch Gas LDCs

Industry Overview

**Are utilities on firmer footing? Depends on when you ask**

Long term interest rates have declined in recent weeks due to the banking turmoil, but short-term rates continue to march higher. This creates a complex dynamic where companies more reliant on commercial paper and other short-term borrowings linked to SOFR/LIBOR have near term headwinds. Combine that with unseasonably warm 1Q23 weather ([see Jan/Feb weather details here](#)) and we see growing risks for 2023 earnings. At the same time, the easing of long-term rates helps ease pressure on companies' multi-year term growth rates. For example, premium regulated utility WEC Energy Group (WEC) recently cut its 1Q23 earnings guidance while reaffirming its FY23 outlook. Many investors are wondering if WEC with its best-in-class track record of beating its guidance is facing headwind, what other companies are at more acute risk?

**Who is more reliant on short-term borrowings? Gas LDCs**

In the full report we show a list of short-term borrowings relative to enterprise value. Many natural gas LDCs screen high on this list as of 12/31/22, not surprising given seasonality. This includes Spire (SR), Black Hills (BKH), Northwest Natural (NWN), Atmos Energy (ATO), and Util (UTL). Among electric companies, larger ST mixes are present for Emera (EMA), OGE Energy (OGE), Evergy (EVRG), Entergy Corp (ETR), Edison International (EIX), and Avista (AVA). Depending on when companies provided FY23 guidance, short-term rates have increased 75bp+, representing a new headwind for near-term earnings. In conjunction with unfavorable 1Q23 weather, we see net pressures on utility earnings profiles. *We highlight Underperform rated BKH and SR as two particularly weather sensitive companies with high short-term borrowings to be more mindful of into quarterly results. BKH has already lowered its FY23 guidance due in part to higher-than-expected short-term rates so theoretically should have reflected some of this impact. Another cautious update would be a setback for confidence in the outlook.*

**California CoC: Extraordinary market conditions?**

We reiterate our base case embedded in EPS estimates for PG&E Corp (PCG), Edison International (EIX), and Sempra (SRE) that we do not expect any California Cost of Capital trigger to be implemented by the California Public Utilities Commission (CPUC). In November 2022 the CPUC did not enforce the downward trigger, having concluded that an extraordinary event occurred – a favorable outcome for shareholders. We see strong arguments that the current multi-year high inflation levels, interest rate volatility, and challenging market conditions are a continuation of the events that the CPUC already considered extraordinary. This would be the most negative for sentiment in shares of EIX where many bullish investors we have spoken to are assuming a positive CoC to improve earning power. *We acknowledge the asymmetric potential upside but simply believe it is premature to embed a benefit into estimates.*

**See full report for more details on ST borrowings and California CoC.**

30 March 2023

Equity  
United States  
Utilities & Clean Tech

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SOFR: Secured Overnight Financing  
Rate Data  
LIBOR: London Interbank Offered  
Rate  
LDC: Local distribution companies  
ROE: Return on Equity  
CPUC: California Public Utilities  
Commission  
CoC: Cost of capital  
CCM: Cost of capital mechanism  
SCE: Southern California Edison

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Refer to important disclosures on page 9 to 13. Analyst Certification on page 7. Price Objective Basis/Risk on page 6.

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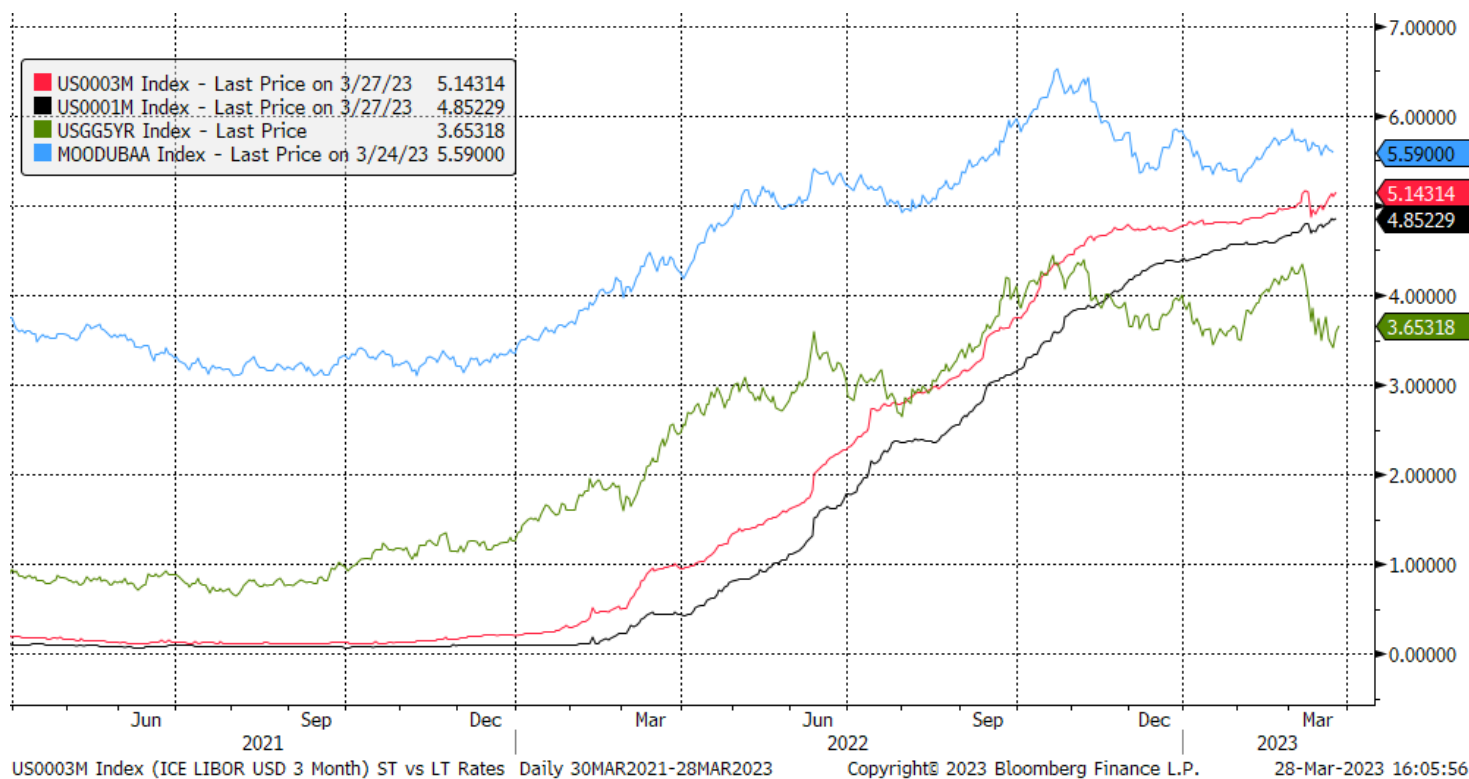
## Short-term rates marching higher

Exhibit 1 illustrates the bifurcation in short-term and long-term interest rates. The one-month borrowing rate is at a multi-year high 4.85% while the three-month rate is even higher at 5.14% and also at the recent peak. In contrast, the US government five-year rate has moderated to 3.65%, lower than ~4.25% in late February and ~4% in October 2022. The Moody's Baa Utility Index (MOODUBAA) stands at 5.6%, minimally changed from 12/31/22 but ~80bp off the 4Q22 highs.

The easing of long-term rates should help provide more cushion for multi-year guidance relative to what companies may have embedded in guidance refreshes from the Edison Electric Institute (EEI) conference in November and/or 4Q22 earnings calls in January/February. At a minimum, this should at worst be a neutral driver for most companies.

### Exhibit 1: Short-Term vs Long-Term Interest Rates (%)

Short-term rates are at their highs while longer-term rates have moderated a degree



Source: Bloomberg

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## Contrasting companies' reliance on short-term borrowings

In the Exhibit below we show regulated utilities and select clean energy companies sorted by short-term borrowings sourced from Bloomberg as a percentage of enterprise value (EV). In general, the natural gas utilities have the largest mix of short-term borrowings. The prominence of many natural gas utilities is not entirely unusual for this time of year. As a degree of offset, the warmer weather should lead to lower 3/31/23 commodity related borrowings. This would still be net negative for utilities without weather decoupling mechanisms. **Higher short-term debt mixes are themselves not a cause for alarm but are an important risk factor to explore and understand the regulatory nuances and plans to reduce the exposure.**

Southwest Gas Holdings (SWX) has disclosed significant debt paydown in calendar 1Q23 with proceeds from asset sales and equity issuances which reduces this exposure. See our latest on SWX here: [Southwest Gas Holdings: Dissecting The Pro Forma Outlook: Lots of Puzzle Pieces Still in Flux 15 March 2023](#)

Different jurisdictions have their own rules related to the return utilities receive on commodity costs. For example, Washington's mechanism is based on the cost of debt versus in Oregon a cost of capital is used. Idaho uses a lower rate at ~2%. Given the differing mechanisms even regionally, it is increasingly important to understand the nuances and benchmarks for companies.

Companies with holding company or unregulated variable exposure are a direct drag on earnings, subject to any hedging activities to mitigate.

Hawaiian Electric (HE) is a clear outlier and a unique situation as well due to its large banking subsidiary: [Hawaiian Electric Industries: Watching the American Savings Bank given challenging macro conditions 13 March 2023](#)

### Exhibit 2: Select Regulated Utility and Clean Energy Companies Short-Term Borrowing as a Percent of Enterprise Value: Above 1%

High concentration of LDCs but many other companies have short-term debt

Company	Ticker	Short Term Borrowings	Enterprise Value	ST Borrow %
Hawaiian Electric	HE US	868	4,694	18.5%
Spire Inc	SR US	1,319	8,532	15.5%
Southwest Gas Ho	SWX US	1,601	10,479	15.3%
Black Hills Corp	BKH US	1,061	8,842	12.0%
Northwest Natural	NWN US	350	3,295	10.6%
Atmos Energy	ATO US	2,427	24,390	9.9%
Emera Inc	EMA CN	3,303	35,137	9.4%
OGE Energy Corp	OGE US	1,006	11,746	8.6%
Unitil Corp	UTL US	124	1,504	8.3%
Evergy Inc	EVERG US	2,130	25,621	8.3%
Entergy Corp	ETR US	4,143	50,281	8.2%
Edison Intl	EIX US	5,135	62,348	8.2%
Avista Corp	AVA US	484	6,028	8.0%
Pub Serv Enterp	PEG US	3,775	49,840	7.6%
One Gas Inc	OGS US	578	7,734	7.5%
NiSource Inc	NI US	1,797	24,378	7.4%
Centerpoint Energy	CNP US	2,603	35,554	7.3%
Dominion Energy	D US	6,803	93,566	7.3%
American Electric	AEP US	6,222	85,632	7.3%
Cons Edison Inc	ED US	3,792	56,850	6.7%
New Jersey Res	NJR US	504	8,347	6.0%
Duke Energy Corp	DUK US	8,896	153,936	5.8%
Sempra Energy	SRE US	4,424	77,834	5.7%
Hydro One Ltd	H CN	2,119	37,799	5.6%
Eversource Energy	ES US	2,775	48,944	5.7%
DTE Energy Co	DTE US	2,299	41,100	5.6%
Exelon Corp	EXC US	4,428	79,970	5.5%
PG&E Corp	PCG US	4,554	84,142	5.4%
WEC Energy Group	WEC US	2,532	46,940	5.4%
Southern Co	SO US	7,091	135,796	5.2%
PNM Resources	PNM US	443	8,626	5.1%
Alliant Energy	LNT US	1,053	21,766	4.8%



**Exhibit 2: Select Regulated Utility and Clean Energy Companies Short-Term Borrowing as a Percent of Enterprise Value: Above 1%**

High concentration of LDCs but many other companies have short-term debt

Company	Ticker	Short Term Borrowings	Enterprise Value	ST Borrow %
Fortis Inc	FTS US	2,743	59,795	4.6%
Allete Inc	ALE US	276	6,187	4.5%
Constellation En	CEG US	1,302	30,260	4.3%
Altagas Ltd	ALA CN	719	16,481	4.4%
AES Corp	AES US	1,790	41,536	4.3%
NextEra Energy	NEE US	9,710	223,511	4.3%
Middlesex Water	MSEX US	74	1,729	4.3%
UGI Corp	UGI US	599	14,367	4.2%
SJW Group	SJW US	164	3,971	4.1%
PPL Corp	PPL US	1,361	33,896	4.0%
Brookfield Renew	BEP-U CN	2,309	57,858	4.0%
MDU Res Group	MDU US	359	9,193	3.9%
Avangrid Inc	AGR US	993	25,322	3.9%
Ameren Corp	AEE US	1,410	37,134	3.8%
American Water	AWK US	1,465	39,834	3.7%
Portland General	POR US	284	8,081	3.5%
Xcel Energy Inc	XEL US	2,181	61,881	3.5%
CMS Energy Corp	CMS US	1,123	32,563	3.4%
Vistra Corp	VST US	696	23,068	3.0%
Algonquin Power	AQN US	423	15,071	2.8%
Pinnacle West	PNW US	497	17,763	2.8%
Essential Utilities	WTRG US	466	17,969	2.6%
Northwestern Corp	NWE US	148	5,981	2.5%
TransAlta Corp	TA CN	178	7,279	2.4%
Clearway Energy	CWEN US	328	14,628	2.2%
Cheniere Energy	LNG US	1,457	66,874	2.2%
Calif Water Services	CWT US	74	4,244	1.8%
FirstEnergy Corp	FE US	499	44,320	1.1%

Source: Bloomberg

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**California cost of capital: trending solidly to a trigger**

Finally we show the Moody's BAA Utility Index as it relates to the California Cost of Capital mechanism. The benchmark rate is 4.37% based on the 12-month average trailing from September 30, 2022. Assuming that the current ~5.6% rate is unchanged through the end of September 2023, that would yield a 5.69% TTM level (red line). This would be above the high-end of the dead band, triggering the mechanism. If the CPUC implements the trigger, the cost of equity (ROE) would adjust by 50% of the difference from the baseline. An enforced trigger would also update the cost of debt and preferred equity.

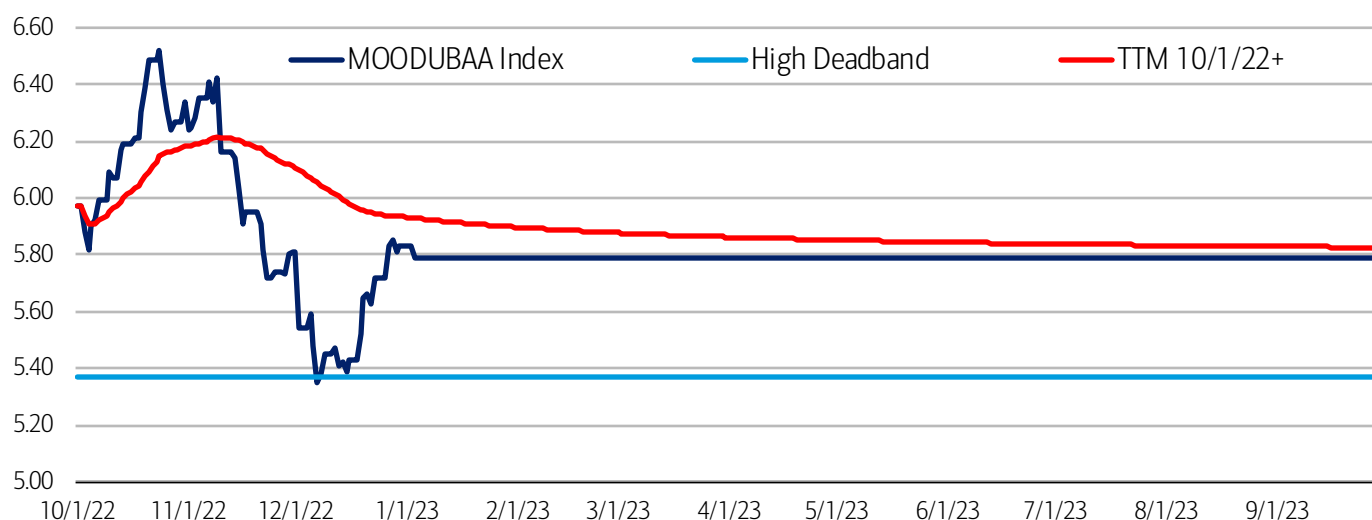
We do not assume a higher allowed ROE in our California utility earnings due to the uncertainty of whether the CPUC would order implementation of the cost of capital mechanism reset.

*We maintain Underperform on shares of EIX which trade at a premium to our view of the fundamentals and based on our forecast of adjusted EPS downside to Consensus estimates.*

For example, EIX discloses a 2024 SCE ROE Under CCM of 10.75% as of March 28<sup>th</sup> versus 10.05% in 2023.

**Exhibit 3: California Cost of Capital Mechanism (%) for 2022-2023**

The cost of capital mechanism would trigger if the Moody's index is unchanged for the next six months



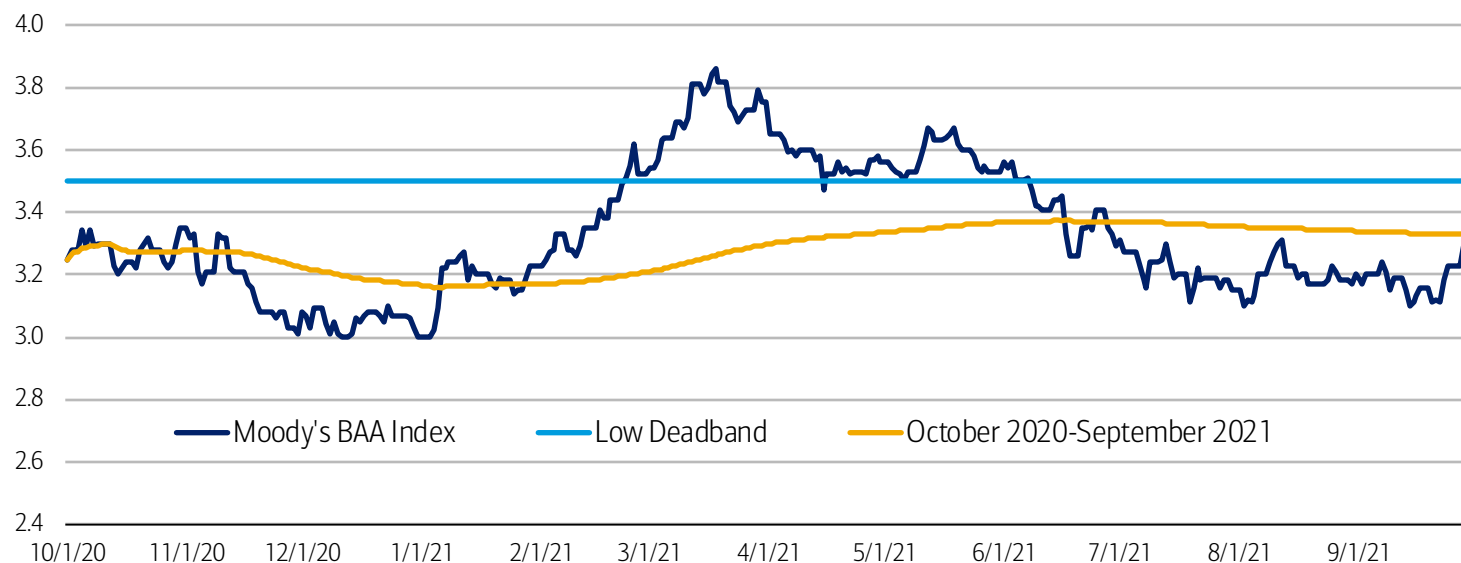
Source: Company Filings, Bloomberg, & BofA Global Research

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The Exhibit below shows the October 2020-September 2021 calculation where the cost of capital mechanism triggered but as mentioned the CPUC issued a final decision whereby the cost of capital adjustment mechanism was not implemented. The utilities filed an off-cycle 2022 cost of capital application in late August 2021 based on the extraordinary events of the covid pandemic. This application came weeks before the end of the measurement period which finished with a -117bp level below the benchmark. Requests for rehearing of the CPUC order are still pending.

**Exhibit 4: California Cost of Capital Mechanism (%) for 2020-2021**

Low interest rates in 2020-2021 led to the Moody's index below the low-end of the deadband



Source: Company Filings, Bloomberg, & BofA Global Research

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**Exhibit 5: Primary stocks discussed in this report**

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BKH	BKH US	Black Hills	US\$ 61.95	B-3-7
SR	SR US	Spire	US\$ 69.24	B-3-7
EIX	EIX US	Edison Intl	US\$ 68.7	B-3-7

Source: BofA Global Research

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**Price objective basis & risk****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 a 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.

**Edison International (EIX)**

Our \$56 PO is based on sum of the parts analysis with a peer 15.9x 2024 P/E grossed-up 5% for group growth. A -3x P/E discount is applied to the CPUC, as well as the Parent/Other segment, and -1x P/E discount to FERC jurisdictional utilities. The discount reflects below-average growth and regulatory considerations, albeit FERC risk profile is less challenging than the CPUC. The negative wildfire adjustments are netted-out to reflect a probabilistic approach to the risk of shareholder funded wildfires and the ongoing contribution to the CA fund on an NPV basis.

Positive and negative risks are changes in: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Edison Energy returns, 7) ability to deploy capital, 8) environmental, social, & governance [ESG] profile, and 9) wildfire liabilities for shareholders.

**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

## **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
<b>BUY</b>				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxon 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
<b>NEUTRAL</b>				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	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



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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA
	TransAlta Renewables Inc.	YRNW	RNW CN	Dariusz Lozny, CFA

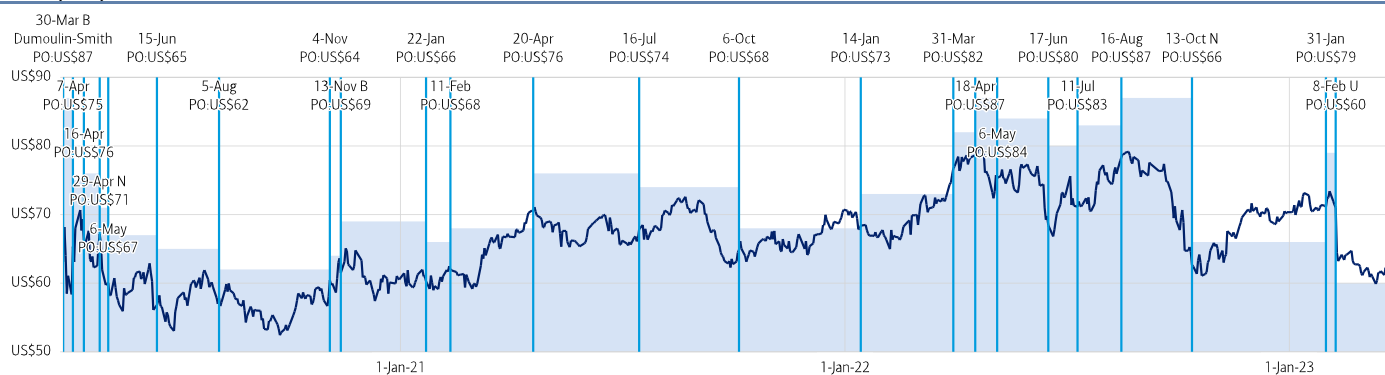
## UNDERPERFORM

	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	EVgo Inc.	EVGO	EVGO US	Paul Zimbardo
	FirstEnergy	FE	FE US	Alex Vrabel
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Hawaiian Electric Industries	HE	HE US	Dariusz Lozny, CFA
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Dariusz Lozny, CFA
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

## Disclosures

## Important Disclosures

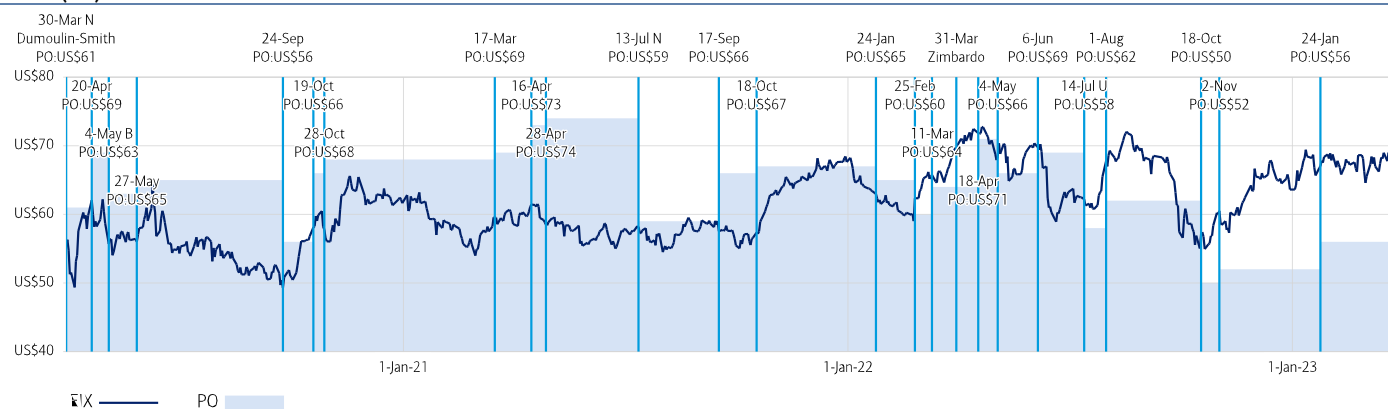
## Black Hills (BKH) Price Chart



BKH — PO

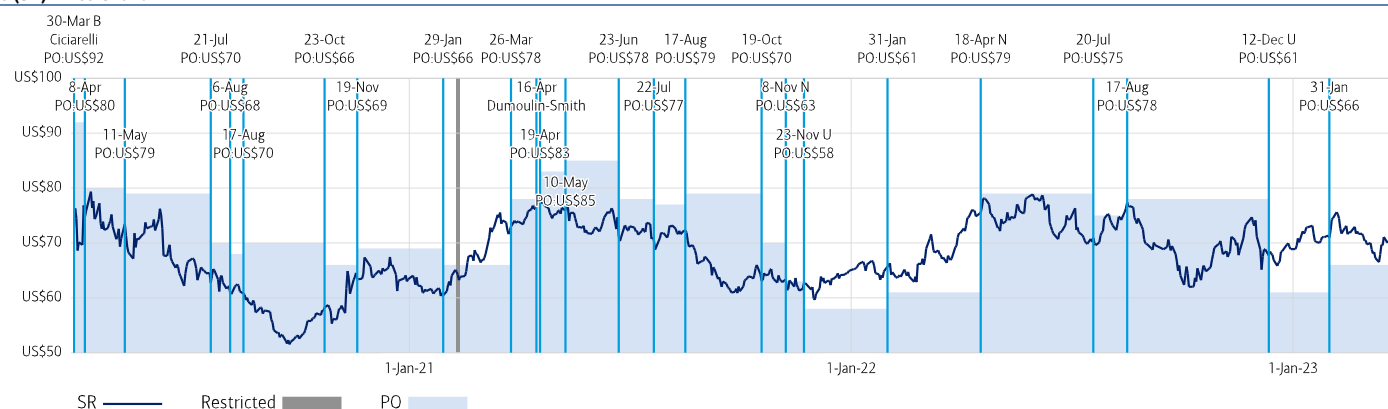
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

**Edison Intl (EIX) Price Chart**

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

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**Spire (SR) Price Chart**

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

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**Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2022)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	72	48.98%	Buy	51	70.83%
Hold	38	25.85%	Hold	29	76.32%
Sell	37	25.17%	Sell	25	67.57%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2022)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1853	52.58%	Buy	1040	56.13%
Hold	840	23.84%	Hold	493	58.69%
Sell	831	23.58%	Sell	404	48.62%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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