

## US Utilities &amp; IPPs

**PowerPoints: PCG Block, Electricity Deflation, Utility Macro, TX Power, & HE**

Industry Overview

**PCG: Shares outperforming after latest block trade**

According to Bloomberg, a 50Mn block sale of PG&E Corp (PCG) shares were offered at \$16.10-\$16.40 after-market on April 11<sup>th</sup> and ultimately a 60Mn block priced at \$16.25. As of 12/31, only six holders owned more than 60Mn shares of PCG. Specifically, we are closely watching the Fire Victim Trust (FVT) which has historically sold shares in block transactions to meet wildfire claim payments. Shares of PCG are outperforming and now trading at ~\$17/sh, a three-year high despite the additional selling pressure.

From our analysis, the FVT would need to sell potential remaining ~128Mn shares above ~\$13.66 to support payments on FVT claims. In the past, the FVT has cited favorable market conditions as the principal driver of the decision to sell shares. See details on FVT in our report: [US Utilities & IPPs: PowerPoints: PCG 28 March 2023](#)

Many investors we speak to point to concentrated ownership and the historical block trades as an overhang; however, the stock has generally traded well after these monetizations. Similarly, it is consensus from our conversations that additional block sales could come prior to the beginning of wildfire season. We maintain Buy on shares of PCG as we continue to view the removal of FVT overhang and reinstatement of dividend expected in 2023 will drive further share rerating. The ability to outperform or simply trade in-line during peak wildfire season will be the latest test for shares and contingent on weather conditions. See our deep dive: [PG&E Corporation: Adding to US 1 List: Not too late to invest in a long-term beneficiary. Reiterate Buy 02 February 2023](#)

**March CPI: Electricity & gas inflation slows**

The US Bureau of Labor Statistics (BLS) released March Consumer Price Index (CPI) which showed +5.0% YoY (unadjusted) and +0.1% MoM increase in overall inflation, lower than BofA estimates for +5.3% headline CPI YoY and +0.4% headline CPI MoM. Electric utility CPI declined -0.7% MoM. Month-over-month electric CPI has declined only once in the last twelve months when electricity CPI declined -0.2% in November 2022. Additionally, utility piped gas CPI declined -7.1% MoM in March, the second consecutive month of decline following -8% MoM decline in February 2023. The mild 2023 winter season quelled demand for natural gas and moderated natural gas prices, so the deflation is not surprising. While moderating commodity and fuel costs year-to-date likely drove lower energy services CPI print, we believe the impact has yet to fully flow through customer electric and gas bills as many utilities adjust pass-through fuel rates on a more periodic basis. Jurisdictions with the fastest fuel adjustment clauses are monthly but semi-annual and quarterly adjustments are more common. We remain somewhat cautious in key rate cases with large rate requests (10%+ cash impact), but the backdrop of a declining commodity backdrop should ease pressure.

**See full report for more on inflation, utility macro, Texas power, & HE.**

12 April 2023

Equity  
United States  
Utilities

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PCG: PG&E Corp.  
HE: Hawaiian Electric  
MWh: Megawatt hour  
MW: Megawatt | GW: Gigawatt

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Refer to important disclosures on page 7 to 11. Analyst Certification on page 5. Price Objective Basis/Risk on page 4.

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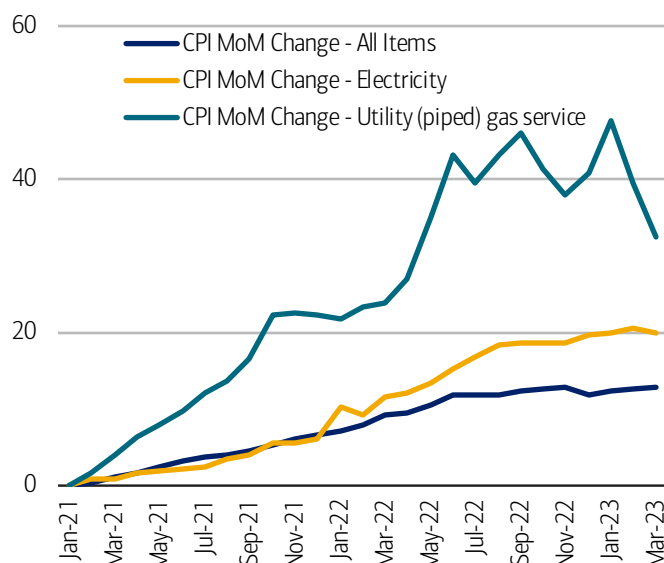
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## Inflation: Has electricity pricing peaked?

Significant electricity and utility piped gas inflation throughout 2022 created a difficult backdrop for electric and gas rate cases and political/regulatory scrutiny of high utility bills. The continued reversal of inflationary trends and pass-through cost moderation would create bill headroom for utilities to invest in more productive capital projects. We monitor the Federal Reserve's decision on further increases in Fed Fund rates following the latest +25bps increase. From an earnings standpoint, further Fed rate increases are negative for utilities as increasing interest rates have compounded utility 2023 earnings pressures. Specifically, we continue to see higher relative earnings risk for utilities with substantial parent-level, floating-rate and short-term debt. See latest thoughts in our report: [US Utilities & Clean Tech: A Tale of Two Interest Rates: Rise in Short-Term a Pressure. Watch Gas LDCs 30 March 2023](#).

### Exhibit 1: Consumer Price Inflation since January 2021

Electricity and utility piped gas inflation has far outpaced overall inflation since Jan, 2021.

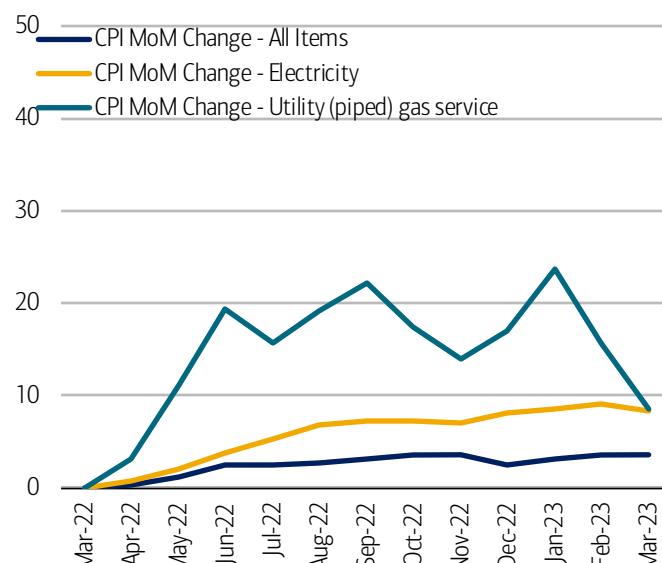


Source: BofA Global Research estimates, Bureau of Labor Statistics

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### Exhibit 2: Consumer Price Inflation TTM

Utility piped gas inflation has moderated substantially in the last two months.



Source: BofA Global Research estimates, Bureau of Labor Statistics

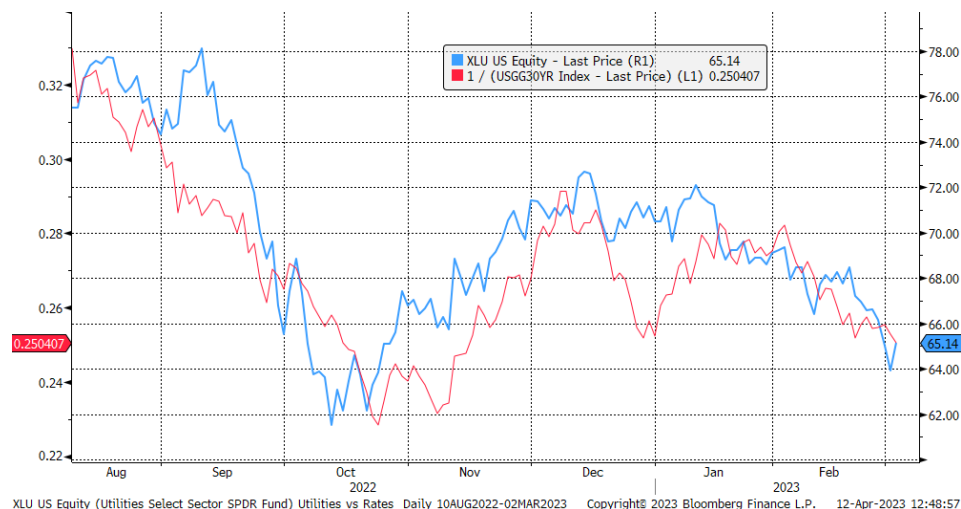
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### Utility performance is tracking rates very closely lately

The Exhibit below shows the relationship between utilities (XLU) and interest rates that has been very strong since mid-August 2022 along with volatile interest rates.

**Exhibit 3: US Utilities (XLU) Relative Performance vs US 30Yr Treasury Rates**

Strong relationships in the past six+ months



Source: Bloomberg

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**Power: Regulatory reforms could help profitability**

The Electric Reliability Council of Texas (ERCOT) Special Technical Advisory Committee (TAC) voted to set a \$20/MWh/\$10MWh price floor at times when real-time reserves fall below 6.5GW/7.0GW which has an estimated cost impact of ~\$500Mn per year. The next step will be a full ERCOT Board review and vote. The next TAC meeting is set for April 25<sup>th</sup>.

*If implemented, this proposed change could have a modest positive impact to cash flows and adjusted EBITDA for generators in Texas. The benefit should likely accrue more to less flexible generation which is owned by Vistra (VST) and NRG Energy (NRG). In contrast, Constellation's highly efficient and flexible combined cycle gas turbines (CCGTs) would theoretically have less of a benefit. Maintain Buy on shares of VST and NRG which trade at overly discounted free cash flow yields relative to our view of the fundamentals.*

**HE: Banking Preview**

We include our colleague's 1Q23 banking preview which is relevant for Hawaiian Electric (HE)'s American Savings Bank (ASB) subsidiary. The primary area of focus for banking investors is deposit costs & balances as of 3/31/23 QoQ and the outlook for balance of year. Ebrahim Poonawala believes that management teams could accelerate the pace of loan loss reserve builds which would be a negative driver versus our HE EPS estimates. Overall Poonawala is generally below Consensus for FY23 EPS estimates and prefers the mega-cap banks over regional banks.

*We maintain Underperform on shares of HE where are expensive relative to peers.*

**BofA Global Research Reports****Title: Subtitle**

[US Banks: 1Q23 Preview: Measuring contagion](#)

[US Utilities & IPPs: PowerPoints: HE Banking](#)

[Hawaiian Electric Industries: Bank Cost of Funds the Key Debate: How Will Deposits Trend? Underperform.](#)

[Hawaiian Electric Industries: Watching the American Savings Bank given challenging macro conditions](#)

**Primary Author Date Published**

Ebrahim H. Poonawala	11 April 2023
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Julien Dumoulin-Smith	13 March 2023



## BofA Global Research Reports

## Title: Subtitle

[American Electric Power: Q1 preview: a bit cloudy as weather pressures EPS, Kentucky still uncertain](#)  
[US Alternative Energy: Storage Trends: Still lower floors on batteries but for how long?](#)  
[US Utilities & IPPs: PowerPoints: Vogle Watch, AES Ohio ESP Settle, EVRG Wind, PJM Penalties, & TELL](#)  
[Ameren Corporation: Regulatory execution remains bright spot with constructive MO outcome](#)  
[US Alternative Energy: Solar Flash: ARRY Auditor Upgrade, US Poly Updates](#)  
[Enphase Energy: US Resi Growing Pains & ENPH is at the Center of the Debate: 1Q23 Preview](#)

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## Exhibit 4: Primary stocks mentioned in this report

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
PCG	PCG US	PG&E Corp.	US\$ 16.93	C-1-9
VST	VST US	Vistra Energy	US\$ 24.81	B-1-7
NRG	NRG US	NRG Energy	US\$ 35.98	B-1-7
HE	HE US	Hawaiian Electric	US\$ 39.23	A-3-7

Source: BofA Global Research

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## Price objective basis &amp; risk

## Hawaiian Electric Industries (HE)

Our PO of \$32 for Hawaiian Electric Industries is based on a sum of the parts approach. We apply:

Regulated Utility: A 16.2x base 2025E sector peer forward mean P/E multiple is grossed up +5% to reflect capital appreciation across the sector. We apply a -1.0x discount to incorporate below-average growth profile and performance based rates uncertainty related to achievement of performance incentive mechanisms (PIMs).

Bank: A 2023E tangible book value median multiple of 1.46x in-line with small/mid-cap regional banking companies. Tangible book value calculation includes held-to-maturity unrealized gains and (losses).

HoldCo & Other: Apply the same mean utility P/E multiple to the parent company net expenses

Upside and downside risks are: 1) political, regulatory, and legislative changes, 2) capital expenditures, 3) inflation and operating costs, 4) bank loss reserves and margins, 5) change in banking deposits, 6) commodity prices, 7) achievement of performance incentive mechanisms [PIMs] and 8) pandemics and natural disasters.

## NRG Energy (NRG)

Our \$39 Price Objective is based on 2025E sum-of-the-parts analysis. We value NRG in five parts based on approximately EV/EBITDA: (1) 6.1x Gas, Nuclear + Legacy Retail, (2) 5.9x Direct Energy, (3) 4.4x Vivint, and (4) 1x Coal plus Hedges. The debt and preferred stock obligations are reductions from equity value.

Positive and negative risks to the price objective include changes in: 1) commodity prices, 2) operating cost, 3) environmental requirements, 4) cost of capital, 5) retail margins and customer counts, 6) natural disasters, 7) regulatory, legislative, and political

changes, 8) customer acquisition costs, 9) retail competition, 10) pension and nuclear decommissioning trust assets/liabilities, and 11) interest rates.

### **PG&E Corporation (PCG)**

Our PO of \$19 reflects an in-line P/E versus the respective electric (15.8x) and gas (16.4x) peer P/E groups with both grossed-up by 5% to reflect capital appreciation across the sector) based on 2025E. The acute wildfire risk is incorporated separately via a scenario probability weighted at 100% assuming PCG hits the cap in 3-year increments. Lastly, we net out 50% weighting of HoldCo debt and add back 50% weighting of interest expense to derive our Price Objective.

Risks to achievement to estimates and Price Objective are: 1) Wildfire and other natural disasters/catastrophic events, 2) regulatory outcomes, 3) interest rates, 4) equity needs, 5) earned returns and operating costs, 6) Fire Victim Trust monetizations, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

### **Vistra Energy (VST)**

Our \$29 price objective is based on a 2025E SOTP valuation. We assign a discount/premium to the peer group EV/FCF multiple of 7.0x: We include the full \$300mn of margin-enhancing initiatives as well as \$200mn optimization benefits and the \$290mn of synergies related to the DYN acquisition. We capitalize our estimated income tax for the combined entity to reflect the higher tax burden than peers, and we include a \$50mn NPV of TRA payments. We reflect Vistra Zero accretion at 12x EV/EBITDA, with '26 FCF discounted at 12% back to '23. We also reflect \$500mn of ERCOT securitization proceeds (implied in net debt balance). We include impact from future bill credits from Uri storm & NPV of ERCOT uplifts. For the pending announced Energy Harbor deal, we apply a peer multiple of 7.0x EV/FCF, consistent with our target multiple for legacy VST nuclear and retail. We also layer in Energy Harbor Synergies at a 2.0x discount to the peer multiple (consistent with our approach for DYN) and an in-line multiple for margin offsets (consistent with our prior approach for offsets).

Positive and negative risks: 1) changes to regulatory, political, or legislative standards, 2) wholesale power, natural gas, & capacity prices, 3) competitive & regulatory change to retail businesses, principally in Texas, 4) operational performance, 5) development of new renewables and storage assets, 6) natural disasters, 7) interest rates, 8) nuclear fuel access/cost, and 10) retail market attrition.

## **Analyst Certification**

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

## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<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
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith

## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

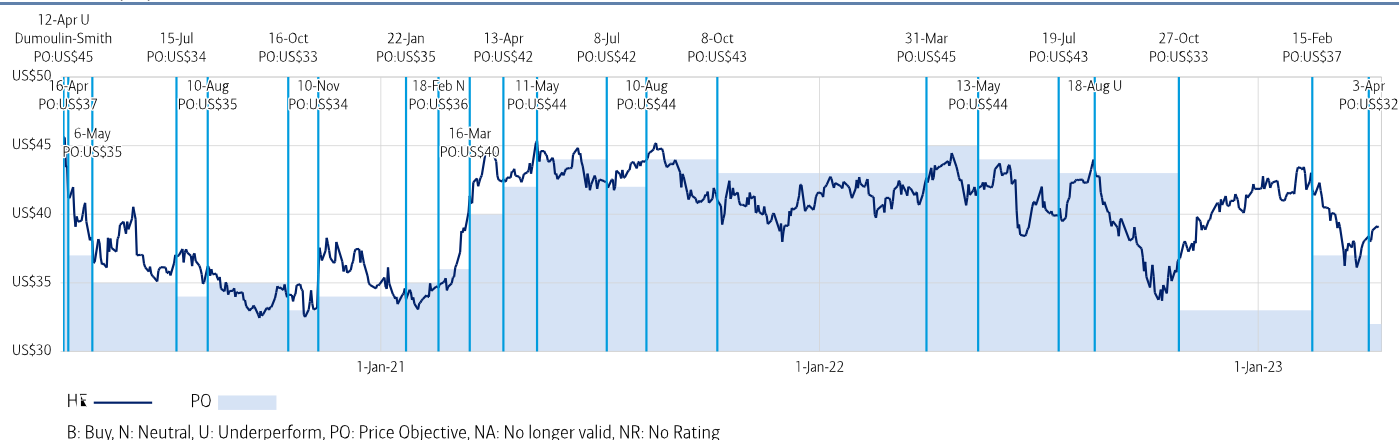
## UNDERPERFORM

	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
	Eergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	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

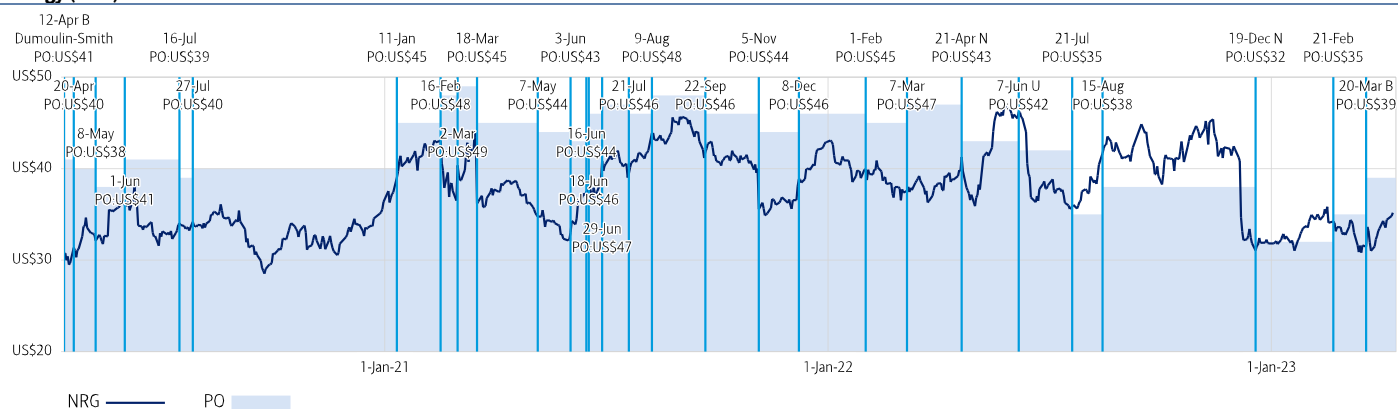
## Disclosures

## Important Disclosures

## Hawaiian Electric (HE) Price Chart

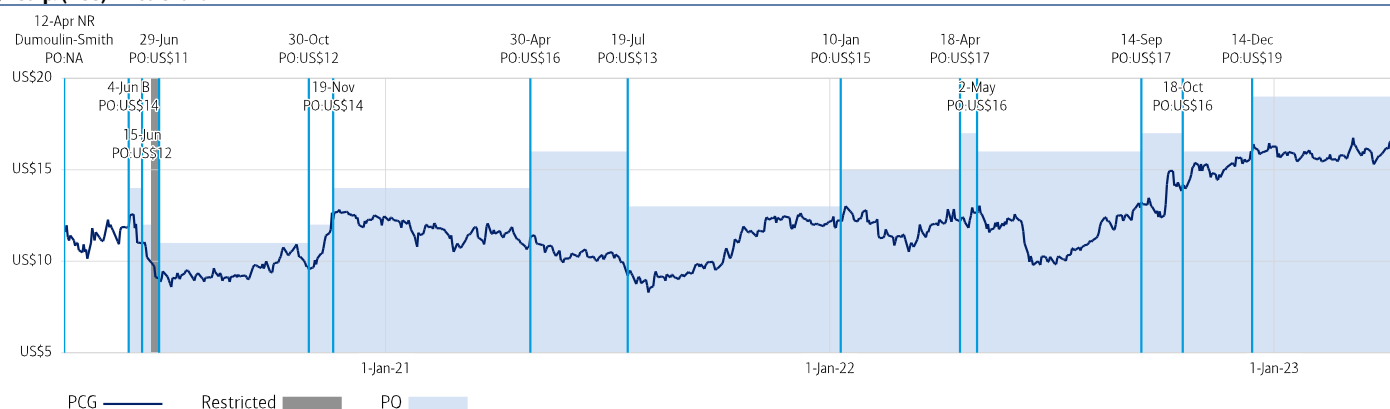


The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey 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.

**NRG Energy (NRG) Price Chart**

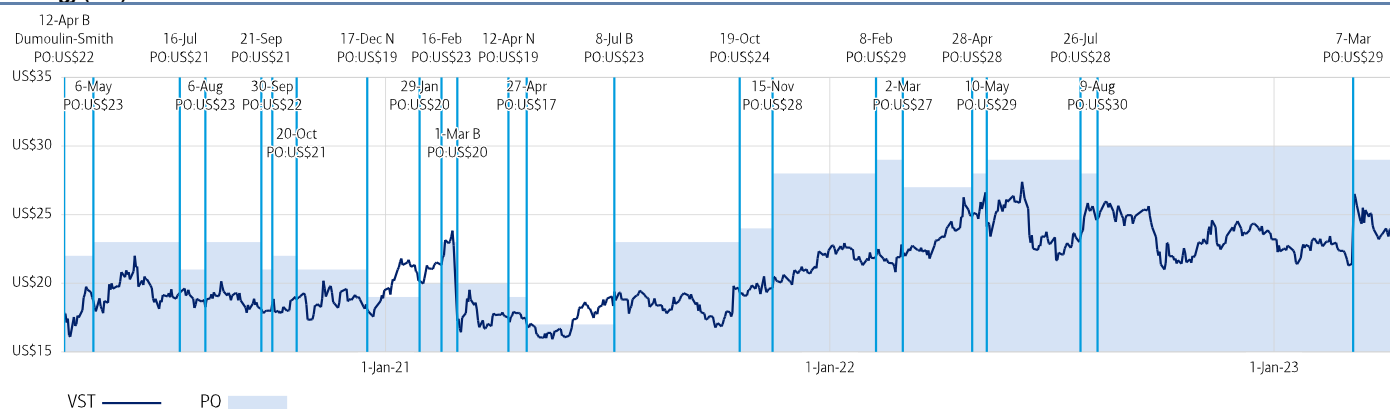
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**PG&E Corp. (PCG) Price Chart**

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

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**Vistra Energy (VST) 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 Mar 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	78	50.65%	Buy	53	67.95%
Hold	40	25.97%	Hold	28	70.00%
Sell	36	23.38%	Sell	24	66.67%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

<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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Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: Hawaiian Electric, NRG Energy, PG&E Corp., Vistra Energy.

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