

## US Utilities &amp; Clean Tech

**PowerPoints: AEP Renew & Securitization, Utilities Macro, D Feedback, CMS, & FTS**

Industry Overview

**AEP: LA renewable vote pushed to June or July**

The Louisiana Public Service Commission (PSC) will push out the vote on Southwestern Electric Power Company's (SWEPCO - American Electric Power [AEP] subsidiary) March 10<sup>th</sup> settlement term sheet regarding the application for its regulated renewables buildout to a subsequent meeting in June or July. The motion was subject to certain modifications to the term sheet including **1)** approval of short-term gas power purchase agreement (PPA) included in the term sheet, **2)** pushing consideration of solar facilities included in the initial settlement to June/July, **3)** SWEPCO adding consideration of qualified and unsolicited offers for PPA generation at the same meeting, and **4)** modifying the cost cap included in the term sheet as necessary. We view this as an initially constructive development as a delay of several weeks should give SWEPCO time to undertake an abbreviated competitive PPA request process, leaving the door open to ultimately getting approval. The short time frame could also raise questions about the competitiveness of the process, introducing uncertainty still. Maintain Neutral on shares of AEP due to valuation considerations and lingering regulatory/balance sheet risks.

**AEP: West Virginia securitization request**

American Electric Power's subsidiaries Appalachian Power Company and Wheeling Power Company filed a joint request with the West Virginia Public Service Commission to recover \$642Mn unrecovered fuel balances (\$553Mn historical + \$89Mn projections through August 2024) via the expanded net energy cost recovery (ENEC; Case 23-0377-E-ENEC). AEP has presented deferred recovery options as well as securitization to the PSC with the expanded scope of House Bill 3308 securitization. Stakeholders have opposed elements of cost recovery and we will closely watch this proceeding. Separate but related, the potential lost earnings from securitization of coal generation rate base would be another earnings headwind for management to overcome.

**UGI: US winter propane demand hits record low**

The US Energy Information Administration (EIA) recently put out a report estimating that US propane consumption in October 2022-March 2023 heating season was the lowest on record dating back to 2010. An average of 986,000 barrels per day was consumed during the period with an average of \$0.81 per gallon wholesale price, down from \$1.28 per gallon in the prior winter. In contrast to low domestic consumption, the US exported the most propane during a winter on record when US prices below European/Asian benchmarks.

The weaker consumption was driven by a very mild winter, but we continue to see structural headwinds for propane consumption. We remain cautious on shares of UGI Corp (UGI) where we see elevated financial uncertainty and questions about the equity value for the US propane business as the business has contracted materially in recent years.

**Please see full report for more on utilities macro, Dominion feedback, CMS cost cuts, and Fortis franchise agreement vote.**

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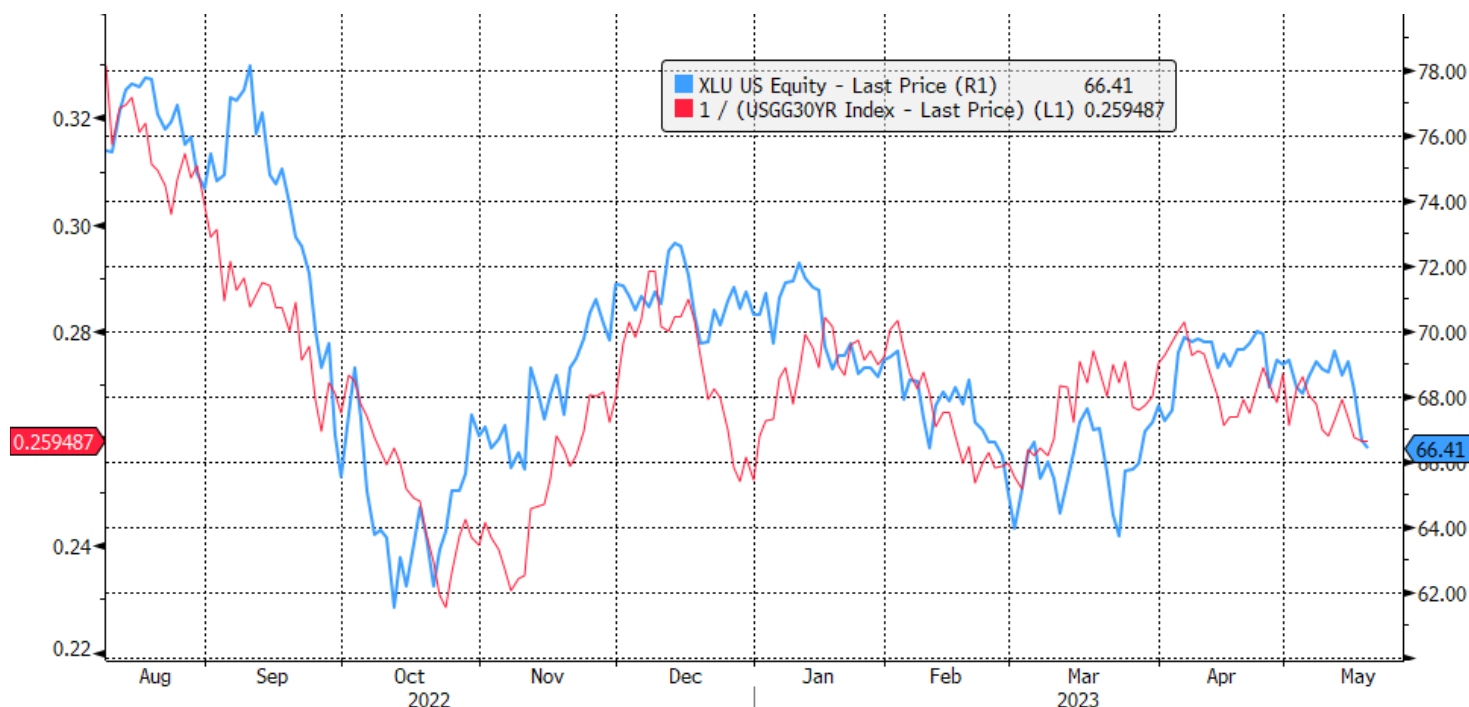
PSC: Public Service Commission  
PPA: Power purchase agreement  
ENEC: expanded net energy cost  
SWEPCO: Southwestern Electric Power Company  
EIA: Energy Information Administration

## Utilities: Sector underperformance aligns with rates

We have received numerous inbound questions about the utilities sector relative weakness with the utility group (XLU) underperforming the S&P 500 (SPX) -5% this week. On a YTD basis, utilities have now underperformed -14%, the second worst sector ahead of only Energy (XLE). The performance is attributable to the changes in interest rates where the traditional sector correlation with interest rates has returned following August 2022. The long-standing relationship broke-down during the height of covid when the 'flight to safety' element outweighed the sharp decline in interest rates. Now that interest rates have return toward a more normalized level, the correlation has resumed.

### Exhibit 1: Utilities Sector (XLU) Equity vs Inverse 30Yr Treasury Bond Interest Rates

Since August 2022, utilities have been trading with a high correlation to changes in interest rates

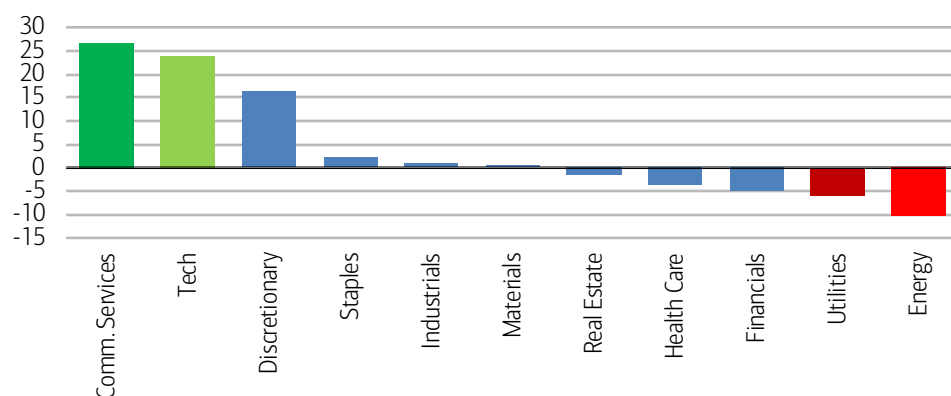


Source: Bloomberg

BofA GLOBAL RESEARCH

### Exhibit 2: S&P Subsector 2023 YTD Performance

Utilities are the second worst performing sector in 2023, ahead of only energy



Source: Bloomberg

BofA GLOBAL RESEARCH

## D: Investor feedback and Virginia legislative context

We provide feedback to our recent deep dive note on Dominion Energy (D) as well as further context on the Virginia Governor's vetoes of utility bills. See our details thoughts here: [Dominion Energy: Lowering Expectations Again: Reiterate Underperform with Execution Questions 15 May 2023](#)

### Investors generally remain cautious due to the elevated uncertainty

On Monday May 15<sup>th</sup> we lowered our Dominion estimates, now forecasting \$3.70 FY25, below \$3.90 Consensus median. From our investor conversations, most on the buy-side are concentrated around \$3.75-\$3.80 although there are camps of investors notably lower \$3.50-\$3.70. Investors in recent weeks have generally gravitated toward a view that Dominion will target higher credit metrics based upon the positive re-rating that peers have had with their own credit improvement goals. Both Southern Company (SO – Baa2/Stable) and Consolidated Edison (ED – Baa2/Positive Outlook) have re-rated to larger premiums to the group which some have attributed toward objectives of ~17% FFO/Debt. Dominion currently has a 14% Baa2 downgrade trigger and has stated a desire for a cushion above the minimum level after a protracted period below the threshold. **Investors are expecting 5-7% or 6-8% growth rate from whatever the new 2025 EPS base is.** The anticipation of average or above-average growth is anchored in the ability to own generation to serve Virginia data center related demand. Overall investors we speak to are fairly neutral on shares of Dominion with an overall cautious bias given the uncertainty on the path forward. We remain cautious on shares due where we still see downside to Consensus and many investor's EPS expectations, and expect shares to have a pronounced discount versus peers ahead of regulatory/legislative uncertainty.

### Rationale for Governor's legislature vetoes provided

Governor Youngkin vetoed five bills following the reconvened session including two related utility bills: House Bill 1637/Senate Bill 1370 which related to a pilot program for underground transmission & distribution investments. The bills had a cost cap of the greater of \$40Mn or 2.5x of building the infrastructure overhead.

In response to the Governor's vetoes, Senator Surrovell (D), the vice chairman of the Senate Democratic Caucus, stated "I'm just dumbfounded that the Governor would veto legislation carried by leaders in both chambers without a single no vote".

In response, Governor Youngkin's Administration described the bills as establishing "an ill-advised and ill-conceived precedent" which could increase electricity bills and had the risk of cost overruns.

*The elevated attention on utility regulation and legislation is not ideal and we believe that shares of Dominion would benefit from a period with less political attention.*

### CMS: Employee buyouts support cost savings plan

Local media reports suggest CMS Energy (CMS) offered a Voluntary Separation Program (VSP), or buyouts, to 4,900 non-union employees in mid-April. Reports suggest up to 600 employees expressed interest although the number of employees departing the company has not been finalized. The program does not include employees who are union-represented but applies to corporate workers in finance, human resources, and marketing departments. 600 employee buyouts assuming \$122,989 median annual salary results in ~\$55Mn (post tax) cost savings or up to +\$0.18 ongoing annualized EPS impact (excluding one-time, near-term severance costs).



CMS outlined +\$0.36-\$0.42 YoY savings from 'usage, non-utility, tax and other' during 1Q23 earnings, or +\$0.19 cost savings incremental to 4Q22 guidance following 1Q storms and weak weather. The latest employee buyouts support these corporate-level cost cuts. However, we note that any cost savings at the utility-level (Consumers Energy) rather than parent-level would need to be returned to customers in subsequent rate proceedings. It is unclear the degree to which employee buyouts are at the corporate or utility levels. We maintain Buy on shares of CMS Energy (CMS) given our view that CMS can execute on FY23 and above-average, long-term earnings guidance despite 1Q23 headwinds.

[US Utilities & IPPs: Michigan: We still see LT value despite NT regulatory noise. Reit. Buy on CMS & DTE. 08 May 2023](#)

## FTS: Tucson franchise agreement renewal rejected in vote

Tucson voters rejected Proposition 412 which would have extended Tucson Electric Power (TEP)'s franchise agreement with the city in a special election held May 16. News reports tallied 55% voting against the proposition. The new agreement would have extended TEP's franchise with the city for 25 years, with the current agreement scheduled to expire in April 2026. An additional provision of the agreement included a new fee for undergrounding a transmission line through the city, in addition to keeping the existing franchise fee that is a part of customer bills. While the initial vote outcome is cautious we note that the existing franchise agreement runs through 2026, giving the company time to re-evaluate and possibly submit an updated proposal to a vote. Maintain Underperform on FTS on valuation with shares offering a negative total return based on our PO and given recent outperformance.

### Exhibit 3: Primary stocks mentioned in this report

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AEP	AEP US	American Elec Power	US\$ 87.07	A-2-7
CMS	CMS US	CMS Energy	US\$ 58.83	A-1-7
D	D US	Dominion Energy	US\$ 53.22	A-3-7
FTS	FTS US	Fortis	US\$ 43.59	A-3-7
YFTS	FTS CN	Fortis	C\$ 58.61	A-3-7
UGI	UGI US	UGI Corp.	US\$ 28.22	B-3-7

Source: BofA Global Research estimates

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## Price objective basis & risk

### American Electric Power (AEP)

Our price objective of \$99 is based on sum-of-the-parts (SOTP) analysis. We ascribe a peer forward FY25E P/E multiple (16.6x) with a 1.0x premium for its Texas transmission and distribution utilities and transmission-only utilities segments and a 0x premium (in-line multiple) for Ohio. Vertically integrated utilities are assigned a -2x discount on regulatory and execution risks. For the unregulated portion, we apply a 3.5x discount to the legacy energy supply and marketing business and an 8x premium to the contracted renewables business to reflect sale aspirations. Our valuation reflects that the Kentucky Power sale pending appears to be nearing close. We note that electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector.

Risks to achievement of the price objective are 1) regulatory outcomes are less favorable than expected, which could result in reduced return on equity (ROE), 2) large capital intensive projects are subject to delays or cost overruns, which can change the return profile, 3) natural disasters or catastrophic events can affect system reliability and are subject to regulatory cost recovery risk, 4) utilities are subject to interest rate

risk to fund their business, which affects cost of capital, 5) uncertainty around announced asset divestitures versus guidance expectations, 6) volatility in volume of electric sales, 7) other adverse regulatory, political, or similar actions.

### **CMS Energy (CMS)**

Our PO of \$67 is based on a SotP relying on 2025E forward P/E multiples for the utility business and a 2025E forward EV/EBITDA multiple for CMS' IPP assets. For the utility seg we apply a 2.0x prem to the average 2025E regulated multiple P/E of 16.6x for the electric segment and of 16.7x for the gas segment, with the 10-yr capex update providing clear sight on ratebase growth and further upside, as well as continued favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range.

Both electric and gas peer P/E multiples are grossed up +5% to reflect capital appreciation across the sector.

For CMS' merchant business we apply a 4x EV/EBITDA multiple, in line with current market value of CMS' power plants. We value Dearborn Industrial Generation (DIG) on a DCF basis through 2030 given the plant is no longer expected to be sold to Consumers.

Downside risks are: 1) earned ROEs declining which reduce CMS utility earnings 2) execution risk on capex and cost cutting which would primarily affect the utility earnings, 3) negatives changes to market energy prices which could affect the DIG plant's ability to re-contract at the assumed prices.

### **Dominion Energy (D)**

We value Dominion Energy at \$52 using a 2025E sum-of-the-parts analysis. For the utilities we apply the comparable electric (16.4x) and gas (16.7x) peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply -1.5x discount for base Virginia (-9%). We apply discount adjustments to lower value utility sources in South Carolina (NND) and Utah (Wexpro) as well as the South Carolina bill credits.

Contracted assets are valued at: 13x EV/EBITDA Cove Point, 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. We lastly include prospective interest rate exposure that is not impacting near-term estimates due to hedges.

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, 8) inflation, & 9) offshore wind construction.

### **Fortis (YFTS / FTS)**

Our C\$52 (US\$42.28) PO is based on our sum of the parts methodology. We assign a 2025E forward base peer P/E multiple of 15.5x to the US utility business with a further applied discount of -1.0x for UNS Energy (AZ) to reflect regulatory risk, a 3.0x premium for ITC for long-term expansion investment opportunities, and in-line Central Hudson (NY).

For Canadian utilities, we assign a base peer 2025E P/E multiple of 16.3x. Lower ratebase growth profiles and generally lower authorized equity layers/ROEs, paired with

a more challenging regulatory environment, will continue to warrant a discount to US peers, in our view.

At Caribbean utilities, we apply 60% ownership share to the publicly listed subsidiaries' current market cap.

We assign an 6.0x 24E EV/EBITDA multiple to FTS's non-regulated segment seeing the contracted nature of its non-regulated segment positively offset lower growth opportunities. We account for FX upside based on current spot prices

Upside risks are: 1) favorable regulatory outcomes, 2) improvement in USD/CAD exchange rate, 3) performance at the unregulated Fortis Energy segment which largely depends on Belize Hydro and moves directionally with seasonal rainfall.

Downside risks are: 1) unfavorable regulatory outcomes, 2) regulatory lag and overall inability to achieve the allowed ROEs, 3) deterioration in USD/CAD exchange rate, and 4) dilution from additional equity to strength credit ratings

### **UGI Corp. (UGI)**

Our \$32 PO is derived from our SOTP analysis. We mark-to-market (MtM) our UGI Utilities segment to 2025E peer P/E multiples of 16.7x for gas & 16.4x for electric. For U.S. & international LPG, we apply an 8.8x EBITDA base multiple in-line with propane comps & apply a -3x discount to UGI International based on a challenged energy environment in Europe. We apply a -3x discount to AmeriGas based on challenges to customer retention & a slow return to the M&A market. We apply an 8.8x EV/EBITDA multiple to the midstream segment with premiums based on the asset. For the renewables business, we take the NPV of future cash flows, which implies a 7.2x FY25E EV/EBITDA multiple. For parent debt in the Corp & Other segment we net out 50/50 weighting for recapitalization & add back 50% of parent interest expense.

Upside risks: favorable weather, improving propane logistics efficiencies domestically or in Europe, increased conversion rates or faster new home construction within PA, and favorable currency exchange rates. Macroeconomic concerns are declining interest rates, lack of volatility and declining natural gas prices, and a general economic upturn.

Downside risks: unfavorable weather, propane logistics issues and shortages domestically or in Europe, reduced conversion rates or slower new home construction within PA, and unfavorable currency exchange rates. Macroeconomic concerns are rising interest rates, volatile and rising natural gas prices, and a general economic slowdown.

## **Analyst Certification**

We, Julien Dumoulin-Smith, Dariusz Lozny, CFA 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.

## **Special Disclosures**

BofA Securities is currently acting as Financial Advisor to IRG Acquisition Holding LLC in connection with its proposed acquisition of American Electric Power Co Inc's 1,365-megawatt unregulated, contracted renewables portfolio, which was announced on February 23, 2023.

## 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
	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
	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
	Nextacker 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>	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
	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
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	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
	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
	SunPower Corp.	SPWR	SPWR 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
<b>UNDERPERFORM</b>				
	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
	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
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
<b>RSTR</b>				
	EVgo Inc.	EVGO	EVGO US	Alex Vrabel

## Disclosures

## Important Disclosures

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	86	60.99%	Buy	68	79.07%
Hold	31	21.99%	Hold	23	74.19%
Sell	24	17.02%	Sell	14	58.33%

## 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.



**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's: absolute total return potential as well as its attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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: American Elec Power, CMS Energy, Dominion Energy, Fortis, UGI Corp.

BofAS or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: CMS Energy, Dominion Energy.

The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: Amer Elec Power, CMS Energy, Dominion Energy, Fortis, UGI Corp.

BofAS or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Amer Elec Power, CMS Energy, Dominion Energy, Fortis, UGI Corp.

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