

High Grade Utilities & Power

The Investment Grid – Weekly Recap

Industry Overview

Key takeaways

- The IG Utility Index underperformed the broader IG market, returning -1.45% vs. -1.24% for the ICE BofA US IG Index
- New issue totaled \$8.5 Bn for the week ending January 5, 2023

IG Utilities relative performance

The IG Utility Index underperformed the broader IG market for the week ending January 5, 2024, returning -1.45% vs. -1.24% for the ICE BofA US IG Index. On average, OpCo and HoldCo spreads widened by 3 and 2 bps, respectively.

This week's best and worst performers

The best performing OpCo bonds this week were Indiana Michigan Power Co. 3.75% senior notes due '47, Alabama Power Co. 1.45% senior notes due '30, and Appalachian Power Co. 6.70% senior notes due '37. The worst performing OpCo bonds this week were Trans-Allegheny Interstate Line Co. 3.85% senior notes due '25, Alabama Power Co. 2.80% senior notes due '25, and Kentucky Utilities Co. 3.30% secured notes due '25.

The best performing HoldCo bonds this week were American Electric Power Co. 3.875% junior subordinated notes due '27, Black Hills Corp. 3.15% senior notes due '27, and Southern Co. 3.75% junior subordinated notes due '26. The worst performing HoldCo bonds this week were Oglethorpe Power Corp. 6.191% secured notes due '31, Duquesne Light Holdings 3.616% senior notes due '27, and Berkshire Hathaway Energy Co. 3.50% senior notes due '25.

New Issuance

New issue this week was led by PacifiCorp which came to market for \$3.8 Bn in first mortgage bonds. Utilities have issued ~\$8.5 Bn of bonds YTD.

09 January 2024

High Grade Credit
United States
Electric Utilities

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Top headlines, week ending January 5, 2023

Avangrid to terminate merger with PNM Resources

On Jan 2, Avangrid announced that it will be terminating its merger agreement with PNM Resources after failing to receive the necessary regulatory approvals by the agreed upon closing date of Dec 31, 2023. Despite the option to further extend the agreement, to which PNM's board approved, Avangrid elected to not extend. The company noted that "with the close of 2023 there is still no clear timing on the resolution of the court review of the New Mexico regulator's denial of the merger nor any subsequent regulatory actions". Avangrid reaffirmed its full-year 2023 adjusted earnings of \$2.20-2.35.

US DOE completes grant to extend operation of PG&E's Calif. nuclear plant

On Jan 2, the DOE finalized a conditional decision to grant PG&E up to \$1.1 billion in credits to extend operation of the company's Diablo Canyon nuclear plant as part of the Civil Nuclear Credit Program.

NiSource completes NIPSCO minority equity interest transaction

On Jan 2, NiSource announced that its 19.9% stake sale of Northern Indiana Public Service Company (NIPSCO) to an affiliate of Blackstone Infrastructure Partners has been completed.

Rating actions, week ending January 5, 2023

FE: FirstEnergy Pennsylvania Electric Co. assigned 'BBB' issuer credit rating; outlook positive

S&P assigned a first-time issuer credit rating to new FirstEnergy (FE) subsidiary Pennsylvania Electric Company (FE-PA) after FE announced it would be merging Metropolitan Edison Co., West Penn Power Co., Pennsylvania Electric Co., and Pennsylvania Power Co. into a consolidated utility. S&P views FE-PA's business risk as excellent given low-risk electric distribution operations and effective management of regulatory risk. In addition, the rating agency assesses the Pennsylvania Public Utility Commission as highly credit supportive by granting utilities numerous constructive regulatory mechanisms such as forward-looking test years and riders designed to limit regulatory lag. S&P's positive outlook on FE-PA reflects the positive outlook of its parent and the expectation that FE-PA's independent FFO/Debt will be 20%.



Utilities vs. IG Index: Performance for week ending January 5, 2024

Exhibit 1: Utilities vs. IG Index

Utilities returned -1.45% vs. -1.24% for the IG Index

Sector	Total Return % 1-wk	Rank	Total Return % YTD	Rank
Leisure	-0.75%	1	-0.77%	1
Automotive	-0.77%	2	-0.78%	2
Real Estate	-0.85%	3	-0.86%	3
Banking	-0.93%	4	-0.94%	4
Financial Services	-1.00%	5	-1.01%	5
Insurance	-1.17%	6	-1.18%	6
Capital Goods	-1.19%	7	-1.20%	7
Basic Industry	-1.26%	8	-1.28%	8
Services	-1.31%	9	-1.32%	9
Consumer Goods	-1.34%	10	-1.35%	10
Energy	-1.37%	11	-1.39%	11
Healthcare	-1.44%	12	-1.45%	12
Utility	-1.45%	13	-1.46%	13
Technology & Electronics	-1.48%	14	-1.49%	14
Retail	-1.50%	15	-1.51%	15
Transportation	-1.56%	16	-1.58%	16
Telecommunications	-1.62%	17	-1.63%	17
Media	-1.62%	18	-1.64%	18
IG Index	-1.24%		-1.25%	

Source: ICE Data Indices, LLC

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OpCos: Top-10 bond leaders and laggards, week ending January 5, 2023

Leaders

Exhibit 2: OpCo Leaders, week ending January 5

Indiana Michigan Power Co. 3.75% senior notes were the best performing OpCo bonds this week

Rank	Ticker	Company	Bond	Maturity	Rating	STW	1-Wk Δ STW
1	AEP	Indiana Michigan Power Company	3.750% Senior due 2047	7/1/47	A3	110	(20)
2	SO	Alabama Power Company	1.450% Senior due 2030	9/15/30	A2	84	(15)
3	AEP	Appalachian Power Company	6.700% Senior due 2037	8/15/37	A3	157	(14)
4	FE	Pennsylvania Electric Company	6.150% Senior due 2038	10/1/38	BBB1	163	(13)
5	NGGLN	Massachusetts Electric Company	4.004% Senior due 2046	8/15/46	BBB1	148	(13)
6	TE	Tampa Electric Company	4.100% Senior due 2042	6/15/42	A3	114	(13)
7	XEL	Public Service Company of Colorado	3.950% Secured due 2043	3/15/43	A1	146	(13)
8	CNP	Centerpoint Energy Houston Electric LLC	2.400% Secured due 2026	9/1/26	A2	55	(12)
9	XEL	Public Service Company of Colorado	2.900% Secured due 2025	5/15/25	A1	68	(11)
10	OGE	Oklahoma Gas and Electric Company	5.850% Senior due 2040	6/1/40	A3	130	(10)

Source: ICE Data Indices, LLC

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Laggards

Exhibit 3: OpCo Laggards, week January 5

Trans-Allegheny Interstate Line Co. 3.85% senior notes were the worst performing OpCo bonds this week

Rank	Ticker	Company	Bond	Maturity	Rating	STW	1-Wk Δ STW
1	FE	Trans-Allegheny Interstate Line Company	3.850% Senior due 2025	6/1/25	BBB1	163	76
2	SO	Alabama Power Company	2.800% Senior due 2025	4/1/25	A2	90	34
3	PPL	Kentucky Utilities Company	3.300% Secured due 2025	10/1/25	A2	73	31
4	NGGLN	Boston Gas Company	3.150% Senior due 2027	8/1/27	BBB1	129	28
5	AEE	Ameren Illinois Company	3.250% Secured due 2025	3/1/25	A2	49	26
6	AEE	Union Electric Company	5.300% Secured due 2037	8/1/37	A2	122	25
7	BRKHEC	Midamerican Energy Company	3.100% Secured due 2027	5/1/27	A1	72	24
8	LNT	Interstate Power & Light Company	3.400% Senior due 2025	8/15/25	BBB1	93	24
9	BRKHEC	PacifiCorp.	7.700% Secured due 2031	11/15/31	A2	144	22
10	SWX	Southwest Gas Corp	3.700% Senior due 2028	4/1/28	BBB1	112	22

Source: ICE Data Indices, LLC

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HoldCos: Top-10 bond leaders and laggards, week ending January 5, 2023

Leaders

Exhibit 4: HoldCo Leaders, week ending January 5

American Electric Power 3.875% junior subordinated notes were the best performing HoldCo bonds this week

Rank	Ticker	Company	Bond	Maturity	Rating	STW	1-Wk Δ STW
1	AEP	American Electric Power Co Inc.	3.875% Junior subordinated due 2027	2/15/27	BBB3	296	(29)
2	BKH	Black Hills Corporation	3.150% Senior due 2027	1/15/27	BBB1	87	(26)
3	SO	Southern Co.	3.750% Junior subordinated due 2026	9/15/26	BBB3	260	(22)
4	NEE	NextEra Energy Capital Holdings Inc	3.800% Junior subordinated due 2027	3/15/27	BBB2	280	(21)
5	CMS	CMS Energy Corporation	3.750% Junior subordinated due 2030	12/1/30	BBB3	284	(20)
6	DUK	Duke Energy Corp	3.250% Junior subordinated due 2026	10/15/26	BBB3	313	(19)
7	NEE	NextEra Energy Capital Holdings Inc	5.110% Junior subordinated due 2057	9/29/57	BBB2	112	(15)
8	EXC	Exelon Corporation	7.600% Senior due 2032	4/1/32	BBB2	161	(14)
9	AES	Ipalco Enterprises Inc.	4.250% Secured due 2030	5/1/30	BBB3	171	(12)
10	NEE	NextEra Energy Capital Holdings Inc	4.800% Junior subordinated due 2027	12/1/27	BBB2	416	(12)

Source: ICE Data Indices, LLC

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Laggards

Exhibit 5: HoldCo Laggards, week ending January 5

Oglethorpe Power Corp. 6.191% secured notes were the worst performing HoldCo bonds this week

Rank	Ticker	Company	Bond	Maturity	Rating	STW	1-Wk Δ STW
1	OGLETH	Oglethorpe Power Corporation Membership	6.191% Secured due 2031	1/1/31	A2	182	26
2	DQE	Duquesne Light Holdings Inc.	3.616% Senior due 2027	8/1/27	BBB3	189	22
3	BRKHEC	Berkshire Hathaway Energy Company	3.500% Senior due 2025	2/1/25	A3	45	17
4	BRKHEC	Berkshire Hathaway Energy Company	4.500% Senior due 2045	2/1/45	A3	101	15
5	DUK	Duke Energy Corp	5.750% Senior due 2033	9/15/33	BBB2	125	15
6	NEE	NextEra Energy Capital Holdings Inc	4.900% Senior due 2028	2/28/28	BBB1	84	15
7	EXC	Exelon Corporation	3.350% Senior due 2032	3/15/32	BBB2	121	14
8	NEE	NextEra Energy Capital Holdings Inc	5.250% Senior due 2053	2/28/53	BBB1	146	13
9	NEE	NextEra Energy Capital Holdings Inc	5.000% Senior due 2032	7/15/32	BBB1	119	13
10	PSD	Puget Energy Inc	5.448% Secured due 2053	6/1/53	A2	127	13

Source: ICE Data Indices, LLC

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OpCos: Top-10 bond leaders and laggards YTD

Leaders

Exhibit 6: OpCo Leaders, YTD

Indiana Michigan Power Co. 3.75% secured notes are the best performing OpCo bonds YTD

Rank	Ticker	Company	Bond	Maturity	Rating	STW	Δ STW YTD
1	AEP	Indiana Michigan Power Company	3.750% Senior due 2047	7/1/47	A3	110	(20)
2	SO	Alabama Power Company	1.450% Senior due 2030	9/15/30	A2	84	(15)
3	TE	Tampa Electric Company	4.100% Senior due 2042	6/15/42	A3	114	(14)
4	AEP	Appalachian Power Company	6.700% Senior due 2037	8/15/37	A3	157	(14)
5	FE	Pennsylvania Electric Company	6.150% Senior due 2038	10/1/38	BBB1	163	(13)
6	NGGLN	Massachusetts Electric Company	4.004% Senior due 2046	8/15/46	BBB1	148	(13)
7	XEL	Public Service Company of Colorado	3.950% Secured due 2043	3/15/43	A1	146	(13)
8	CNP	Centerpoint Energy Houston Electric LLC	2.400% Secured due 2026	9/1/26	A2	55	(12)
9	XEL	Public Service Company of Colorado	2.900% Secured due 2025	5/15/25	A1	68	(11)
10	OGE	Oklahoma Gas and Electric Company	5.850% Senior due 2040	6/1/40	A3	130	(10)

Source: ICE Data Indices, LLC

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Laggards

Exhibit 7: OpCo Laggards, YTD

Trans-Allegheny Interstate Line Co. 3.85% senior notes are the worst performing OpCo bonds YTD

Rank	Ticker	Company	Bond	Maturity	Rating	STW	Δ STW YTD
1	FE	Trans-Allegheny Interstate Line Company	3.850% Senior due 2025	6/1/25	BBB1	163	76
2	SO	Alabama Power Company	2.800% Senior due 2025	4/1/25	A2	90	34
3	PPL	Kentucky Utilities Company	3.300% Secured due 2025	10/1/25	A2	73	31
4	NGGLN	Boston Gas Company	3.150% Senior due 2027	8/1/27	BBB1	129	28
5	AEE	Ameren Illinois Company	3.250% Secured due 2025	3/1/25	A2	49	26
6	AEE	Union Electric Company	5.300% Secured due 2037	8/1/37	A2	122	25
7	BRKHEC	Midamerican Energy Company	3.100% Secured due 2027	5/1/27	A1	72	24
8	LNT	Interstate Power & Light Company	3.400% Senior due 2025	8/15/25	BBB1	93	24
9	BRKHEC	PacifiCorp.	7.700% Secured due 2031	11/15/31	A2	144	22
10	SWX	Southwest Gas Corp	3.700% Senior due 2028	4/1/28	BBB1	112	22

Source: ICE Data Indices, LLC

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HoldCos: Top-10 bond leaders and laggards YTD

Leaders

Exhibit 8: HoldCo Leaders, YTD

American Electric Power 3.875% junior subordinated notes are the best performing HoldCo bonds YTD

Rank	Ticker	Company	Bond	Maturity	Rating	STW	Δ STW YTD
1	AEP	American Electric Power Co Inc.	3.875% Junior subordinated due 2027	2/15/27	BBB3	296	(29)
2	BKH	Black Hills Corporation	3.150% Senior due 2027	1/15/27	BBB1	87	(26)
3	SO	Southern Co.	3.750% Junior subordinated due 2026	9/15/26	BBB3	260	(22)
4	NEE	NextEra Energy Capital Holdings Inc	3.800% Junior subordinated due 2027	3/15/27	BBB2	280	(21)
5	CMS	CMS Energy Corporation	3.750% Junior subordinated due 2030	12/1/30	BBB3	284	(20)
6	DUK	Duke Energy Corp	3.250% Junior subordinated due 2026	10/15/26	BBB3	313	(19)
7	NEE	NextEra Energy Capital Holdings Inc	5.110% Junior subordinated due 2057	9/29/57	BBB2	112	(15)
8	EXC	Exelon Corporation	7.600% Senior due 2032	4/1/32	BBB2	161	(14)
9	ES	Eversource Energy	3.150% Senior due 2025	1/15/25	BBB1	90	(12)
10	AES	Ipalco Enterprises Inc.	4.250% Secured due 2030	5/1/30	BBB3	171	(12)

Source: ICE Data Indices, LLC

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Laggards

Exhibit 9: HoldCo Laggards, YTD

Oglethorpe Power Corp. 6.191% secured notes are the worst performing HoldCo bonds YTD

Rank	Ticker	Company	Bond	Maturity	Rating	STW	Δ STW YTD
1	OGLETH	Oglethorpe Power Corporation Membership	6.191% Secured due 2031	1/1/31	A2	182	26
2	DQE	Duquesne Light Holdings Inc.	3.616% Senior due 2027	8/1/27	BBB3	189	21
3	BRKHEC	Berkshire Hathaway Energy Company	3.500% Senior due 2025	2/1/25	A3	45	16
4	BRKHEC	Berkshire Hathaway Energy Company	4.500% Senior due 2045	2/1/45	A3	101	15
5	DUK	Duke Energy Corp	5.750% Senior due 2033	9/15/33	BBB2	125	15
6	NEE	NextEra Energy Capital Holdings Inc	4.900% Senior due 2028	2/28/28	BBB1	84	15
7	EXC	Exelon Corporation	3.350% Senior due 2032	3/15/32	BBB2	121	14
8	NEE	NextEra Energy Capital Holdings Inc	5.250% Senior due 2053	2/28/53	BBB1	146	13
9	NEE	NextEra Energy Capital Holdings Inc	5.000% Senior due 2032	7/15/32	BBB1	119	13
10	PSD	Puget Energy Inc	5.448% Secured due 2053	6/1/53	A2	127	13

Source: ICE Data Indices, LLC

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Average spreads by maturity and rating

OpCos

Exhibit 10: Average spread by maturity and rating – OpCos

OpCo spreads widened by 3 bps this week

OpCos - Average Spreads - Week ending 1/5/24

Rating	Short	10 year	20 year	30 year	Avg.
AA-	n/a	n/a	n/a	n/a	n/a
A+	56	88	108	114	99
A	65	102	119	124	105
A-	73	115	136	132	117
BBB+	109	154	147	162	135
BBB	124	168	n/a	n/a	142
BBB-	133	182	189	203	167
Total	84	117	128	128	115

OpCos - 1-week avg. change in STW

Rating	Short	10 year	20 year	30 year	Avg.
AA-	n/a	n/a	n/a	n/a	n/a
A+	2	6	(1)	7	3
A	5	3	0	4	3
A-	3	3	2	5	2
BBB+	7	2	2	1	3
BBB	0	1	n/a	n/a	0
BBB-	3	5	2	2	2
Total	4	3	1	5	3

OpCos - YTD avg. change in STW

Rating	Short	10 year	20 year	30 year	Avg.
AA-	n/a	n/a	n/a	n/a	n/a
A+	2	6	(1)	7	3
A	5	3	0	4	3
A-	3	3	2	5	2
BBB+	7	2	2	1	3
BBB	0	1	n/a	n/a	0
BBB-	3	5	2	2	2
Total	4	3	1	5	3

Source: ICE Data Indices, LLC

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HoldCos

Exhibit 11: Average spread by maturity and rating – HoldCos

HoldCo spreads widened by 2 bps this week

HoldCos - Average Spreads - Week ending 1/5/24

Rating	Short	10 year	20 year	30 year	Avg.
AA-	n/a	n/a	n/a	n/a	n/a
A+	n/a	n/a	n/a	n/a	n/a
A	n/a	153	125	127	142
A-	66	89	108	134	96
BBB+	82	132	181	157	112
BBB	96	128	150	147	116
BBB-	156	237	n/a	n/a	174
Total	100	136	143	145	121

HoldCos - 1-week avg. change in STW

Rating	Short	10 year	20 year	30 year	Avg.
AA-	n/a	n/a	n/a	n/a	n/a
A+	n/a	n/a	n/a	n/a	n/a
A	n/a	3	(4)	13	4
A-	4	(7)	2	3	4
BBB+	3	2	6	8	3
BBB	1	6	2	6	2
BBB-	(2)	6	n/a	n/a	(2)
Total	1	5	2	7	2

HoldCos - YTD avg. change in STW

Rating	Short	10 year	20 year	30 year	Avg.
AA-	n/a	n/a	n/a	n/a	n/a
A+	n/a	n/a	n/a	n/a	n/a
A	n/a	3	(4)	13	4
A-	4	(7)	2	3	4
BBB+	3	2	6	8	3
BBB	2	6	2	7	2
BBB-	(2)	6	n/a	n/a	(2)
Total	1	5	2	7	2

Source: ICE Data Indices, LLC

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New utility bond issuance QTD

Exhibit 12: 1Q new utility bond issuance

Utilities have issued ~\$8.5 Bn in bonds this quarter

Date	Ticker	Issuer	Type	Security	Rating (Moody's/S&P/Fitch)	Amount	Coupon	Maturity	SOT	Δ vs IPT	Book
1/2/24	D	Virginia Electric & Power	OpCo	Unsec. Notes	A2/BBB+/A	\$500	5.000%	1/15/34	+115	-20	4.4x
1/2/24	D	Virginia Electric & Power	OpCo	Unsec. Notes	A2/BBB+/A	\$500	5.300%	1/15/54	+127	-28	5.4x
1/2/24	PPL	PPL Electric Utilities	OpCo	FMBs	A1/A+/NR	\$650	4.850%	2/15/34	+92	-31	5.4x
1/2/24	CMS	Consumers Energy	OpCo	FMBs	A1/A/A+	\$600	4.650%	5/30/29	+73	-22	3.3x
1/2/24	DUK	Duke Energy Corp	HoldCo	Unsec. Notes	Baa2/BBB/NR	\$550	4.850%	1/5/27	+75	-25	2.7x
1/2/24	DUK	Duke Energy Corp	HoldCo	Unsec. Notes	Baa2/BBB/NR	\$550	4.850%	1/5/29	+95	-25	2.7x
1/3/24	DUK	Duke Energy Carolinas	OpCo	FMBs	Aa3/A/NR	\$575	4.850%	1/15/34	+100	-18	2.5x
1/3/24	DUK	Duke Energy Carolinas	OpCo	FMBs	Aa3/A/NR	\$425	5.400%	1/15/54	+118	-20	2.4x
1/3/24	AEE	Union Electric	OpCo	FMBs	A2/A/NR	\$350	5.250%	1/15/54	+123	-22	3.9x
1/3/24	BRKHEC	PacifiCorp	OpCo	FMBs	A2/A/NR	\$500	5.100%	2/15/29	+120	-30	4.6x
1/3/24	BRKHEC	PacifiCorp	OpCo	FMBs	A2/A/NR	\$700	5.300%	2/15/31	+140	-30	2.9x
1/3/24	BRKHEC	PacifiCorp	OpCo	FMBs	A2/A/NR	\$1,100	5.450%	2/15/34	+155	-25	2.6x
1/3/24	BRKHEC	PacifiCorp	OpCo	FMBs	A2/A/NR	\$1,500	5.800%	1/15/55	+175	-25	2.6x

Source: Bloomberg

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New utility bond issuance YTD vs. historical

Exhibit 13: Utility bond issuance YTD vs. historical

YTD bond issuance is up ~\$1.7 Bn YoY

Debt Issuance (YTD as of Jan-5)

Debt Issuance (\$Mn)	2018	2019	2020	2021	2022	2023	2024
OpCo FMBs	0	1,500	2,150	900	0	5,925	6,400
OpCo Unsecured	0	0	0	850	1,400	925	1,000
HoldCo	2,850	0	1,000	0	805	0	1,100
Total Debt Issuance	2,850	1,500	3,150	1,750	2,205	6,850	8,500

Source: Bloomberg

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Disclosures

Important Disclosures

BofA Global Research Credit Opinion Key

BofA Global Research provides recommendations on an issuer's bonds (including corporate and sovereign external debt securities), loans, capital securities, equity preferreds and CDS as described below. Convertible securities are not rated. An issuer level recommendation may also be provided for an issuer as explained below. BofA Global Research credit recommendations are assigned using a three-month time horizon.

Issuer Recommendations: If an issuer credit recommendation is provided, it is applicable to bonds and capital securities of the issuer except bonds and capital securities specifically referenced in the report with a different credit recommendation. Where there is no issuer credit recommendation, only individual bonds and capital securities with specific recommendations are covered. Loans, CDS and equity preferreds are rated separately and issuer recommendations do not apply to them.

BofA Global Research credit recommendations are assigned using a three-month time horizon:

Overweight: Spreads and /or excess returns are likely to outperform the relevant and comparable market over the next three months.

Marketweight: Spreads and/or excess returns are likely to perform in-line with the relevant and comparable market over the next three months.

Underweight: Spreads and/or excess returns are likely to underperform the relevant and comparable market over the next three months.

BofA Global Research uses the following rating system with respect to **Credit Default Swaps (CDS)**:

Buy Protection: Buy CDS, therefore going short credit risk.

Neutral: No purchase or sale of CDS is recommended.

Sell Protection: Sell CDS, therefore going long credit risk.

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