

US Utilities & IPPs

Connecticut Regulatory & Political Profile
Set to Spread? Underperform ES & AGR

Industry Overview

Connecticut has its latest setback for utility investors

Last week there was the most recent cautious regulatory/political development for Connecticut utilities, principally Underperform-rated Eversource Energy (ES) and Avangrid (AGR). We maintain Underperform on both ES & AGR where we forecast below average EPS growth leading to continued negative de-rating vs peers. On April 26th the Public Utilities Regulatory Authority (PURA) voted 3-0 to establish performance based rated (PBR – Docket 21-05-15) which was largely consistent with the earlier draft decision. PBR is a key feature of CT's Take Back My Grid Act. On its face, we do not view PBR as negative for utilities but the focus on affordability as the most important regulatory creates a challenging setup. Connecticut residential rates are among the most expensive in the US (sixth highest in 2021 per the US EIA). Following PURA's PBR ruling, there was a press conference at including the Connecticut Governor Lamont, co-chairs of the CT Energy & Technology Committee Senator Needleman, Senator Fazio and Rep. Steingburg, and PURA Chair Gillett. The elected officials all stated support for PURA's actions. Senator Fazio and Representative Buckbee also attended the news briefing.

Contagion into Massachusetts & New Hampshire to watch

Governor Lamont stated that 'he likes what is going on with PURA and "you don't get paid an automatic 9% whether you do good work or bad work". Governor Lamont described Eversource's work after Tropical Storm Isais as "pretty shoddy". Governor Lamont stated that he wanted PURA to be a disruptor with the new PBR regime as realigning the incentives. The Governor suggested that he would reappoint Chairman Gillet when her term expires in 2024. Governor Lamont articulated concerns that lower return on equity (ROE) would disincentivize Eversource or Avangrid from investing in Connecticut, and rather push them to invest more in other jurisdictions. However, PURA will work with Massachusetts and New Hampshire to encourage alignment in their allowed rates of return and performance-based rates structures. *The potential for reduced allowed and/or earned ROEs in other New England jurisdictions is another new risk.*

Utility legislation still appears to be a priority

Senate Bill 7 (SB7) was emphasized by Needleman and Steinberg. SB7 appears to be a blend of Senate Bill 966 and Senate Bill 123. SB7 titled "An Act Strengthening Protections For Connecticut's Consumers Of Energy." If enacted we would view this bill cautiously as it would provide additional discretion to the PURA regarding areas such as decoupling, some rate case expenses, additional requirements for settlements, linkage between rate increases and executive compensation, as well as other factors. The draft bill would permit even broader discretion in setting a reasonable rate of return, allowing PURA to incorporate macroconditions, affordability/energy burden (energy costs dividend by household income), bad debt, and any other issue. Multi-utilities would not be permitted to have multiple general rate case applications pending at the same time without PURA approval. For example, Eversource could not have a CL&P and Yankee Gas rate pending at the same time.

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PURA: Public Utilities Regulatory Authority
PBR: Performance based rates
EIA: Energy Information Administration
SB: Senate Bill
CL&P: Connecticut Light & Power

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PBR: The straw that breaks the rating agencies backs?

The performance-based rates decision was framed as a 'reset' of the regulatory framework in Connecticut. Under PBRs future utility investments would be assessed based on whether they incentivize strong operational performance, drive achievement of public policies, empower customers, and provides reasonable, equitable and affordability utility rates. PURA will finalize financial mechanisms used to incentivize and penalize utilities based on PBR, and PURA expect to complete the process by mid-2024. CT stakeholders highlighted need for continued investment in CT distribution infrastructure, although utilities should be compensated based on whether these investments improve performance.

In response to a question about Connecticut regulation being challenging for utility creditors and investors, PURA Chair Gillett "fully rejected[ed] that argument." The Chair continued that "Frankly, it's not my concern what their shareholders make. It's my concern what the cost of debt is and how that factors into rates."

Although the Governor went to efforts to describe that he and others were not enemies of the utility, the tone of the press conference was adversarial. Taken in conjunction with the Aquarion rate case, Attorney General petition to have Connecticut Natural Gas (CNG – Avangrid subsidiary) file a rate case, and Attorney General recommended penalties/disallowances for United Illuminating (UIL – Avangrid subsidiary) below, we believe the arguments for Connecticut being a deeply discounted jurisdiction are apparent.

We will be closely watching the credit rating agencies, particularly Moody's where Eversource has consistent had credit metrics below the agencies target. Moody's has had Eversource on negative outlook for approaching two years now. If the offshore wind strategic review lags the agencies expectations, there is a risk that ES has to issue equity faster and/or at a higher level to meet the agency requirements.

Imprudence: AG recommends penalty and lack of recovery

Separately, Attorney General (AG) Will Tong filed a brief on April 27th describing United Illuminating +\$131Mn rate request as "bloated" and "unjustified and unaffordable" (22-08-08). The AG recommends that certain Utility Protection Zone (UPZ) spending should not be recoverable due to imprudent management. While small dollars, the AG unflatteringly highlighted dog walking compensation and other elements supporting the view that the rate increase was unjustified.

The AG recommends a -20bp return penalty (\$2Mn annually) for the alleged failure to remediate environmental issues at the English Station which was a condition of the Iberdrola-UIL merger. The AG recommends that the penalty remain in place until the imprudence at English Station is rectified.

Successful execution on its busy regulatory calendar is key for Avangrid to deliver networks growth, particularly after a multi-year decline in 1Q23.

See additional research on ES, AGR, and Connecticut below.

BofA Global Research Reports

Title: Subtitle

[Avangrid: 1Q23 underwhelms but mgmt reaffirms FY23 guide. Regulatory outcomes key.](#)
[US Utilities & Clean Tech: PowerPoints: AGR CT Intervenor 'Show Cause', LNT Iowa, 1Q Earnings Revisions](#)
[Eversource Energy: Offshore Under Water? Why we still see a cautious setup for this Connecticut utility](#)
[US Utilities & IPPs: PowerPoints: ES Aquarion, PNM-AGR M&A, D offshore wind, ED debate, & GNRC/ETR](#)
[Avangrid: Near-term regulatory uncertainty, long-term EPS risk keep us cautious: stay U/P](#)
[US Utilities & IPPs: Aquarion CT Rate Cut The Latest Cautious Regulatory Datapoint: Underperform on ES](#)
[Eversource Energy: Capex up and EPS down, ES delivers \\$3.3Bn capex but LT guide disappoints](#)
[US Utilities & Clean Tech: Offshore Wind Latest Headwind: Ørsted Impairs Sunrise Wind – ES Joint Venture](#)

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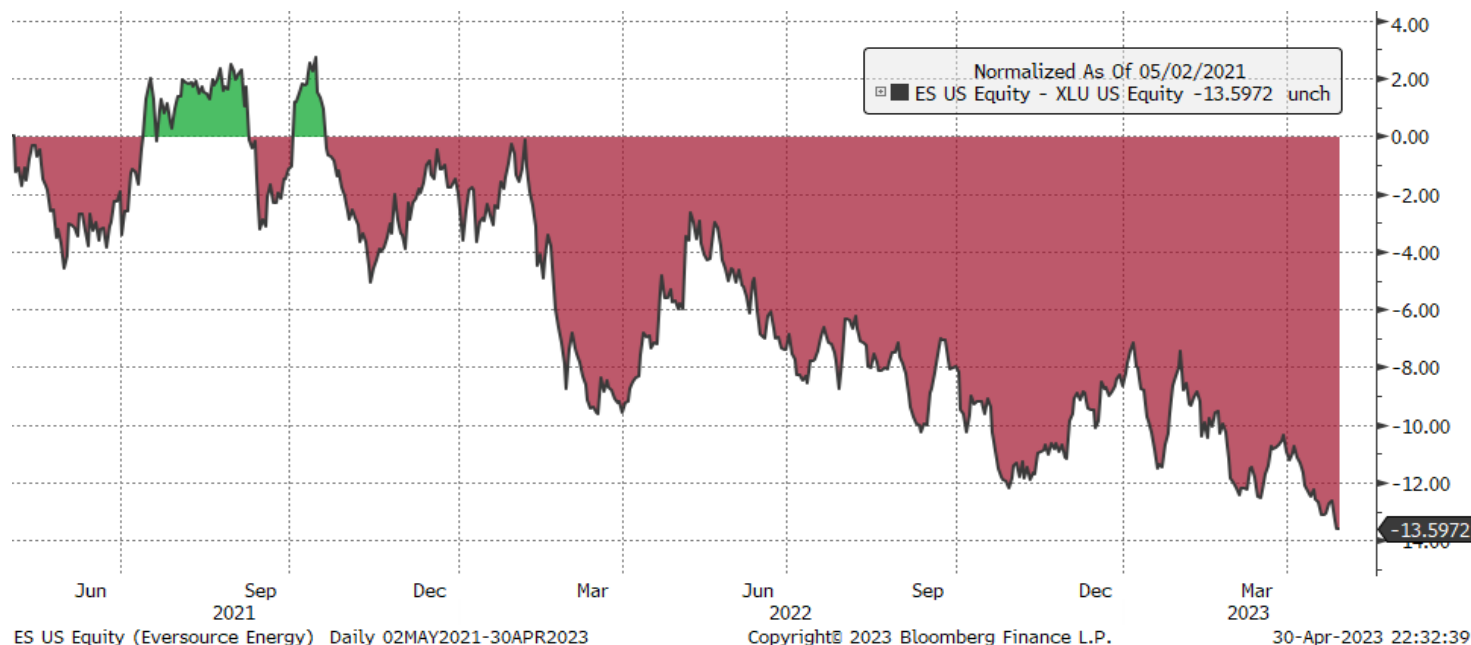
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 20 January 2023

Despite the broad and continued underperformance for both names, we believe that investors are underestimating the potential for further adverse regulatory outcomes. The Connecticut Governor specifically addressing the CEOs of Eversource and Avangrid in relation to Massachusetts and New Hampshire earnings had a chilling effect from our investor conversations.

Exhibit 1: Eversource Energy (ES) Equity Relative Performance vs Utility Peers (XLU)

ES has steadily underperformed, and we see further potential downside. Watch credit metrics as the next key area

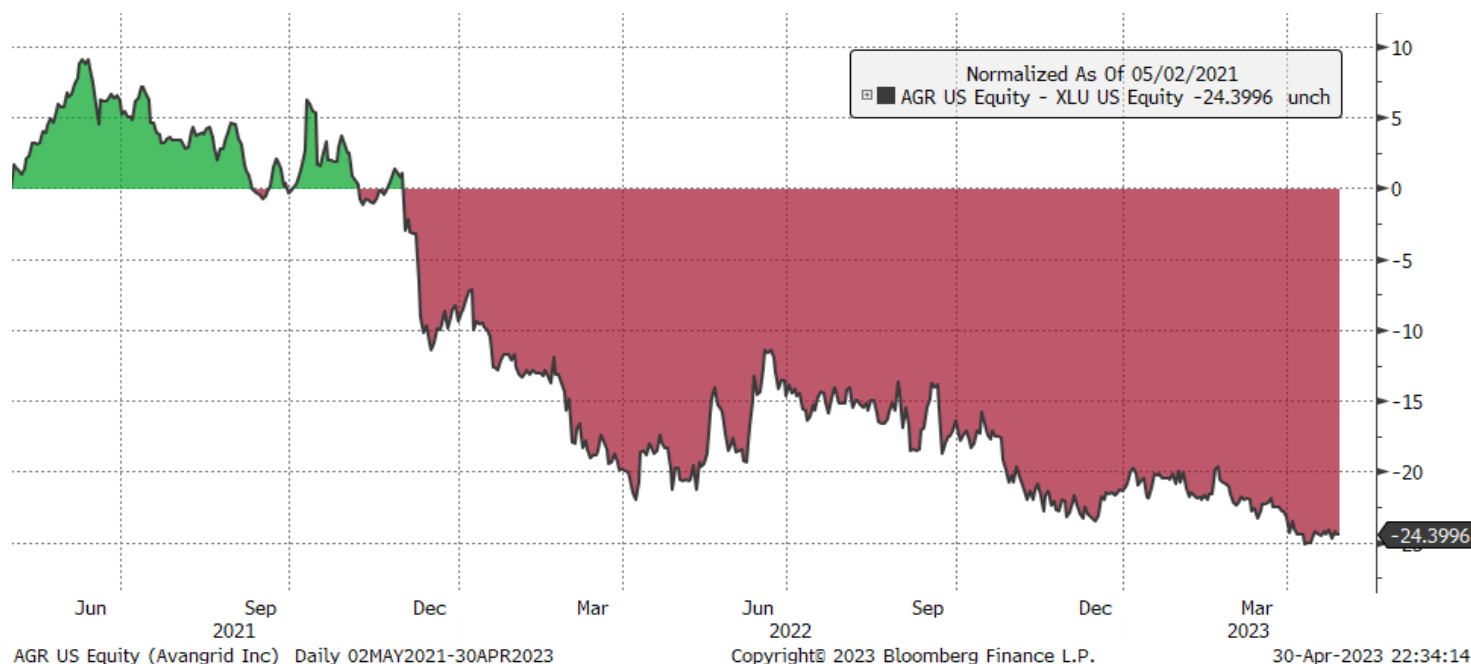


Source: Bloomberg

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Exhibit 2: Avangrid (ES) Equity Relative Performance vs Utility Peers (XLU)

Avangrid has been one of the worst performing utilities over a multi-year period. The company has been challenging to grow core utility & renewable EPS



Source: Bloomberg

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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
ES	ES US	Eversource Energy	US\$ 77.61	B-3-7
AGR	AGR US	Avangrid	US\$ 40.26	A-3-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk**Avangrid (AGR)**

Our \$34 PO is based on an 2025E sum of the parts analysis. The core utilities are valued on by applying discounts to the base sector P/E of 16.0x/16.3x for electric/gas due to below average growth and regulatory jurisdictions. We apply an in-line multiple to the PNM Resources assets with the transaction pending. Both electric and gas peer P/Es are grossed up +5% to reflect capital appreciation across the sector. The renewables are valued at approximately 10x EV/EBITDA, consistent with peers while offshore wind is valued using discounted cash flows at a 12% discount rate. Future potential value creation from the renewable development 'DevCo' is provided as well. Lastly parent/HoldCo financing negatives are ascribed.

Up/downside risks to achievement of the PO and estimates are 1) earned ROEs at the utilities, 2) utility capital expenditure forecasts, 3) regulatory/political/legislative outcomes, particularly regarding the pending acquisition of PNM Resources, 4) equity needs, 5) offshore wind construction, 6) Iberdrola owns over 80% of AGR common stock, limiting float and presenting a potential for governance conflicts, despite the BoD being majority unaffiliated with Iberdrola. 7) natural disasters, 8) commodity and interest rate fluctuations, and 9) management changes.

Eversource Energy (ES)

Our sum of the parts based price objective of \$78 uses P/E multiples on 2025E earnings. The valuation is based on a 2025 sum of the parts analysis. We apply the 2025 average peer P/Es of 16.4x electric, 16.4x natural gas, and 24.8x water. For Connecticut electric & gas utilities, we value at -3x discount to 16.4x base multiple to reflect historical and prospective earnings risks. Connecticut water is valued in-line with natural gas. The other utilities are valued at a peer average multiple. Parent net loss per share is valued at an average electric utility multiple.

Upside and downside risks to our Price Objective are 1) regulatory/political/legislative changes, 2) capital expenditures forecasts, 3) ability to earn the regulatory allowed ROE, 4) offshore wind development, 5) natural disasters & storms, 6) operational performance and gas incidents, 7) integration of historical and prospective M&A, 8) pension plan performance, and 9) equity issuances.

Analyst Certification

I, Paul Zimbardo, 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
BUY				
	AES	AES	AES US	Julien Dumoulin-Smith
	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
NEUTRAL				
	Algonquin Power & Utilities Corp	AQN	AQN US	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	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
	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
	SunPower Corp.	SPWR	SPWR 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

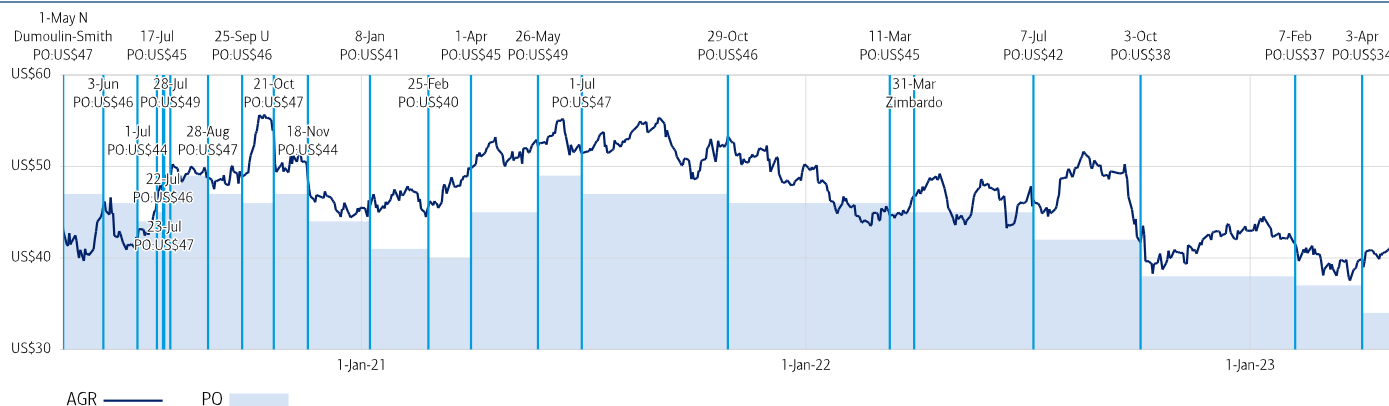
UNDERPERFORM

	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
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Evergy, 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
	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

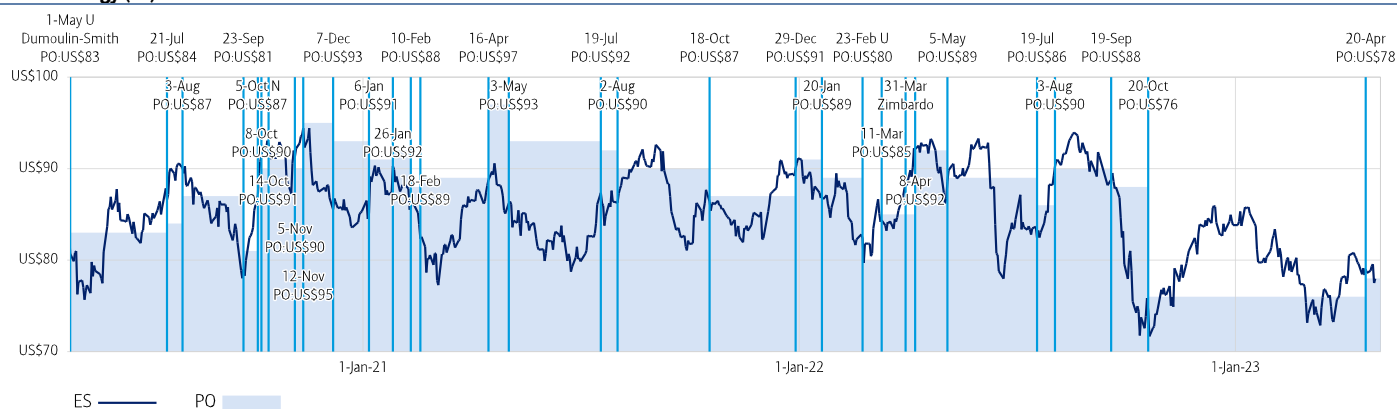
Important Disclosures

Avangrid (AGR) Price Chart



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

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

Eversource Energy (ES) Price Chart

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

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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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