US Utilities & Clean Tech

PowerPoints: PCG Guide up, ETR, D lower pension income, LNG, ORA, CWEN, & OGS

Industry Overview

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Equity
United States
Utilities & Clean Tech

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FFO: Funds from operations
O&M: Operating and maintenance

PCG: Extending the 9%+ EPS runway off a higher base

California regulated utility PG&E Corp (PCG) reported $1.23 FY23 adjusted EPS, at the top of the $1.20-$1.23 Consensus and a beat vs $1.21 BofA/Consensus. FY24 adjusted EPS guidance was increased to $1.33-$1.37 from $1.31-$1.35 initiated in November 2023, generally consistent with $1.38 BofA/$1.35 Consensus. PCG has had significant EPS positive drivers since the November 28th, 2023 business update including the increase in the California Public Utilities Commission (CPUC) cost of capital and an accretive $1.9Bn convertible note issuance to repay expensive term loan borrowings. As a result, there was significant latitude for stronger FY24 EPS, the question was more about the degree of conservatism. Critically, the new $1.23 FY23 adjusted actual EPS is the base for the EPS CAGR, which supports the $1.35 new FY24 guidance midpoint and the 'at least' 9% EPS CAGR FY25+. Previously in 2025-2026 PCG guided to at least 9% but there was no guidance for 2027-2028, although we and investors we spoke to anticipated the 9%+ would be extended. The positive rebase implies +$0.02-$0.03 higher annual EPS. *Besides lower FY26 rate base guidance (see full report), this was a positive update and we continue to view shares as overly discounted vs peers. Maintain Buy.*

ETR: Finishing 2023 strong and 2024 outlook reaffirmed

Gulf coast regulated utility Entergy Corp (ETR) reported $0.52 adjusted EPS, slightly higher than $0.50 BofA/$0.51 Consensus median. 4Q23 had -$0.06 unfavorable weather that was overcome. $4.64 4Q23 GAAP EPS was significantly higher than we anticipated due to a positive tax driver that was **excluded from adjusted results**. This was a $568Mn income tax benefit from a 2016-2018 tax audit, offset by a $98Mn customer sharing regulatory provision ($72Mn post-tax). $6.77 FY23 is above the midpoint of the $6.65-$6.85 increased guidance range and is in-line with $6.75 BofA/$6.76 Consensus. $7.05-$7.35 FY24 adjusted EPS guidance was initiated, consistent with the prior 'outlook' and management's practice. 2024 weather adjusted load growth guidance is up to ~4% from ~3% with +8% industrial, +1% residential, and +0.5% commercial. Management indicated that its forecast for 2024 is minimally changed and related more to lower 2023 sales. The effective tax rate is favorably declining ~1pp to 23% from 24% previously: this is now quantified as a -$0.05 drag, strengthening FY24 EPS

Importantly, Entergy achieved its target credit metrics for 2023 with 14.3% FFO / debt (GAAP, with Moody's calculation expected to be higher) and reaffirms its expectations to be within the agency expectations in 2024+. The $1.4Bn 2025-2026 was reaffirmed with $280Mn at-the-market (ATM) completed through 12/31/23. Entergy formally announced the 2024 Analyst Day for June 6-7 in New Orleans, consistent with the biennial practice. Some regulatory activity has been delayed including at Texas (accelerated resiliency plan [consistent with peers] and transmission cost recovery filing [TCRF]) and Louisiana/New Orleans accelerated resiliency plans. *The 4Q23 update was generally in-line with expectations. We maintain Buy on shares of ETR as one of the better risk-adjusted return profiles within the regulated utility coverage universe.*

D: Negative update on core earnings power. See full report

PCG: Credit improving and rate base generally up (Cont.)

Rate base guidance increases $0.4-$1.0Bn in FY23-FY25 but is -$1Bn lower in 2026 at $73Bn versus $74Bn previously. This is more than offset in FY27 with +$1.3Bn higher rate base than the implied prior plan. We see a 9.2% 2024-2027 rate base CAGR unchanged.

Despite sizable focus on the balance sheet financing plan for '25 (consistent with the 3Q call), no details were provided by mgmt.. on the potential size of the ATM itself. We await PacGen sale details (which we remain fundamentally constructive on – with a slated resolution mid-year). We also look for other levers to be pursued such as incremental asset sales or O&M cuts. Management appears increasingly outspoken on efforts to yet further increase capex in the outlook, adding to ATM needs too. Mgmt was fairly clear it would not tap equity markets today to fund incremental growth still. Moderating div growth remains another potential lever. Setting a date for June Analyst Day provides a likely date for meaningful balance sheet refresh and hopefully aligns with the update on PacGen sale too.

We still see the update from PG&E as among the most constructive updates this week among earnings calls given the guide raise – the constructive signaling involved despite the balance sheet backdrop and extension of its 9% EPS CAGR for a further two years.

Exhibit 1: PG&E Rate Base Guidance

Besides a divot in 2026, rate base is higher across the years and compensated for in 2027

Rate Base Guidance ($Bn)	2022	2023	2024	2025	2026	2027	2028	'24-'26 CAGR	'24-'27 CAGR
October 2023	49.8	58.0	63.5	68.0	73.5	78.0		7.6%	7.1%
November 2023	49.8	56.5	62.0	67.6	74.0	80.7		9.2%	9.2%
February 2024	49.8	57.0	63.0	68.0	73.0	82.0	90.0	7.6%	9.2%
October to November Delta	-	(1.5)	(1.5)	(0.4)	0.5	2.7			
November to February Delta	-	0.5	1.0	0.4	(1.0)	1.3			

Source: Company Filings

BofA GLOBAL RESEARCH

PCG's **prior** warning that it may not achieve mid-teens FFO / debt by 2024 with 3Q23 earnings (before the general rate case vote) caused some consternation among investors. This quarter PCG again reaffirmed that it expects to achieve the mid-teens level, we believe incrementally supported by the higher cash flows from the cost of capital increase ($8Bn operating cash flow FY24, up from $5Bn in 2023. Moody's upgraded PG&E Corp to Ba1 and Pacific Gas & Electric (PG&E) subsidiary credit to Baa2 earlier this week with a positive outlook still. The long-term balance sheet remains one of the few areas of uncertainty with PCG only guided to new equity in 2024 with 2025+ depending on the proposed Pacific Generation (PacGen) minority interest sale awaiting delayed regulatory approval. PCG expects advice letter approval of a transaction in June 2024; however, there is no timeline for the proposed decision.

D: Core EPS power appears -$0.26 lower than before

Diversified regulated utility and offshore wind development company Dominion Energy (D) reported $0.29 4Q23 adjusted EPS, below $0.35 4Q23 guidance. Management attributed the weaker 4Q23 results to -$0.03 merchant Millstone nuclear unplanned outage, -$0.02 adverse weather, and -$0.02 investment tax credit (ITC) accounting change. The -17% miss on quarterly guidance is disappointing and highlights the unregulated nuclear and weather volatility. 4Q23 adjusted EPS excludes -$151Mn regulated asset retirements & charges (3Q23 10Q indicated an offshore wind easement impairment would be recorded in 4Q23) and -$118Mn Millstone nuclear asset retirement obligation (ARO) obligation increased base on expected longer useful life. There are multiple changes to the illustrative 2023 guidance, the most notable a -$0.07 investment tax credit accounting methodology change for unregulated natural gas (detailed below).

Reducing pension income and renewable natural gas expectations
From our initial review of the materials, the two primary long-term EPS drivers are a cut to pension income (~$0.08 to $0.10) and renewable natural gas (RNG) (-$0.07). The changes to accounting for RNG ITC and reducing the expected pension return on asset (ROA) to be more in-line with peers are both constructive updates for the long-term as the company focuses on "perceived earnings quality". Dominion disclosed $0.40 pension income in 2023 which will decline ~$0.10 as losses are smoothed in and then potentially an incremental ~$0.09 decline if the return on pension asset is reduced to be more consistent with peers.

The $1.99 2023 adjusted actual and $2.85 updated illustrative 2023 EPS had $0.40 pension income per Dominion, representing ~20% and ~14% of EPS, respectively.

See our Dominion pension deep dive here with the quantification of the ~$0.40 FY23 pension income: Dominion Energy: Raining on the Dominion Holiday Parade: Why we are still Underperform after rally 29 November 2023

Offshore wind sale comes generally in-line
Dominion announced the long-awaited offshore wind sale to Stonepeak Infrastructure Partners (Stonepeak) at ~1.0x rate base with 50%/50% ownership at the $9.8Bn unchanged cost estimate with Dominion assuming sharing of potential overruns that Stonepeak has the option to participate in. The business review is set for March 1st now that the offshore wind transaction terms are set. The upfront economic terms are in-line with our expectations but we did not assume Dominion would assume potential overrun risk which is cautious on the margin. Most investors we spoke to expected a successful offshore wind sale and this is consistent with investors' expectations. Dominion (then Dominion Resources) previously worked with Stonepeak in relation to its Dominion Midstream Partners (DM) MLP when transacting on the Questar Pipeline.

A core element of our more cautious thesis on shares of D is the large unregulated (primarily Millstone as well as renewable natural gas) and pension EPS mix. Those should be declining; however, shinning a spotlight on these items will likely lead to underperformance as Dominion has one of the largest unregulated/pension mixes. We maintain Underperform on shares of D which we view as relatively expensive versus peers based on the growth profile and earnings mix. Our EPS estimates include ~$0.50 pension income in 2026 and $0.40 in 2023 versus the new ~$0.20 guidance average 2025-2029 – this is a material negative and we look to learn more about potential offsets at the March 1st Investor Day.

LNG: FY24 guide above run-rate lvl, but lags expectations

Liquified natural gas focused company Cheniere Energy (LNG) reported 4Q23 results in line with expectations with adjusted EBITDA coming in at $1.65Bn vs. BofAe at $1.65Bn and Consensus at $1.67Bn. Distributable cash flow (DCF) for the quarter was $1.05Bn and was actually above our expectations at $829Mn, bringing FY23 results above the high-end of guidance of $6.3Bn. Cheniere guided to FY24 EBITDA of $5.5-6.0Bn, which misses both $6.0Bn BofA and $6.3Bn Consensus. The guide is above run-rate guidance of $5.3-5.7Bn. *Management admittedly does have a track record of conservative guidance to start the year.*

For FY24 DCF, Cheniere guided to $2.9-$3.4Bn which compares to our expectation of $3.4Bn and is also above run-rate guidance of $2.6-$3.0Bn. In terms of capital allocation, Cheniere prepaid $50Mn of long-term debt and repurchased $329Mn in common stock during 4Q23. This brought FY23 debt prepayments to $1.2Bn and stock repurchases to $1.5Bn. As we have highlighted, we expect Cheniere to accelerate the buyback in FY24 as management seeks to achieve a cumulative ratio of 1:1 between repurchases and debt prepayments. So far in FY24, Cheniere has already repurchased 2.9Mn shares for over $450Mn. Cheniere continues to make progress on expansion projects, with Corpus Christi Stage 3 (CC3) over 50% complete. Critically, mgmt. expects first production from the project in 2024, which is well-ahead of schedule. Other expansion projects, including Corpus Trains 8 & 9 and Sabine Pass expansion, continue to progress through regulatory processes. Mgmt. expects to reach final investment decision on Trains 8 & 9 in 2025 and Sabine in 2026. *Maintain Buy on shares of Cheniere which continue to trade at an attractive risk-reward profile.*

Cheniere Energy Inc: Cash generation remains compelling, regulatory turbulence aside – Reiterate Buy 02 February 2024

ORA: 4Q23 results, FY24 guide in-line; FY26 reaffirmed

Ormat Technologies (ORA) reported 4Q23 results and issued FY24 guidance, both of which were in line with our and Consensus expectations. For 4Q23, revenue came in at $241Mn and EBITDA at $139Mn, bringing FY revenue to $829Mn and EBITDA to $482Mn. FY23 results compare to our/Consensus expectations of $826Mn/$827Mn for revenue and $481Mn/478Mn for EBITDA. Negative gross margins for Energy Storage of (8.9)% were offset by gross margins of 39.5% for Electricity and 12.6% for Product. On a consolidated basis, gross margins declined 650bps YoY to 32.5%, with all segments showing a YoY decline. For FY24, ORA guided to revenue of $860-910Mn and EBITDA of $515-545Mn which compares to our/Consensus expectations of $914Mn/914Mn for revenue and $523Mn/$528Mn for EBITDA. Mgmt. also reaffirmed '26 total generation its capacity target of 2.1-2.3 gigawatts (GW), but did not provide commentary for 2026 revenue or earnings targets. The 2026 targets were introduced at the 2022 Investor Day and included a revenue goal of $1.1-1.15Bn and EBITDA goal of $650-700Mn. Our forecasts has consistently been shy of these targets as we have noted project delays and operational challenges remain a cautious sign. Our FY26 revenue estimate is $1.06Bn and our FY26 EBITDA estimate is $615Mn. On balance, see update as cautious considering further delays in expansion projects. Expect roll-forward of targets beyond 2026 at upcoming Analyst Day this summer.

We see risk to 2025 and 2026 targets and continue to monitor operations in Kenya as contract negotiations continue. *Maintain Neutral on shares of ORA which trade at a balanced risk reward profile. We perceive potential for a more robust '27+ outlook.*

CWEN: Reaffirming FY24 and long-term intact

Clearway Energy (CWEN) reported FY2023 results including $1,058mm adj EBITDA slightly missing $1,100mm BofA and $1,092 Consensus estimates. They also reported FY2023 $342mm Cash Available for Distribution (CAFD) within their FY2023 guidance range, beating $333mm BofA estimates despite facing weak wind in 1H23. The Company reaffirmed FY2024 CAFD guidance of $395mm vs BofA expectations of $431mm. Mgmt reiterated that the company is on track to deliver at the upper end of their 5-8% range for its FY26 dividend growth target without external capital, with 8% BofA expectations coming in at the top of the range. For 1Q24, management increased the dividend 1.7%, reiterating 7% annual DPS growth in 2024 and reiterated a line of sight toward ~$2.15 of CAFD/share target with no external equity/debt needs through 2026 given Thermal proceeds. Management notes that funding for future drop downs beyond FY26 will be funded by excess cash first, then their debt capacity / unfunded revolver, avoiding tapping into the equity capital markets if not necessary. During the conference call, management expressed enthusiasm about their strong pipeline of over 4GW of fleet optimization and expansion opportunities maturing for potential investments in FY26-FY27.

Quiet if not underwhelming quarter based on output. Maintain Buy with an attractive risk/reward profile and relative valuation. Continue to have confidence on '26+ outlook.

Clearway Energy: Clear path to capitalizing on Cali – Upgrade to Buy 06 October 2023

OGS: 4Q23 in line with tax help; FY24 guide reaffirmed

Natural gas regulated utility ONE Gas (OGS) reported 4Q23 EPS of $1.27, in line with BofA $1.28 and Consensus $1.27. This reflect +3c benefit from tax credits for excess deferred income tax liability amortization, generally offsetting -3c warm weather not offset by the mitigation. OGS reaffirmed all facets of FY24 guidance, including EPS of $3.70 to $4.00 and capital expenditures of $750Mn. O&M rose 7% YoY in 4Q23; with base-year of EPS guidance now complete, we sense we could see meaningful run-rate improvement in O&M as a source of potential upside to the long-term guide given the high 5% O&M CAGR target. New customer rates, net of higher employee-related costs and depreciation were the primary factor behind a +5c increase in operating income in the quarter. O&M rose nearly 7% YoY, ahead of management's target 5% O&M CAGR for go-forward guidance. Including the tax credit benefit above, lower effective tax rate added +4c to 4Q23 EPS.

Overall we see the print as a neutral update with respect to progress on the long-term plan. We remain cautious on the 4-6% EPS CAGR guidance given the quantum of dilution we forecast as a primary factor. We maintain Underperform as a result with earnings pressures leaving shares expensive.

ONE Gas, Inc.: Second cut is the deepest. FY24 -7% YoY with long-term dilution risk too
30 November 2023

BofA Global Research Reports

Title: Subtitle	Primary Author	Date Published
SolarEdge Technologies: Holding back shipments comes at a cost – Reiterate Underperform	Julien Dumoulin-Smith	22 February 2024
Avangrid: 4Q23/FY23 Beats on taxes. FY24 Higher than BofA/in-line with Street.	Paul Zimbardo	22 February 2024
US Electric Utilities & IPPs: Power Points: NI beat and raise, higher FY23 base; ERM risk to AVA FY24 guide	Julien Dumoulin-Smith	21 February 2024
SolarEdge Technologies: Tough print and dimmed outlook – Reiterate Underperform	Julien Dumoulin-Smith	21 February 2024
US Utilities & Clean Tech: PowerPoints: OGE Guide, D/AEP New Nuke?, D M&A, ALE Miss, AGR CT, Alberta	Julien Dumoulin-Smith	21 February 2024
Exelon: Growth slows to 5-7%, as expected. Move from Illinois distribution to transmission.	Paul Zimbardo	21 February 2024
CenterPoint Energy: Big update for CNP with lots to unpack – Reiterate Buy	Julien Dumoulin-Smith	20 February 2024
US Utilities & Clean Tech: PowerPoints: CNP earnings, VST M&A, SO GA capex, ES/AGR “rate shock”, AEE/XEL	Julien Dumoulin-Smith	20 February 2024
US Utilities & Clean Tech: PowerPoints: ED Capex/Equity, LNT EPS, POR miss, IDA light guide, & PPL delivers	Julien Dumoulin-Smith	16 February 2024
Portland General Electric Company: Disappointing FY23 EPS but FY24 in-line. Capex jumps from grid spending plans	Julien Dumoulin-Smith	16 February 2024
Bloom Energy: A choppy start to the year – reiterate Underperform	Julien Dumoulin-Smith	16 February 2024
SunPower Corp.: New lease on life: SPWR secures liquidity stopgap, but dilution costly with downside	Julien Dumoulin-Smith	16 February 2024
Generac Holdings Inc.: Yes, a tough '24 ramp but hope & opportunity clear: Stay Neutral	Julien Dumoulin-Smith	16 February 2024
US Utilities & IPPs: PowerPoints: SO Rebase & Vogtle, AWK Guide Up, and NWE Earnings Beat	Julien Dumoulin-Smith	15 February 2024

Exhibit 2: 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$ 16.78	B-1-7
ETR	ETR US	Entergy Corp.	US$ 101.26	B-1-7
D	D US	Dominion Energy	US$ 46.29	B-3-7
LNG	LNG US	Cheniere Energy Inc	US$ 164.54	B-1-7
ORA	ORA US	Ormat Technologies	US$ 67.22	B-2-7
CWEN	CWEN US	Clearway Energy	US$ 23.67	B-1-7
CWENA	CWEN/A US	Clearway Energy	US$ 21.96	B-1-7
OGS	OGS US	ONE Gas, Inc.	US$ 60.39	B-3-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Cheniere Energy Inc (LNG)

Our $191 PO is based on an SOTP in which we value LNG's stake in CQP using a fundamental NPV valuation of Sabine Pass less non-controlling interest (valued as full NPV of Sabine Pass less non-Cheniere economic interest). We provide separate value to LNG's marketing business assuming excess capacity of SP 1-6 and CC 1-3 realizes approximately a $3.39/MMBtu 2026E margin, applying a 8.0x multiple to corresponding EBITDA. We value CC 1-3 on a NPV basis, valuing the initial 20-year contract term at 100% and the 10-yr extension at 75% (reflected risk in pricing assumptions). For CC Stage 3 we again assume initial 20-year contract term at 100% likelihood again weighing the contract extension at 75%. We also incorporate CC T8&9/SP/CC expansions at 75%/75%/50% probabilities for the initial term and 50%/50%/25% for extension terms. For all NPV, we discount cash flows at a 12.0% rate during construction and 8.0% rate during the contracted period given the difference in risk profile. For Sabine Pass and Corpus Christi Expansion opportunities, we discount NPVs at 8% from 2025 (the first year of our NPV calculations) to today.

Downside risks are counterparty credit risk, construction delays, changes in trade policy limiting exports, and changes in commodities.

Clearway Energy (CWENA / CWEN)

Our $27/sh PO is based on 67/33 weighted DDM/DCF methodologies. Our DDM value is $30 and our DCF value is $20. We use a 67% weighting to reflect disproportionate focus on existing and future yield over core asset cash flows. Perceived growth remains the prevailing methodology employed across the market.

In our DCF, we discount the current portfolio's expected cash flows. Main assumptions include:
- Our 8.63% cost of equity applies a CAPM methodology and includes 1.0% company-specific premium
- Outstanding corporate debt is assumed to be refinanced and amortized on a 20-year term.

Assumptions under our DDM approach are:
- 8.0% growth through 2026
- A 2.0% required yield based on the 2023E dividend yield for the YieldCo peer set.

Risks are 1) misalignment between the new sponsor and the company's growth strategy, 2) the inability to purchase high-quality assets at accretive multiples, 3) the failure to successfully develop projects, 4) the inability to access capital markets at attractive terms, and 5) PCG related counterparty exposure is among the nearest exposures to watch.

Dominion Energy (D)

We value Dominion Energy at $40 using a 2026E sum-of-the-parts analysis. For the utilities we apply the comparable 13.5x electric peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply -1.5x discount for base Virginia and -1.0x for South Carolina. We apply discount adjustments to lower value utility sources in South Carolina (NND nuclear and bill credits). The pension income is valued 4x P/E, consistent with the 12/31/22 valuation levels.

Contracted assets are valued using 2026 EV/EBITDA: 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. The interest rate hedge is valued at the stated $1Bn value 9/30/23 less tax.

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, nuclear accidents, and weather, 8) nuclear performance, 9) inflation, & 10) offshore wind construction.

Entergy (ETR)
Our $113 price objective is based on a 2026 sum-of-the-parts analysis. The 2026E electric utilities 13.8x average P/E is grossed-up +5%, to reflect capital appreciation across the sector. We apply -1x discounts to Mississippi, New Orleans, and SERI to reflect elevated regulatory uncertainty. We value Louisiana at a -2x discount due to an even more challenging regulatory climate with elevated volatility versus jurisdictions. Texas has a +2x premium applied for premium growth potential. We net out 50% of the parent HoldCo long-term debt and apply a P/E multiple to 50% of the interest expense.

Upside risks are: (1) constructive regulatory, political, and legislative changes, (2) deploy capex consistent with guidance, (3) higher earned rates of returns at the jurisdictions, (4) lower interest rates, (5) equity issuances relative to mgmt's forecast and access to capital markets, (6) higher pension and nuclear decommissioning fund performance . Downside risks are: (1) negative regulatory, political, and legislative changes, (2) natural or nuclear disasters including hurricanes, (3) inability to deploy capex consistent with guidance, (4) lower earned rates of returns at the jurisdictions, (5) higher interest rates, (6) equity issuances not in sync with mgmt's forecast and inability to access capital markets, (7) lower pension and nuclear decommissioning fund performance (8) nuclear accidents, and (9) mgmt turnover.

ONE Gas, Inc. (OGS)
We use a sum-of-the-parts analysis to calculate our $57 price objective for OGS, applying a FY26E Gas LDC peer multiple of 13.4x (grossed up by 5% to reflect capital appreciation across the space). We use a 1x discount to the group to reflect below-average utility growth rates and inherent lag that limits actual returns relative to those authorized.

Upside and downside risks are: 1) political, regulatory, and legislative changes, 2) capital expenditures, 3) inflation and operating costs, 4) commodity prices, 5) pandemics, natural disasters, and weather, 6) policy changes for natural gas investments.

Ormat Technologies (ORA)
Our $71/sh PO is based on a DCF + DevCo methodology, with a DCF value of $38/sh plus a DevCo value of $33/sh.

In our DCF, we discount the existing portfolio's expected cash flows. Main assumptions include a 8.99% Cost of Equity with 1.00 adj. beta and 4.01% 10-yr Treasury under the CAPM (with project-specific adjustments, 2% international risk premium and 0.5% development premium).

In our DevCo, we value long-term growth prospects with the assumption of geothermal value at $1.50mn/MW and battery storage at $0.28Mn/MWhr. Our long-term assumptions are slightly lower than mgmt.'s Analyst Day targets given operational challenges. We apply an 11x terminal value, akin to where ORA has traded historically, and discount the value created in each year back to today at a 12% cost of equity capital. Additionally, we include the NPV of future storage investment tax credits. We also discount these credits back at a 13% rate.

Risks: 1) operational issues including planned/unexpected maintenance costs and shutdowns, 2) geological uncertainties and catastrophic events incl. earthquakes and volcanoes, 3) international exposure with higher credit, financial, political, and regulatory risks, and 4) re-contracting price risks 5) Ability to execute in a nascent storage segment.

PG&E Corporation (PCG)

Our PO of $19 reflects an in-line P/E versus the respective electric (16.1x) and gas (16.0x) 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, 8) asset sales, 9) management changes, and 10) environmental, social, & governance [ESG] profile.

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
BUY				
	Alliant Energy Corporation	LNT	LNT 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
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	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
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	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
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Corp	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Paul Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Julien Dumoulin-Smith
UNDERPERFORM				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE 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	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG 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
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RSTR				
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	SunRun	RUN	RUN US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Alternative Energy Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	8	47.06%	Buy	8	100.00%
Hold	5	29.41%	Hold	3	60.00%
Sell	4	23.53%	Sell	1	25.00%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	83	61.48%	Buy	64	77.11%
Hold	28	20.74%	Hold	21	75.00%
Sell	24	17.78%	Sell	18	75.00%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
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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