US Utilities & Clean Tech

2024 Utilities, Power, & Clean Energy Conference: Data(center) Download

Industry Overview

07 March 2024

Equity
United States
Utilities & Clean Tech

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Datacenters and AI infiltrate the utilities conference

We hosted 75+ Utilities, Power & Clean Energy companies at our New York City conference with record attendance. Many investors nicknamed the conference the 'data center conference' as there is a huge focus on what load growth means for the sector and who the relative beneficiaries are. Please see our *initial* company takeaways here.

Wildfire defense is the best offense. PSPS is necessary

Even as the Xcel Energy (XEL) Smokehouse Creek wildfire containment grows, wildfire risk remains top of mind as XEL continues to underperform peers. From our investor conversations, many are simply bifurcating the utilities as those with and without Public Safety Power Shutoffs (PSPS) to determine the risk profiles. Besides the California investor owned utilities, we were pleasantly surprised at the rigor and details that Idacorp (IDA) and PPL Corp (PPL) were able to provide about their plans. In contrast, it is clear that many other utilities need to improve their wildfire mitigation standards to improve investor confidence. It does not appear that Federal wildfire risk protections will be successful in 2024 election year with the outlook for 2025+ equally murky.

Positive meetings from EVRG, PPL, PCG and PSEG

Our meetings with senior management from Evergy (EVRG), PPL, and PSEG (PEG) were among our most constructive. We continue to see PG&E (PCG) as able to derisk its backdrop thru '24 with what appears numerous alternative financing angles. The prospects of favorably legislative reforms continue to improve for Evergy's jurisdictions which should position the company for more visibility in the future. PPL's investment thesis and profile is increasingly standing out against peers and should command a premium valuation. For PEG, while the company missed some of the initial nuclear+data center euphoria, it has seen renewed excitement for its smaller but potential merchant nuclear footprint. In contrast, companies that needed to dedicate significant time to balance sheet weaknesses/2023 misses, challenging regulatory developments, and explaining a lack of wildfire mitigation features resonated less with investors and had more of a defensive posture.

Themes: Data Centers, yes, tariff reform & DOE loans too.

Look for ongoing load developments to drive focus thru '24. Just as much as the new burgeoning demand is now a full-on push from regulators across near every geography to ensure industrial tariffs are established to ensure they are paying their 'fair share' for new generation investments they are requiring. Stay tuned on this thru rate cases and the like as just how this is implemented moves forward. On an adjacent topic we see DOE's loan program as poised to make awards in the administration's final years, with substantive focus on utility-oriented subsidized loans at T+3/8ths. This could yet help companies like PNW and PCG mitigate their rate lag and mute bill inflation for SO customers after Vogtle. Total extent of loan applications remains understated with most companies relatively mum; they could be substantial. Look for developments by mid-'24.

Refer to important disclosures on page 35 to 38. Analyst Certification on page 33. Price Objective Basis/Risk on page 27. **12668207**

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Ameren Corp. (AEE)

We met with Martin Lyons (CEO), Michael Moehn (CFO), Andrew Kirk (IR), and Lauren Hemesath (modeling specialist). While investor focus remains squarely on the regulatory outlook in Illinois, the company is continuing the execution of its business plan in Missouri while pursuing additional transmission and renewable generation development opportunities. We maintain our neutral rating. On balance substantial interest in the meetings and see potential for inflection in shares off recent lows as outlook was defended.

Regulatory rundown

The company's opening comments touched on three topics: **(1) the recent regulatory decision in Illinois**: the ICC has granted a partial rehearing of the order addressing the base level of grid reliability investments and the use of '22 rate base and certain O&M items. Management expects a decision in June. The ROE component of the decision is being appealed to the 5th District Appellate Court, there is no schedule associated with this process and it could take a considerable amount of time. Management floated the potential for a legislative fix, potentially surfacing at the end of '24 into 2025; **(2) The fall '23 Missouri IRP filing**; this plan addresses renewables and dispatchable generation, looks out to 2030 and identifies $5.2 billion of potential investment ($3.2 billion is included in the current forecast through '28). It further identifies the need for 800mw of new peaking gas generation by '28 (have $800-$900mm in the plan); **(3) Renewable project development**; AEE is moving ahead on two renewable projects in Missouri, with certificates of need in place, they are confident in their ability to execute.

Further transmission opportunities in MISO

Tranche 1 of the MISO transmission planning process identified $10 billion of projects, of this, AEE was directly allocated $1.8 billion of brown field projects and competed for a further $500-600mm of greenfield projects (winning on 2 of the 3 bids). MISO is expected to release Tranche 2 projects shortly. AEE estimates that Tranche 2 could be double the size of Tranche 1 and will be more specific to the AEE service territory in MISO North. How much they get directly allocated from this tranche will depend on the mix of brown field to greenfield projects. AEE believes that MISO is too optimistic in its expectation that Tranche 2 projects could be approved by mid-year, instead believing the level of feedback and vetting will push that approval closer to year end.

Base thesis unchanged.

The company's base investment thesis remains unchanged. Earnings growth from '24 to '28 is forecast to be below the mid-point of the 6-8% range, rate base growth CAGR is forecast at 8.2% through 2028 (off a 2023 base), and dividend growth will be in line with EPS growth. The company's infrastructure investment pipeline through 2033 totals $55 billion with potential upside. The company remains committed to sustainability and ESG goals. AEE expect to fund its projected growth with equity ($300mm in '24, $600mm from '25-'28), debt financing and cash from operations.

Ameresco (AMRC)

We met with members of Ameresco's mgmt. team including Doran Hole (CFO) and Josh Baribeau (SVP Finance and Corporate Treasury) at our Power, Utilities and Clean Energy Conference. Highlights from the conversation include updates on the SoCal battery projects and impact on the balance sheet and project timelines. We maintain our Neutral rating on shares of AMRC which trade at a balanced risk-reward profile.

SCE project translates to the balance sheet

Shares have been under pressure as of late due to Southern California Edison (SCE) project delays related to permitting and interconnection. Mgmt. provided an update stating 2 of the 3 projects are going through cyber security testing by SCE and the team is working through a final checklist of items that will deem both projects substantially complete in the next month or so. After substantial completion is reached final payments of unbilled receivables from SCE, which could be anywhere in the ~$200-400mm range, will begin to occur and negotiation surrounding the $89mm (maximum value) in liquidated damages (LD) and costs occurred by AMRC will begin. Mgmt. has accounted for maximum LD risk and taken LDs into consideration for near term liquidity needs. Given the current state of the balance sheet, ARMC is raising junior debt to pay off their term loan and revolver to increase liquidity before the bulk of SCE payments are received. Once payments are collected on the SCE projects, corporate leverage should start to see relief.

Project delays pervasive across RNG development

A theme of the conference has been pervasive project delays across the renewable development industry due to supply chain, labor, permitting and interconnection issues, which AMRC has seen on the labor and supply chain side. FY24 Adj. EBITDA guidance of $210mm-$240mm is lower than expected and at a wider range to account for potential risks due to delays. Despite a strong awarded backlog pipeline, visibility to 2024 EBITDA remains muddled due to project timelines lying at the mercy of pervasive industry bottlenecks.

Asset sales likely in 2024

Due to recent balance sheet constraints, AMRC has identified some assets that they will pivot to a "build-to-sell" model for in 2024. The only question surrounding these projects is timing, as end market demand is strong for the late-stage development projects. This could help mute the climb in leverage being an attractive form of capital recycling for the business.

CMS Energy (CMS)

We met with Garrick Rochow (CEO), Rejji Hayes (CFO) and Travis Uphaus (IR). Management is upbeat on both recent and pending regulatory and legislative activity, the business climate in Michigan and the prospects for significant infrastructure investment to address system reliability and demand growth. We continue to see upside from additional margins on its DIG plant as well as clean energy filing in 2H. Mgmt remains confident in integrity of the latest legislation passed despite the partisan backdrop to its passage. Meanwhile see DIG margin upside as capacity is hedged into future – we could well see yet another effort to buy in the plant back into the utility and/or self contract, particularly should the region prove increasingly short. We maintain our Buy rating.

Reliability and energy transition are the investment goals

The company's opening comments focused on three points: **(1) Electric reliability:** $7 billion reliability investment plan through the current 5-year plan is supported by the recent GRC decision, with significant additional investment opportunities beyond the forecast period. This plan includes pole replacement, substation upgrades and the application of advanced technology and grid automation. Further transmission/distribution undergrounding will also be permitted, initially through a pilot program for 10 miles in 2024, but potentially growing to 400 miles per year by 2027; **(2) Clean energy legislation:** Passed into law in November '23, this legislation builds on existing renewable and clean energy goals, increasing the compensation mechanism on PPA's and the energy efficiency mechanism. CMS will have discretion in how to meet these new goals, using a combination of PPA's and self-built generation, but will also be able to look outside Michigan for these opportunities (staying within MISO); and **(3) Meeting the demands of a growing Michigan economy:** CMS is optimistic on both the regulatory and business climate in Michigan and is committed to working with regulators, legislators and the business community to ensure that growing energy needs are fully met.

Constructive regulatory climate

Pointing to the recently issued electric GRC order, management highlighted the infrastructure recovery mechanism, the T&D undergrounding pilot program and the vegetation management program as significant positives. While the order did not include a storm tracker, management highlighted that this outcome was largely expected, that the proposal still has merit and that they will continue to meet and discuss the topic with regulators. The next electric GRC will be filed late in the second quarter.

CMS expects to make its Renewable Energy Plan (REP) filing in November. This will be a comprehensive filing, highlighting the potential for an addition $5-$10 billion of investment through 2035, with a mix of self-built and PPA sourced power from both within Michigan and the broader MISO region. The commission will have 300 days to consider this application, with a decision expected in September/October of 2025. The spending plan for 2026-2030 will reflect the investments highlighted through this filing.

Strong fundamental outlook is unchanged.

The core components of CMS Energy's investment thesis are unchanged. The company expects to grow earnings at an annual rate of 6-8%, targeting a dividend payout ratio of 60% (implies an annual growth rate of 5.5-6%) and target a mid-teens FFO/Debt ratio. Financing for the company's $17 billion capital spending plan will be sourced from internally generated cashflows, new equity issuances ($350mm projected for 2025), debt (including first mortgage bonds) and the monetization of tax credits (approx. $500mm over the forecast period). The regulatory calendar for the remainder of the year includes an electric general rate case filing (late Q2), and an updated Renewable Energy Plan (REP) filing in November. The company is on track to retire its last coal plant in 2025, meet its previously enunciated net zero goals and remains committed to transparent ESG disclosures and sustainability.

CenterPoint Energy (CNP)

We hosted meetings with members of CNP's mgmt. team including Jason Wells (President and CEO), Chris Foster (EVP and CFO) and Jackie Richert (VP of Investor Relations, Treasurer). CNP remains among the fastest growing utilities in our coverage universe led by strong load growth and a robust capital plan. We look for a holistic update in 1Q24 as well as a '25 Analyst Day which will be key to defining the full extent of capex and equity needs. For now, expect incremental capex to be equity financed split 50/50 for every $ of increase but we specifically look to tax planning angles among others to bolster cash and mitigate the further equity financing need. Further, as late 1Q/early 2Q filing of its resiliency plan is released look for incremental increases rather than anything equivalent to what Oncor has done of late with a step-function change higher. Still an open question on how much it will offer up. Maintain Buy and see further rerating potential as gradually provide updates, culminating in longer-term 10-yr view in 1H25. Regulatory datapoints just as important as capex increases in '25 to derisk perceptions.

Big regulatory year – Texas utes takes center stage

We look for key updates in the coming weeks as critical regulatory processes progress. On March 6, 2024, CNP filed the Houston Electric rate case (Docket no. 56211) with the Public Utility Commission of Texas (PUCT). Houston Electric is requesting an allowed return on equity (ROE) of 10.4% and equity content of 44.9% on a rate base of $12.1Bn. This compares to the current authorization of 9.4% ROE and 42.5% equity content. We see potential for uniquely constructive confluence of regulatory path between Texas Gas (look for an update here in the coming weeks), Minnesota Gas case (interim rates already) in parallel with the latest electric PUCT case kicking off. We stress clarity on the PUCT composition thru the case remains a key input into shares considering the criticality of the case ahead. Watch for new adds, swaps on the commission as key considering legacy in prior cases. On the 4Q call we look for mgmt. to offer. Finally, also remain particularly constructive on resiliency spending for both Oncor (upside to their stated ranges) & Houston Electric (truly still a novel and seemingly under-appreciated on specifics too). We see potential for some slippage in resiliency plan filing beyond mgmt.'s expectations of 1Q24 as the extended final rulemaking by the PUCT.

Robust capital plan bolsters rate base, with upside to boot

We view CNP's sale of the Louisiana and Mississippi gas utilities as a clear positive indication of mgmt.'s confidence in its capital strategy. The $1Bn in after-tax proceeds is consistent with mgmt.'s strategy to recycle capital as it embarks on a robust spending plan. We look for mgmt. to deploy proceeds towards higher-return jurisdictions to maximize shareholder value. We stress CNP's $43Bn prior capital budget through 2030 remains among the most robust in the space but also quite dynamic: we expect CNP to save up to a comprehensive update culminating in A-Day in '25. We expect any dilution form the $250Mn in annual equity needs that mgmt. outlined at the last update to be more than offset by attractive returns across jurisdictions. Do not expect a step-function change in resiliency plans as part of the upcoming PUCT filing as mgmt. has already been devoting sizable capital to these efforts over the past several years.

ChargePoint (CHPT)

We hosted meetings with members of CHPT's mgmt. team including Rick Wilmer (President and CEO), Mansi Khetani (Interim CFO), and Pat Hamer (VP – Head of Capital Markets and Investor Relations). CHPT recently reported F4Q24 results and provided an update on the forward outlook. Critically, mgmt. reiterated expectations to reach positive adj. EBITDA by F4Q25. A slowdown in end market demand has pressured results for several quarters, and we maintain our Neutral rating as visibility to a recovery remains elusive. See below for key takeaways from our meetings.

Outlook still opaque as end market recovery eludes

We remain cautious on the outlook for a demand recovery as visibility into key end markets remains opaque. While fleet customers have started to see vehicle delivers resume, the largest part of CHPT's billings – commercial/passenger – has yet to see an inflection. This segment accounts for ~70% of CHPT's order book and by default is the most opaque. Longer-term, we are somewhat constructive on end market demand as we see increasing EV penetration as a foregone conclusion. The exact shape this demand growth takes remains unclear however. We look for CHPT to maintain an active footprint in both DC-fast charging (DCFC) and Level-2 charging (L2) as demand for both should ultimately continue to grow. Internationally, a slow quarter in Europe for F2Q24 appears driven by the same dynamics at play in the US – namely, soft EV demand and interest rate pressures. Longer term, we perceive the international markets as attractive as CHPT looks to expand. We perceive join ventures (JV) or partnerships as the most likely avenue considering the higher costs of entering alone.

Right-sizing efforts on track – critical to EBITDA targets

We perceive mgmt. remains confident in its goal of achieving positive adj. EBITDA in F4Q25. Gross margin expansion efforts are underway as CHPT ramps production at its new Asian manufacturing facility. We look for this ramp to be gradual as higher-cost inventory is worked through. Ultimately, look for this to provide margins higher than the historic levels in the low-to-mid-20s. We see cost control efforts as central to reaching positive adj. EBITDA considering the challenged end market backdrop. The balance sheet appears manageable as CHPT ended the quarter with $358Mn in cash on hand and $150Mn undrawn on the revolver with no maturities until 2028. Guidance for F1Q25 calls for revenue of $100-110Mn, which is 19% lower from F1Q24 and compares to $116Mn in F4Q24. Expect continued cost efforts to drive the narrative through F2025.

Consolidated Edison (ED)

We met with Robert Hoglund (CFO), Michele O'Connell (CEO/O&R) and Caroline Elsasser (IR). Management is focused on pursuing transmission development opportunities, executing on its rate base investment plan, successfully completing its recently filed O&R electric and gas rate proposals and helping New York State achieve its climate and energy efficiency goals. We maintain Buy on shares of ED which we believe can expand to a further premium

FERC transmission opportunities.

With the $700mm Albany to New York City transmission line expected to enter service in 2025 (last phase is underway), ED is now focused on the Propel NY project, a $3.2 billion line running from the south shore of Long Island to both New York City and Westchester County. Construction is expected to start in 2026 (currently in the pre-construction, planning & permitting stage), the total cost is forecast to be $3.2 billion (ED holds 41.7% of NY TransCo's $2.2Bn share). The next project up will be a 5,000-8,000MW line taking power from the offshore wind hubs directly into New York City. There is significant engineering challenge associated with this project and it is expected to cost more than the Propel NY project. ED continues to look for partnering opportunities for transmission projects in both PJM and New England.

NY renewable target will require significant work ahead

Management highlighted concerns around the achievability of legislatively mandated environmental goals in New York given permitting delays (no Federal or State pre-emption options), ownership restrictions (ED cannot own renewable generation in NY) and siting issues (almost impossible to site energy storage in NYC). Without a legislative fix (which is unlikely at this point in time), management believes it will be very difficult to achieve the environmental and sustainability goal established by the legislature in its 2019 Climate legislation.

Mountain Valley Pipeline (MVP) reaching the finish line

Management expects that the construction of this pipeline will be completed, and the line will come into service in 2024. However, consistent with past commentary, management reiterated that this is not a core asset for the company and that it will take advantage of any market liquidity to exit its ownership interest.

ConEd's base investment thesis is unchanged.

Management has de-risked and simplified the business model and financial profile of the company. Targeting a 5-year adjusted EPS growth rate of 5-7%, annual rate base growth through 2028 of 6.4%, a dividend payout ratio of 55-65% and a capital investment plan of $28 billion through 2028, that will be financed through a mix of debt, equity and operating cashflow.

Financing plan, up to $1.3 billion of equity in 2025, and up to $2.8 billion from 2026 through 2028. Planned Debt issuance of $3.25 billion in '24, $1 billion in '25 and up to $6 billion from 2026 through 2028.

Essential Utilities (WTRG)

We met with Daniel Schuller (CFO), Colleen Arnold (President) and Brian Dingerdissen (IR). The conversation focused on the gas rate case filing in Pennsylvania, potential changes to Fair Market Valuation rules in Pennsylvania and the risk associated with Perfluoroalkyl and Polyfluoroalkyl Substances (PFAS). We maintain Neutral on shares of WTRG with a balanced risk/reward profile.

General Rate Case filing for Gas business in Pennsylvania.

WTRG filed a gas rate case in with the Pennsylvania Public Service Commission (PaPUC) in late 2023 requesting a revenue increase of $159mm, an ROE of 11.75% (on a rate base of $4.2 billion) and a weather normalization clause.

This filing was in compliance with a settlement reached with the PaPUC in 2021 addressing the company's use of a catch-up adjustment to the repairs tax treatment and the subsequent flow through of benefits to customers. If granted in full, this revenue increase would represent a rate increase for customers of 19% (4% annually over 5 years). Discovery is currently underway, with direct testimony due March 22, and hearings on May 9-10 and 15. The settlement window for this case will run through April.

Recent settlements in this case have been black box in nature (no ROE/Revenue/Rate Base disclosures). However, management made clear in our meetings that the weather normalization clause is a very important part of this proceeding. If this clause had been in effect in 2023, the net negative weather impact would have been $8mm vs the actual of $43mm.

Adjustments Pending in PA's Fair Market Value

Legislators and regulators in Pennsylvania are looking to establish parameters that will provide greater clarity on the application of 'Fair Market Value' rules in the state. The Chairman of the PaPUC has issued a motion suggesting that a multiple of 1.68x the depreciated original cost represents a reasonable application of the law. This motion is currently moving its way through a 30 day comment period at the commission and will be made official 45 days after original issuance. For a successful adoption, this rule will need to be supported by the Office of Consumer Advocate (OCA).

Concurrent with this proposal from the PaPUC, legislation has been put forward in the Pennsylvania legislature to codify the concept of using a multiple of depreciated original value in the establishment of 'Fair Market Value'. While it is still relatively early in the process, this legislation does appear to be moving forward.

PFAS Litigation

With product liability cases underway in Ohio and Connecticut for non-WTRG utilities, management highlighted the need for legislation to protect water companies from PFAS related legal challenges. While WTRG currently has a standard of no more than 13 parts per trillion (PPT) throughout its water system, there is a suggestion that federal standards will call for a 4 PPT standard. This lower standard is right on the threshold of detection levels for current instruments and would represent a significant treatment cost (that would be passed onto customers). WTRG management believes that certain stage attorneys general are arguing for higher threshold limits.

Entergy Corp (ETR)

We hosted Kimberly Fontan (CFO) and Bill Abler (Investor Relations) to explore the important regulatory items, the balance sheet improvement (in 2023 and 2024+), and elements to watch at the forthcoming Investor Day. We maintain Buy on shares which trade at an overly discounted level. Further regulatory success in Louisiana should be a positive catalyst for shares.

Louisiana storm hardening settlement talks continue

On March 5th the Louisiana Public Service Commission (PSC) approved the unopposed motion to suspend the procedural schedule with a new status conference on March 14th to reset the hearing timelines (U-36625). The motion was filed on a joint basis between Entergy Louisiana and the Louisiana Public Service Commission (PSC) Staff to support continued settlement conversations ahead of a previously scheduled April 1st set of hearings. Entergy's priorities for the application include a forward rider and a return on/of legacy capital that would be effectively replaced when hardened.

Louisiana rate case or FRP decision

The next major upcoming catalyst is Staff and intervenor testimony in the Louisiana formula rate plan (FRP) / general rate case (GRC) application (U-36959). There could be a wide range of proposals recommended in terms of form including a partial year one general rate case with a formula rate plan set of features for the following years. We continue to be cautiously optimistic that a formula rate plan path will ultimately be pursued due to the reduction of workload on the Commission Staff and other stakeholders. Management continues to be open to a settlement in the FRP as well as other Louisiana regulatory proceedings.

Credit could be boosted by nuke PTC – upside to the plan

Entergy achieved a 14.2% adjusted funds from operations (FFO) / debt for FY23 and targets an improvement over time. Entergy is pursuing a nuclear production tax credit (PTC) smoothing mechanism with regulators which is not in the credit metric guidance. If fully approved, management guides to FFO / debt above 15% versus a 14-15% target range in the short-term. To the extent this proposal is approved, there would be temporary rate base reduction via deferred taxes but management would look to pursue customer beneficial capital investments with the credit headroom.

Mississippi a data center hub? The state & ETR are trying

Mississippi has features that are supportive of new large load customers, including data centers. There is an ability to have more streamlined certificate of public convenience and necessity (CCN) processes without a requirement for a request for proposal (RFP) in order to support accelerated new commercial operations dates. Between the November 2023 Edison Electric Institute (EEI) financial conference and February 2024, the capital program increased ~$500Mn related to Mississippi generation. This was likely driven by new data center growth in particular. Entergy emphasized that the new data center customers need to ensure that remaining retail customers are at least held harmless and hopefully benefit from the new load.

Analyst Day likely brings EPS CAGR roll-forward

At the June 6-7 New Orleans Analyst Day, management anticipates extended the financial forecast forward to 2028 from 2026 previously. Entergy is relatively unique with an accelerating rate base profile with large transmission projects at the tail-end of the forecast period. As a result, we believe there could be some upward pressure within the 6-8% long-term EPS CAGR or positive re-basing. Management emphasized their objective to be steady and predictable.

Evergy (EVRG)

We met with Evergy CEO David Campbell and Director of IR Pete Flynn at our Power, Utilities, and Clean Energy Conference. Much of our discussion focused on recent legislative efforts in the state of Kansas to reform certain ratemaking parameters and interim recovery for plant being placed into service. We also discussed emerging sources of growth in Evergy's service territory and important protocols for wildfire prevention and response. We maintain our Neutral rating on EVRG given its low growth profile but acknowledge emerging upside catalysts in the form of ratemaking reform in Kansas.

Kansas legislation progressing; PISA element still live

On March 5, House Bill 2527 successfully moved forward out of committee into the general Kansas state house. The bill moving forward represents a partial but incomplete compromise of various items between important stakeholders including Evergy, the Kansas Corporation Commission (KCC) staff, and certain groups representing the interests of residential and industrial utility customers. Cost of capital considerations as initially proposed in the original bill (link to initial summary here) have been stripped from the legislation and will continue to be handled in direct coordination with the KCC, though parties have agreed to participate in a working study of ROE and capital structure as it pertains to utility customers benefiting from more constructive utility return and capital structure parameters. However, the compromise legislation retains its proposal for a plant-in-service accounting (PISA) mechanism similar to that recently implemented in Missouri, albeit at 90% eligibility for deferral rather than 85% in MO. Importantly, new generation expenditures are excluded from the mechanism, though these discrete investments can be planned and timed with general rate case filings so as to significantly limit the potential regulatory lag associated with the project.

April 5 deadline for passage; could clear house in 2 weeks

Next the bill will be considered on the floor of the Kansas State House of Representatives and potentially brought to a vote over the next few weeks. From there, the bill will be passed to the Kansas Senate, with a formal vote on passage targeted for April 5th. We expect the Kansas house and state senate could be less difficult to navigate than the headline-grabbing demonstrations stymieing the neighboring Missouri Senate. If enacted, Evergy can begin accruing a regulatory asset for deferral until the following Kansas rate case likely to be filed in 2025. We view the bill's continued progression through the Kansas state legislature to be a key item and a clear benefit to the earnings power of the company.

Winds could be changing in Kansas

Evergy has stressed the importance of reducing regulatory lag ahead of what it view to be an immense change in conditions in Kansas, as prior priorities of low-capex system maintenance will necessarily change to accommodating customer and economic growth. Economic development in comparison to Kansas' neighboring states has been a key legislative priority in the current session of the state legislature; as such, Kansas' vertically integrated utilities must be able to accommodate what is expected to be rising customer growth and economic activity. Evergy has accelerated its load growth forecast from 0.5% historically to 2-3%, with much of this growth attributable to data center load from new facilities for large commercial customers Panasonic and Meta. While lag will always be a naturally occurring phenomenon in a ratemaking paradigm with historic test years, we expect load growth to naturally compress gaps between allowed and earned ROEs over the next several years. Longer-term, we expect discussions of commercial customer subsidization could begin to emerge, though system growth is still overly modest for this to be a key intervenor concern for now.

Exelon Corp (EXC)

We hosted Jeanne Jones (CFO), Dave Velazquez (EVP Utility Operations), and Andrew Plenge (Investor Relations). The forthcoming Illinois grid plan filing is the top focus to ensure that that proceeding can be successful. After an eventful regulatory schedule in 2H23, the calendar is lighter currently (outside of Illinois) with the Pennsylvania rate case filing the next major event to watch. Management is confident on its forthcoming Illinois grid plan to be accepted, hopefully resolving the uncertainty created from its earlier rejection and ongoing capex uncertainty. We see transmission capex upside particularly enabled by ongoing study of Brandon Shores retirement in Maryland as well as two further solicitations. We maintain Neutral on shares of EXC which have a balanced risk/reward profile.

Illinois on my mind

Our meeting unexpectedly overwhelmingly focused on Illinois after the adverse mid-December regulatory update. Exelon's Commonwealth Edison (ComEd) subsidiary will be refiling its updated Grid Plan next week by March 13th which Exelon is confident that the new plan will meet the parameters that the Illinois Commerce Commission (ICC) specified in the rate case order. Exelon has engaged with multiple parties and non-ICC stakeholders (ex parte limitations) in the past ~90 days to help shape the filing. ComEd is focused on a simplified filing and reduced in scope that can be approved by the ICC by the end of 2024. As a result, management believes the 'cone of uncertainty' has narrowed prospectively from what started as a significant rate application. Other parts of the December regulatory applications are under appeal and reconsideration.

Pivoting from distribution to transmission as investment needs change

In the revised capital plan, ComEd is effectively shifting to spending more capital investment on transmission from distribution. In prior years, ComEd had prioritized investing on its distribution system to improve reliability. Drivers for the shift include (1) improvement in distribution reliability, (2) the lower return on equity, and (3) the increase in data center demand. ComEd is evaluating ~6GW of new demand across ~30 projects that have put down deposits. In addition, there is another ~7.5GW that have shown interest in locating in the service territory but have not yet made deposits.

Balance sheet is an area of mgmt focus

Management stated they put a high degree of care into the new financing plan and was thoughtful around the pro for a credit metrics. Exelon has described its funds from operations (FFO) / debt as more depressed in 2024 relative to the +100bp cushion to the 12% downgrade threshold but then cash flows stepping up in 2025 for a variety of reasons. The largest appears to be the ComEd true-up/reconciliation and fresh rate case step-ups for the multi-year plans.

PA Rate case filing coming soon

Exelon is expected to file its PECO Pennsylvania rate case in the near future to support new rates at the start of 2025. There is a large number of rate cases pending in Pennsylvania which has led to additional investor uncertainty; however, management described its upcoming filing as fairly routine without any large projects.

Exelon: Growth slows to 5-7%, as expected. Move from Illinois distribution to transmission. 21 February 2024

Fluence Energy (FLNC)

We met with Fluence's President & CEO Julian Nebreda, CFO Ahmed Pasha, and VP of Finance & Investor Relations Lex May at our Power, Utilities and Clean Energy Conference. Topics of discussion included learnings and impact from the recent short-seller report, visibility on 2024 guidance and outlook on interconnection. Despite recent share price volatility due to the short-seller report, we maintain Buy on FLNC, which is poised to deliver topline and EBITDA growth with near term domestic content upside. We continue to watch the backdrop on both domestic and international growth – still see a clear bias to domestic sales, particularly with long-term contracted parties focused on long-term quality vs merchant markets with shorter paybacks and low prices. Remain confident on the outlook, but watch for evolution in trade backdrop with China. Mgmt is confident any increased tariffs would be able to be passed-thru to end customers. Finally, we see international backdrop as still competitive and see further pivot abroad as limiting further margin improvement into 2026. Volume growth remains central to gaining scale and EBITDA margin improvement.

Strong visibility on FY24 revenue

The short-seller report did not have an impact on FLNC's operational performance, and they are still on track to meet 2024 guidance. FLNC reaffirmed they expect their 2024 revenue to be weighted towards the back-half of the year with 30% coming in 1H24 and 70% coming in 2H24 due to project timelines. 80% of 2024 revenue is currently in backlog and they expect to sign contracts for the remaining 20% in the next few weeks, indicating strong visibility on revenue for the year. Notably, Australia, Germany and Canada are attractive end markets FLNC is breaking into as they work towards diversifying revenue streams and becoming less reliant on AES channel sales.

Interconnection delays not a problem for FLNC

The interconnection process has been a focal point for investors due to many companies experiencing delays because of large backlog in interconnection queues. FLNC has not experienced project delays due to interconnection because their customer base is mainly large-scale developers who have breadth of experience with interconnection and permitting processes which they have ironed out before battery delivery. Also insulating FLNC from project delays is their MSA contract structure, that states by a certain date, their customer is contractually obligated to take title of the battery supply.

Learnings from short-seller report

Mgmt touched on recent share price underperformance which was caused in part by a recently published short-seller report which we wrote about here Fluence Energy: Contracting concerns: possible explanations for the volatility of late? 26 February 2024. FLNC reiterated that the claims in the short-seller report were untrue, and their product does not have deficiencies. These ordinary course of business disputes and litigations are commonplace in the industry and immaterial to FLNC's overall business. To highlight this, mgmt. explained Siemens Energy, the customer who the recent dispute was with, was continuing to sign new contracts with FLNC while the disagreement was ongoing. The situation taught mgmt. about the sensitivity of the renewable market to the media and litigations and plans to note these lessons moving forward.

IDACORP (IDA)

We met with IDACORP CFO and Treasurer Brian Buckham and VP of Finance, Compliance & Risk Amy Shaw at our Power, Utilities, and Clean Energy Conference. Key topics of discussion included the burgeoning demand profile at Idaho Power and wildfire prevention and response in Idaho. We came away constructive on IDA's perhaps misunderstood systemwide wildfire risk profile and comprehensive management protocols. We maintain our Neutral rating on valuation and the preponderance of prospective equity dilution through the course of the five-year plan.

Wildfire protocols extensive, surprisingly low-risk region

We walked away from our discussion with IDACORP surprised by the favorable inverse relationship between the company's strong wildfire risk management on both prevention and response and the relative low risk of Idaho Power's service territory. Having used the same external consultant that performed risk modeling for the California Public Utilities Commission to identify and quantify wildfire risk, Idaho Powe ultimately determined that just 11% of transmission lines and 7% of distribution lines are in wildfire risk zones. Generally speaking, much of Idaho Power's service area features low levels of dispersion (in terms of both height and dispersion), with a paucity of significant wind events that can typically drive fast moving fires.

Nonetheless, Idaho Power's Wildfire Mitigation Plan is reviewed by its regulators in both Idaho and Oregon, and includes several key protocols including PSPS capability, single-shock lockout for lines across the relatively higher risk areas within the region, pole-base clearing of vegetation for a 10-foot diameter, use of cameras and atmospheric scientists to judge conditions in real-time. On the regulatory front, Idaho Power has the ability to defer certain costs, including insurance, for recovery in rates. IDA spends approximately $20Mn per year on fire prevention and management activities such as vegetation management.

Idaho legal standards for liability quite favorable

The legal standard for liability in Idaho is based on proven negligence. Critically, we note Idaho's tort capped at $400K per claim to be particularly strong in limiting runaway liability for Idaho Power in the event the company is found negligent. In our view, this is highly differentiated and a clear positive for the stock given how wildfire concerns have affected trading levels for regional peers of similar size. We see Idaho Power's mitigation plan to be robust in relation to the general risk assessed for the area, and as such view the relative liability profile for IDA to be lower than expected and a clear positive takeaway from our discussions.

Growth plan still robust; capacity the limiting factor

Idaho Power still projects 5.5% annual 5-year retail sales growth as outlined in the 2023 IRP. These items include the assumption of large customer load from large customers such as Micron and Meta. While a significant theme of our discussions this week have been related to data center build, we note Idaho Power has enjoyed a good deal of selectivity in which types of large commercial load it will take onto its system. With more than a GW pipeline of potential customers having expressed interest in entering Idaho Power's service territory, the company is able to prioritize customers that do not require a wholesale change in the makeup of the existing fuel mix (which is already disproportionately renewable-based relative to US peers). If Idaho were to serve all the identifiable potential customers in the pipeline, current forecasted expenditures of nearly $4Bn would be grossly inadequate. The company is careful about how it integrates new load, and requires any potential customer of over 20MW to have a cost of service study conducted specific to their incremental load so as to better understand the burden to existing customers. IDA views affordability to be a second and critical limiting factor to the capex profile, and as such seeks to manage its growth so as to reduce the potential for residential customer bill shock.

MDU Resources (MDU)

We met with MDU Resources (MDU) CFO and Treasurer Jason Vollmer, Assistant Treasurer Brent Miller, and Construction Services Group (CSG) president Jeff Thiede at our Power, Utilities, and Clean Energy Conference. Key topics of discussion included a general summary of high-level expectations for the upcoming spin of CSG and a discussion of wildfire prevention and response protocols. We expect MDU to give a more comprehensive update at its 2024 Investor Day on March 13 that provides granularity to its remaining utility and pipeline businesses ahead of the spin of CSG targeted for late this year. We maintain our Buy rating on MDU Resources on valuation and recently increased growth prospects, with the upcoming analyst day serving as a potentially positive catalyst in the event the company issues strong multi-year regulated business guidance.

Wildfire profile mixed; fewer trees but wind a factor

Like smid-cap peer IDA, most of MDU's service territory is not generally host to a preponderance of tall trees that could threaten overhead transmission or distribution lines. However, the northern great plains does host strong winds that could potentially spread grassfires at an accelerated pace. That said, MDU maintains diligent wildfire prevention and response protocols, including a robust Substation System Infrastructure Program (SSIP), frequent line inspection, pole testing, and undergrounding or covered conductor programs for higher risk areas. Given the paucity of high trees, vegetation management is less consequential to de-risking but still is an important piece to the puzzle. Of note, MDU lacks PSPS capability and would likely have to initiate a proceeding with regulators to discuss the pros and cons of implementation. MDU operates in several service territories with lower quartile population density in the United States, indicating that overall risk could be less concentrated than peers.

What will the businesses look like post-spin?

MDU intends to inform the Street of its outlook for its RemainCo and SpinCo businesses more formally at its March 13 investor day. Still, we discussed some general tenets of how MDU sees its regulated businesses going forward. Post-spin, MDU Resources expects its prospective RemainCo FFO/debt to likely be at or below the current 15% downgrade threshold with S&P, who currently has a Negative outlook on their rating given the upcoming spin. The company has no plans to issue back leverage at the parent going forward, and expects to continue most issuances at the opco level. Certainly the size of the company will shrink with the CSG spin, though MDU believes it will be adequately sized to grow on a standalone basis, and reaffirms its 7% rate base CAGR target. We expect M&A could emerge as a post-spin theme, and to be sure MDU has not outwardly rejected the notion of inorganic growth (or divestiture) in the past. That said, with a new CEO at the helm and strong visibility to investment given the new proforma pure-play regulated profile of the business, we ultimately believe discussions of M&A could be several years out.

Generation update: Heskett online end of 2Q24

Following MDU's 4Q24 earnings report in which the company announced its Heskett unit IV gas peaker unit that was expected to enter into service in late FY23 would be delayed due to suboptimal performance in testing. MDU expects that replacement of parts and modifications could be completed with the turbine being ready for placement into service toward the end of 2Q24. There is already a functioning natural gas turbine, Heskett Unit III, at the facility, with the two gas plants replacing former coal assets that have since been shut down. Looking forward, MDU faces little local pressure to retire its remaining coal assets, which account for approximately 30% of total generation. Therefore, absent overarching federal legislation the company can likely wait to make a decision based on the economic merits of how to extend or replace its coal assets in the future.

NRG Energy (NRG)

We hosted meetings with members of NRG's mgmt. team including Larry Coben (Chairman and Interim CEO), Bruce Chung (CFO), Rob Gaudette (EVP, NRG Business), Elizabeth Killinger (EVP, NRG Home), Rasesh Patel (President, Smart Home), Kevin Cole (SVP, Corporate Finance – Treasury and Investor Relations), and Brendan Mulhern (Investor Relations Director). We see a fast-evolving backdrop with opportunity to both see further estimate revisions higher and to see use of this cash flow both towards ongoing buybacks as well as novel new investments in gas gen in coming months. See potential for yet further reinvigoration in shares as execution against plan remains on track for Vivint. Maintain Buy on shares of NRG which continue to trade at an attractive risk-adjusted free cash flow yield. See below for key takeaways from our meetings.

Power backdrop evermore robust – Retail biased higher

We see mgmt.'s retooled procurement strategy as underappreciated among investors who still view NRG as effective 'short' power. Across both residential and C&I customer sets, NRG continues to reap the benefits of a multi-faceted approach to supply procurement. Particular to C&I, we see margin expansion as durable as more customer seek support in handling increasing price volatility across regions. We continue to see a robust backdrop for power broadly, driven by supply tightness and sustained electrification trends - including an inflection in data center build outs. We see these as clear tailwinds for NRG to capitalize on - particularly for the Retail business. Texas (ERCOT) remains the primary driver of upside in our minds, as growing renewables penetration drives scarcity value higher. We look for this trend to continue as we see limited probability for a meaningful inflection in dispatchable generation in the medium-term. The outlook for new gas-fired generation is real, but remains a 2028+ event in our view. In the interim, look for higher power prices in ERCOT to support profitability and as a result drive shares higher.

80-20 capital allocation principle remains the strategy

We do not expect any deviation in mgmt.'s commitment to return 80% of available capital to shareholders. While we see potential for NRG to invest in growth – particulary in ERCOT as the Texas energy fund rules are finalized this summer. Further optionality remains as NRG still has 21 sites across the country which could be used to power growing data center demand. See this as an underappreciated nuance worth monitoring as the power backdrop rapidly evolves. Cross-selling efforts on the Retail side remain ahead of schedule as Vivint integration continues. Look for this as a potential source of upside as opportunities unfold. We see a fast-evolving backdrop with opportunity to both see further estimate revisions higher and to see use of this cash flow both towards ongoing buybacks as well as novel new investments in gas gen in coming months. Look for any potential roll out of EPS metrics to be complimented by continued focus on FCF and a judicious use of capital.

Sunnova Energy International (NOVA)

We met with John Berger, CEO of Sunnova Energy International at our Power, Utilities, and Clean Energy Conference. Our discussions mostly reflected upon the share price reaction to NOVA's 4Q23 earnings and prospects for demonstrating a build of cash that would alleviate concern for investors worried about intermediate-term corporate debt maturities in 2026. Messaging from the Street on both the equity and fixed income side has been particularly negative following the print, and management does seem to be willing to be more responsive to these direct concerns. We maintain our Buy rating on NOVA, which continues to trade well below opco value and could see upward momentum in the event management demonstrates some portion of accessory loan monetization in the coming months.

Key watch item: sale of accessory loans to stabilize shares

NOVA management was clear in its assertion that its number one job right now is to begin demonstrating its ability to accumulate cash. When asked whether the company had considered attempting to stabilize shares by announcing an asset sale, management responded that it had approximately $170-200Mn of accessory loans not currently levered that could be divested between 15-90 days from now. Notably absent was a discussion of whether other loan assets might be under consideration, as the environment might not yet be attractive enough for the monetization of solar loans. While we see a potential stabilizing benefit from potential asset sales such as the accessory loans, we believe the messaging in the magnitude of opportunity for monetization has been meaningfully scaled back.

Execution the pathway forward

Still, NOVA was direct in stating its belief that it did not intend to "out-finance" its way through this turbulent period – execution through reductions in adjusted opex and higher pricing that naturally regulates growth. If the company can effectively run flat on capex and raise price, NOVA believes that it could wring out approximately $200Mn of cash from O&M stuck in the backlog alone through the end of 2024 and into early 2025. Of course, this messaging that regular business cash flows will ultimately ramp to support future obligations runs directly counter to what was implied by the announcement of a $100Mn ATM facility. This dynamic has certainly been made clear to NOVA, who acknowledges the poor timing that, in a quarter in which cash flow appeared to trough with a -$230Mn decline in cash, seemed to coalesce to affirm multiple bear theses that cash generation could be inadequate and require a further infusion of corporate capital. Despite the bleak performance over the last two weeks and, more broadly speaking, throughout 2024, we still see NOVA's cash generation target of $200-500Mn in 2025 to be achievable, especially if there is constructive guidance on eligibility for the domestic content adder. Much of the upside in cash generation will be defined by how closely the ITC figure migrates from the low-30%s up toward 40%s+.

Pinnacle West Capital Corporation (PNW)

We met with Ted Geisler (President, Arizona Public Service) Andrew Cooper (CFO) and Amanda Ho (IR). Management is focused on actively working with the Arizona Corporation Commission (ACC) to effect structural change in the regulatory construct of the state, while also executing its capital investment plan, managing its growing customer base and meeting its clean energy commitments. We saw our meeting as particularly constructive around hearings in March for forward looking test year to help provide further visibility on EPS CAGR into 2027. We note the generic 5-7% EPS CAGR presents muted specificity and look for the next year to drive the needed confidence in a reduction in lag by '27 to enable some degree of re-rating. Consistency on the ACC thru the regulatory reforms should help enable confidence in investors today. We maintain a Neutral rating on shares of PNW which have a balance risk/reward profile.

Potential for positive regulatory change in Arizona.

The 'regulatory lag' process that is currently underway is not a formal proceeding, and therefore not bound by a statutory timeline, consequently there is an expectation that it could be wrapped up by year end, or early next year.

Management is encouraged by the alignment among all parties and in particular the willingness of the commission to move the process forward. The primary aim of this initiative is to eliminate regulatory lag (with the use of either a forward test year, or a blended forward/historic test year) and potentially establish a formula rate structure for utilities in the state. This change would benefit customers, the company and the commission as it would smooth out rate changes and remove some of the complication and contention associated with the rate making process.

Management cautioned that it is too early to predict an outcome from this process, but if there was material agreement between the parties it could look to incorporate provisions in a general rate case filing in the first half of 2025.

Wildfire mitigation plan benefits from less rural backdrop

The company has a robust wildfire mitigation plan with three focal points: (1) a robust vegetation management plan. The company allocates significant resources (financial & other) to this program, working closely with the Arizona Forest Service to ensure that vegetation around and near power lines is well managed; (2) technology deployment. The company uses both grid sensors and camera to monitor the transmission and distribution system. Further, the company uses advanced modeling practices to predict the risk of fires using real time environmental inputs; (3) operating protocols, including Public Safety Power Shutoffs (PSPS). If warranted, the company, at its own discretion can shut down a circuit that it believes might be at risk of triggering a fire event.

The company's base investment thesis is unchanged

The company continues to target long-term EPS growth of 5%-7% off a 2024 base, with a focus on meeting the energy needs of its fast growing and diverse service territory, actively engaging with parties to improve the regulatory environment, increasing capital investment and maintaining customer affordability and increasing customer satisfaction.

Private equity perspectives

We hosted meetings with Andrew Gilbert (Partner at Energy Capital Partners) Andrew Brannan (Managing Director at ArcLight) and Michael Bruneau (EVP at Alpha Generation – An ArcLight subsidiary). The private equity market continues to see opportunity across the power generation landscape – both fossil and renewables alike. Through stakes in various portfolio companies, Energy Capital Partners is invested across virtually all aspects of the energy transition. Notable investments include the $17Bn take-private of Calpine Corporation in 2018 and a $300Mn investment in Sunnova (NOVA) in 2016. See below for key takeaways from our meetings. ArcLight is an infrastructure investment firm that has deployed over $6Bn towards power infrastructure since 2001. Alpha Generation was formed by ArcLight as the managing arm of over 13GW of generation assets across several markets. See below for key takeaways from our meetings.

What's the power view?

We are increasingly bullish on PJM in particular as we see capacity underinvestment in the most robust data center growth markets as creating a backdrop for potentially sharp reversals of current low pricing backdrop. We see the longer that FERC holds down pricing thru its offer caps, the more robust the potential improvement over time given scale of accelerated coal & legacy gas retirements. The key offset to watch is the reduction in qualifying capacity thru reduced ELCC (Effective Load Carrying Capacity): recent reforms have reduced the average CCGT to just ~80% equivalency for the same MW that used to qualify for 97%. We see a need for capacity prices to increase at a minimum to reflect this reduction in eligible capacity participating.

Backdrop remains constructive – many more load deals to come. Focus on PA.

We could very well see further consolidation of PJM assets across key players as well as further behind the meter load deals. We perceive Pennsylvania in particular as encouraging of further such deals and see TLNE's announcement this week as likely the first of several. VST, CEG appear keen to follow each with their own plans under development; even PEG appears to have received clear interest.

Gas-fired generation looks attractive for years to come

Our overall impression is that the private equity landscape views gas-fired generation as offering favorable returns and strong cash flow streams for years to come. Across the capital structure, we see rising asset valuations as clearly reflecting the long runway for gas-gen as demand for dispatchable resources grow. Leverage appears to be a key consideration here, as lenders increasingly desire sub-3x metrics with valuations of ~$400/kW on combined-cycle assets. This is in contrast to years past where a 5x levered asset at $500/kW was suitable for lending. We see increasing appetite to invest in capacity in Texas (ERCOT) both in terms of existing assets and newbuilds. Our sense is that the Texas low-interest loan program (energy fund) is likely to attract commitments from private players as the program is rolled out this summer. In other regions, capacity clearing prices will be key to watch as indicators for future investment. Our sense in PJM is that more needs to be done to make for an attractive investment case as pricing and regulatory risk remain less favorable. We see a growing discussion around demand in behind-the-meter (BTM) data center applications using gas-gen as a backup fuel source. This was a clear theme across all our meetings power producers, private and public alike.

Plenty of work to do in 'clean' generation as well

We see a growing opportunity to co-locate storage assets alongside existing gas plants. The access to land and interconnection is a key factor underpinning what we perceive as a notable theme worth monitoring. Capacity pricing in California appears particularly conducive to these investments. Conversely, we perceive limited appetite to invest in co-located storage in PJM or New England considering limited energy price volatility and low capacity prices. Onsite carbon capture, sequestration and storage (CCS) also appears to be a growing theme, although we perceive this as a longer-dated opportunity. Revised 45Q tax credits allowing for $85/ton enhances economics beyond the prior $50/ton credit. Still, we perceive returns are only modestly attractive today. A broader and more transparent pricing for carbon is still needed before meaningful adoption can occur.

Public Service Enterprise Group (PEG)

We hosted Daniel Cregg (CFO) and Carlotta Chan (Investor Relations) in a discussion primarily around the unregulated nuclear operations. PEG's appeared more willing to pursue a data center strategy for its New Jersey nuclear assets than in our prior engagements. We maintain Buy on shares of PEG with a positive risk/reward profile and carbon free power optionality not appropriately priced into shares today.

Finally talking about data centers with its 'three unit' site

In a reversal of the recent trend, most of our meeting was dedicated to PSEG Power opportunities. PEG divested substantially all of it fossil and non-nuclear generation in recent years leaving the nuclear portfolio. PEG's portfolio is currently receiving nuclear zero emission credits (ZECs) through May 2025 - see below. Importantly, the New Jersey Governor has discussed the state's aspirations to be a technology and artificial intelligence hub so a data center campus could align with those objectives. While data centers are light on jobs, an 'anchor tenant' data center plus a corporate campus for the associated customer(s) would likely be well received politically.

PEG is unique across the US with its effective three reactor 'site' of Salem 1 & 2 (57% owned by PEG and 43% by CEG) and Hope Creek. This proves to be an even more interesting angle given redundancy considerations and excess land that had been earmarked for expansion of Hope Creek in early days. There is no shortage of land in that portion of New Jersey around the assets. Additionally, the PSEG regulated utility has made significant transmission investments in the region which improves local reliability. Management stated that it has been receiving inquiries about its nuclear power with a growing intensity recently. PEG emphasized that its base long-term earnings per share forecast does not include any additional compensation above the production tax credit (PTC) floor.

As for grid reliability we increasingly perceive the state as open to any variety of efforts to ensure load forecast is adequately reflected. This appears an ongoing debate with PJM even after its latest hike in its outlook. Stay tuned.

Rate case on the front burner but also back burner

Management reiterated that it fully expects to settle the pending New Jersey distribution rate case that is still early in the process after the late December 2023 filing. A procedural schedule is expected in the near-term which should include sufficient windows for settlement. PEG described the rate case settlements for peers Atlantic City Electric (ACE) and Jersey Central Power & Light (JCP&L) as handled very fairly by stakeholder and the New Jersey Board of Public Utilities (BPU). PEG similar expects a fair outcome, noting the significant investment made in the system and the long duration since the last rate case filing shielding customers from the full rate impact during the covid pandemic.

Regulated generation? PEG is open to the idea

With a growing stakeholder focus on the increasingly tight reserve margin projections in PJM, PEG indicated that it is open to building new generation if truly under a regulated-like construct. PEG has discussed the importance of regional reliability with both PJM and the BPU but noted any industry-wide discussions are in the very early days. We believe the probability of this would be low and emphasize that it is not in PEG's forecast.

PJM load forecast makes meaningful strides

Management described itself as more pleased with the December 2023 PJM load growth refresh which finally showed load growth for PSEG zone after prior versions with flat-to-declining outlook. PEG believes that the PJM forecast could still be conservative on electrification (vehicles, heating, etc.) and data centers but made strides in being closer with what the company is seeing. PEG focuses on the load forecast because it views it as a helpful tool in guiding regulatory and stakeholder investment needs. With its focus on reliability and affordable service, PEG does not want to fall behind demand projections and limit customer interconnections or economic growth.

Nuclear: NJ ZECs sunset 2025 as expected

Consistent with earlier filings and our expectations, the New Jersey Board of Public Utilities (BPU) did not award any zero emission certificates (ZECs) for the ZEC 3 period June 2025-Mary 2028 (Docket EO23080548). PSEG Nuclear (PEG subsidiary) and Constellation Energy Generation (CEG) filed noticed of intent to file in August 2023 but withdrew those requests on November 22nd and November 30th, respectively, ahead of the December 1st deadline. With the Inflation Reduction Act (IRA) establishing Protection Tax Credits (PTCs) for nuclear, the ZEC program is no longer required to support the New Jersey nuclear plants, at current economics. The roll-off of ZECs will generate $200Mn customer savings for PEG customers and $100Mn for the other New Jersey utility customers. While an unrelated element, this is a favorable offset to the large rate increase in PEG's utility base rate cases. The explicit delinking of the nuclear units from state ratepayers should open up commercial flexibility in the future if the company decides to pursue new avenues, as discussed above.

Spire (SR)

We met with Spire CEO Steven Lindsey, CFO Steve Rasche, Treasurer Adam Woodard, and managing director IR Megan McPhail at our Power, Utilities, and Clean Energy Conference. Our primary topics of conversation were how the company views the regulated and nonregulated portions of its business, and how the company views organic versus inorganic growth prospectively. Our discussion was generally upbeat with management exuding confidence in stated FY24 guidance. With a fairly mild heating season coming to a close, we look toward 2Q FY24 earnings in May as a potential catalyst given the quarter's criticality to full year results and recent history of utility earnings shortfall. We maintain our Underperform rating, forecasting EPS growth below Spire's 5-7% EPS CAGR long-term.

Recent midstream acquisitions highlight nonutility mix

In calendar 1Q24 (SR's 2Q FY24), the company closed its MoGas and Omega pipeline acquisitions. From our discussions, it seems clear management views these midstream assets similar in form, function, and earnings stream to that of its regulated gas utility businesses. We see prudence in the acquisitions as having enhanced supply into Spire's Missouri service territories, though still ascribe a meaningful valuation difference to the midstream and storage businesses versus that of the utility. We believe this does justify a modest discount to pure play gas LDC utility operations, though acknowledge the supply and operational benefit and diversity afforded by these assets. Focusing on the utility though, Spire does operate in jurisdictions that are, thematically, highly favorable to continued gas LDC operation for years to come. We see the dichotomy of gas LDC "haves" and "have-nots" growing stronger over the next several years, and view SR favorably with respect to tail risk.

Will SR continue to be acquisitive? We see potential

Management sees a long, highly visible 10+year runway for stable, growing capital expenditures to drive rate base growth at the utility. Of the $7Bn gas LDC capex forecast over the next 10 years, approximately 10-15% is likely to be dedicated toward system growth (customer connections, adding pipe, etc) with the vast majority dedicated to infrastructure replacement and modernization programs. Much of this investment is tracked for interim recovery through the Infrastructure System Replacement Surcharge in Missouri, which helps to mitigate lag in the state. Ultimately, we continue to monitor Spire's gas LDC performance for any potential acceleration in its organic growth rate. FY23 proved another difficult year for the utility, in which LDC earnings guidance was continually reduced throughout the year after completion of the winter heating season. We look to the upcoming earnings print for 2Q FY24 as a signifier of sustainable organic growth for the full year.

When asked if, given their extensive history of pursuing inorganic growth, Spire would continue being acquisitive, especially in the context of the recent gas LDC sale by Centerpoint, management reiterated that it did not need M&A to meet its long-term growth targets. It has been 8 years since Spire completed its most recent LDC acquisition of EnergySouth, with Spire remarking upon the exorbitant valuations it has seen for LDC assets in the meantime. That said, Spire is well connected in the LDC landscape and has demonstrated itself to be a willing acquirer in the past- we see this as an angle to monitor once Spire's FFO/debt formally tracks to its 15-16% target.

Soltec (SOL) - not covered

We hosted members of Soltec's management team including Raul Morales, (CEO), Jose Nunez (CFO) and Meritxell Perez de Castro Acuna, (Investor Relations Global Director), The focus of investors has been on the tracker division, ASPs, the cost of capital and the competitive landscape.

Lower commodity prices have benefited margins

On the macro level, SOL have largely benefited from lower commodity prices via higher margins, currently in the high teens. However, management cautioned against expecting sustainable EBITDA margins of 20% in the long run. Unlike peers, they noted that interconnection/permitting has had a minor impact in Spain, causing delays of only a few months rather than outright cancellations, and is considered "part of our usual business." Financing costs doubled year over year, with variable rates impacted by higher interest rates, although management suggested that the rate increase is offset by lower CAPEX.

Pricing PPA to mitigate electricity pricing volatility

In the Energy division, SOL are targeting projects with a spread over the WACC of at least 200-300 bps, where interest rates have not significantly impacted this spread. To mitigate electricity price volatility, SOL are pursuing a PPA strategy, signing agreements with Tier one off-takers above the market average. The energy division is financing its development by selling assets and has working capital line. Outside this, Mgmt. have ambitious plans to grow the asset mgmt. side of the business (700MW -1 GW) which would necessitate more capex spend and equity.

Lower ASP for trackers in '24; growing exposure to the US

For solar trackers, SOL expects an ASP for 2024 of around EUR 0.09 or $0.10 per watt (slightly lower than last year). Despite this, they have increased sales in the USA, where ASPs are higher. The guidance for 2024 EBITDA margins in the Tracker division is 6%-7%, below the 8.5% generated in 2023. The geographical split for the Tracker in 2024 will be around 40%-50% in Europe (mostly Spain) and 30% in the USA. Management expects the US to account for 50% of revenues in the next couple of years. The US market is challenging due to domination by EPC contractors, making it difficult for SOL, an international player. SOL emphasized their 2P configuration, differentiating them from competitors like NEXT/ARRY, offering flexibility and cost-effectiveness. In Brazil (10-20% of volumes), there was a small drop due to uncontracted projects, but demand is picking up, and they expect to have a 25-30% market share in a 3-4GW market.

Talen Energy (TLNE – Not covered)

We hosted meetings with members of TLNE's mgmt. team including Mac McFarland (President, CEO, and Director), Terry Nutt (CFO), Cole Muller (General Manager, Cumulus Growth), and Ellen Liu (Senior Director, Investor Relations). TLNE recently announced an agreement to sell its data center campus (Cumulus) to AWS for gross proceeds of $650mn, representing a multiple of over 2.5x on invested capital. As part of the agreement, TLNE will supply nuclear carbon-free power to at a fixed price over an initial 10-year term. The deal marks an important read through to our coverage as the theme of data centers and their impact on power prices continues to spark investor interest. See below for key takeaways from our meetings and read throughs to the broader sector.

Customers matter: co-locators vs. hyperscalers

Our biggest takeaway from our meetings with TLNE has far reaching implications across the sector and our coverage. Namely, in a world where power providers are actively assessing potential data center load, who you choose to do business with matters. We perceive co-locators are not as interested in scale (i.e. >500MW), contract duration, or a fixed power price. Instead, co-locators appear more interested in committing to a much smaller sized facility (<500MW) with limited duration while leaving power price negotiations to the ultimate tenant. We see this as an important read through that helps bifurcate the opportunity set for generation asset classes. See this as potentially reflecting a preference by hyperscalers to seek contracts with high-capacity generators (i.e. nuclear, 3-by-1 combined cycle) optimally located with ample real estate for large-scale data centers. In contrast, see opportunities for smaller scale generators to bias towards backup power for co-locators. The need for reliable power with adjacent real estate should command a premium in our view. 'Green' generation appears a secondary consideration, though still important. See nuclear as best positioned to serve the need for 'green' power to data centers as large scale solar/wind/batteries likely still need co-located dispatchable generation which in theory eats away at economics.

Bottom line there are fewer available sites than many IPPs would hope to find. Between larger gas facilities and nuclear plants, suitable plants to help mitigate reliability needs of truly avoiding grid charges remains a unique fact pattern. Stay tuned for more such announcements with management stating they are already discussing further such deals.

Value of carbon has implications for covered companies

Based on the deal terms, the minimum pricing for the initial 10-year supply agreement appears to be in the low- to mid-$20s/MW-hour (MWh) premium to PJM West Hub pricing. Assuming additional revenue from the sale of CFP, pricing appears to be in the ~$30/MWh range. Constellation Energy (CEG) recently showed scenarios in its 4Q23 update with $10/MWh and $20/MWh carbon free power attribute payments.

Exhibit 1: TLNE disclosed EBITDA uplift from AWS deal & implied contractual pricing
Mgmt. discloses three scenarios (High, Low, and Minimum) outlined below

Talen Energy		2025	2026	2028	2031	2034-'42
EBITDA Uplift ($Mn)	High	$35	$80	$140	$215	$255
	Low				$150	$135
	Min	$20	$55	$85	$125	$75
Megawatts (MW)	High	120	240	480	840	960
	Low	120	240	480	480	480
Terrawatt-hours (TWh)	High	1.05	2.10	4.20	7.36	8.41
	Low	1.05	2.10	4.20	4.20	4.20
Contractual Rate Premium to PTC Floor ($/MWh)	High	$33.30	$38.05	$33.30	$29.22	$30.32
	Low				$35.67	$32.11
	Min	$19.03	$26.16	$20.21	$29.73	$17.84

Source: Company filings and BofA Global Research

BofA GLOBAL RESEARCH

TPI Composites (TPIC)

We met with TPIC's Bill Siwek, President & CEO where our conversations touched upon the 2024 outlook and utilization given new lines starting up, the IRA tailwinds and repowering *opportunities. On balance, gradual delay in wind recovery has been an ongoing theme but reaching EBITDA inflection in '25 (regardless of where precisely it is in being 'north of $100Mn') should suffice to ease acute ongoing investor concerns around company viability. We believe that recent contract expansions and extensions with GE Vernova in Mexico and Nordex in Türkiye will be instrumental in driving growth in 2024. We maintain our Buy Rating.*

2023 still a transitional year, better outlook for '25

In 2024, TPIC anticipate a transitional phase with a slight decline in sales from 2023, but a notable improvement in EBITDA. Currently, they are operating 37 lines, including four for Nordex and Matamoros, which will transition back to them by mid-2024, along with six new lines starting up and four lines transitioning throughout the year. This will impact utilization (sub-90%) and output in H1 of the year, with H2 estimated to show significant improvement. Mgmt feels confident about reaching the $100 million EBITDA level and (and margins in the high single digits), especially with no transitions planned for 2025 and the absence of large warranty charges or completion of the Nordex Matamoros contract. Regarding transitioning lines, management expects to do less as turbine changes are not favorable for the industry overall. We've seen instances like Siemens Gamesa implementing brand new machinery, both onshore and offshore wind farms, and the rapid pace of change in that machinery has led us into slightly uncharted territory. As for the Automotive business, TPIC expect to announce strategic plans by the end of Q2, indicating that they may or may not have a stake in it going forward.

Raw material costs still elevated but off peak

TPIC noted that average ASPs are up due to inflation and the composition of the blade mix. The industry is predominantly focused on value (rather than volume) and pricing discipline. However, TPIC has observed suppliers lowering ASPs in response to competitors' moves. TPIC has repriced essentially every quarter based on market pricing of raw materials, which have come down from their peak during the pandemic, benefiting from reduced raw material costs such as resin and fiberglass. Given TPIC's contract structure, they can pass through 70% of the cost increase to customers. TPIC is shifting towards a wallet-share of volume model, as some customers are rejecting take or pay on volume agreements.

IRA tailwinds and constructive on repowering

Separately, TPIC believes its US and Mexico manufacturing footprint is a competitive advantage in post Inflation Reduction Act (IRA) development, particularly in meeting domestic content requirements. While the outlook for greenfield projects is not optimal, repowering may offer a better return on investment, as noted by comments from NEE and AGR. In 2024, the onshore wind market in the US is estimated to be 7-8GW, and 12-14GW in 2025, in line with GE and Vestas' estimates. Utility-scale onshore wind with storage is cheaper than solar with storage, although solar is easier to permit than wind. Mgmt pointed to the slowdown in demand appetite for wind being primarily driven by increased diligence from customers' customers rather than quality concerns. We ought to monitor transmission queues, which will become a bigger issue in 2026 and beyond.

Exhibit 2: Stocks Mentioned

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AEE	AEE US	Ameren Corp	US$ 73.12	A-2-7
AMRC	AMRC US	Ameresco	US$ 19.62	C-2-9
CMS	CMS US	CMS Energy	US$ 60.3	A-1-7
CNP	CNP US	CenterPoint Energy	US$ 28.3	B-1-7
CHPT	CHPT US	ChargePoint	US$ 1.93	C-2-9
ED	ED US	Consolidated Edison	US$ 89.85	A-1-7
WTRG	WTRG US	Essential Utilities	US$ 34.93	B-2-7
ETR	ETR US	Entergy Corp.	US$ 102.7	B-1-7
EVRG	EVRG US	Evergy	US$ 50.68	B-2-7
EXC	EXC US	Exelon Corp	US$ 36.67	B-2-7
FLNC	FLNC US	Fluence Energy	US$ 14.83	C-1-9
IDA	IDA US	Idacorp	US$ 88.3	A-2-7
MDU	MDU US	MDU Resources	US$ 21.94	B-1-7
NRG	NRG US	NRG Energy	US$ 61.46	B-1-7
NOVA	NOVA US	Sunnova Energy	US$ 6.29	C-1-9
PNW	PNW US	Pinnacle West Capit	US$ 69.76	B-2-7
PEG	PEG US	Public Service	US$ 64.89	B-1-7
SRE	SRE US	Sempra	US$ 70.64	B-1-7
TPIC	TPIC US	TPI Composites	US$ 2.78	C-1-9

Source: BofA Securities

BofA GLOBAL RESEARCH

Price objective basis & risk

Ameren Corporation (AEE)

Our $77 price objective is predicated on a P/E based sum of the parts, valuing each business subsidiary relative to the 2026E ratebase weighted peer multiple of 13.6x for electric and 13.9x for gas. We apply a 1.0x premium to peers at AEE Missouri to account for the improving prospects of capital spend, supplemented by a regulatory jurisdiction becoming more favorable - but lack of decoupling. We apply -3x discount for AEE Illinois Electric and also AEE Illinois Gas to account for recent regulatory outcomes. At Ameren Transmission, we apply a 4.0x premium to peers to reflect the FERC ROEs and robust growth outlook. At the Parent, we assume inline multiple reflecting average of the subs and given the healthy debt metrics with FFO/Debt at 17%+. Electric peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across the sector. The risks to our price objective are the utilities earning their allowed returns or worse, a significant change in 30-year U.S. Treasury bond yields, and adverse regulatory outcomes that could impact mgmt's ability to earn its allowed return.

Ameresco (AMRC)

Our $37 price objective is based on a 2025E sum-of-the-parts (SOTP) methodology, with EBITDA multiples for each business segment driven by peer group valuations.

We value the Projects segment in-line with sustainable infrastructure peers at 11.7x EV/EBITDA. We apply an average 9.3x EV/EBITDA multiple for the Energy Assets business, with an 11.8x multiple for solar and storage, in-line with peers. We apply 7.7x multiple for LFG, relative to the group of renewable gas peers.

Within the Energy Assets biz, we value RNG on a discounted cash flow (DCF) methodology through 2032 with a 12.56% discount rate and apply a 6x exit multiple to 2032 cash flow.

For the O&M business, we apply a multiple in line with the Projects segment, given related businesses. For the Other segment, we apply a multiple in line with the Projects business.

Risks are CEO tenure, construction delays, revenue concentration, as c.75% of revenues from from federal, state and local government entities, government contract risk, regulatory risks, merchant exposure, and interest rates.

CenterPoint Energy (CNP)

Our CenterPoint Energy PO is $30 using a 2025E sum-of-the-parts methodology. We apply the 14.4x electric and 14.4x gas base multiples. The base multiples are grossed-up +5% to reflect sector capital appreciation, a consistent approach across the coverage universe. We apply a 15% premium due to above-average growth and constructive jurisdictions.

Risks to achievement of the Price Objective are changes in 1) legislative, regulatory, and political outcomes, 2) capital expenditure forecasts and deployments, 3) earned return on equity, 4) asset sales, 5) capital markets access, costs, and needs, 6) interest rates, 7) weather and natural disasters, 8) management changes, and 9) inflation.

ChargePoint Holdings (CHPT)

We arrive at our $2.50 price objective based on a discounted cash flow (DCF) methodology using a 25% discount rate and 11x terminal multiple. We add back net cash based on the prior period ending balance.

Risks to the achievement of our price objective are changes in 1) capital markets needs, 2) funding from original equipment manufacturers (OEMs) and government entities, 3) utilization at charging stations, 4) interest rates, 5) M&A, 6) adoption of electric vehicles, 7) regulatory, legislative, and judicial outcomes, 8) gasoline and electricity prices, 9) macroeconomic conditions, 10) operating expenses, and 11) natural disasters.

CMS Energy (CMS)

Our $63 PO is based on a 2026E sum-of-the-parts analysis. We use 2026E forward P/E multiples for the utility business and a 2026E forward EV/EBITDA multiple for CMS' power assets. For the utility segments, we apply a +3.0x prem to the average 2026E regulated multiple P/E of 13.0x for the electric segment and of 13.3x for the gas segment, with the 10-yr capex update providing clear sight on rate base 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, a consistent approach across the coverage universe. For CMS' unregulated assets we apply a blended 9x EV/EBITDA, supported by a discounted cash flow analysis at the largest asset - Dearborn Industrial Generation (DIG) The parent cost offsets are a blended of P/E and net debt approaches

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, 4) regulatory, legislative, or political changes, 5) interest rates, 6) natural disasters and storms, and 7) pension plan performance.

Consolidated Edison (ED)

Our $96 PO is based on a sum-of-the-parts analysis applying premiums and discounts to the regulated group multiples 14.8x/14.3x for electric/gas respectively with an in-line multiple for Electric, Steam, & Gas to reflect a combination of historically challenging regulation but above-peer growth and de-risked profile. We apply a 2x premium to electric and 1x premium to gas to reflect regulatory de-risk and growth prospects. Both electric and gas peer 2025 P/E multiples are grossed up by 5% to reflect capital appreciation across the sector.

For noncore segments we apply an in line valuation to Con Edison Electric Transmission (CET) given potential for earnings growth and attractive regulatory characteristics. For the Mountain Valley Pipeline stake we apply a 10x EBITDA multiple to our 2024 EPS estimate reflecting recent positive legal and legislative developments.

Upside/downside risks are 1) earned regulatory returns, 2) capital expenditures, 3) regulatory/political/legislative changes, 4) interest rates, 5) natural disasters, 6) execution on unregulated projects. Additional downside risk: lack of approval or modification of the JP by the New York state commission.

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.

Essential Utilities (WTRG)
Our Price Objective of $44 is based on a 2025 P/E sum-of-the-parts methodology. The base natural gas (15.8x) and water (24.9x) 2025 P/Es are used and grossed up +5% and +7%, respectively, to reflect capital appreciation opportunities across the subsectors. The water utilities are valued at a -2x P/E discount for below average growth. The natural gas utilities are valued at a -1x P/E due to regulatory uncertainty and historically earnings above allowed levels. The parent & other costs are valued at a blended water/natural gas multiple.

Positive and negative risks to achievement of the Price Objective are: 1) regulatory, legislative, judicial, and political outcomes, 2) ability to close pending and future acquisitions, 3) repairs tax guidance, 4) weather, natural disasters, and gas accidents, 5) change in interest/discount rates and pension returns, 6) ability to control costs and earn the allowed rate of return, 7) water contamination and standards, 8) bad debts and macroeconomics factors,

Evergy, Inc (EVRG)
Our $51 price objective for Evergy (EVRG) is based on sum of the parts valuation, applying an in-line utility peer 2026E P/E of 13.3x. The electric peer P/E multiple is grossed up for one year by 5% to reflect capital appreciation across the sector. We further apply a -2.0x turn discount across Missouri and -2x for the Kansas Central subsidiaries based on our perception of a challenging regulatory setup that will pressure future capital spend and Evergy's ability to sustain a consistent EPS growth rate in light of intense regulator scrutiny of customer bill pressures. Downside risks to our price objective are adverse regulatory outcomes, inability to deploy capital expenditures consistent with guidance, operational performance issues including at the nuclear facility, and earning below the authorized rate of return. Upside risks to our price objective are favorable regulatory outcomes in important proceedings, accretively deploying additional capital expenditures above guidance, higher than anticipated O&M benefits and merger synergies leading to a higher earned return on equity, and the ability to recover capital invested in retired coal assets

Exelon (EXC)
Our $36 PO is based on an sum of the parts valuation. Our base electric peer 2026 P/E multiple of 13.2x is grossed up for a year by 5% to reflect capital appreciation across the sector. We apply an -0.5x discounted multiple across EXC utilities PECO, BGE, PHI with average consolidated EPS growth and a below-average balance sheet warranting a lower valuation. The large Illinois ComEd jurisdiction has a -2.0x (-15%) discount applied to reflect the 8.9% authorized return on equity in the multi-year plan which is punitive relative to most other utility jurisdictions.

Risks to achievement our price objective are: 1) Adverse regulatory, political, and legislative outcomes, 2) inability to deploy the guided capital expenditures, 3) equity needs that differ from guidance, 4) storms, weather, and other natural disasters, 5) inability to control operating costs, 6) changes in effective tax and interest rates, and 7) changes in credit rating agency metric requirements.

Fluence Energy (FLNC)
Our $28/share price objective (PO) is based on an equal-weighted Discounted Cash Flow (DCF), EV/Sales multiple and EV/EBITDA multiple methodology. Our DCF valuation is $26/share, our EV/Sales valuation is $36/share, and our EV/EBITDA valuation is $22/share.

DCF approach:
- We derive FCFE by removing the contribution from stock-based compensation to FCF from 2024 through 2030
- FCFE discounted by 15.75% cost of equity (in line with the peers in the space)
- We apply a terminal multiple of 12.0x

EV/EBITDA
-We value FLNC at $22/share on blended 13.1x and 12.2x EV/EBITDA multiple based on '25 and '26 EBITDA, respectively
-We use a comp group comprising of utility scale/EV storage peers but emphasize integrator peers

EV/Sales
-We value FLNC at $36/share on blended 1.5x and 1.2x EV/Sales multiple based on '25 and '26 Sales, respectively
-We use a comp group comprising of utility scale/EV storage peers but emphasize integrator peers

Downside risks: (1) The margin expansion plan progresses even more slowly than forecasted, (2) increasing competition leads to market share erosion, (3) reputational risks associated with conclusion of investigation of an ongoing fire safety incident.

Idacorp (IDA)
Our $97 PO is based on a sum-of-the-part valuation (SOTP) of the utility and parent segments. Our utility valuation is based on applying the 2026E sector P/E multiple of 13.4x that is subsequently grossed-up +5% to reflect anticipated sector growth which is consistent with our valuation approach for the regulated utility coverage universe. We apply a 2.0x P/E premium to the base peer multiple to reflect the positive attributes including constructive regulation, execution track record, strong balance sheet, and ESG attributes.

Upside and downside risks to our Price Objective are: 1) political, regulatory, or legislative changes, 2) execution of capital projects, including major investments, 3) workforce attrition and operating cost inflation, 4) changes in interest rates, 5) capital markets access and pricing for debt/equity, 6) ability to earn the regulatory allowed rate of return, 7) crypto mining, memory chip, data center, & large customer load patterns, 8) permitting, 9) natural disasters, precipitation, and weather patterns.

MDU Resources Group, Inc. (MDU)
Our $23 PO is derived from SOTP. At the regulated electric and gas utilities, we use a P/E approach on our 2026 estimates and use peer multiples of 13.3x for electric and 13.9x for gas, we then gross this multiple by +5% to account for sectorwide EPS growth to derive a 12-month forward PO.

We value MDU's stake in publicly-traded Knife River (KNF) based on the latest reported price at the time of publishing, $47.83.

We value the Construction Services business using a '25 EV/EBITDA estimate, applying a multiple of 9.2x based on an average of several publicly-traded specialty construction services peers.

We value the Pipeline business using a '25 EV/EBITDA est., applying a multiple of 9.5x based on an average of several publicly-traded midstream peers.

We net out total parent drag and back out remaining non-regulated debt.

Upside risks are higher utility capex, improving margins at the construction business, and infrastructure stimulus. Downside risks are a macro downturn pressuring construction margins, and adverse rate case outcomes.

NRG Energy (NRG)
Our $66 price objective is based on our 2026E sum-of-the-parts analysis. We value NRG in six parts based on approximately EV/FCF: (1) 6.5x Legacy Retail, (2) 6.0x Direct Energy, (3) 7.0x Vivint, (4) 5.5x Gas, and (5) 2.0x Coal plus Hedges. The debt and preferred stock obligations are reductions from equity value.

We value Legacy Retail at a slight premium to peers given strong competitive positioning. We value Direct Energy in line with the Legacy Retail portfolio. For Vivint, our target multiple is a discount to NRG's other retail platforms given lower free cash flow conversion. Gas value reflects fair near-term profitability opportunity but limited long-term visibility. Last, our subdued Coal value is driven by limited terminal value for the assets.

Risks to the price objective are changes in 1) commodity prices, 2) operating cost, 3) environmental requirements, 4) cost of capital, 5) retail margins and customer counts, 6) natural disasters, 7) regulatory, legislative, and political changes, 8) customer acquisition costs, 9) retail competition, 10) pension and nuclear decommissioning trust assets/liabilities, and 11) interest rates.

Pinnacle West (PNW)
Our price objective of $71 is based on a peer utility P/E multiple of 13.8x, grossed up for a year by 5% to reflect capital appreciation across the sector.

For Arizona Corporation Commission (ACC) regulated assets we apply a -1x discount to reflect the relative quality of the jurisdiction and ongoing earned ROE lag.

For Federal Energy Regulatory Commission (FERC) regulated assets we apply a +3x premium to reflect a premium ROE and rider recovery of invested capital.

Upside and downside risks to the Price Objective are changes in 1) regulatory, political, and legislative relationships/outcomes, 2) load growth in territory versus expectations, 3) riders and capital trackers implementation 4) weather, nuclear, and natural disasters, 5) interest rates, 6) pension liabilities and asset returns, 7) equity needs relative to forecasts, 8) capital expenditures, and 9) ability to control costs to earn a return on equity.

Public Service Enterprise Group (PEG)
Our $66 PO is derived from our 2025 sum of the parts valuation. For the regulated utilities we utilize the electric (14.2x) and gas (14.2x) 2025E sector P/E multiples, which we then gross-up by 5% to reflect capital appreciation across the sector. We apply a +10% premium to PSE&G Utility due to increasing comfort with the growth outlook in a favorable jurisdiction. PSE&G Utility offering low-risk transmission & distribution (T&D) profile. The Power business is valued at a 14% 2025 free cash flow yield. The other businesses and corporate drag are valued using a discounted P/E versus utility assets.

Upside/downside risks to achievement of our price objective are: 1) regulatory/political/legislative outcomes, 2) changes in capital expenditures relative to forecasts, 3) nuclear incidents and natural disasters, 4) equity and capital markets needs, cost and timing adjustments for offshore wind developments, 5) ability to earn the regulated rate of return, 6) inflation, 7) interest rates, and 8) pension returns.

Sempra (SRE)

Our $82 PO is based on a sum of the parts valuation of 2025E earnings. The US utilities are valued using the electric (16.3x) and gas (16.2x) average P/E that we grossed-up +5% to account for sector growth. We apply a -2x discounted valuation to the California gas utility (SoCal Gas) for concerns about long-term use of natural gas. We apply a -1x discounted valuation to the California electric utility (SDG&E) to reflect the wildfire risk exposure. We apply a +2x premium to the TX utility (Oncor) for above average growth and high visibility into rider recovery. The Infrastructure segment (SIP) is valued at 10x EV/EBITDA, an implied premium to the Mexican market (5.5x) and select premium US midstream comparable (Williams and TC Energy at approximately 9-10x) on EV/EBITDA due to its long duration contracted cash flows. The parent drag is treated on a balanced blend of P/E and HoldCo debt and cash netting.

Risks to achievement to our 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) LNG development, 7) ability to deploy capital, and 8) environmental, social, & governance [ESG] profile.

Sunnova Energy (NOVA)

Our price objective for Nova is $16/share based on sum-of-the-parts valuation. We value the PowerCo portion of the company by taking NPV of Net Customer Value (excl. Net Cash), equivalent to discounting cash flows from the existing asset base by a 15% discount rate. This equates to $11/sh.

We value expected future installed assets through 2030 on a DCF basis with value created discounted to present at a 20% cost of equity assumption. Including a 6x terminal value multiple on 2030E NPV and the NPV of G&A expense, including non-cash SBC costs and future expected corp capital needs, this equates to $5/sh.

Downside risks to PO being achieved: NOVA is particularly exposed to rate sensitivity, credit spreads, net metering policies, and risk of broadly competitive environment for customer acquisition squeezing development margins.

Upside risks to PO being achieved: Better than expected recovery in rates and capital market conditions, better than expected growth prospects, better NEM 3.0 outcome, and if the ITC is extended beyond the current schedule.

TPI Composites (TPIC)

Our $5/share PO is based on a 50/50 weighted Discounted Cash Flow (DCF) and EV/EBITDA multiple methodology. Our DCF valuation is $6.50/share and our EV/EBITDA valuation is $3.75/share based on 2024E / 2025E.

DCF approach:
- We derive FCFE by removing the contribution from stock-based compensation to FCF from 2023 through 2030
- FCFE discounted by 22% cost of equity
- We apply a terminal multiple of 5.0x (compared to 10.0x for solar semiconductor stocks, given less technical differentiation in TPIC's 'built-to-spec' model and lower growth rate forecast compared to solar)

EV/EBITDA approach:
- We value TPIC on an average of '24 / '25 EV/EBITDA multiple of 5x / 4x, which is a -3x discount to peer averages

Upside risks: (1) Budget reconciliation and direct pay provisions significantly boosting the wind installation outlook, (2) TPIC tapping into the wind repowering market in a meaningful way, (3) inflation cycle in resin and other raw materials reversing sooner than expected,(4) transportation business growth via major customer announcements.

Downside risks: (1) Rising interconnection costs and tax-equity scarcity dampening the wind installation outlook further, (2) customers insourcing greater percentage of volume in light of declining demand, (3) TPIC customers ceding market share to the Chinese original equipment manufacturers (OEMs).

Analyst Certification

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

Special Disclosures

BofA Securities is currently acting as Financial Advisor to CMS Energy Corp regarding the sale of its home services business which was announced February 5th, 2024.

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
	SunRun	RUN	RUN 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

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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
RVW				
	New Fortress Energy	NFE	NFE US	Cameron Lochridge

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: 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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