

## US Utilities &amp; Clean Tech

PowerPoints: HE Wildfire Legislation and  
FE Earnings Preview/FY24 Est. Increase

Price Objective Change

## HE: Draft wildfire relief fund for future wildfires

On Friday February 2<sup>nd</sup>, the Hawaii House of Representatives advanced House Bill 2700 (HB2700) which would create a shareholder wildfire relief fund for catastrophic wildfires. The draft bill appears generally modeled after California's Assembly Bill 1054 (AB1054) with the establishment of liability limits of 20% of a utility's transmission and distribution equity rate base. The utility's contributions to the wildfire relief fund, both initial and subsequent, as originally drafted would be recovered from customers, subject to a prudency review. **The bill was amended to prohibit recovery of costs from rate payers.** The prudency standard would depend on if there was a wildfire mitigation plan (WMP) approved. If there is an approved WMP the standard would be "serious doubt" of prudency versus a lesser standard without a WMP.

The Committee on Water & Land (WAL) recommended that the bill be passed with amendments 8-0 (1 excused) and the Committee on Consumer Protection & Commerce (CPC) recommended that the bill be passed with amends as well 7-0 (4 excused). The Committees hosted a hearing on February 2<sup>nd</sup> where there were generally concerns expressed about the potential customer bill impact and rate payer recovery for contributions, the latter addressed via amendments. The Committee note that the bill has "a long way to go" and there are valid concerns when voting to advance the draft. See more detailed thoughts on the full report. We maintain Underperform on shares of HE which do not embed enough potential wildfire liability exposure currently.

## FE: Increasing FY24 EPS on more pension income

Diversified utility FirstEnergy (FE) is expected to report 4Q24 earnings this week along with a capital expenditure increase and reaffirmation of their long-term 6-8% EPS guidance targets. We increase FY24 adjusted EPS +\$0.12 (+5%) to \$2.68 from \$2.56 to incorporate the anticipated positive pension mark-to-market discussed in our Year Ahead 2024 report. The new \$2.68 is in-line with FY24 consensus. We previously embedded a -\$0.05 EPS **headwind** in our estimate but we calculate +\$0.07 **benefit** as of 12/31/23 for a full +\$0.12 swing. This was almost entirely driven by forecast asset performance better than the expected return on assets with the discount rate/underfunding elements neutral. The higher pension income should allow FE to deliver earnings growth YoY like the company's target. We do not attribute material value to the pension income which is a financial liability/underfunded. To date, FE has not received stakeholder support for its proposed pension normalization mechanism (PON). Look for management to increase its long-term base investment capex plan to support a 7.0-7.5% rate base growth profile, net of transmission minority interest (~6.5% currently). Within the earnings mix we will look to see the evolution of utility vs non-utility earnings. In the 10-K we will look to see if there are any new disclosures related to the Organized Crime Commission subpoena previously received or other legacy items. The pending Office of Ohio Consumers' Counsel (OCC) Federal complaint against the Ohio transmission utility "supplemental projects" remains an area of uncertainty. We lower our PO to \$30 from \$32, primarily via the mark-to-market for the utilities sector. See details in the full report. Reiterate Underperform with shares expensive.

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Equity  
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Utilities & Clean Tech

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HB: House Bill  
AB: Assembly Bill  
SB: Senate Bill  
WMP: Wildfire mitigation plan

## FE: Increase PO on utilities sector mark-to-market

Our new FirstEnergy PO is \$30 based on a 2025 sum-of-the-parts analysis. The reduction in the PO is driven primarily by the decline in the utilities sector valuation from 14.3x to 13.4x. There are no changes to our valuation methodology or related assumptions. The base P/E is gross-up +5% to reflect sector capital appreciation, a consistent approach across our coverage universe. We continue to apply a -2x P/E discount to utility earnings and reduced valuations for the parent drag and unregulated coal mining businesses.

### Exhibit 1: FirstEnergy (FE) Sum-of-the-Parts Analysis

FE continues to warrant a discounted valuation for its earnings mix

FirstEnergy SOTP Valuation	Metric		P/E Multiple		Equity Value (\$/sh)			
	2025E EPS	Peer	Prem/ Discount	Percent	Base	Reg %	Base	Reg %
Group Peer Multiple - Electric	-	13.4x	-	-	-	-	-	-
Group EPS 'CAGR - Electric	-	5%	-	-	-	-	-	-
Electric Utilities	-	14.1x	-	-	-	-	-	-
Regulated Distribution								
OH Dx: CEI, OE, & TE (Ex-PP). With '22 rate reset	\$0.63		-2.0x	-14%	12.1x		\$7.6	21%
PA Dx: MetEd, WPP, PenElec, Penn Power (Inc-PP)	\$1.07		-2.0x	-14%	12.1x		\$12.9	36%
WV T&D: MonPower	\$0.14		-2.0x	-14%	12.1x		\$1.7	5%
NJ T&D: JCP&L	\$0.36		-2.0x	-14%	12.1x		\$4.4	12%
MD D: Potomac Ed	\$0.17		-2.0x	-14%	12.1x		\$2.0	6%
Less: Intrastate Transmission embedded above	-\$0.26		-2.0x	-14%	12.1x		-\$3.1	-9%
Total Regulated Distribution	\$2.11		-2.0x	-14%	12.1x		\$25.4	72%
Regulated Transmission: (FET + Intrastate)	\$0.83		-2.0x	-14%	12.1x		\$10	28%
Total Electric Utilities	\$2.94		-2.0x	-14%	12.1x		\$35.5	100%
Holding Company Liabilities & Earnings Drag								
FE: HoldCo Drag (ex. Signal Peak)	-\$0.38		2.0x	14%	16.1x		-\$6.2	
FE: Signal Peak earnings	\$0.11		5.0x		5.0x		\$0.6	
Add Back: Interest Expense drag @ 50%	\$0.22		2.0x	14%	16.1x		\$3.6	
Holding Company Debt							\$Mn	
Short Term Holdco Debt							\$0	
Unsecured LT Debt	\$2.55						\$4,045	
Total Debt							-\$4,045	
Total Debt @ 50% Split							-\$2,023	
\$/Sh - Equity value in valuation							-\$3.5	
Total Debt at Parent (per share)							-\$7.0	
Shares Outstanding (2025E)							\$79	
Total First Energy (FE) Equity Value	\$2.67		-2.8x	-20%	11.2x		\$30.00	
Consensus	\$2.87							
FY1 Dividend							\$1.66	
Current Yield							4.5%	
Price Return Potential							-18.5%	
Total Potential Return							-13.9%	

Source: Company Filings, Bloomberg, & BofA Global Research

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### Additional real estate sales & consolidation in the plan

FirstEnergy (FE) recently listed its former Akron headquarters for sale for \$15Mn per media reports of a sales brochure. This compares with a \$18Mn property tax assessment and \$49Mn purchase price which included a lease buyout. FE has discussed real estate consolidation and "relocation opportunities". We would expect any losses to be treated as special items and excluded from operating earnings, consistent with the company's historical practice for similar items.

## HE: Legislative efforts are important for long-term (Cont.)

The Hawaii Governor's office stated no position is being taken HB2700 at this time in support or opposition but stated that it does not support the bill currently in filed testimony. The Governor is working with Hawaiian Electric to make the bill "more viable" and the filed comments summarize: "While the Office of the Governor is open to this concept, we do not feel like there is sufficient detail in this proposal, and do not currently see a full comprehensive package from the electric utility on how to resolve past claims before we believe it would be prudent for the state to commit to an approach on future claims." [underline emphasis in comments]

The Public Service Commission (PSC) testified noting proposed amendments, primarily that a presumption of prudence is not appropriate. The Hawaiian consumer advocate also testified that the bill is important and should advance but opposed rate payers of public utilities payments and presumption of prudence. Hawaiian Electric testified in strong support of the bill emphasizing that the relief fund would apply to future wildfires. HECO stated that it is open to amendments related to shifting of some costs from rate payers to shareholders but indicated that the higher insurance costs are typically recoverable in customer rates. State Farm testified in opposition with their view that the bill is negative for customers.

Other Hawaii legislation we are monitoring are Senate Bills (SB) 2922 with a hearing on February 9<sup>th</sup>, Senate Bill 2997 also with a hearing on February 9<sup>th</sup>, Senate Bill 3194 with a hearing on February 8<sup>th</sup>.

### PSC evaluating bankruptcy scenario

The Public Service Commission Chair testified that the PSC has been discussing a scenario where Hawaiian Electric declares bankruptcy with an assumption that the proceeding would be in US Bankruptcy Court with a potential change in ownership or pro-forma structure. The PSC could evaluate the operator for the utility system in such a scenario, either Hawaiian Electric or a new third party.

If a wildfire fund legislation is enacted to limit prospective wildfire liability, we think that would be positive for shares; however, we continue to view the stock as expensive based on the historical potential wildfire liabilities. We do not currently model any shareholder funded wildfire fund contributions into our earnings or cash flow forecasts. The Governor's comment about the lack of resolution of past wildfire claims is notable as one of the most important stakeholders.

## BofA Global Research Reports

### Title: Subtitle

[US Utilities & Clean Tech: PowerPoints: NWE/MDU Review, HE Bank & Regulatory, and AGR Maine/CT Updates](#)  
[US Utilities & IPPs: PowerPoints: WEC No FY24 Guide Yet, PEG FY24 Guide & Capex, and HE Credit Update](#)  
[Hawaiian Electric Industries: The First Earnings Update After Hawaiian Fires: What Will We Learn? Underperform](#)  
[Hawaiian Electric Industries: Our Take on the Key Fire Debates: Watch Critical Litigation Datapoints Too](#)  
[Hawaiian Electric Industries: Drawing Revolvers as Lawsuits Begin. Datapoints on fire cause come into focus](#)  
[Hawaiian Electric Industries: Limited shareholder value if liable for fire liabilities. The bank is not valuation floor](#)

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## Price objective basis & risk

### FirstEnergy (FE, \$36.40, B-3-7)

Our \$30 price objective is based on a sum-of-the-parts valuation. Our multiples are driven by relative P/E premiums/discounts to the 13.4x 2025E regulated peer multiple. Peer P/E multiple is grossed up for a year by 5% to reflect capital appreciation across



the sector, a consistent approach across our coverage universe. We apply -2x discount to reflect rate review risk, below average risk, and pension exposure. We subtract out the holding company debt given the above-average leverage. The unregulated coal mining business Signal peak is valued at 5x P/E

Upside and downside risks to the Price Objective are: 1) regulatory/political/legislative outcomes, 2) ability to earn the allowed ROEs and/or other changes in regulatory earnings, 3) weather and natural disasters, 4) investigation revelations and liabilities, 5) equity needs versus forecasts, 6) capital expenditures, 7) pension plan returns, discount rate changes, and interest/service costs associated with the plan, 8) economic conditions & interest rates, and 9) taxes.

### **Hawaiian Electric Industries (HE, \$13.17, C-3-9)**

Our \$7.00 PO for Hawaiian Electric Industries is based on a sum of the parts approach. We apply:

**Regulated Utility:** A 14.3x base 2025E sector peer forward mean P/E multiple is grossed up +5% to reflect capital appreciation across the sector. We apply a -10% discount to incorporate below-average growth profile and performance-based rates uncertainty related to achievement of performance incentive mechanisms (PIMs). We assume an approximate -\$18/sh post-tax liability on an uncertain 50/50 probability of \$5.4Bn property damage liable at the utility. There is no inverse condemnation of strict liability statute in HI, but see ongoing litigation risks from Maui fires.

**Bank:** A 2023E tangible book value median multiple of 1.2x in-line with small/mid-cap regional banking companies. Tangible book value calculation includes held-to-maturity unrealized gains and (losses).

**HoldCo & Other:** Pacific Current estimated asset value less associated net debt for Pacific Current and the HEI parent HoldCo.

Upside and downside risks are: 1) wildfire liabilities and litigation, 2) political, regulatory, and legislative changes, 3) capital expenditures, 4) inflation and operating costs, 5) bank loss reserves and margins, 6) non-interest income and interest income at the bank, 7) change in banking deposits, 8) commodity prices, 9) achievement of performance incentive mechanisms [PIMs], 10) pandemics, storms, and natural disasters, and 11) liquidity.

## **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.

## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	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
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextacker 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
<b>NEUTRAL</b>				
	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
	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
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	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

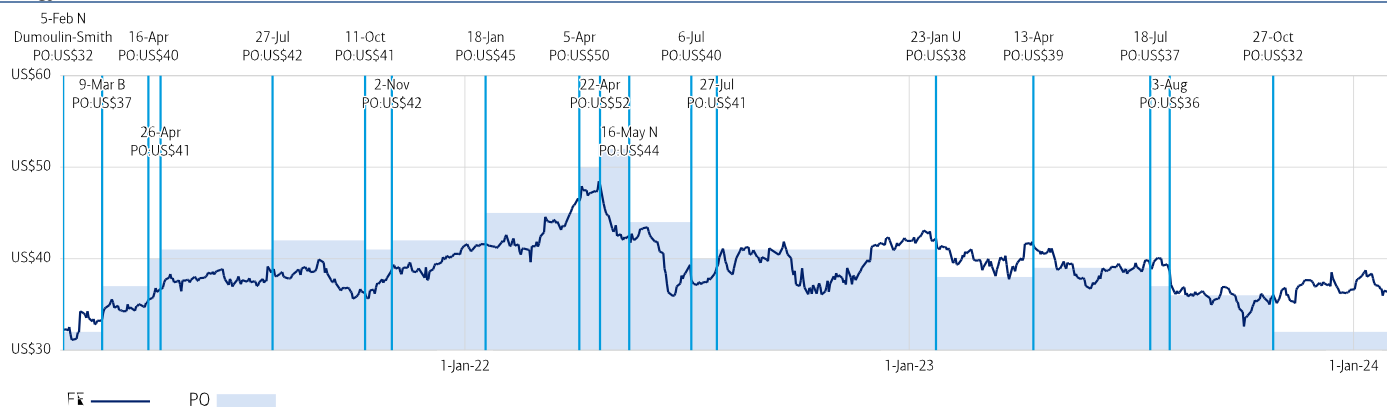
## North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>UNDERPERFORM</b>				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	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

## Disclosures

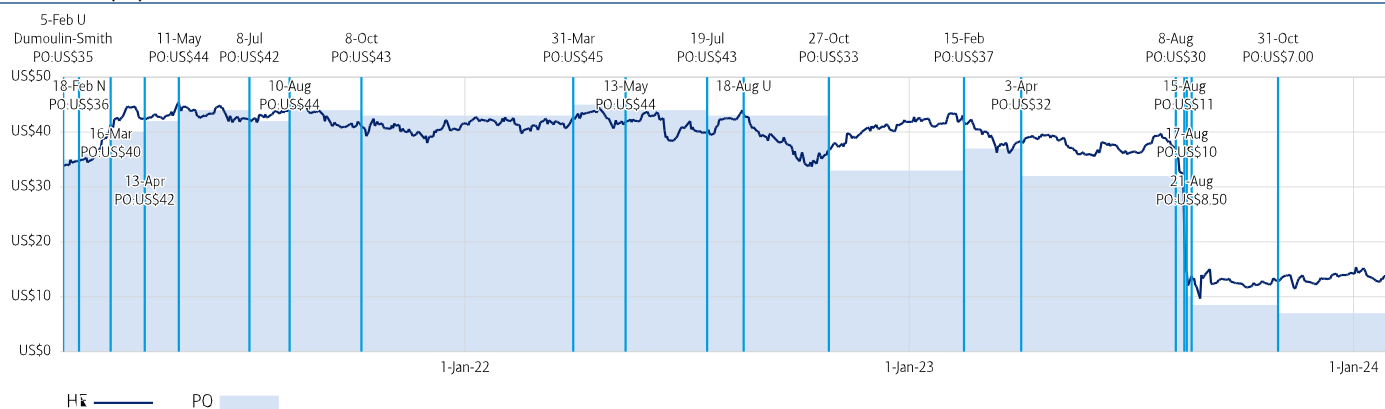
## Important Disclosures

## FirstEnergy (FE) Price Chart



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

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

**Hawaiian Electric (HE) Price Chart**

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

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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