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DOCKETS UE-240004/UG-240005
2024 PSE GENERAL RATE CASE
WITNESS: DANIEL A. DOYLE

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. PUGET SOUND ENERGY, Respondent.	Docket UE-240004 Docket UG-240005

SECOND EXHIBIT (NONCONFIDENTIAL) TO THE PREFILED DIRECT TESTIMONY OF

DANIEL A. DOYLE

ON BEHALF OF PUGET SOUND ENERGY

FEBRUARY 15, 2024

MIZUHO Mizuho Securities USA LLC

Energy Research
Utilities
Industry Flash

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Ebenezer Moody; Takeaways From Our Call With Moody's

We hosted an investor call with the Moody's Regulated Electric and Gas Utilities team, where topics ranged from concerns with holding companies operating below their downgrade thresholds to the impact of wildfire exposure in ratings and thresholds. For equity clients, we found most notable a shift in tone and patience regarding management teams that are operating below their downgrade threshold, but given the low commodity price environment, we don't expect any near-term rating action.

The party is over. Moody's believes the party is over with companies operating below their downgrade threshold. The credit rating agency was extremely patient for companies with weak credit metrics due to the pandemic and high commodity prices experienced this time last year. Companies have exhausted all alternative forms of financing and have stretched their credit metrics. Moody's believes the utilities sector needs to issue more equity over the next couple of years than it has over the past two years. Over the past few years, the sector has issued ~$15B of equity per year and Moody's believes the sector needs to issue ~$25B annually in both 2024 and 2025.

Regulation vs. credit metrics. Several investors questioned bond ratings with companies that fall below their downgrade thresholds but Moody's highlighted that supportive regulation accounts for 50% of the rating while credit metrics a much lower ~15%. Downgrade thresholds aren't adjusted for unforeseen events such as storms, so the rating agency does provide utilities with time to manage through unforeseen events.

Moody's is watching how higher capex levels impact credit metrics. While ~90% of the sector is at a stable outlook, higher disclosed capex levels may require companies to raise additional equity. So far, many companies have utilized non-core asset divestitures, minority interest sales, and hybrid issuances in lieu of raising equity. The Inflation Reduction Act (IRA) helped, too, by providing companies with additional tax breaks. However, are these methods sustainable in the long term?

The hybrid security equity content is expected to be revised soon. The equity treatment of hybrid securities is expected to be simplified from five categories to three. This is currently being revised by the Moody's hybrid security team. Once the equity content is established, there will be more clarity on how to incorporate these securities into the credit metrics. We believe there could be guidance from Moody's in early 2024.

Wildfire exposure is still being evaluated. Moody's identified 21 opcos with wildfire risk and created a three tier ranking system based on criteria such as percentage of wires underground, wildfire history, and annual spending for wildfire mitigation. Although the rating agency has not included these risks in its bond ratings and downgrade thresholds, it has identified four opcos with "high" wildfire risk; APS (PNW), AVA, NV Energy, and PacifiCorp.

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Price Target Calculation and Key Risks

ALLETE Inc

Price Target Calculation: We arrive at our price target of $58.00 through a sum-of-the-parts valuation. We value the regulated electric distribution and transmission 2025 earnings of $2.86 using an electric group multiple. Combined with the Nemadji Trail Energy Project we arrive at a price target of $47.00. We value ACE based on 2025 EBITDA of $21 million at the group average for renewables. We arrive at a $5.00 price target. We value NEE $33 million of NEE EBITDA using a 10x EV/EBITDA multiple, resulting in a price target of $6.00. We value the rest of the company including the BNI and Florida real estate at a 10x P/ E multiple, giving us a price target of $4.00. Consistent with our price target methodology we decrease our target by $4.00 to account for parent debt drag.

Key Risks: General economic conditions, changes in state and/or Federal regulation, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance. Additionally, ALE carries the risk of a concentrated industrial customer base.

Alliant Energy Corporation

Our PT is $51.00. We value the 2025 regulated electric utility earnings, including the contribution from ATC, of $3.13 using a 10% premium to the group average P/E multiple to account for constructive regulation resulting in a price target of $51.00 per share. We value the Gas LDC portion (about 10%) of LNT's earnings at $6.00 using our 2025 EPS estimate of $0.33 and a 10% premium to the group average P/E multiple to account for constructive regulation. We reduce our price target by $6.00 to reflect the aggregation of the company's non-regulated debt, gas peaking asset, and ownership interest in a non-utility wind farm.

Key Risks: (i) Under-earning at regulated utilities; (ii) regulatory risk associated with recovery of wind and solar investments. In addition to broader macro concerns regarding economic outlook, changes in underlying Treasury securities or expectations of the same were other key concerns and could have influenced the investment appeal of utilities in general, and LNT, in particular.

Ameren Corporation

Price Target: We value Ameren's electric transmission and distribution business (89% of earnings) of whole) based on 2025 regulated electric operating earnings of $4.67 per share and applying a P/E multiple of 17.0 times, a premium of 22% to the electric utilities group due to its strong 6-8% earnings growth vs a group average of 5-6%, resulting in a valuation of $79.00 per share.

We value Ameren's gas distribution business (11% of earnings) based on 2025 regulated gas operating earnings of $0.65 per share and applying a P/E multiple of 14.2 times, an LDC group average, resulting in a valuation of $9.00 per share.

In 2025 we forecast Ameren has approximately $4.0 billion of unallocated debt out of roughly $18.9 billion (net of cash) and therefore we adjust our valuation downward by $11.00.

Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated on a daily basis

Key Risks: Near-term risks include: 1) Uncertainty in Illinois electric and gas rate cases; and 2) Cost management. Longer Term Risks: MISO long-range planning could be slow to achieve, resulting from state proposed alternative mechanisms. Other risks including general economic conditions, changes in state and/or federal regulation, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

American Electric Power Company

Price Target Calculation: Our price target is derived as follows:

Regulated Electric Distribution and Transmission: we derive a PT of $100.00, applying a 13.0% premium to the electric utilities group average multiple.

AEP's unregulated generation and marketing business we value at $2.00 using a 7.0x EV/EBITDA multiple.

Adjusting for unallocated debt reduces the price by $15.00.

Consistent with our methodology our price targets are dynamic changing with the group average P/E multiples and EV/EBITDA multiples recalculated on a daily basis.

Key Risks: General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new construction, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements were among the key risks to our prior rating and expected stock performance.

American Water Works Co., Inc.

Price Objective: We value AWK using a sum of the parts approach using water utility peer comparable PE multiples. The group currently trades at ~21x 2025E earnings (ex. WTRG). We ascribe a 9% PE premium to AWK on the basis of favorable regulatory compacts, ability to settle rate cases, minimal regulatory lag supporting the robust capital plan and accretive bolt-on acquisitions. Taking an average of the 22.9x water premium PE multiple and 76% historical premium to the UTY results in our $134/ share PT.

Risks to our Buy thesis: 1) AWK's utilities span 14 jurisdictions, as a result of this they are frequently in rate proceedings which add a layer of perpetual regulatory risk to the AWK story; 2) macro weakness hinders utility growth capex, and regulatory lag increases to alleviate customer bills; 3) pending litigation causes unforeseen liabilities; 4) acquisitions of neighboring systems take longer to close, creating cash drag.

Avangrid, Inc.

Price Target: Using a Sum-of-the-Parts (SOTP) analysis, we derive a price target of $36 per share for Avangrid.

We apply a P/E multiple of 12.6 times, a 15% discount to the electric utility group average multiple, to our forecast for the electric utility's 2025 EPS of $1.94 and derive a price of $24.00 per share. We believe AGR's electric utility should trade at a 15% discount because over 65% of the company's electric rate base is exposed to CT and NY regulatory risk. PURA (CT) recently authorized a 9.10% ROE with a 47bps penalty (effective ROE = 8.63%). The Joint Proposal that AGR has reached with intervenors in NY is premised on a 9.20% ROE. ROEs in both states are below the national average of ~9.50%.

We apply a P/E multiple of 12.9 times, a 15% discount to the gas utility group average multiple, to our forecast for the gas utility's 2025 EPS of $0.49 and derive a price of

$6.00 per share. We apply a 15% discount to AGR's gas utility since ~97% of the company's gas rate base is exposed to CT and NY regulatory risk. CNG and SCG are expected to file rate cases in CT later this year. CNG and SCG have a 9.30% and 9.25% ROE, respectively. The Joint Proposal that AGR has reached with intervenors in NY is premised on a 9.20% ROE. The gas ROEs in both states are below the national average of ~9.60%.

We derive $13.00 of price target for renewables and offshore wind segments after applying a 14.2x EV/EBITDA multiple, equivalent to the group average, to our estimates. Our 2025 renewables EBITDA estimate is $455 million with assumed net debt of $739 million.

We reduce our PT by $7.00 to account for our expectation of $3.0 billion of parent debt at the company in 2025. Our forecast assumes much lower parent debt associated with renewable spending including no construction costs associated with Park City and Commonwealth offshore wind projects.

Consistent with our methodology our price targets are dynamic changing with the group average P/E multiples and EV/EBITDA multiples recalculated on a daily basis.

Key Risks:

Near-term risks include: (1) closing of the PNM acquisition; (2) operational performance of the renewable generation portfolio; (3) development of its offshore wind sites, and (4) regulatory relations.

Other risks include general economic conditions, changes in state and/or Federal regulation, environmental compliance, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Avista Corporation

Our SOTP price target is calculated as follows:

We value AVA's electric utility business using our 2025 regulated electric operating earnings estimate of $1.85 per share and applying a 13.3x multiple, a 10% discount to the group average P/E multiple, to account for higher interest costs andinflationary pressures, resulting in a valuation of $25.00 per share.

We value AVA's gas utility based on 2025E operating earnings of $0.61 per share using a 13.4x multiple, 10% discount to the group average P/E multiple, to account for higher interest costs and inflationary pressures, resulting in a valuation of $8.00 per share.

We arrive at a SOTP price target of $33.00

Bull Case: In our bull case, we forecast $100m of additional capex spending, resulting in a $39 PT, as every $50m of additional capex would increase EPS by ~$0.02. Each incremental $0.02 of earnings would result in approximately $0.50 increase in our PT. This represents ~3% upside from our $33 PT.

Bear Case: In our bear case, we forecast a 1% increase in rates and an additional $100m of short-term debt borrowings, resulting in a $36 PT, as every 1% increase in rates on the initial ~$150m of short-term debt results in a ~$0.04 drag on earnings and every additional $100m of short-term debt borrowings results in an additional $0.08 drag to earnings. Each ~$0.12 decrease in earnings would result in a $2.00 decrease in our PT. This implies ~5% downside from our $33 PT.

Risks: 1) persistent inflation and high short-term interest rates; 2) WUTC decides to reopen the company's WA rate case; 3) challenging rate case decisions in AK, ID, or OR.

Black Hills Corporation

Price Target: Our price target is derived as follows:

Our $53 price target is derived using a SOTP valuation as follows: (1) Electric Utilities segment: we derive a $32.00 PT, using our 2025 estimates of $2.65 and a 13.2x multiple which equates to a 12.5% discount to the electric utility group; (2) Gas Utilities segment: we derive a $36.00 PT using our 2025 estimates of $3.02 and a 12.9x multiple which equates to a 10% discount to the gas utility group; (3) adjusting for unallocated debt, we subtract $21.00 from our PT.

Bull Case: In our bull case, we forecast $100M additional capex, resulting in a PT of $61, as every $50m of additional capex spending would increase EPS by ~$0.02. Each incremental $0.02 of earnings would result in approximately $0.50 increase in our PT. This represents 1% upside from our $53 PT.

Bear Case: In our bear case, we see rates on BKH's commercial paper rising 200 bps, resulting in a PT of $57, as for every 1% increase in rates on the ~$550m of CP, there is ~$0.08 drag on earnings. Each $0.08 decrease in earnings would result in a $1.50 decrease in our PT. This implies 3% downside from our $53 PT.

Risks: 1) high inflation and interest rates persists causing regulatory lag; 2) challenging rate case outcomes in WY, CO, or any other jurisdictions over the course of the year.

Brookfield Renewable Partners LP

Price Target Calculation:

Using the DDM methodology, we derive a PT of $23.00. Our price target is calculated as follows: We assume LP distributions continue to grow at a steady 7% throughout our forecast period and discount them back to 2023 applying an 11.0% discount rate. Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated on a daily basis.

Key Risks: 1) Competition for renewable assets increases and 2) US energy and capacity prices weaken. Other risks include: general economic conditions, changes in state and/or federal regulation, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

CMS Energy Corporation

Price Target Calculation: Our $68.00 price target is derived as follows: We value Consumers Electric Utility based on 2025E regulated electric operating earnings of $2.70 per share and applying a premium of 18.0% to the electric utilities group multiple due to earnings stability and Michigan regulation, resulting in a valuation of $52.00 per share. We value Consumers gas utility based on 2025E operating earnings of $1.39 per share using an 18% premium to the gas utility average multiple due to earnings stability and Michigan regulation, resulting in a valuation of $27.00 per share. We value 2025E Enterprises EBITDA of $94 million, using an 8.0 times EV/EBITDA multiple, resulting in a valuation of $2.50 per share. In 2025, we forecast CMS will have approximately $4.8 billion of unallocated debt out of roughly $17.2 billion (net of cash) and therefore we adjust our valuation downward by $13.50.

Key Risks: Near-term risks include: (1) lower ROE in the electric utility segment, (2) longer-than expected impact of COVID-19 on load demand. Other risks include:

general economic conditions, changes in state and/or federal regulation, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

CenterPoint Energy, Inc.

Price Target Calculation:

Our $33 price target is derived as follows:

We value the 2025 regulated electric operating earnings of $1.24 using a 19.2x P/E multiple, a 22% premium P/E multiple to the group average resulting in a price target of $24.00 per share. The premium takes into account that CNP's electric utility has strong load growth and robust rate base growth.

We value the regulated gas utility businesses on 2025 earnings of $0.80 using a 18.6x P/E multiple, a 15% premium to the group average P/E resulting in a price target of $15.00 per share. The premium takes into account that CNP's gas utilities operate in cold-winter states with constructive natural gas regulatory jurisdictions.

We expect CenterPoint to have approximately $4.0 billion of unallocated debt in 2025 out of roughly $21.0 billion and therefore we adjust our price target by $6.00.

Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated on a daily basis.

Key Risks: General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new plant builds, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements were among the key risks to our rating and expected stock performance.

Consolidated Edison, Inc.

Price Target Calculation: Our $91 price target is derived as follows:

We value the 2025E regulated electric and steam earnings at CECONY and O&R of $3.69 using a 16% P/E premium to the group average multiple (unchanged), resulting in a price target of $66.00 per share.

We value the regulated gas utility businesses at CECONY and O&R 2025E earnings of $1.30 using a 16% P/E premium to the LDC group average multiple (unchanged), resulting in a price target of $24.00 per share.

We value Mountain Valley gas pipeline 2025E EBITDA of $65 million at a 9.8 times EV/EBITDA multiple, equivalent to the group average multiple for pipes (unchanged), resulting in a price target of $1.00.

We assume ConEd will pay down parent-level debt with proceeds from the sale of its CEB business. Therefore, we do not adjust our price target for unallocated debt.

Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated on a daily basis.

Key Risks: General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new plant builds, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Constellation Energy, Inc.

Price Target:

We value 2025E generation and retail EBITDA of $3.8 billion at a 9.8 times multiple net of $3.8 billion of debt resulting in a price target of $106.00. Our 9.8 times multiple represents a merchant generator group average multiple.

Risks: 1) Estimated FCF yield appears low compared to other merchant generators, which have FCF yields that are roughly double CEG's; 2) the merchant business model has limited growth potential; 3) CEG investors have outsized exposure to nuclear operating risks; 4) the retail business is exposed to price volatility in commodity markets.

DTE Energy Company

Price Target: Our $119 SOTP price target is derived as follows: We value the regulated electric and gas businesses of DTE with a premium P/E multiple. We view Michigan regulation as constructive from an investor perspective and believe it warrants a premium multiple. We value the regulated electric utility with a PT of $111.00, based on a 2025 EPS estimate of $6.19 and a 20% premium to the pure-play electric utilities group P/E multiple. We value the regulated gas utility with a PT of $29.00, based on a 2025 EPS estimate of $1.61 and a 20% premium to the pure-play gas utility group P/E multiple. For Vantage (formerly P&I): we derive a PT of $10.00, using a 10.0x EV/EBITDA multiple. For the trading segment: we derive a PT of $1.00, applying a group average EV/ EBITDA multiple for energy trading businesses. Adjusting for unallocated debt lowers our PT by $32.00.

Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated on a daily basis.

Key Risks: General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new plant builds, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Dominion Energy, Inc.

Price Target Calculation: We value Dominion’s regulated electric (VEPCO and Southeast Energy Group) on forecast 2025 earnings of $3.06 using a 9% P/E premium, resulting in a price target of $47.00 share. We value Dominion’s forecast 2025 gas utility earnings of $0.06 using a group average for the LDC peer group, resulting in a price target of $1.00 share. We value Dominion's Millstone nuclear plant at a 10.5x EV/ EBITDA multiple, resulting in a price target of $4.50. In 2025 we forecast Dominion will have $7.1 B of unallocated debt (net of cash) out of roughly $38.4 B and therefore we adjust our price target by ($6.50).

Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated daily.

Key Risks: General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new plant builds, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements were among the key risks to our rating and expected stock performance.

Duke Energy

Price Target Calculation:

We derive our $91.00 price target as follows:

Regulated electric businesses: we derive a PT of $105.00, by applying a 10% P/E premium to the electric utility group to our 2025 electric utility EPS estimate of $6.46.

We believe a 10% P/E premium for the electric utility multiple is warranted because DUK's electric utility business operates in constructive regulatory jurisdictions.

Regulated gas utility businesses: we derive a PT of $13.00, applying a 5% P/E premium to the gas utility group to our 2025 gas utility EPS estimate of $0.76. We believe a 5% P/E premium for the gas utility multiple is warranted because DUK's gas utility business operates in constructive regulatory jurisdictions.

Gas pipeline segment: we derive a PT of $1.00, applying a group average EV/EBITDA multiple of 9.4x for gas pipeline businesses on our 2025 EBITDA estimate of $65mn.

Offsetting a portion of this value is $28.00/share of holdco debt.

Our valuation utilizes $1.1B of cash proceeds from the sale of the commercial renewable segment will be used to strengthen the balance sheet.

Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated on a daily basis.

Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated on a daily basis.

Key Risks: 1) Decarbonization plans and subsequent capex opportunities get delayed due to higher cost; 2) Regulatory risk.

Edison International

Price Target Calculation:

Using a sum-of-the-parts analysis on 2025 results we derive a price target of $75.00.

We value the regulated electric distribution and transmission by applying a 13.0x P/E multiple, which represents a 12% discount to the electric utility group average multiple, to our 2025 EPS estimate of $6.31, resulting in a price target of $82.00.

We reduce our price target by $7.00 for unallocated debt of $3.3 billion.

Consistent with our methodology our price targets are dynamic, which means that they will change with the group average P/E multiples and EV/EBITDA multiples, recalculated on a daily basis.

Key Risks: General economic conditions, changes in state and/or Federal regulation, California environmental compliance, execution risk with new construction, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements were among the key risks to our prior rating and expected stock performance.

Entergy Corporation

Price Target Calculation: Our price target is derived as follows: (1) Electric distribution and transmission: we derive a PT of $129.00, applying a 5% discount to the electric utility group average P/E multiple; (2) Gas utility: we derive a PT of $1.50 applying a gas utility group average P/E multiple; (3) adjusting for unallocated debt, net of a tax shield, reduces the price by $17.50.

Consistent with our methodology our price targets are dynamic, changing with the group average P/E multiples and EV/EBITDA multiples recalculated on a daily basis.

Key Risks: General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new construction, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Eversource Energy

Using a sum of the parts valuation on our 2025 estimates of ES, we derive a PT of $73.00. We value electric regulated earnings using 2025 earnings of $4.36 at a 15.4x multiple, which is a 10% discount to the group, which results in $66 of share value. We use a 10% discount given the increasingly challenging nature of CT's jurisdiction, especially with the passing of SB7, restrictive utility legislation that was passed this year. We also value regulated earnings (representing about $1 billion in rate base) that are included in the parent segment, and offset by parent interest expense in that segment, to contribute $2 of share value, resulting in the total regulated electric segment per share value of $68. We value ES's gas LDC business using 2025 earnings of $0.88 at a 15.4x multiple, which is a 5% discount to the group, resulting in a $13 share value. Given the decarbonization push in ES' service territories, we believe ES' LDCs should trade at a discount to its peers in more fossil friendly states. We value Aquarion using 2025 earnings of $0.10 using a group average water utility P/E of 23.1x, which results in $2 of share value. The remainder of our valuation includes our estimates for offshore wind EBITDA and an adjustment for parent debt level. We discount back our 2026 offshore wind EBITDA estimate to 2025 and apply a renewables group EV/EBITDA multiple of 11.0x and arrive at $1 of share value for the offshore wind segment. Separately, we apply an $11 per share drag to our PT to account for our projection of the company's parent debt at $6.9 billion in 2025. Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated on a daily basis.

Key Risks. General economic conditions, changes in state and/or Federal regulation including FERC policy on transmission ROEs, environmental compliance, execution risk with new transmission and gas LDC spend, ongoing business operational risk,

broader macroeconomic conditions, and interest rate movements are among the key downside risks to our rating. Upside risks are mainly based on the regulatory relationship in CT which may improve under scenarios where PURA reaches a constructive outcome in the rate reduction docket. A reversal of the storm ROE penalty via a CT court appeal also serves as an upside risk.

Exelon Corporation

Price Target Calculations: Using a sum of the parts analysis on 2025 results we derive a price target of $40.00 per share. Our price target is derived as follows: (1) Regulated electric distribution and transmission: we derive a PT of $42.00, applying a 10% premium to the electric utility group average P/E multiple; (2) Regulated Gas Distribution: we derive a PT of $8.00, applying a 10% premium to the gas utility group average multiple; (3) Adjusting for unallocated debt reduces the PT by $10.00.

Consistent with our methodology our price targets are dynamic changing with the group average P/E multiples and EV/EBITDA multiples recalculated on a daily basis.

Key Risks: Equity overhang, weak commodity outlook, general economic conditions, changes in state and/or Federal regulation, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

FirstEnergy Corp.

Price Target Calculation: Using a sum of the parts analysis on 2025E results, we calculate a price target of $40.00 per share. Our price target is derived as follows: 1) We value the regulated electric distribution and transmission on 2025E earnings of $3.00 using a 10% premium to the group average multiple for 2025. 2) Adjusting for unallocated debt net of cash reduces the price by $15.00. 3) We ascribe a 14% premium to our SOTP valuation to account for a trading premium associated with the Street view of P/E valuation, which equates to $6.00 a share.

Consistent with our methodology our price targets are dynamic, which means that they will change with the group average P/E multiples and EV/EBITDA multiples, recalculated on a daily basis.

Key Risks: General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new construction, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

IDACORP, Inc.

Using the SOTP methodology, we derive a PT of $98.00. Our price target is calculated as follows:

We value Idaho Power based on 2025E regulated electric operating earnings of $5.82 per share and applying a 15% premium to the group average P/E multiple due to the strong load growth in the service territory, resulting in a valuation of $98.00 per share.

We ascribe minimal value for IDA's two unregulated businesses, IDACORP Financial Services (IFS) and Ida-West Energy.

In 2025, we forecast IDACORP has $3.6 billion of debt all of which is at the utility.

Risks: 1) Economic growth in the service area; 2) Regulatory challenges in future rate cases; 3) Wildfires

NextEra Energy Partners, LP

Price Target Calculation: We value NEP by taking an average of two valuation approaches: 1) Dividend Discount Model (DDM) and 2) Discounted Cash Flow Analysis (DCF). Our DDM results in a $27/unit PT and our DCF results in a $38/unit PT. Taking an average of the two approaches yields an approximate valuation of $33/ unit.

Key Risks: (i) A distribution cut comes sooner than expected; (ii) Weakness at the parent; and (iii) force majeure events at the projects.

NextEra Energy, Inc.

Price Target: Our price target is derived as follows:

We value the 2025 regulated utility earnings of $2.18 using a 15% premium to the 2025 group average P/E multiple of 16.2x, resulting in $35 of per share value. We consolidate the NEER and parent segments, and we value 2025 EBITDA at NEER of $6.7 billion at a 12.7x EV/EBITDA multiple (a group average multiple), before deducting $9 of per share value for parent debt resulting in $27 per share of value. The premium EV/ EBITDA multiple we apply reflects NEER's leading market position for contracted wind and solar generation, historical operating execution, and a supportive federal tax subsidy policy for renewable generation development. We value NEE's ownership of NEP at $3 of per share value

Key risks include: (i) A change to the company's constructive regulatory relationship with the Florida PSC; (ii) A degradation to the premium valuation experienced by renewable generation assets; (iii) the removal or downward change to federal tax policy in regard to renewable subsidies; and (iv) the Department of Commerce's investigation into the originating country for solar panels or other supply chain delays.

NorthWestern Corporation

We arrive at our $52.00 target through the following means: We value NWE's electric business using our 2025 Electric EPS of $3.28 and applying a 13.3x multiple, a 10% discount to the group multiple, resulting in a share value of $43.00. We value NWE's gas business using our 2025 Gas EPS of $0.60 and applying a 14.9x multiple, a group average multiple, resulting in a valuation of $9.00.

Risks included lower earnings growth driven by declining customer growth, uncontrollable costs, or regulatory outcomes that negatively affect the company's cost of capital and impinge on its ability to raise capital at competitive rates. General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new plant builds, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements were among the key risks to our prior rating and expected stock performance.

OGE Energy Corp.

Price Target Calculation:

Our price target is derived as follows: (1) We apply a 5% premium to the electric utility group average P/E multiple to our forecast for OG&E's 2025 EPS of $2.33 to account for the strong load growth in their service territory and derive a price of $36.50 per share. By 2025, we expect parent debt drag in 2025, resulting in a ($1.50) decrease to our PT.

Key Risks: 1) We see average rate base and earnings growth in our forecast period compared to peers in the utility space; 2) the company's ESG profile will continue to be challenged by significant coal-fired generation.

PG&E Corporation

Price Target Calculation:

Our price target is derived as follows: (1) Regulated Electric Distribution and Transmission: we derive a PT of $15.50, applying a ~5% discount the electric utility group average P/E multiple to account for uncertainty around California regulation;
(2) Regulated gas utility: we derive a PT of $5.00, applying a ~5% discount to the gas utility P/E multiple to account for the same uncertainties mentioned above. (3) Adjusting for unallocated debt, we reduce our PT by $0.50.

Consistent with our methodology our price targets are dynamic, which means that they change with the group average P/E multiples and EV/EBITDA multiples, recalculated on a daily basis.

Key Risks: (i) earnings estimates remain highly sensitive to the assumed issue price of new equity; (ii) uncertainty around future wildfire exposure and timing of cost recovery; (iii) additional wildfire/gas pipeline explosions.

PNM Resources, Inc.

Price Target Calculation: Following the NM Supreme Court appeal hearings on 9/15, we believe the AGR/PNM merger case will be remanded back to the NM Public Regulation Commission (NMPRC) in late December 2023. Ultimately, we believe there is still motivation from AGR, PNM, and most parties in the state to get this merger across the finish line. We believe the original purchase price of $50.30 for PNM still stands and our revised timeline for the merger approval is around June 2024. Our price target reflects the price agreed to in the merger agreement.

Risks: In addition to the risk of the merger not going through, risks include State and/or Federal regulation, environmental compliance, execution risk with new construction, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance. In addition, we see regulatory risk in respect to its general rate cases.

PPL Corporation

Valuation: Our $28.00 price target is derived as follows:

We value the 2025 regulated electric operating earnings of $1.80, using a group average P/E multiple of 15.9x, resulting in a price target of $28.00 per share.

We value the regulated gas utility businesses on 2025 earnings of $0.16 using a group average P/E multiple of 16.0 times, resulting in a price target of $2.00 per share.

PPL has approximately $2.1 billion of unallocated debt out of roughly $14.7 billion and therefore we adjust our price target by $2.00.

Bull Case: PPL is not expected to enter into any rate cases until 2025. In an environment where regulation is an issue facing many utilities in the space the lack of regulatory risk is a strong tailwind for PPL in 2023.

Bear Case: With much of the earnings growth for PPL coming through cost-cutting measures in O&M if inflationary pressures persist there could become a concern around the ability of the company to maintain their stated growth rate.

Key Risks: General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new plant builds, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Pinnacle West Capital Corporation

Using the SOTP methodology, we derive a PT of $85.00. Our price target is calculated as follows: We value Arizona Public Service based on 2025E regulated electric operating earnings of $6.00 per share and applying a 5% premium to the group average EPS multiple to account for the strong load growth in AZ and improving regulatory environment, resulting in a valuation of $94.00 per share. We had previously assumed a 3% discount to the group average for APS to account for the regulatory uncertainty, which we believe should dissipate as their current case finalizes. We ascribe zero value to PNW's three unregulated business, Bright Canyon Energy ($14M of total assets), El Dorado ($9M) and 4CA ($55M, primarily consisting of a note receivable for the Four Corners coal-fired power plant), given the small contribution to earnings and no plan to increase their earnings contribution to Pinnacle. In 2025, we forecast PNW will have approximately $1.4 billion of unallocated debt out of roughly $9.7 billion (net of cash) and therefore we adjust our valuation downward by $9.00.

Risks include: General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with ongoing business operations, construction risk (both transmission build and generation plant upgrades), nuclear plant operations, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements were among the key risks to our prior rating and expected stock performance outlook.

Portland General Electric Company

Price Target Calculation: We value the electric regulated utility 2025 earnings of $3.17 using a 5% discount to the group average multiple resulting in a price target of $42 per share.

Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated on a daily basis.

Key Risks: General economic conditions, changes in state and/or Federal regulation, volatility of power prices, ongoing business operational risk, prudency reviews of deferred costs, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Public Service Enterprise Group Incorporated

Price Target Calculation: Using a sum of the parts analysis on 2025E estimates we derive a price target of $65.00 per share. Our price target is derived as follows: (1) Regulated electric distribution and transmission: we derive a PT of $47.00, applyinga 12% premium to the electric utility group P/E multiple; (2) Gas distribution: we derive a PT of $15.00, applying a 12% premium to the gas utility group P/E multiple; (3) PSEG Power: we derive a PT of $6.00, applying the EV/EBITDA methodology; (4) Basic Gas System Service (BGSS): we derive a PT of $3.00, using the EV/EBITDA methodology; (5) adjusting for unallocated debt, net of a 28% tax shield, we subtract $6.00 from our PT.

Consistent with our methodology our price targets are dynamic changing with the group average P/E multiples and EV/EBITDA multiples recalculated on a daily basis.

Key Risks: General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new construction, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Sempra

Price Target Calculation: Using the SOTP methodology, we derive a PT of $84. Our price target is calculated as follows: We value the 2025 regulated electric operating earnings of $2.64 using a discounted P/E multiple of 16.1x which accounts for California regulatory risk, resulting in a valuation of $43.00 per share. We value the regulated gas utility businesses on 2025 earnings of $1.77 using a discounted LDC P/E multiple of 15.2x, resulting in a valuation of $27.00 per share. We value 70% of SIP using a 13.5x EV/EBITDA multiple on $1,291 million of EBITDA for LNG and IEnova resulting in a valuation of $21.00 per share. In 2025, we forecast Sempra will have approximately $6.1 billion of unallocated debt out of roughly $28.2 billion (net of cash) and therefore we adjust our valuation downward by $7.00.

Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated on a daily basis.

Key Risks: (i) Ability to mitigate wildfire risks in California; (ii) unfavorable regulatory outcomes in Texas and California.

The Southern Company

Price Target Calculation: Our $73.00 price target is derived as follows:

(1) We value the regulated electric distribution and transmission business by applying an 17.6x P/E multiple, which represents a 25% premium to the electric utility group, on our 2025 EPS estimate of $3.86, resulting in a PT of $70.00. We ascribe a

25% premium to SO's electric utility operations because it operates in constructive regulatory jurisdictions.

(2) We value the regulated gas distribution business by applying an 17.9x P/E multiple, which represents a 25% premium to the gas utility group, on our 2025 EPS estimate of $0.59, resulting in a PT of $11.00. We ascribe a 25% premium to SO's gas utility operations because it operates in constructive regulatory jurisdictions.

(3) We value the gas pipeline business by applying a group average 9.7x EV/EBITDA multiple to our 2025 EBITDA estimate of $130M, resulting in a PT of $1.00.

(4) We value the merchant generation business by applying a group average 6.2x EV/EBITDA multiple to our 2025 EBITDA of $146M, resulting in a PT of $0.50.

(5) We value the renewables business by applying a group average 15.5x EV/EBITDA multiple to our 2025 EBITDA estimate of $720M, resulting in a PT of $5.50.

(6) Adjusting for unallocated debt, we reduce our PT by $15.00.

Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated on a daily basis.

Key Risks: Execution risk with the development of the Vogtle Nuclear generating facilities is a key risk, as are potential changes in environmental compliance and regulation both the Federal and state levels.

WEC Energy Group

Our price target is derived as follows:

Using the SOTP methodology, we derive a PT of $88.00. Our price target is calculated as follows:

We apply a 17.6x P/E multiple, which is a 25% P/E premium to the electric utility group average, to our 2025 regulated electric operating earnings of $2.55 per share and arrive at a valuation of $45.00 per share.

We apply a 14.3x P/E multiple, which is a gas group average P/E multiple, to our 2025 gas earnings of $1.82 per share and arrive at a valuation of $26.00 per share.

We value the fossil generation portion of the Non-Utility Energy Infrastructure business by applying a 25% premium to the NPV of the cash flows of its long-term contracts, given its "utility-like" risk profile, resulting in a valuation of $11.00 per share.

We value the renewable generation portion of the Non-Utility Energy Infrastructure business (WEC Infrastructure) by applying a sector average EV/EBITDA multiple, resulting in a valuation of $17.00 per share.

Adjusting for unallocated debt, we reduce our PT by $11.00.

Consistent with our methodology, our price targets are dynamic, changing with the group average multiples recalculated on a daily basis.

Risks: General economic conditions, changes in state and/or Federal regulation, unfavorable decisions in the company's Wisconsin rate cases this year, environmental compliance, execution risk with merger integration, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Xcel Energy Inc

Price Target Calculation:

Our $62.00 price target is derived as follows:

Regulated electric distribution and transmission: we derive a PT of $55.00, applying a 16.6x multiple, which represents a 20% premium to the electric utility group average P/E multiple, to our 2025 EPS estimate of $3.33. The 20% premium accounts for constructive regulatory jurisdictions and the ability to earn allowed returns at its largest subsidiaries.

Regulated gas distribution: we derive a PT of $12.00, applying a 16.9 multiple, which represents a 20% premium to the gas utility group average P/E multiple, to our 2025 EPS estimate of $0.68. The 20% premium accounts for constructive regulatory jurisdictions in the company's gas jurisdictions.

Adjusting for unallocated debt reduces the PT by $5.00.

Consistent with our methodology our price targets are dynamic changing with the group average P/E multiples and EV/EBITDA multiples recalculated on a daily basis.

Key Risks: General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new construction, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements were among the key risks to our prior rating and expected stock performance.

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Investment Risks and Valuation Methods can be located in the following section of this research report - Price Target Calculation and Key Risks.

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