

# US Electric Utilities & IPPs

## Midweek PPTS: PCG Feedback, EVRG Response, XEL's EVs in XEL

Industry Overview

Bank of America  
Merrill Lynch



Equity | 11 October 2019

### PCG: That sinking feeling? Negotiation & Process

As PG&E investors reacted to the loss of exclusivity, the debate has shifted from simply that of improved leverage from victims over equity towards process considerations. Given the judges emphasis on timely exit from bankruptcy, much of the conversation has centered on the estimation process for non-Tubbs claims. Investor debate appears fixated on whether attempts to accelerate the process by forgoing this estimation process in favor of the victims arrangement have driven the most substantive fears. We also note a growing perception that financing backstop by equity to fund greater payouts to victims remains a greater focus around claims too. Bottom line, we see on-going concerns around risk of a greater payout, as well as other considerations in process alluded by the judge. Critically, we still do not perceive any progress from PG&E on any victims arrangement (and hence likely few substantive data points by the next update this Fall). Meanwhile success in minimizing wildfires through the latest season thru an ambitious de-energization process (albeit with some political push back) should relieve concerns around *further* fires in the current fire season for both PG&E, but in particular EIX. Reaction to the fires by Gov Newsom in particular (originally supportive) are critically important given the potential for public patience to wane. We also look for updates in coming weeks on 3Q calls on order trends from a variety of distributed solar players as well as our peers' coverage of GNRC (Ross Gildardi), as we see de-energization driven rolling outages remaining quite constructive for DG solar players (see [here](#)). We maintain our no rating on shares given the CH. 11 bankruptcy proceeding. [PG&E Corporation: Move Over: Losing Control of the Exclusivity](#)

### EVRG: Requesting delay of Sibley vote citing mkt impact

EVRG subsidiary Greater Missouri Operations (GMO) docketed a response to Wednesday's non-binding commission vote which indicated 3-2 support for granting the accounting authority order (AAO) which would require EVRG to refund to customers costs associated with the retired Sibley units, see our [note downgrading EVRG to Neutral from Buy](#). The filing requests that the commission delay issuing an order in the Sibley matter and schedule additional hearings "considering the impact of the Commission's decision herein on perceptions of the investment community on the fairness of Missouri regulation and continued access of investor-owned utilities with Missouri operations to the capital markets on reasonable terms." **The EVRG filing attributes the ~2% decline in the company's shares following the vote to market participants questioning of the fairness of Missouri regulation. We continue to see the market reaction as predicated on the expectation of a Sibley outcome in EVRG's favor, based in part on supportive staff briefs filed in September as well as optimistic messaging from the company.** Nevertheless, today's filing bolsters our confidence that EVRG will not pursue its contemplated incremental (up to \$850m prior to the next case filing in mid '22) of PISA capex spend in Missouri in the near term given that the company clearly expresses skepticism in the fairness and reliability of the state's regulatory regime. We think investors had largely come to expect the addition of up to \$850m in capex, and the market reaction to the Sibley vote represented a reset of those expectations along with incorporating into estimates the financial impact of the customer refund. We continue to see mgmt. electing to continue its share buyback program in the interim. Reiterate Neutral and \$67 PO on ongoing regulatory uncertainty in Missouri.

United States  
Electric Utilities

**Julien Dumoulin-Smith**  
Research Analyst  
BoFA  
+1 646 855 5855  
[julien.dumoulin-smith@bofa.com](mailto:julien.dumoulin-smith@bofa.com)

**Richard Ciciarelli, CFA**  
Research Analyst  
BoFA  
+1 646 855 1861  
[richard.ciciarelli@bofa.com](mailto:richard.ciciarelli@bofa.com)

**Alex Morgan**  
Research Analyst  
BoFA  
+1 646 855 2109  
[alex.morgan@bofa.com](mailto:alex.morgan@bofa.com)

**Anya Shelekhin**  
Research Analyst  
BoFA  
+1 646 855 3753  
[anya.shelekhin@bofa.com](mailto:anya.shelekhin@bofa.com)

**Aric Li**  
Research Analyst  
BoFA  
+1 646 855 2681  
[aric.li@bofa.com](mailto:aric.li@bofa.com)

**Ryan Greenwald**  
Research Analyst  
BoFA  
+1 646 556 2882  
[ryan.greenwald@bofa.com](mailto:ryan.greenwald@bofa.com)

**Dariusz Lozny, CFA**  
Research Analyst  
BoFA  
+1 646 743 2122  
[dariusz.lozny@bofa.com](mailto:dariusz.lozny@bofa.com)

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Refer to important disclosures on page 5 to 7. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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## **XEL: MN PUC keep EV pilot programs**

Xcel Energy's pilot program for installing and owning Electric Vehicle (EV) charging infrastructure was proposed roughly a year ago and originally approved by the Minnesota Public Utilities Commission (PUC); the pilot included 700 EV charging ports for fleet operators & 350 ports for public/community charging. However, the program received pushback from oil and manufacturing groups, which amounted to an August petition to overturn the 'unlawful' program. We note the PUC upheld its initial approval, pointing to unpersuasive and incorrect reasoning. We see the result positively for XEL, but expect that in future programs beyond the initial pilot the company will again face pushback.

## **Price objective basis & risk**

### **Evergy, Inc (EVRG)**

Our \$67 price objective for EVRG shares is based on sum of the parts valuation, applying an in-line utility peer 2022E P/E of 19.2x. Electric peer P/E multiple is grossed up for a year to 2020 by 5% to reflect capital appreciation across the sector. We further apply a -0.5x turn discount to the Missouri jurisdiction to account for regulatory risk.

Downside risks to our price objective are adverse regulatory outcomes in rate cases, higher interest rate environments, adverse and unexpected risks associated with operating a nuclear facility.

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# North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	AltaGas Canada	YACI	ACI CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Aqua America	WTR	WTR US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH 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
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	FirstSolar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
<b>NEUTRAL</b>				
	AES	AES	AES US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Eversource Energy	EVERG	EVERG US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
<b>UNDERPERFORM</b>				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Terraform Power	TERP	TERP US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
<b>RSTR</b>				

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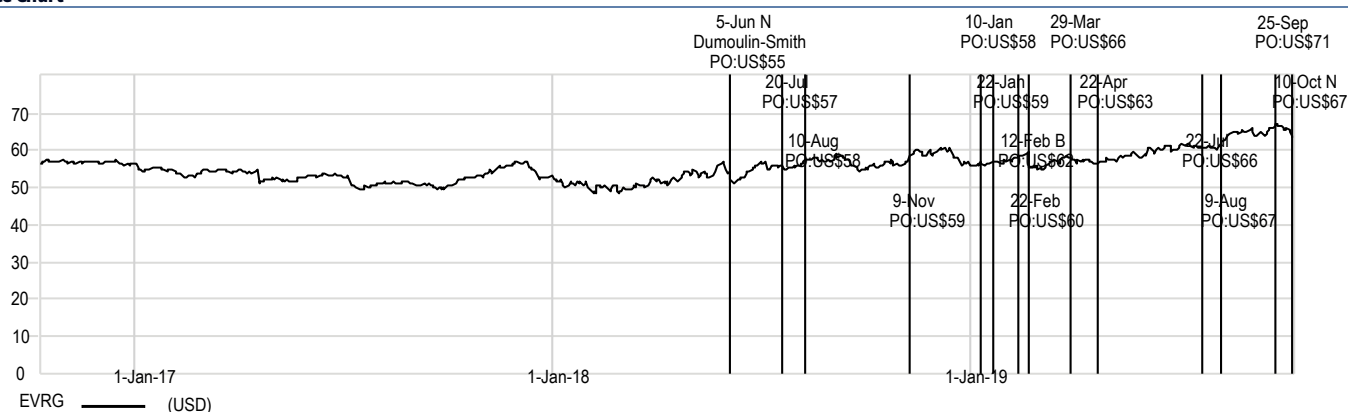
## North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith

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### EVRG Price Chart



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### Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	67	47.86%	Buy	51	76.12%
Hold	36	25.71%	Hold	24	66.67%
Sell	37	26.43%	Sell	26	70.27%

### Equity Investment Rating Distribution: Global Group (as of 30 Sep 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1517	50.30%	Buy	964	63.55%
Hold	680	22.55%	Hold	434	63.82%
Sell	819	27.16%	Sell	408	49.82%

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