US IPP Weekly Power Points
Moving Up North

Equities
Americas
Electric Utilities

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The Great North Beckons on Multiple Fronts
Ahead of our second annual Toronto Power & Utilities conference, we emphasize interest in Canada on three fronts: First with regards to valuation read-throughs back to 'secondary' YieldCos listed in Canada, of which there are many – and which trade at a material discount to higher-growth US peers. This would appear to lend itself to M&A should Canadian mgmt's ever appear open to the prospect of accepting a premium takeout (ripe for activists?), Secondly, we note continued interest in Canada pertaining to multiple proposed cross-border transmission projects, with proposals stretching into PJM, New York, and New England; talk of flows in both directions merit greater attention (see our latest ITC note). Lastly, we see the pending majority of Ontario's transmission business, Hydro One, as attracting interest in Regulated M&A once more following substantial interest in the Alberta AltaLink link assets previously from numerous American companies. Following recent Ontario budget approval, the IPO process is anticipated to list upwards of a 60% stake, at a valuation estimated to value the total entity at $15-16Bn according to the WSJ.

The post PJM malaise: TLN shares can't get a break

Despite the upshot of forthcoming capacity payment uplift in the upcoming PJM capacity auction, shares of TLN have failed to meaningfully regain ground lost out of the gates from its recent spinout. We emphasize with the 'surprise' in the FERC approval related to the transition auctions – and implicitly upside to RTO region pricing– we suspect for the time being there is little in further fundamental support to bolster shares. While the company's exposure to be PJM could yet be reduced through the ongoing (mandated) sales process as part of the PJM-RJS merger, we expect mgmt to effectively regain this exposure via subsequent expansion into the Western RTO region (with AEP among other potential counterparties), albeit after the results of the spin. A further recent development remains whether AES will prove interested in divesting its ownership assets in the DPL Genco portfolio following the auction – seemingly to TLN or another interest party.

Who set new lows this week?
Utilities lagged once again this week (50bp underperformance) and are now down -10% YTD (-12% relative). ETR, EDE, ITC, and CPN all hit new 52-week lows this past week. Talen set a new low in limited trading as did PPL although the latter's declined is skewed by the TLN dividend worth ~$1-2/sh.

What else do we address below? ED (-ve), TE (+ve), WEC (+ve), SO (-ve)
We reflect the latest on WEC-TEG deal approval (+ve) heading into synergy upside pending final ICC approval later this month. We read negatively ED's latest with the NTSB over the Harlem gas pipeline explosion, only reiterating our Sell call. Turning to TE, we see continued potential re-rating around forthcoming coal asset sale, now set to close by July 3rd with a new counterparty (without any financing caveats). Turning to NEE, we see recent share price pressure from Oncor speculation as providing attractive value. XEL should benefit from reinvigorated legislation effort – and approval in MN for new investment trackers. PCG's outlook saw reinvigorated concerns as timeline for resolution on GT&S could stretch into late 2016, two full years behind schedule. The question is whether a dividend increase, new (formal) div policy, or outright sale of the company is possible without GT&S resolution (we have our doubts). Lastly, SO saw its latest bid for rehearing around Kemper County CWIP treatment before the Supreme Court rejected, the latest negative in a series of recent setbacks.

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The Power Loop: What is on Clients' Minds

In an effort to keep all 'in the loop', we highlight recent most-read notes below.

Note titles below are all hyperlinks to our full notes.

Past Week:

- Solar: Sizing Up the US Solar Market
- Power: Poised to Perform with PJM
- Solar: Preparing for the California Rate Design Shift
- Video: Sizing Up the US Solar Opportunity
- PPL: Utilities Stand Alone

Past Month:

- Global Q-Series: Does The Future of Solar Belong With Utilities?
- Solar: How Economic Is Residential Solar?
- Solar: Breaking Down the Post ITC Economics
- PPL: The 10 Key Debates For Talen Energy
- Solar: Sizing Up the US Solar Market

What are clients talking about?

- TLN Initiation: Choppy Waters on the Susquehanna
- Utilities: Calming Concerns on California
- Sector: A (Deficient) Letter from Washington – *The latest on energy policy at FERC and elsewhere?*

- **Batteries: The Real Battery Storage Opportunity**
- **Solar: Saved by the States**

Utility Events in the Weeks Ahead:

All earnings call times are Eastern Standard Time unless otherwise noted.

Monday (6/15):

(1)

Tuesday (6/16):

(1) **UBS Access: Conf Call with Sol Systems on State of Solar C&I Financing**

Wednesday (6/17):

(1) **CPUC General Meeting: Decision on Rate Design for IOUs? See Preview Note Here.**

Thursday (6/18):

(1) **UBS Access: Toronto Mini Conference including Canadian Outlook**

(2) **UBS Fixed Income Access: St Louis Coal Companies Tour**

Friday (6/19):

(1) **UBS Access: C&I YieldCo Lunch (12PM NYC)**

Chart of The Week: PJM Gives & Takes

Not all PJM names performed the same following the FERC's approval of Capacity Performance.

The FERC approved PJM's capacity performance filing on the evening of June 9th, a positive for all power exposed names. In particular we focus on the most sensitive equities on an earnings percent basis. Leading into the datapoint PJM names were particularly weak with an average -5% decline led by Talen, PEG, and NRG. On average the PJM names were up 3% on June 10th with the names clustered except PEG which was up only fractionally. In the rest of the week PJM equities were week with some profit taking and interest rate concerns weighing on names; however, the selling was not uniform. For example, PEG and FE were actually down on the week as they more than give up their appreciation from Wednesday.

Figure 1: Analysis of PJM Exposed Equities Recent Performance

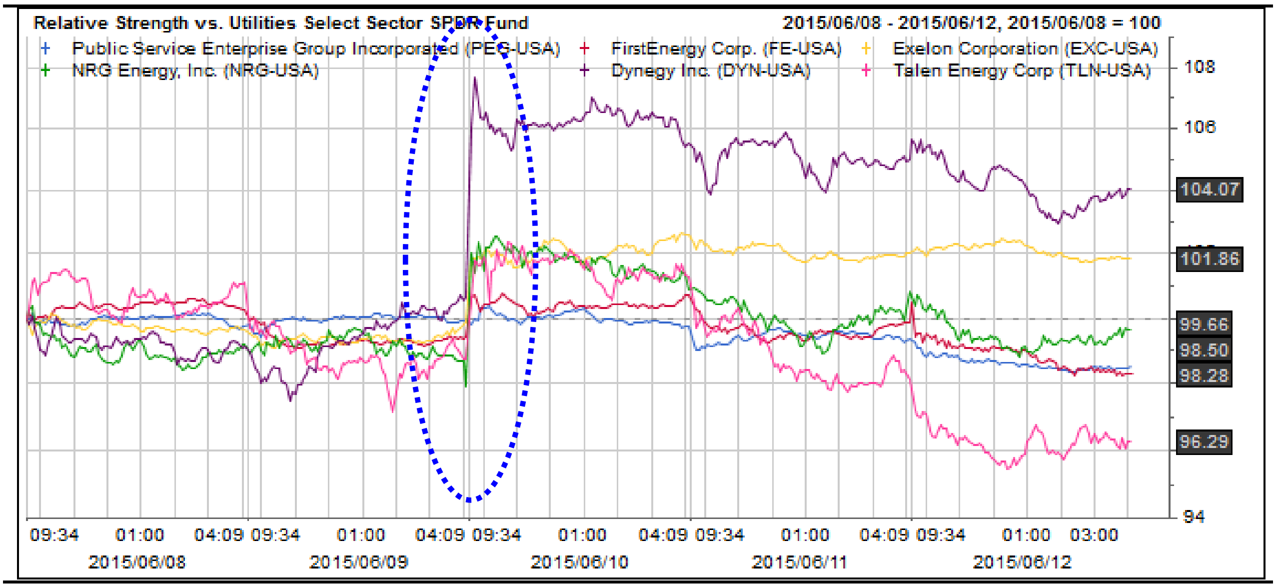
Time	TLN	DYN	NRG	EXC	FE	PEG	Average
Jan-May	-2.1%	**6.6%**	**-6.5%**	**-8.8%**	**-8.5%**	2.9%	-2.7%
Pre 6/10	**-7.7%**	-0.7%	**-5.1%**	-2.6%	-4.7%	**-6.5%**	-4.5%
On 6/10	3.1%	**5.4%**	3.2%	3.2%	1.8%	0.2%	2.8%
Post 6/10	-2.7%	-1.8%	-1.4%	-1.0%	-2.5%	-1.7%	-1.9%
Last Week	-4.6%	5.2%	0.6%	2.4%	-1.8%	-1.1%	0.1%
YTD	-12.6%	**9.3%**	**-10.3%**	**-8.6%**	**-13.6%**	-4.1%	**-6.7%**

Source: FactSet *Talen Historical data begins May 18th.

Although both Exelon and FirstEnergy are two of the prime beneficiaries of the transition auctions given the magnitude of their disclosed uncleared capacity, Exelon held up far better than FE in subsequent trading. The rationale could be that Exelon has more upside since FE's benefit is more muted due to the magnitude of FirstEnergy Solutions (FES) debt (we do not ascribe equity value to FES in our FE valuation).

Dynegy continues to outshine power peers and was only down 70bp leading into Capacity Performance approval, jumped 5.4% on the approval, and only gave back ~40% of its gains in the balance of weekly trading. Furthermore, Dynegy is the only IPP to have appreciated YTD.

Figure 2: Analysis of PJM Exposed Equities Ten-Day Performance



Source: FactSet

For further details, please refer to our recent note **'Poised to Perform'**.

TE: Moving on to Coal 'Plan B'

Last Monday TECO announced that it has signed a non-binding letter of intent with a new potential purchaser of TECO Coal. The agreement with Cambrian Coal (owned by Booth Energy) has not yet been terminated but can be terminated by either TECO or Cambrian with a nominal penalty paid to TECO. The original Cambrian deal was originally announced in October 2014 and was subsequently amended down to $80Mn ($0.34/sh) of base proceeds. Neither the name of the new potential party nor the expected proceeds were disclosed by TECO. Importantly TECO stated that the new potential partner is not expected to need third-party financing like Cambrian did and TECO believes that a deal could close by July 3rd, indicating that additional disclosures could be forthcoming in the near future. This latest development is consistent with TECO's management comments that a 'Plan B' was to work with to work with parties who were previously interested in acquiring the segment (they were recently engaged with upwards of four potential other counterparties on a deal).

As management has continued to state, there is demand for TECO Coal from another potential purchaser.

The development of a new potential Coal counterparty is a positive but the purchase price could very well be below the $80Mn previously. Investor attention continues to gravitate to the latest developments on the coal divestiture but in our view the real story investors should be focusing on relates to the Florida and New Mexico rate cases. When we met with management at the AGA Financial Conference last month they appeared confident in their ability to stay-out of rate cases in both jurisdictions. While the settlement precludes any rate hike prior to Jan 1st, 2018, the latest statements from management suggest it will continue to earn near its authorized ROE for the foreseeable future (seemingly through 2018

Proceeds from a coal sale to a new party could be lower than the $80Mn agreed to with Cambrian but this is still an immaterial component of our valuation.

and 2019). Bottom line, we expect shares to continue to re-rate around further consolidation in the sector.

ED: NTSB Points Finger at Con Ed & NYC

The National Transportation Safety Board (NTSB) held a hearing and released its conclusions/recommendations for the investigation into the March 2014 Harlem explosion that killed eight. The NTSB concluded that the probable cause was CECoNY's defective fusion joint as well as a breached New York City sewer line that was not repaired. The investigation concluded that ED did not properly follow industry standards in the welding installation.

NTSB preliminary finding is that ED is primarily at fault, although NYC is also responsible.

ConEd reports that it has come to a different conclusion than the NTSB and believes New York City's sewer breach ultimately caused its plastic fitting to crack. CECoNY has sued the City for property and other consequential damages (including recovery for any judgments against ED) alleging negligence.

ED disagrees with the NTSB conclusions and has sued NYC.

The Public Service Commission (PSC) has been quiet on public disclosures around the explosion as it is a party to the investigation. It remains to be seen whether the PSC will open its own docket to assess potential penalties and/or unrecoverable expenses. In contrast to the NTSB investigation that had few public datapoints to watch, any NY PSC proceedings will likely be more public and could lead to additional volatility for shares. ED has proactively agreed to replace ~65 miles of cast iron pipe per year, increased gas monitoring, and enhanced public outreach regarding gas leak reporting. This continuing uncertainty is a factor in our 5% P/E discounted valuation.

Potential PSC fines and disallowances will be an overhang. Unlike the NTSB investigation, this would be more visible and contribute the volatility.

We maintain our wider concerns around shares given both limited incremental opportunities which appear to be arising out of the REV proceedings in New York as well as continued scrutiny of lower ROE arising out of next year's scheduled rate case.

A link to the NTSB preliminary conclusions is available here.

SO: MS Supremes deny rehearing for Kemper Deal

On June 11, the Mississippi Supreme Court denied a motion to rehear its February decision that invalidated the rate settlement that had provided for collecting ~$257M of "mirror construction work in progress (CWIP)" since early 2013 for the Kemper Integrated Gasification Combined Cycle (IGCC) plant. While the denial for rehearing is actually not too surprising, the ruling still leaves both the PSC and the Commission with considerable uncertainty over their mutual options to avoid a possible 40%-41% rate increase once the plant is in-service in mid-2016. Up until now, SO had been characterizing the situation as having several possible pathways to resolution, only one of which would have been having the Supreme Court rehear the case and reverse its earlier decision that requires the PSC to order Mississippi Power to refund the $257M mirror CWIP (ensuring a 40%-41% rate increase filing). From what we have gathered, all parties are unsure of what options remain and whether there are any legally viable remedies left to avoid the refund. One avenue being explored is a possible new settlement that would include a finding of prudency on at least the parts of the plant currently in operation (e.g., the CCGT and transmission/substation gear). If that satisfied the Court's order and concerns, we understand that this would provide enough plant in-service to retain the entire $257M CWIP under remaining unchallenged authority within the state's Public Utility Act. In mid-May, Mississippi Power filed multiple ratecase options for the recovery of Kemper construction and financing costs. Three proposals were filed:

While the denial for rehearing is actually not too surprising, the ruling still leaves both the PSC and the Commission with considerable uncertainty over their mutual options.

(1) A preferred plan that would keep rates unchanged through the mid-2016 expected in-service date followed by a 6% rate increase for a 22%-24% overall increase, including $257M of prior collections in a regulatory liability account for "mirror Construction Work in Progress (CWIP)". This plan is contingent on the utility retaining this mirror CWIP without having to exercise a refund that might be required after a February Mississippi Supreme Court ruling against the authority of Miss. regulators to allow its collection.

(2) A "traditional plan" that would refund the mirror CWIP and then raise rates after the mid-2016 in-service date by 41% through over a two-year period in two steps.

(3) A "two-year plan" that would also refund the mirror CWIP and the raise rates after the mid-2016 in-service date by 40% through over a two-year period in two steps, but with most of the rate increase back-end loaded into year two.

The purpose of filing multiple options is to set the stage for continued settlement talks to work out a comprehensive deal, including a finding of prudency up to the $2.88B cost cap net of $245M of DoE grants. We continue to presume that the refund of mirror CWIP and 40%+ rate increases under plans (2) and (3) above are undesirable outcomes for regulators despite the Supreme Ct rulings. As discussed above, we believe prudency could be determined eventually on equipment already placed in service below the cost cap, with all further cost overrun risk to be borne by the company. This prudency finding might be enough to satisfy the Supreme Ct and allow the company (and the PSC) to retain the mirror CWIP and keep rate increases down to an incremental 6%, as originally planned by the company.

Once filed, Mississippi regulators have 120 days to act (mid-Oct once filed in May). All three commissioners are running for reelection this November, with two

indicating that they will not seek a new term. This lends an air of urgency to have a deal in place before a new regime takes over.

PCG: Gas Transmission and Storage Case Schedule extended significantly

While the San Bruno decision did in fact remove management's stated obstacle to raising the dividend, we suspect that this latest delay for the GT&S case is likely to keep the issue sidelined while management awaits greater regulatory and political clarity

On June 11, the California Public Utilities Commission amended the procedural schedule for PG&E's Gas Transmission & Storage ratecase, extending it to allow more time to consider which projects and programs are safety related and thus subject to the $850M cost disallowance awarded in the San Bruno decision in April. Instead of the previously anticipated August timeline, a decision for anticipated revenue requirements is now expected in Jan 2016 followed by a separate decision on safety-related cost disallowances in May 2016. A final deadline of December 2016 was also set, which we note would be 2 years past the originally anticipated wrap when the case was originally filed in 2014. Hearings were completed on March 23, briefs were done on April 29 and reply briefs concluded on May 20. The question remains on how much of an ex-Parte communications penalty will be embedded in the decision (could be $100M's) and whether the company will appeal this aspect. The extraordinary ex-parte penalty was based on the number of months of delays caused, but given the need for more time anyway, it would seem reasonable to us for these penalties to be dropped altogether at this point. The utility plans to file its next General Ratecase (GRC) for 2017 on Sept 1, 2015. We also note that the company has made no decision yet on either bringing the dividend up to alignment with peers or even on committing to a particular date or board meeting to do so. While the San Bruno decision did in fact remove management's stated obstacle to raising the dividend, we suspect that this latest delay for the GT&S case is likely to keep the issue sidelined while management awaits greater regulatory and political clarity.

XEL: Energy bill passes legislature in special session; headed to Gov

We expect the governor to sign it into law in short order.

As we noted two weeks ago, we had expected a special session to address the concerns of the governor of Minnesota over the Energy and budget bill after it was vetoed last month over budgetary concerns not related to utility regulatory reforms in the bill. With the bill now modified and passed, we expect the governor to sign it into law in short order. As a reminder, XEL currently experiences ~100 bps of regulatory lag overall, with ~75 bps from Minnesota, ~20 bps from SPS, and the remainder amongst the remaining jurisdictions.

We estimate that approval of XEL's proposed legislative initiatives would improve this overall regulatory lag by roughly 30 bps as a result of longer plans (5 years), more formulaic rider mechanisms, recovery of O&M based on a price index, the implementation of interim rates during ratecases, the use of the nuclear depreciation surplus to smooth out revenue fluctuations and mitigate increases, and other protections.

WEC: MN approves TEG merger; just IL left to go

On June 12, Minnesota regulators (MPUC) approved WEC's proposed merger with Integrys, leaving only Illinois approval, which we expect by the end of this month. Michigan and Wisconsin have already approved. All federal and shareholder approvals are done and the companies still expect to close the merger just before July 1, assuming Illinois approval is obtained by the June 24th Illinois bench session, followed up with a written order within a few days. The MPUC did not require any bill refunds or credits to customers as had been recommended by the state's Attorney General (Wisconsin had also declined earlier to impose refunds and credits as well). Essentially, WEC did not promise any cost savings (or job cuts) and the MPUC agreed that the merger appears to be based on growth opportunities rather than efficiencies.

The MPUC did not require any bill refunds or credits to customers.

In Illinois the ALJ has issued a draft order with conditions that the joint applicants did not oppose. However, in recent weeks, Attorney General Madigan filed a motion to allow a delay of merger approval past the July 6 statutory deadline to allow the joint applicants time to file sworn testimony that they will all carry out the recommendations made in the Liberty Audit of People's Gas pipeline replacement program. The joint applicants have filed responses opposing the delay and the AG intends to present her case next week. There is no requirement for the ALJ to rule on her request but we think it's highly likely the ALJ will issue a ruling keeping the July 6 deadline in-tact, consistent with past denials of requests to extend it. In any case, we think all of the joint applicants would sign the sworn statement, although the companies would like to avoid any delays and close the merger before July 1 to start 3Q "clean". We also note that Madigan wants the 20-year cast iron replacement program to be extended 30 years to reduce rate impact. TEG has made public statements in support of the Liberty Audit recommendations and is already in the process of carrying many of them out. As a reminder, the Liberty Audit is not part of the merger docket and was initiated separately as part of a 2013 ratecase docket. Similarly, recent anonymous letters critical of People's Gas are also being reviewed separately under a separate docket and are not part of the merger review process.

The Illinois AG intends to present her case for a delayed schedule next week. We do not expect her arguments to win over the ALJ though.

HIFR, NEE both reported to be strong contenders for Oncor

We calculate that HIFR is in the best financial position – by far – to win.

On June 8, HIFR's corporate parent Hunt Consolidated, Inc filed an amended Schedule 13D to disclose the commencement of discussions with creditors of Energy Future Holdings (EFH) for the potential acquisition of substantially all equity interest in Oncor Electric Delivery Co. As we recently wrote in our 5/21 note Taxless Tieups in Texas, we calculate that HIFR is in the best financial position – by far – to win any competitive auction for Oncor and that such an acquisition would be likely to happen first through its much larger parent Hunt followed by a piecemeal dropdown strategy into HIFR, a tax advantaged REIT. We also wrote that while a takeover by NEE could be accretive, the lack of a similar tax advantage most likely keeps its bid uncompetitive vs HUNT/HIFR. Nevertheless, on June 10, media reports cited NEE as a "frontrunner" in the bankruptcy auction, with EFH possibly naming NEE as the stalking horse bidder (opening bidder to set the floor) in the next few weeks for an 80% stake in Oncor.

<u>We are still biased to believe a joint effort between the creditors and Hunt is able to derail the auction process – and maintain the assets</u>. That said, uncertainty could reign as NEE could yet prove successful in the auction process, putting the onus on whether the bankruptcy courts will accept efforts by creditors to scrap the process could prove protracted.

Bottom line, we see recent M&A uncertainty (both relating to Oncor as well as HECO) as weighing on NEE shares, with our latest estimates placing it on par with industry average for 2017E P/E. Given our relative confidence in mgmt's ability to drive accretion in any given transaction, we see the latest pressure as a particularly noteworthy buying opportunity.

MLP Pass-alongs

We include links below to our MLP colleagues' recent reports on the Revolution pipeline and implications for MLP investors in a rising interest rate environment.

- **Energy Transfer: Talking 'bout a Revolution**
- **Throughput: Fed Rate Hike Cycle Likely Ahead – Concerned?**

Excerpts from above Fed Rate Hike note:

Interest Rate Cycle Likely Ahead

With talk increasing of the Fed potentially lifting interest rates for the first time since the great financial crisis (GFC) and given a recent spike in the 10-year yield; we have refreshed our interest rate correlation analysis from 2013 and added some historical context around FED hike cycles. With the refresh, we maintain our conclusion that the majority of MLPs should be more correlated with growth prospects vs. fixed income. However, slower growth MLPs could take on fixed income characteristics. That said, initially interest rate sentiment could negatively impact performance; but should present a buying opportunity down the road.

How have MLPs performed in previous FED rate hike cycles?

Given the infancy of the sector there are not a lot of cycles to draw conclusions from. However, looking at the 2004-2006 cycle, we observed that MLPs underperformed most benchmarks leading up to the increases and then moved higher following the rate hike and accelerated after the second increase.

Are they correlated with interest rates? Yes, No and Maybe

In our correlation analysis, we found that MLP total returns and the 10-Year Treasury total return index are highly correlated. However, the correlation has weakened in recent years, in part due to the 10-year becoming a risk based asset. Interestingly outside of the GFC, we found that the MLPs are highly correlated with the S&P earnings yield suggesting that MLPs are correlated with growth. Hence, levels of Oil and Natural Gas production growth are bigger determinants of growth potential followed by access to capital markets.

What if Interest rates are a major factor?

It's worth noting that in 2013 when the 10-year was in the 2.7-3.0% range (taper tantrum) the avg yield on the AMZ was ~6% which is where the AMZ trades today but the 10-year is at ~2.44%; hence, yields have room to back up. Prior to the GFC the avg spread for the AMZ vs the 10-year was 194bps, given current levels the 10-year has room to back up 199bps to return to historic levels.

What keeps us up at night?

Overtime, we expect the growth profile of midstream/MLPs to drive equity price performance which is largely driven by opportunities to deploy capex. Hence, the price and pace of drilling for Hydrocarbons is the single largest area of focus. Recent weakness in NatGas and NGL pricing raises the most questions of growth since the Oil collapse of 2014; thus our preference for fee based infrastructure solution providers' vs many G&Ps. That said, access to capital markets is also important with the recent implementation of the Dodd Frank/Volker rules any liquidity concerns resulting from the combination of higher interest rates could be a concern as it may negatively impact the ability to raise capital to fund organic growth and dropdown acquisitions. That said, liquidity concerns could be the spark for further M&A activity.

Grid Assurance: new consortium to address reliability/ resiliency

This will be a new company formed as a consortium of utilities, which includes American Electric Power (AEP), Duke Energy (DUK), Edison International (EIX), Eversource Energy (ES), Exelon Corporation (EXC), Great Plains Energy (GXP), Southern Company (SO) and Berkshire Hathaway Energy. The company has filed for FERC approval.

This should be a positive overall from an operating cost perspective, but at least until we get further insights, we would say neutral from a stock price perspective (with O&M a pass-through for the regulated names). We also highlight this development from an increasing vulnerability to physical attacks, cyberattacks, earthquakes and weather related events – by making critical infrastructure available for each other, the participants in this program should be able to reduce time required for critical repair of assets in such eventualities. AEP in its related press release said, "Grid Assurance will own and provide subscribers with timely access to an inventory of emergency spare transmission equipment that can otherwise take months to acquire." The press release also states that Grid Assurance will not be FERC regulated, but plans to charge cost-based subscription fees, similar to FERC-regulated transmission formula rates. Cost-based subscription fees are expected to facilitate subscribers' ability to recover expenses.

Toronto Q Bank

Below we list out key questions for management for companies attending our conference in Toronto this week. The section below has been reproduced from our note published on May 14; please click here to see the full report this section appeared in: The 'It's a Dry Heat' Question Bank

Sempra Energy (Buy, $120 PT)

- Please provide an overview of the proposed **Total Return Vehicle** (TRV) structure? What advantages does this offer over just an MLP or a YieldCo? What was the driving factor that pushed you towards a TRV versus a pure MLP or YieldCo? What is the timing for making a firm decision and executing? Are there any assets that would not be a good fit for the structure? What are the tax implications for investors?
- How would a TRV strategy impact your **renewables strategy** thus far – and potential / existing sell-downs?
- What are the next **Mexican RFP** opportunities to look for? What factors have driven the increased competition? Are you seeing additional bidders step in? Are any components of the bid more strategically important than others? How do you think about political pressures outstanding and the potential for delays?
- Can you discuss your latest thoughts on **Cameron** 4/5 export opportunities, and when you expect to announce updates? With relation to both Cameron and Mexican export (ECA) project, is there still demand both within FTA countries – and outside? How has the decline in global oil affected the market?
- What are the other components of the **capex plan**? What is excluded?
- Can you discuss your **balance sheet** – and potential latitude around further project announcements?
- How large could the **electric vehicle opportunity** be in your service territory between charging stations, local transformer upgrades, etc.?
- What are the **storage opportunities** both at the utility and external?
- How would an increase in the **RPS to 50%** impact your capital plans? Where do you stand today versus the current RPS?
- What was the rationale for the **Sycamore-Penasquitos transmission** project not receiving a 100bp incentive adder?
- What is the latest with **rate design in California** (number of tiers, minimum bill versus fixed charge, etc.)?
- Describe the Port Arthur opportunity and how the oil market may affect your decisions there.

Key Guidance Metrics:

- *Earnings per Share:* **2015: $4.60 to $5.00**

Figure 3: EPS Estimates

Net Income	2014E	2015E	2016E	2017E	2018E	2019E	2020E
UBSe EPS	$4.72	$4.80	$5.07	$5.40	$6.47	$7.40	$8.14
Prior UBSe	*$4.67*	*$4.80*	*$5.07*	*$5.40*	*$6.47*		
Guidance - EPS							
Consensus EPS		*$4.85*	*$5.27*	*$5.61*	*$6.59*		

Source: Company Filings, FactSet and UBS Estimates

Sempra Energy Earnings Summary (Published May 7)

While no final decision has been made yet, the TRV concept is really an MLP

Management spent a portion of the earnings call clarifying their concept of the proposed "Total Return Vehicle" (TRV) they expect to make a decision on whether to create later this year (see the list of required conditions below). Essentially, the TRV is actually an MLP that will directly house the company's qualifying liquefaction and pipeline assets after dropdown while also taking after-tax income and dividends from non-qualifying assets, such as renewables. The non-qualifying assets are bundled within a separate corporate subsidiary that is essentially a non-public YieldCo that only pays dividends to the MLP. Since the dividends from non-qualifying assets are after-tax, they do qualify as income for the MLP partnership under tax rules.

Basis step-up on YieldCo sub asset acquisitions limits need for tax credits

Another benefit of the structure is that it provides a tax shield for both the MLP qualifying and non-qualifying income as a result of the basis step-up in dropdown. For the non-qualifying renewables, the use of renewable tax credits is not required as a result of the step-up. Furthermore, SRE would own the GP and the portion of LP shares not sold to the public, with SRE's share of any partnership income taxed at SRE's marginal tax rate. The MLP would be eligible for inclusion in an MLP index and investors would receive K-1s (vs 1099s).

No ex-parte data requests or emails to release on SONGS

SRE has not received any subpoenas or other requests related to the ongoing controversy over the San Onofre Nuclear Generating Station (SONGS) settlement approval. Management reports that as far as they are concerned, the issue is "not relevant to SDG&E at this time." SDG&E holds a 20% minority interest in the plant.

Valuation: Maintain Buy Rating and $120 PT – TRV clarity is a net positive

Our valuation is derived via a sum-of-the-parts analysis. The March 25th Analyst Day ended up being a 'sell the news' event and shares have underperformed 5% since then, likely on lack a firm decision on the TRV. We view the more MLP-like structure as providing greater comfort in maximizing tax benefits and future non-MLP asset options.

Figure 4: Sempra Valuation

Summary Sempra Sum of the Parts Analysis - UBSe Segment	Primary Methodology	Valuation/ Share
Sempra Natural Gas		
Storage, Cameron (Import & Interstate), and REX	7-12x EV / EBITDA	$6.03
Gas LDCs	16x P/E	$0.83
Total Sempra Natural Gas		**$6.86**
Sempra US Power & Renewables		
Solar	14.5x EV/EBITDA	$4.43
Wind	8-15x EV/EBITDA	$0.79
Accelerated Depreciation Tax Shield and Other	NPV	$5.76
Total Sempra US Power & Renewables		**$10.98**
Cameron LNG Export Project		
Trains 1-3	NPV of 9x EV / EBITDA and MLP Accretion	$12.97
Accretion due to GP/LP Structure in MLP		$4.67
Trains 4-5		$4.02
Total Cameron LNG Export Project		**$21.67**
California Utilities		
SoCal Gas	17x P/E (1x premium)	$27.19
SDG&E	16x P/E (1x premium)	$36.78
Total California Utilities		**$63.97**
International		
SRE Mexico/IENova	Various	$27.38
Chile (Chilquita) - Unlisted	11x P/E	$3.80
Peru - Listed	Public Value	$5.13
Total International		**$36.31**
Less: Parent Debt	Book Value	($19.34)
Grand Total Sempra		**$120.45**

Source: Company Filings, FactSet and UBS Estimates

Duke Energy (Neutral, $84 PT)

- Considering you are projecting $0.40-$0.80 of EPS growth through 2017 (based on 4%-6% growth), discuss puts and takes to the $0.75 of EPS **growth opportunities** you have disclosed & discussed as we've listed in the table below.

Figure 5: Potential DUK 2016-2017 EPS Growth Opportunities vs Guidance

Potential 2016-2017 EPS Growth Opportunities vs Guidance		
Utility Growth Capex	Capex 2016-17 ($B)	EPS Potential
New Generation	$1.9	0.15
NCEMPA Asset Purchase	$1.2	0.10
Environmental *	$1.3	0.11
Major Nuclear	$0.3	0.03
Customer Additions	$1.1	0.09
SB560 Infrastructure Investments	$0.5	0.04
Grid Modernization	$0.6	0.05
Other T&D	$1.8	0.14
Depreciation & other	($1.2)	(0.10)
Total ratebase growth $8.9B @ 0.08 per $1B	$7.4	0.60
Retail load growth 1% annually @ 0.10 per 1%		0.20
O&M growth at less than load growth (about 1/4)		(0.05)
Wholesale Contracts (guided 0.01-0.03 growth in 2016 & 17)		0.04
Atlantic Coast Pipeline (AFUDCe on ~$900M 2016-17)		0.07
Elimination of $90M Commercial Power Genco EPS in 2016+		(0.13)
Commercial renewables $1B-$2B @ ~13% ROE		0.14
UBSe Contango Brent Crude curve effect on NMC		0.02
DUK management assumptions BRL/USD FX curve		(0.06)
UBSe BRL/USD FX curve vs conservative management assumptions		0.03
Effect of Brazil power rationing (UBSe)		(0.15)
Debt repayment $1.4B @ 4%		0.05
No equity through 2017 (no dilution)		-
Potential 2016-2017 EPS growth opportunities		$0.75
Sensitivity to 100 bps ROE		+/- $0.40
Guidance for EPS growth 2015-2017		
Midpoint guidance for 2015		$4.66
Guidance range for 2017 based on 4%-6% off 2013 $4.33		$5.06 - $5.46
Guided 4%-6% EPS growth 2016-2017		$0.40 - $0.80

* Includes coal ash basin remediation costs of ~$1.3B from '15-'19 for Dan River, Riverbend, Sutton, Asheville, and W.S. Lee (SC), another $1.3B for wastewater treament conversions, $250M for 316b compliance, and $300M for MATS compliance

Source: Company filings, UBS estimates

- What liabilities remain after the sale of the **merchant portfolio**? Pension? Environmental? Legal?
- What earnings growth rate in the **International segment** do you now expect going forward? Is the goal now to maintain the current size of this segment while the rest of the company grows so as to diminish its relative influence on the overall conglomerate?
- What level of **Brazilian hydro** hedging reduction would you have had to have done this year in order to have eliminated losses there in 1Q?
- What happens now that the **Indiana T&D infrastructure plan** (under Senate Bill 560) was rejected?
- What opportunities are there to expand the **Atlantic Coast Pipeline** further south, perhaps into Georgia?
- Update on the **Citrus County CCGT, Suwannee CTs and the Hines air chillers**. How do you perceive Duke's position has evolved in Florida, and is there risk to the broader new build efforts?
- What opportunities are there to expand beyond the currently planned $1B-$2B of **solar development** from 2015-2017? Also, what's the opportunity

with rooftop solar in SC after SB 1189? Describe the breakdown between regulated and unregulated capex plans.

- What is your outlook for **long-term weather-normalized volume trends**? Please explain the factors driving the strong industrial growth experienced relative to both residential and consumer weakness. How strong is the economic recovery in Florida and the Carolinas?
- Please explain the types of initiatives you see that keep **O&M flat** through 2016? Where are the key drivers of these synergies, i.e. business units, employee reductions, etc.? What is the magnitude of recoverable O&M and costs to achieve the merger synergies (i.e. how can we gain more clarity into the costs benefitting from synergistic initiatives?)
- Please discuss the latest on **gasifier operations at the Edwardsport IGCC** facility. Did you incur additional labor costs as a result of the operational challenges?
- Update on the possibility for expansion of **coal ash investment** as we await the outcome of the PSC plan.

Duke Energy Summary Note (Published May 5)

Florida securitization bill awaiting Governor nod; will be earnings –ve for DUK

The Florida legislature passed new utilities regulations, which include the provision allowing securitization; however it is still subject to being signed by the governor. Once approved by the governor, mgmt. expects they will be seeking Florida Commission approval later this year to issue bonds in early 2016. The proposed bill would allow Duke to securitize the recovery of the $1.45Bn Crystal River unrecovered balance. This would allow accelerated recovery for Duke (positive for Duke) and reduce bill inflation (positive for customers); it would also be an earnings negative item for Duke ~$0.12 (albeit +ve to FCF limiting dilution for ~$600-700M)–At best net neg ~$0.04 revision.

Accelerated repurchase plan: 85% of total expected already retired

Following the recent completion of the $2.8bn Dynegy transaction, Duke accelerated its share repurchase program - 16.6mn shares have been retired so far (85% of the total expected to be retired); the program is expected to complete by the end of 3Q.

International Biz facing some rough seas – are we nearing worst?

Other than F/X movements, the Brazil business has been impacted by a shift in the dispatch order (thermal dispatched above hydro as part of attempts to revive reservoir levels); and also lower power demand due to a slowing economy and the effects of voluntary rationing. While off reservoir lows, outlook remains crucially tied to rainfall. In Saudi Arabia, low MTBE prices at National Methanol (directly correlated with Brent's oil prices) also weighed down 1Q. We emphasize that while management has decided to retain the business for now, it appears it still views the LatAm business as non-core – and could well seek to monetize it at a later point in time (once stability is found).

Valuation: Maintain $84 PT and Neutral rating – still under some pressure

We value DUK using a 5% premium to the 2017E utility peer P/E multiple. We see 2015E remaining intact for now despite pressure from International as offsets help, including higher GenCo earnings (prior to sale) and an earlier stock buyback (benefitting ~$0.04). However, 2016+ could be pressured by continued trouble for Brazil hydro

Figure 6: EPS Estimates

DUK EPS	2013A	2014E	2015E	2016E	2017E	2018E
UBSe	$4.35	$4.55	$4.66	$5.00	$5.27	$5.43
Prior UBSe	$4.35	$4.55	$4.67	$5.00	$5.26	$5.43
Consensus			$4.68	$4.96	$5.20	$5.40
Guidance			$4.55-$4.75			
UBSe 2013-2017 CAGR					5.1%	
LT Guidance: Grow EPS 4%-6% through 2017 off 2013 guidance $4.33						
4% growth	$4.33	$4.50	$4.68	$4.87	$5.06	$5.26
5% growth	$4.33	$4.54	$4.77	$5.01	$5.26	$5.52
6% growth	$4.33	$4.58	$4.86	$5.15	$5.46	$5.79

Source: Company Filings, FactSet and UBS Estimates

Figure 7: Duke Energy Valuation

Duke Energy Valuation: P/E Derived on 2017 EPS					
Downside Case		***Base Case***		***Upside Case***	
Valuation		**Price Target**		**Valuation**	
2017 EPS	$5.27	2017 EPS	$5.27	2017 EPS	$5.27
P/E Multiple	14.7x	P/E Multiple	15.2x	P/E Multiple	15.7x
Premium	-5%	Premium	5%	Premium	10.0%
Value	**$74.00**	**Value**	**$84.00**	**Value**	**$91.00**

Source: Company Filings, FactSet and UBS Estimates

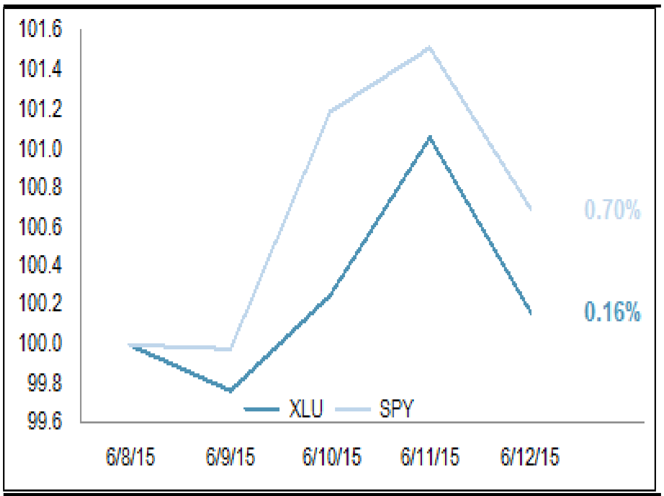
Week That Was: Best and Worst Performers

Figure 5: Weekly Utilities Performance

BENCHMARKS	Ticker	5 Day Return	YTD Return	RSI (14Day)	New High/Low?
S&P500	SPY	0.1%	2.1%	40.1	N/A
Utilities Select SPDR	XLU	-0.4%	-9.9%	23.4	N/A
COMPETITIVE INTEGRATED	**Ticker**	**5 Day Return**	**YTD Return**	**RSI (14Day)**	**New High/Low?**
American Electric Power, Inc.	AEP	0.9%	-11.2%	34.0	N/A
Dominion Resources	D	-0.5%	-13.1%	9.2	N/A
Entergy Corp.	ETR	-2.0%	-19.2%	20.7	New Low
Exelon Corp.	EXC	1.4%	-8.6%	43.0	N/A
FirstEnergy Corp.	FE	-2.1%	-13.6%	23.2	N/A
NextEra Energy	NEE	0.5%	-6.6%	37.3	N/A
PPL Corporation	PPL	-2.6%	-10.6%	25.5	New Low
Public Service Enterprise Group	PEG	-1.8%	-4.1%	12.2	N/A
Sempra Energy	SRE	-1.0%	-7.6%	22.9	N/A
Average		-0.8%	-10.5%	25.3	
REGULATED INTEGRATED UTILITIES	**Ticker**	**5 Day Return**	**YTD Return**	**RSI (14Day)**	**New High/Low?**
Ameren Corp.	AEE	-1.6%	-18.1%	14.9	N/A
Alliant Energy Corp.	LNT	-0.3%	-12.5%	27.2	N/A
Avista Corp	AVA	-0.3%	-13.6%	21.7	N/A
CMS Energy	CMS	1.6%	-7.1%	27.2	N/A
DTE Energy Co.	DTE	-1.1%	-14.2%	12.5	N/A
Duke Energy	DUK	-0.4%	-13.2%	23.3	N/A
Edison International	EIX	-0.8%	-12.6%	22.3	N/A
Empire District Electric Company	EDE	-0.5%	-24.8%	19.1	New Low
Great Plains Energy	GXP	-0.8%	-13.4%	18.3	N/A
Hawaiian Electric Industries	HE	-1.4%	-9.0%	43.5	N/A
PG&E Corporation	PCG	-2.2%	-5.6%	25.3	N/A
Pinnacle West Capital Co.	PNW	-1.1%	-16.6%	21.7	N/A
PNM Resources Inc.	PNM	-2.0%	-16.2%	18.6	N/A
SCANA Corp.	SCG	-0.7%	-16.7%	23.0	N/A
Southern Company	SO	-0.8%	-13.9%	34.0	N/A
TECO Energy Inc.	TE	-0.4%	-13.1%	12.6	N/A
Westar Energy, Inc.	WR	1.0%	-15.7%	29.4	N/A
Wisconsin Energy Corp.	WEC	0.1%	-13.6%	18.7	N/A
Xcel Energy Inc.	XEL	1.1%	-9.0%	21.1	N/A
Average		-0.6%	-13.6%	22.9	
REGULATED T&D UTILITIES	**Ticker**	**5 Day Return**	**YTD Return**	**RSI (14Day)**	**New High/Low?**
Consolidated Edison	ED	-1.8%	-12.8%	18.5	N/A
ITC Holdings Corp	ITC	-0.5%	-19.1%	12.9	New Low
InfraREIT Inc	HIFR	3.1%	NA	66.4	N/A
Eversource Energy	ES	-1.3%	-13.9%	18.8	N/A
PEPCO Holdings Inc.	POM	-1.2%	-0.8%	38.8	N/A
Average		-0.3%	-11.6%	31.1	
INDEPENDENT POWER PRODUCERS	**Ticker**	**5 Day Return**	**YTD Return**	**RSI (14Day)**	**New High/Low?**
AES Corporation	AES	1.5%	-3.1%	43.1	N/A
Calpine Corporation	CPN	-1.3%	-12.6%	28.5	New Low
Dynegy, Inc.	DYN	3.8%	9.3%	54.5	N/A
NRG Energy Inc.	NRG	-0.8%	-10.3%	24.9	N/A
Talen Energy Corp	TLN	-5.8%	NA	24.0	New Low
Average		-0.5%	-4.2%	35.0	
YIELDCOs and MLPs	**Ticker**	**5 Day Return**	**YTD Return**	**RSI (14Day)**	**New High/Low?**
Abengoa Yield PLC	ABY	-1.9%	30.0%	17.5	N/A
Dominion Midstream Partners	DM	-0.3%	2.7%	24.7	N/A
Hannon Armstrong Sustainable Infrast.	HASI	-0.6%	40.1%	48.4	N/A
Pattern Energy Group A	PEGI	-0.8%	16.1%	52.9	N/A
Tranaslta Renewables	RNW-CA	0.6%	9.8%	44.4	N/A
TerraForm Power	TERP	-4.1%	17.7%	21.2	N/A
NextEra Energy Partners, LP	NEP	-3.5%	27.3%	39.6	N/A
NRG Yield Inc.	NYLD.A	-4.8%	9.5%	58.8	N/A
Average		-1.9%	19.1%	38.5	

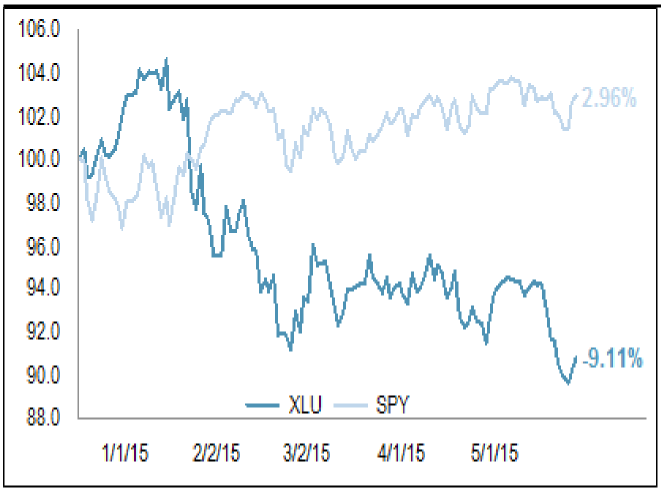
Source: FactSet

Figure 8: Utilities Performance (Past Five Days)



Source: FactSet

Figure 9: Utilities Performance (2015 YTD)



Source: FactSet

Statement of Risk

Risks for Utilities and Independent Power Producers (IPPs) primarily relate to volatile commodity prices for power, natural gas, and coal. Risks to IPPs also stem from load variability, and operational risk in running these facilities. Rising coal and, to a certain extent, uranium prices could pressure margins as the fuel hedges roll off Competitive Integrateds. Further, IPPs face declining revenues as in the money power and gas hedges roll off. Other non-regulated risks include weather and for some, foreign currency risk, which again must be diligently accounted in the company's risk management operations. Major external factors, which affect our valuation, are environmental risks. Environmental capex could escalate if stricter emission standards are implemented. We believe a nuclear accident or a change in the Nuclear Regulatory Commission/Environment Protection Agency regulations could have a negative impact on our estimates. Risks for regulated utilities include the uncertainty around the composition of state regulatory Commissions, adverse regulatory changes, unfavorable weather conditions, variance from normal population growth, and changes in customer mix. Changes in macroeconomic factors will affect customer additions/subtractions and usage patterns.

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Neutral	FSR is between -6% and 6% of the MRA.	43%	33%
Sell	FSR is > 6% below the MRA.	12%	20%
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Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 March 2015.
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Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
Consolidated Edison[16]	ED.N	Sell	N/A	US$57.54	12 Jun 2015
Duke Energy[4, 6a, 6b, 7, 16]	DUK.N	Neutral	N/A	US$72.53	12 Jun 2015
FirstEnergy Corp.[16]	FE.N	Sell	N/A	US$33.67	12 Jun 2015
NextEra Energy[2, 4, 6a, 16]	NEE.N	Buy	N/A	US$99.24	12 Jun 2015
PG&E Corporation[16]	PCG.N	Neutral	N/A	US$50.24	12 Jun 2015
Sempra Energy[2, 4, 5, 16, 18]	SRE.N	Buy	N/A	US$102.86	12 Jun 2015
Southern Company[2, 4, 6a, 16]	SO.N	Sell	N/A	US$42.30	12 Jun 2015
Talen Energy Corp[16]	TLN.N	Sell	N/A	US$18.13	12 Jun 2015
TECO Energy Inc.[16]	TE.N	Buy	N/A	US$17.80	12 Jun 2015
Wisconsin Energy Corp.[16]	WEC.N	Neutral	N/A	US$45.57	12 Jun 2015
Xcel Energy Inc.[6a, 16]	XEL.N	Neutral	N/A	US$32.70	12 Jun 2015

Source: UBS. All prices as of local market close.
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