



Hitting regulatory speed bumps as Colorado 'rocks' outlook; Reiterate Neutral

Reiterate Rating: NEUTRAL | PO: 47.00 USD | Price: 45.86 USD

Equity | 18 July 2018

Expect quiet 2Q with focus on regulatory items

We expect relatively quiet quarter with earnings largely in-line with Street expectations at \$0.47/sh, while discussions will likely focus on Xcel Energy's (XEL) regulatory schedule across Colorado (CO), New Mexico (NM) and Texas (TX). In Colorado, the Clean Energy Plan (CEP) as well as the electric rate case and tax reform filing remain outstanding, whereas in NM & TX general rate cases are ongoing. We highlight the CO electric case had initially been filed earlier this year, but subsequently thrown out after too many retro-active adjustments per company commentary, with a new filing now anticipated for early 1Q'19, albeit management will likely give further color around what to anticipate for the jurisdiction on the earnings call. That said, the latest outcome in the PSCo Gas case as well as the rather mixed settlement in TX raise questions around regulatory execution. Combined with recent reductions in capex as well as in our eyes continued need for equity beyond 2020, we reiterate our Neutral rating and raise our PO to \$47/sh.

PSCo Gas case outcome disappoints on lower returns

We note recent outcome in the Colorado gas rate case bodes slightly more cautious for the jurisdiction, as the Commission not only lowered authorized equity ratios substantially from 56.5% to 54.6% despite tax reform but also notched down the ROE to 9.35% from 9.5%. We emphasize especially the equity ratio outcome seems somewhat disappointing given the heavy focus the company had put on improving equity ratios across its jurisdiction in order to mitigate the impacts of tax reform. That said, management maintains the opportunity to address the equity ratio through its upcoming tax reform filing, not entirely eliminating the possibility to at least maintain if not raise equity ratios. Moreover, while the reduced ROE and the rejection of a multi-year rate plan are clear negatives in regards to the jurisdiction's relative attractiveness, we note PSCo Gas currently only earns near 6.6%; as such, the rate case outcome still offers opportunity for some improvement in earned ROEs. Indeed we see greater exposure for the still to be filed PSCo Electric case, expected for 1Q'19 where the earned ROE currently is trending around 8.81%. Similarly, we see risks for BKH into its upcoming anticipated rate case plans into ~2H18, particularly given higher authorized ROE.

Estimates (Dec)

(US\$)	2016A	2017A	2018E	2019E	2020E
EPS	2.21	2.26	2.43	2.55	2.73
GAAP EPS	2.21	2.31	2.47	2.55	2.73
EPS Change (YoY)	5.7%	2.3%	7.5%	4.9%	7.1%
Consensus EPS (Bloomberg)			2.43	2.58	2.74
DPS	1.36	1.44	1.52	1.56	1.65

Valuation (Dec)

	2016A	2017A	2018E	2019E	2020E
P/E	20.8x	20.3x	18.9x	18.0x	16.8x
GAAP P/E	20.8x	19.9x	18.6x	18.0x	16.8x
Dividend Yield	3.0%	3.1%	3.3%	3.4%	3.6%
EV / EBITDA*	14.6x	13.9x	13.6x	12.5x	11.6x
Free Cash Flow Yield*	-0.9%	-0.8%	-5.0%	-3.8%	0.1%

* For full definitions of *IQmethod*SM measures, see page 9.

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Timestamp: 18 July 2018 05:29AM EDT

Key Changes

(US\$)	Previous	Current
Price Obj.	46.00	47.00
2019E Rev (m)	11,799.8	11,809.2
2020E Rev (m)	12,084.5	12,093.8
2019E EPS	2.54	2.55
2020E EPS	2.72	2.73

Julien Dumoulin-Smith

Research Analyst
MLPF&S
+1 646 855 5855
julien.dumoulin-smith@baml.com

Josephine Moore

Research Analyst
MLPF&S
+1 646 855 1470
josephine.moore@baml.com

Nicholas Campanella

Research Analyst
MLPF&S
nicholas.campanella@baml.com

Claire Zeng

Research Analyst
MLPF&S
claire.zeng@baml.com

Aric Li

Research Analyst
MLPF&S
aric.li@baml.com

Stock Data

Price	45.86 USD
Price Objective	47.00 USD
Date Established	18-Jul-2018
Investment Opinion	B-2-7
52-Week Range	41.51 USD - 52.22 USD
Mkt Val (mn) / Shares Out (mn)	23,336 USD / 508.9
Average Daily Value (mn)	148.39 USD
BofAML Ticker / Exchange	XEL / NYS
Bloomberg / Reuters	XEL US / XEL.N
ROE (2018E)	10.5%
Net Dbt to Eqty (Dec-2017A)	137.1%

iQprofileSM Xcel Energy Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2016A	2017A	2018E	2019E	2020E
Return on Capital Employed	3.9%	3.8%	4.0%	4.0%	4.1%
Return on Equity	10.4%	10.2%	10.5%	10.5%	10.8%
Operating Margin	20.1%	19.3%	19.4%	20.3%	21.3%
Free Cash Flow	(203)	(193)	(1,159)	(882)	16

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2016A	2017A	2018E	2019E	2020E
Cash Realization Ratio	2.7x	2.7x	2.5x	2.5x	2.4x
Asset Replacement Ratio	2.5x	2.2x	2.7x	2.4x	1.9x
Tax Rate	34.1%	32.1%	25.6%	26.8%	26.8%
Net Debt-to-Equity Ratio	133.9%	137.1%	140.5%	147.0%	144.6%
Interest Cover	3.6x	3.5x	3.4x	3.3x	3.3x

Income Statement Data (Dec)

(US\$ Millions)	2016A	2017A	2018E	2019E	2020E
Sales	11,031	11,326	11,421	11,731	12,015
% Change	0.8%	2.7%	0.8%	2.7%	2.4%
Gross Profit	6,620	6,790	6,876	7,186	7,470
% Change	4.7%	2.6%	1.3%	4.5%	4.0%
EBITDA	3,517	3,685	3,759	4,118	4,417
% Change	12.5%	4.8%	2.0%	9.6%	7.3%
Net Interest & Other Income	(517)	(523)	(518)	(583)	(624)
Net Income (Adjusted)	1,123	1,148	1,243	1,323	1,422
% Change	5.8%	2.2%	8.3%	6.4%	7.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2016A	2017A	2018E	2019E	2020E
Net Income from Cont Operations (GAAP)	1,123	1,148	1,263	1,323	1,422
Depreciation & Amortization	1,319	1,495	1,547	1,731	1,855
Change in Working Capital	0	0	0	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	610	483	241	193	199
Capital Expenditure	(3,256)	(3,319)	(4,210)	(4,130)	(3,460)
Free Cash Flow	-203	-193	-1,159	-882	16
% Change	68.5%	5.0%	-500.5%	23.9%	NM

Balance Sheet Data (Dec)

(US\$ Millions)	2016A	2017A	2018E	2019E	2020E
Cash & Equivalents	84	83	85	85	85
Trade Receivables	1,506	1,561	1,495	1,535	1,572
Other Current Assets	1,251	1,329	1,338	1,366	1,391
Property, Plant & Equipment	32,842	34,329	36,992	39,391	40,996
Other Non-Current Assets	5,471	5,728	5,728	5,728	5,728
Total Assets	41,155	43,030	45,638	48,104	49,772
Short-Term Debt	648	1,271	1,271	1,271	1,271
Other Current Liabilities	2,600	2,817	2,817	2,817	2,817
Long-Term Debt	14,195	14,520	16,086	17,722	18,432
Other Non-Current Liabilities	12,693	12,967	13,169	13,429	13,689
Total Liabilities	30,134	31,575	33,343	35,239	36,209
Total Equity	11,021	11,455	12,295	12,866	13,563
Total Equity & Liabilities	41,155	43,030	45,638	48,104	49,772

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Electric Utilities

Company Description

Xcel Energy is Midwest-based regulated utility company with operations in Minnesota, Michigan, North Dakota, South Dakota, Wisconsin, Colorado, Texas, and New Mexico. It provides electric and gas distribution, as well as electric transmission services to over 3.5 million customers.

Investment Rationale

We have a Neutral rating on shares seeing positive catalysts as largely played out and reflected in Street expectations. While SPS wind project should lead to more longer dated improvement in SPS ROEs, delays in PSCo rate case, downward revisions to the mostly priced in CEP, as well as recent siting concerns in MN have us more cautious on the name.

Stock Data

Average Daily Volume 3,235,696

Quarterly Earnings Estimates

	2017	2018
Q1	0.47A	0.57A
Q2	0.45A	0.47E
Q3	0.97A	1.01E
Q4	0.37A	0.39E

2Q18 EPS Walk

We forecast 2Q18 adjusted EPS of \$0.47 vs. \$0.45 in 2Q17 and \$0.47/sh consensus.

- **Key drivers:** The primary positive drivers for the quarter are new rates at Public Service Colorado (\$0.01/sh) as well as earnings through the transmission and renewable capital riders (\$0.02/sh). Offsetting these gains are primarily increases in D&A expense due to higher ratebase and interest expense increase due to the \$500mm HoldCo debt issued in June.
- **Additional data point:** Following a mild winter last year, weather should be a small positive (\$0.02/sh) this quarter as weather returned to a more normal level.
- **Wild card:** Miscellaneous items remain largest unknown for the quarter.

Table 1: 2Q Walk suggests slight improvement y/y

Xcel Energy 2Q18 Earnings Walk	EPS
Adjusted EPS 2Q17	\$ 0.45
Weather	
Return to normal	\$ -
Current quarter	\$ 0.02
Rate Changes	
NSPW Gas New rates in effect Jan 2018	\$ 0.00
NSPW Electric New rates in effect Jan 2018	\$ 0.00
PSCo Gas New rates in effect Jan 2018	\$ 0.01
Capital rider revenue	\$ 0.02
AFUDC	\$ 0.01
Other	
Interest Expense increase	\$ (0.01)
Increase in D&A expense	\$ (0.03)
O&M	\$ 0.00
Dilution	\$ (0.00)
2Q18E Adjusted EPS	\$ 0.47
2Q18 Consensus	\$ 0.47
2018 BofAML EPS	\$ 2.43
2018 Consensus	\$ 2.43
2018 Guidance	2.37-2.47
Shares Outstanding 2Q17	509
Shares Outstanding 2Q18	511

Source: BofA Merrill Lynch Global Research estimates, company report

What do we think about shares? Colorado weighs on view

We maintain mixed view on shares, seeing positive catalysts largely played out with increasing exposure to the downside as management faces more challenging regulatory environments in principally Colorado. Indeed, we see upside capex from CEP as largely already reflected in Street, with risk primarily around possible negative revisions should the commission choose one of the less capital intensive proposals. Moreover recent weakness in the PSCo Gas case does raise some concerns around the upcoming electric case in ~1Q19 as the drop not just in the authorized ROE but also the authorized equity ratio was largely unexplained in the oral decision last week. That said, we see management growth guidance as achievable with relatively constructive regulatory environments in Minnesota and Wisconsin. Moreover, with continued cost declines on the wind equipment side, we see possibility for further renewable developments in the future across XEL's jurisdictions as more coal is retired. Finally, we see the PSCo service territory as ideally suited to take advantage of the new ITC solar safe harbor should the utility find competitive constructs to meaningfully ratebase solar as prices continue to drop into the 2023 timeframe. This would appear the second act on the Colorado Energy Plan (CEP) already pending before the commission

Table 2: Estimates comfortably within the guidance range

Subsidiary	2016A	2017E	2018E	2019E	2020E	2021E	2022E
Northern States Power Minnesota (NSPM)	0.96	1.01	1.00	1.04	1.10	1.12	1.18
Southwestern Public Service (SPS)	0.30	0.30	0.33	0.40	0.46	0.49	0.50
Public Service Colorado (PSCo)	0.91	0.94	1.06	1.10	1.16	1.21	1.28
Northern States Power Wisconsin (NSPW)	0.14	0.16	0.18	0.17	0.18	0.20	0.21
Parent	(0.10)	(0.12)	(0.14)	(0.17)	(0.18)	(0.18)	(0.17)
Consolidated	2.21	2.30	2.43	2.55	2.73	2.84	3.00
Guidance			2.37-2.47				
Consensus	2.31	2.31	2.43	2.60	2.74	2.91	3.05
Mgmt EPS CAGR: 5-6% off 2017 range	2.21	2.30	2.43	2.56	2.70	2.85	3.01
<i>Low End</i>			2.37	2.49	2.61	2.74	2.88
<i>High End</i>			2.47	2.62	2.78	2.94	3.12
BofAMLeCAGR '17-'22e	5.4%						

Source: BofA Merrill Lynch Global Research estimates, company report

Colorado Commission 'rocks' the PSCo, but the fight isn't over yet

Last week, the Colorado Public Utility Commission (CPUC) denied the PSCo's request to raise its authorized ROE to 10.00% and the equity ratio to 55.25%. Instead, the commission largely went with the administrative law judge's (ALJ) recommendation authorizing a 9.35% ROE and an equity ratio of 54.60%. Moreover, the commission deemed there to be no need for a multi-year rate plan based given that 50% of PSCo's capex goes through the capital trackers and is recovered on a yearly basis. This outcome is not as positive as expected, but it is important to note that the recovery lag PSCo was experiencing in the past has been quite substantial, with the last earned ROE around 6.6%, as such there could still be potential for an overall improvement in earned ROEs despite the slightly disappointing rate case outcome. Moreover, management has reiterated its intention to use the tax reform filing to address the equity ratio once again, keeping some optionality on the issue.

We note this bodes highly cautious for Black Hills Corp (BKH) which is scheduled to itself file a major gas rate case in Colorado by year-end, with the company having historically had a slightly more challenging regulatory relationship. Moreover, with BKH to-date enjoying substantially healthier earned and authorized ROEs the downside here may also be greater.

Texas Commission sees no need to raise rates as TCJA offsets any increase

In May, the SPS modified its testimony with the Public Utility Commission of Texas (PUCT) requesting \$54mm or 5.8% retail electric non fuel base rate increase in Texas with each of its Texas municipalities. On June 29th the PUCT reached a settlement which result in no overall change to the utility. The commission believes that after adjusting for the Tax Cuts and Jobs Act (TCJA) there is no information that is indicative to modify revenue requirements. Moreover, there will be no change to the lower costs of long-term debt, which are going to offset the cost of new infrastructure, resulting in no changes to O&M expenses. Still to come, the SPS will be permitted to surcharge customers for unrecovered TCRF charges that were not billed during the period of Jan. 23, 2018 through June 10, 2018 with a PUCT decision expected in Q3 2018.

The latest on the Colorado Clean Energy Plan

After submitting four possible proposals to the Colorado Commission earlier this summer, a ruling is now expected for the fall. The new proposal has a targeted ownership of 50% renewables; 75% natural gas and/or up to 1,000MW of wind; up to 700MW of natural gas and/or storage. We note originally, the Colorado Public Utility Commission (CPUC) asked for four capital plan proposals, including the preferred and the cheapest portfolio under a Comanche 1 and a Comanche 1 & 2 retirement scenario. We note the closing of this plant, in tandem with a corresponding appeal to keep its largest industrial customer in Pueblo, CO remains relevant as it seeks to offset consternation of losing potentially both its largest customer and regional coal plant.

Possibility for further coal retirements

With nearly 37% coal generation still in the generation mix in 2017, we note plenty opportunity to continue *Steel for Fuel* strategy over the next decade. Indeed, beyond the Colorado's Comanche 1&2, we note there are a few more coal plants in XEL's portfolio which could potentially have retirement discussions come up over the next few years. We highlight specifically in Minnesota the Sherburn (Sherco) and Allen S. King plants and in Texas Tolk and Harrington plants. By 2027 XEL is anticipating to have only 22% of its energy mix to be consisted of coal, and 45% to be in the form of renewables.

We believe this is the right direction the firm needs to move towards in order to be strategically aligned with industry demands. It is also important to note that under the *Steel for Fuel* strategy capital recovery costs are offset by lower fuel and O&M costs and tax credits.

NM PSC approves SPS wind settlements

Recent success on Texas and New Mexico wind projects (Hale, Sagamore, Bonita) should support some recovery in Southwestern Public Service Company's (SPS) ROE, as regulatory lag is reduced given the more concurrent recovery of wind projects. In Texas, SPS will be able to levy a surcharge on customer bill shortly after construction completion, whereas in New Mexico the company will operate the asset merchant at certain earnings caps until it can move the asset into ratebase with the next rate case. We note that TX and NM both use historical test-years, which is unlikely to be changed with the ongoing rate cases, expected decisions 4Q18 and 2H18 respectively.

\$500mn of capex reductions yet to be determined

We highlight management cut capex by an annual \$100mn over the next five years, albeit it has yet to determine how to allocate said reductions. We note reduction should help maintain FFO/Debt metrics in the 18-20% range targeted by management, and is in line with decisions taken by other utilities namely Duke and Dominion looking to support FFO/Debt metrics after tax reform, each cut their guidance by 2% and 11% respectively. We see key question here how this cut will be allocated and how impacts to earnings can be mitigated, expecting the impact likely to be minimal as less direct earnings contributing capex likely to be cut as in the case with Dominion.

Potential risk for MN wind build with ALJ decision

Earlier in June, a MN administrative law judge (ALJ) issued a recommendation to halt plans for Invenergy's proposed \$300mn 200MW Freeborn Wind Farm, of which XEL is the off-taker. While the Commission will likely not side with the ALJ in our view, we see result as illustration of growing opposition to new wind developments, adding yet another hurdle to new project development. Moreover, if used the ALJ decision could serve as a precedent around the interpretation of state noise standards, having potentially negative implications for XEL and the wider MN wind industry. Albeit we caution exposure here is not that great in the near-term as other MN projects Blazing Star I & II either already have permitting or are facing a different ALJ. Moreover, in regards to the project under question (Freeborn), mgmt has indicated they could shift the capacity to Iowa.

Latest on the NM rate case proceedings

On May 2, the NMPRCS filed rebuttal testimony requesting an increase of \$27Mm in ratebase on a ROE of 10.25% and an equity ratio of 53.97%. In late June, the New Mexico Hearing Examiner decided on a different outcome for the case. The case examiner issued her recommendation for the New Mexico Public Regulation Commission (NMPRC) decision proposing an increase of \$12Mm in ratebases on a ROE of 9.4% and an equity ratio of 53.97%. The hearing examiner also denied SPS' request to shorten depreciation lives related to Tolk Units 1 and 2 and Cunningham Unit 1. While this is not the anticipated outcome, we do see the increase of \$12Mn in ratebase as a tailwind moving forward.

Executing on TX wind purchase

On July 6, Xcel closed on acquiring the Hale Wind Farm from NextEra Energy Resources, following the approval by the commissions of both Texas and New Mexico (Texas in May following some delay from Chair Walker). The case originally filed in March 2017 (link) and was somewhat controversial as the projects were justified for rate base for Southwestern Public Service (SPS) by low cost, rather than a specific need. The project was also approved at a rate base of \$735mn which results with an estimated LCOE of \$1,500/kW – above our expectations of \$1,200-1,300/kW for a wind project in Texas. The project is 100% PTC-qualified project and expected in service 2019. SPS also signed for a 30-year power purchase agreement with NextEra for 230MW of wind to commence in 2019. The long-term offtake agreement is from two wind projects (in Cochran and Crosby counties) collectively called the Bonita PPA. The successful approvals are positives for both Xcel’s rate base plan and NEER’s continued growth prospects both through PPAs and selling projects to utility rate base.

Valuation: PO raised to \$47/sh

We include our latest valuation below reflecting our updated EPS estimates as well as a mark-to-market of the utility peer multiple (increase to 17.2x from 16.5x). Additionally, given growing regulatory concerns we take-away our 1x premium to PSCo. Overall, we raise our PO to \$47/sh and reiterate our Neutral rating.

Table 3: Raising our PO to \$47/sh

All figures in USD millions except per share

Regulated Utilities	2020 Net Income	EPS	P/E Multiple			Equity Value					
			Bear	Peer	Prem/Discount	Base	Bull	Bear	Base	Bull	
<i>Relative Utility Group P/E Multiple</i>				17.2x							
Northern States Power Minnesota (NSPM)	\$574	\$1.10	17.2x	17.2x	1.0x	18.2x	19.2x	\$ 18.94	\$20.04	\$21.15	
Southwestern Public Service (SPS)	\$241	\$0.46	16.2x	17.2x	0.0x	17.2x	18.2x	\$ 7.50	\$7.97	\$8.43	
Northern States Power Wisconsin (NSPW)	\$96	\$0.18	17.2x	17.2x	1.0x	18.2x	19.2x	\$ 3.18	\$3.37	\$3.55	
Public Service Colorado (PSCo)	\$602	\$1.16	16.2x	17.2x	0.0x	17.2x	18.2x	\$ 18.73	\$19.89	\$21.04	
Parent/Unallocated	-\$92	-\$0.18	17.2x	17.2x	1.0x	18.2x	19.2x	\$ (3.03)	\$ (3.21)	\$ (3.39)	
Add back 50% of HoldCo interest	\$109	\$0.21	17.2x	17.2x	1.0x	18.2x	19.2x	\$ 1.80	\$ 1.91	\$ 2.01	
Less: 50% of HoldCo Debt	-\$1,731							\$ (3.32)	\$ (3.32)	\$ (3.32)	
Total	\$1,422	\$2.73						\$43.81	\$46.64	\$49.47	
Shares Outstanding (2020e)									521		
Total Equity Value Per Share									\$47.00		
Price as of 7/16/2018								\$	46.12		
Dividend FY18									1.52		
Dividend Yield									3.3%		
Total Potential Return Projected									5.2%		

Source: BofA Merrill Lynch Global Research estimates

Price objective basis & risk

Xcel Energy Inc (XEL)

Our PO is \$47. We value Xcel Energy using a sum of the parts (SOTP) approach. Given the difference in geography, earnings strength, growth opportunity and risk profile, we divide the segments by subsidiary.

We use 2020E forward P/E multiples to derive a value for the different business segments, including the parent segment. We relied on a peer multiple of 17.2x, in line with current consensus expectations for 2020 forward P/E ratio utilities. We apply a 1x premium to NSPM, NSPW, and PSCo given the favorable regulatory environment in both subsidiaries' jurisdictions. We apply an in line multiple for SPS and PSCo. We see this multiple as appropriate as this subsidiary has meaningful growth opportunities, but suffers from regulatory drag given historical test years, which prevent timely recovery. We also net back 50% of the parent interest expense and instead subtract out 50% of parent debt to more accurately reflect HoldCo leverage.

Downside risks to our investment thesis are interest rate increases, regulatory risk such as lower authorized ROEs or less favorable riders/trackers for renewables and transmission, execution delays, and weather anomalies.

Analyst Certification

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

US - Electric Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Av angrid	AGR	AGR US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Julien Dumoulin-Smith
	Ex elon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Nex tDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	Nex tEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	Nex tEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
NEUTRAL				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	Ev ergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Haw aiiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	NRG Yield	NYLDA	NYLD/A US	Julien Dumoulin-Smith
	NRG Yield	NYLD	NYLD US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
UNDERPERFORM				
	AES	AES	AES US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Ev ersource Energy	ES	ES US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Terraform Power	TERP	TERP US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith

iQ^{method} SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	$\text{Market Cap.} = \text{Current Share Price} * \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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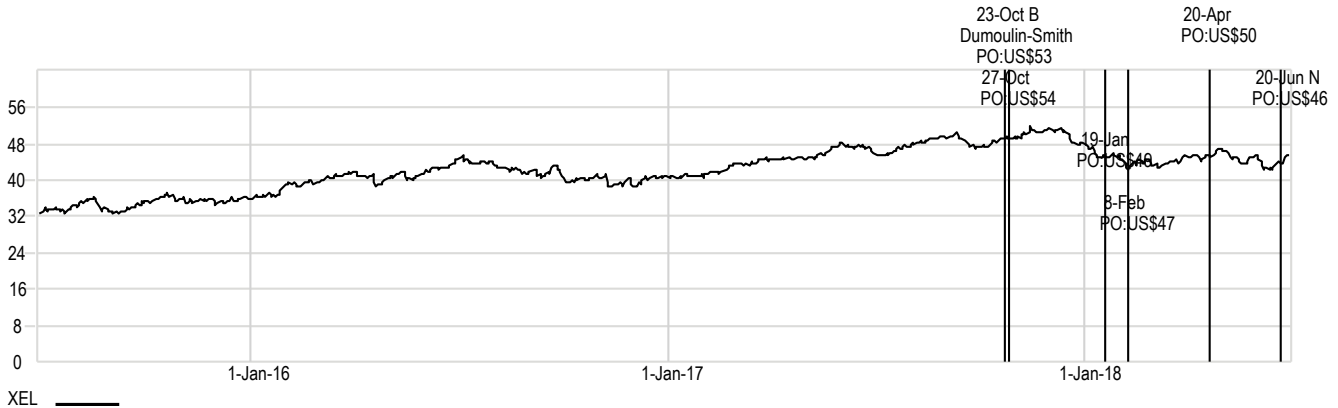
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Important Disclosures

XEL Price Chart



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

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of June 30, 2018 or such later date as indicated.

Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2018)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	69	47.59%	Buy	49	71.01%
Hold	35	24.14%	Hold	27	77.14%
Sell	41	28.28%	Sell	25	60.98%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2018)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1639	55.35%	Buy	1044	63.70%
Hold	615	20.77%	Hold	390	63.41%
Sell	707	23.88%	Sell	340	48.09%

* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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