



## Flash Comment

Energy Team

### Utility & Alternative Energy Daily

**Neil Kalton, CFA, Senior Analyst (314) 875-2051**  
**Jonathan Reeder, Senior Analyst (314) 875-2052**

#### **Sector Rating: Energy Team, NA**

Quick thoughts from Wells Fargo Securities, LLC Utility & Alternative Energy Team:

#### Utilities

Exelon (EXC/Market Perform) (Kalton) - The legal challenges to the state Zero Emission Credit (ZEC) programs got off to a good start for unregulated nuclear generation owners. After market close on 7/14, the U.S. District Court for the Northern District Court of Illinois issued an order upholding the Illinois ZEC program by granting the defendant's (the IL Power Agency) motion to dismiss the case. The Judge was not persuaded by the plaintiff's argument that the IL ZEC program was unlawful under (1) a Federal Power Act preemption claim, (2) the dormant commerce clause and/or (3) the equal protection clause. The Judge (essentially) found that the IL program did not unlawfully tread on the Federal Energy Regulatory Commission's (FERC) ability to regulate the wholesale power market (preemption claim). And as for the commerce clause argument - which we have previously noted is often liberally applied by federal courts - the Judge deemed that the ZEC program, like state renewable energy credit (REC) programs, is justifiable under state environmental policy goals. The plaintiffs had argued that the environmental rationale was merely a pretext for the true state goal of job and property tax preservation (economic protectionism). Interestingly, the Judge concluded that while courts can consider other evidence of "intent", they are largely bound by the language of the statute - which, in this case, solely cited environmental reasons for the ZEC program.

What's next? First, we expect the decision will be appealed (Court of Appeals). Second, attention will shift to NY where a NY federal District Court is hearing a similar challenge to the NY ZEC program. It is our understanding that the NY court can consider the IL decision but is not legally bound by the order. Ultimately, we would not be surprised if the ZEC challenges wind up at the U.S. Supreme Court - thus, this is probably a multi-year process. Near-term, the IL decision provides some legal momentum for the ZEC program and is a clear positive for EXC (our estimates include both the IL and NY ZEC revenues) along with PEG, which is beginning to advocate for a similar program in NJ. With the sustained pressure on power markets, government and/or market-based subsidies are an increasingly important element of the value proposition for unregulated nuclear power plants - if not the most important element.

NorthWestern Corp (NWE/Market Perform)(Reeder) - The Montana Public Service Commission is scheduled to make a decision on NWE's pending gas rate case this Thursday. Positively, on 7/13 the MPSC staff recommended that the Commission basically adopt the revised settlement agreement as filed 6/9 by NWE, the Montana Consumer Counsel (MCC) and the Large Customer Group (LCG) in the case - recall, the settlement resolves all contested issues amongst the parties and specifies a \$5.7M rate increase, a 9.55% ROE and a 46.8% equity ratio. The only tweak that the staff recommends relates to the annual timing of the Production Asset Revenue stepdown (do it January 1 rather than July 1). Should the MPSC adopt the staff's recommendation that enjoys the support of the state's two main intervenors, this would somewhat stop the bleeding of recent MPSC decisions that have seemingly made life more difficult for NWE. However, a

Please see page 3 for rating definitions, important disclosures and required analyst certifications.  
All estimates/forecasts are as of 07/17/17 unless otherwise stated. 07/17/17 05:16:04 ET

Wells Fargo Securities, LLC does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that report and investors should consider this report as only a single factor in making their investment decision.

reasonable amount of concern still exists that the MPSC may further modify the terms of the settlement agreement to NWE's detriment. One specific item that the staff's recommendation discussed - but staff ultimately concluded that it is appropriate to honor the integrity of the settlement agreement's specified revenue increase - relates to a question raised by Commissioner Kavulla as to whether 2016 and 2017 Production Asset Revenue stepdowns should be applied to the revenue requirement (given it is based on a 2015 test year) which would equate to a \$2.7M downward adjustment to the \$5.7M stipulated amount (and more than \$20M over the 10-year stipulated period for stepdown implementation). Given (1) the considerable regulatory uncertainty in Montana (including the potential for NWE to be called in this year for an electric rate case) as well as (2) additional risk that a 6/22 MPSC decision has introduced as it relates the utility's long-term rate base growth opportunities (imposed a 10-year cap on the length of NWE's long-term electricity supply arrangements, including utility-owned assets - NWE subsequently suspended a 50-150 megawatt electric generation request for proposals [RFP]), we remain comfortable with our Market Perform rating and believe the roughly 5% discount that shares of NWE trade at to SMID cap utility peers on our 2019E EPS of \$3.55 is warranted.

#### **Exelon Corporation (EXC)/Market Perform (2)**

**Price as of 7/14/2017: \$36.06**

FY 17 EPS: \$2.70

FY 18 EPS: \$2.85

Shares Out.: 926.6 MM

Market Cap.: \$33,413.2 MM

#### **NorthWestern Corporation (NWE)/Market Perform (2)**

**Price as of 7/14/2017: \$59.68**

FY 17 EPS: \$3.40

FY 18 EPS: \$3.50

Shares Out.: 48.4 MM

Market Cap.: \$2,888.51 MM

#### **Rating Basis Information:**

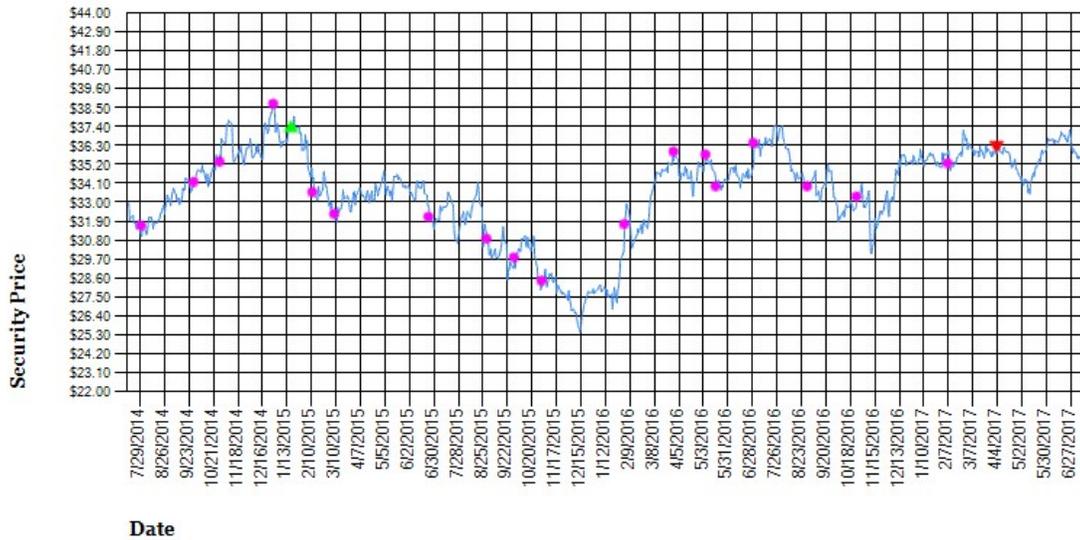
**EXC Thesis:** Our Market Perform rating reflects our belief that shares adequately reflect the value of the nuclear fleet given uncertainties related to legal challenges.

**NWE Thesis:** We view NWE as a high quality small cap utility. However, we believe future EPS and DPS growth may be, at best, consistent with industry peers (4-6%). Combined with a challenging Montana regulatory environment, we view NWE's 3-9% discount P/E valuation to peers on our 18E & 19E EPS as appropriate.

# DISCLOSURE APPENDIX

## Required Disclosures

### Exelon Corporation (EXC) 3-yr. Price Performance



Date	Published Price (\$)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price (\$)
7/14/2014		Kalton				
7/14/2014	NA	2	NE	36.00	37.00	32.89
● 8/1/2014	31.08	2	NE	34.00	35.00	31.54
● 9/30/2014	34.05	2	NE	33.00	34.00	34.09
● 10/29/2014	34.92	2	NE	37.00	38.00	35.28
● 12/29/2014	38.21	2	NE	41.00	42.00	38.63
▲● 1/20/2015	37.38	1	NE	43.00	44.00	37.25
● 2/13/2015	33.13	1	NE	40.00	41.00	33.51
● 3/9/2015	32.27	1	NE	38.00	39.00	32.27
● 6/25/2015	32.06	1	NE	36.00	37.00	32.03
● 8/31/2015	31.40	1	NE	35.00	36.00	30.76
● 9/30/2015	29.49	1	NE	37.00	38.00	29.70
● 11/2/2015	27.92	1	NE	32.00	34.00	28.37
● 2/3/2016	31.39	1	NE	37.00	39.00	31.61
● 3/31/2016	35.86	1	NE	39.00	41.00	35.86
● 5/6/2016	35.68	1	NE	39.00	40.00	35.68
● 5/18/2016	33.85	1	NE	42.00	43.00	33.85
● 6/30/2016	36.02	1	NE	43.00	44.00	36.36
● 8/30/2016	33.69	1	NE	42.00	43.00	33.81
● 10/26/2016	33.26	1	NE	39.00	40.00	33.26
● 2/8/2017	35.20	1	NE	40.00	41.00	35.23
▼● 4/5/2017	36.14	2	NE	38.00	39.00	36.06

Source: Wells Fargo Securities, LLC estimates and Reuters data

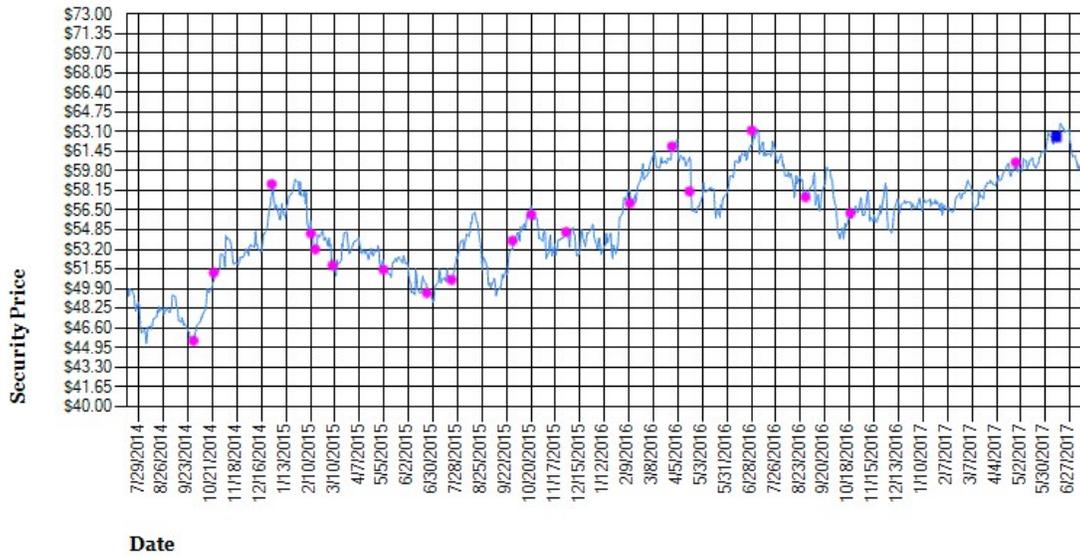
#### Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Price Target/Val Range Change
- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

#### Rating Code Key

- 1 Outperform/Buy
- 2 Market Perform/Hold
- 3 Underperform/Sell
- SR Suspended
- NR Not Rated
- NE No Estimate

## NorthWestern Corporation (NWE) 3-yr. Price Performance



Date	Published Price (\$)	Rating Code	Price Target	Val. Rng. Low	Val. Rng. High	Close Price (\$)	
7/15/2014		Kalton					
7/15/2014	NA	2	NE	52.00	53.00	49.59	
9/30/2014	45.23	2	NE	49.00	50.00	45.36	
10/24/2014	50.77	2	NE	50.00	51.00	51.12	
12/29/2014	57.09	2	NE	59.00	60.00	58.55	
2/12/2015	54.46	2	NE	57.00	58.00	54.46	
2/17/2015	53.61	2	NE	56.00	57.00	53.04	
3/9/2015	51.71	2	NE	55.00	56.00	51.71	
5/6/2015	51.20	2	NE	53.00	54.00	51.40	
6/25/2015	49.50	2	NE	50.00	51.00	49.47	
7/23/2015	50.55	2	NE	52.00	53.00	50.55	
9/30/2015	53.35	2	NE	55.00	56.00	53.83	
10/22/2015	55.99	2	NE	57.00	59.00	55.99	
11/30/2015	54.53	2	NE	55.00	57.00	54.53	
2/12/2016	57.19	2	NE	58.00	60.00	57.00	
3/31/2016	61.75	2	NE	65.00	67.00	61.75	
4/20/2016	58.01	2	NE	61.00	63.00	58.01	
6/30/2016	62.50	2	NE	63.00	65.00	63.07	
8/30/2016	57.32	2	NE	60.00	62.00	57.45	
10/21/2016	55.83	2	NE	58.00	60.00	56.09	
4/27/2017	60.42	2	NE	61.00	63.00	60.42	
6/13/2017		Reeder					

Source: Wells Fargo Securities, LLC estimates and Reuters data

### Symbol Key

▼ Rating Downgrade

▲ Rating Upgrade

◆ Price Target/Val Range Change

◆ Initiation, Resumption, Drop or Suspend

■ Analyst Change

□ Split Adjustment

### Rating Code Key

1 Outperform/Buy

2 Market Perform/Hold

3 Underperform/Sell

SR Suspended

NR Not Rated

NE No Estimate

## Additional Information Available Upon Request

I certify that:

- 1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
- 2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

Wells Fargo Securities, LLC maintains a market in the common stock of NorthWestern Corporation, Exelon Corporation.

Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from Exelon Corporation.

Wells Fargo Securities, LLC and/or its affiliates, have beneficial ownership of 1% or more of any class of the common stock of Exelon Corporation.

Exelon Corporation currently is, or during the 12-month period preceding the date of distribution of the research report was, a client of Wells Fargo Securities, LLC. Wells Fargo Securities, LLC provided nonsecurities services to Exelon Corporation.

Wells Fargo Securities, LLC received compensation for products or services other than investment banking services from Exelon Corporation in the past 12 months.

Wells Fargo Securities, LLC or its affiliates has a significant financial interest in Exelon Corporation, NorthWestern Corporation.

Wells Fargo Securities, LLC or its affiliates intends to seek or expects to receive compensation for investment banking services in the next three months from an affiliate of Exelon Corporation.

Wells Fargo Securities, LLC or its affiliates managed or co-managed a public offering of securities for an affiliate of Exelon Corporation within the past 12 months.

Wells Fargo Securities, LLC or its affiliates received compensation for investment banking services from an affiliate of Exelon Corporation in the past 12 months.

Wells Fargo Securities, LLC and/or its affiliates, have beneficial ownership of 0.5% or more of any class of the common stock of Exelon Corporation, NorthWestern Corporation.

**EXC:** Risks include commodity price sensitivity and unfavorable regulatory/policy developments.

**NWE:** Risks include regulatory and interest rate related.

Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm, which includes, but is not limited to investment banking revenue.

#### **STOCK RATING**

**1=Outperform:** The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

**2=Market Perform:** The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

**3=Underperform:** The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

#### **SECTOR RATING**

**O=Overweight:** Industry expected to outperform the relevant broad market benchmark over the next 12 months.

**M=Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

**U=Underweight:** Industry expected to underperform the relevant broad market benchmark over the next 12 months.

#### **VOLATILITY RATING**

**V=A** stock is defined as volatile if the stock price has fluctuated by +/-20% or greater in at least 8 of the past 24 months or if the analyst expects significant volatility. All IPO stocks are automatically rated volatile within the first 24 months of trading.

**As of: July 17, 2017**

42.0% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Outperform.

Wells Fargo Securities, LLC has provided investment banking services for 45.0% of its Outperform-rated companies.

56.0% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Market Perform.

Wells Fargo Securities, LLC has provided investment banking services for 34.0% of its Market Perform-rated companies.

2.0% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underperform.

Wells Fargo Securities, LLC has provided investment banking services for 24.0% of its Underperform-rated companies.

**Important Disclosure for International Clients**

**EEA** - The securities and related financial instruments described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. For the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("the Act"), the content of this report has been approved by WFSIL a regulated person under the Act. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients.

**Australia** - Wells Fargo Securities, LLC is exempt from the requirements to hold an Australian financial services license in respect of the financial services it provides to wholesale clients in Australia. Wells Fargo Securities, LLC is regulated under U.S. laws which differ from Australian laws. Any offer or documentation provided to Australian recipients by Wells Fargo Securities, LLC in the course of providing the financial services will be prepared in accordance with the laws of the United States and not Australian laws.

**Canada** - This report is distributed in Canada by Wells Fargo Securities Canada, Ltd., a registered investment dealer in Canada and member of the Investment Industry Regulatory Organization of Canada (IIROC) and Canadian Investor Protection Fund (CIPF).

**Hong Kong** - This report is issued and distributed in Hong Kong by Wells Fargo Securities Asia Limited ("WFSAL"), a Hong Kong incorporated investment firm licensed and regulated by the Securities and Futures Commission of Hong Kong ("the SFC") to carry on types 1, 4, 6 and 9 regulated activities (as defined in the Securities and Futures Ordinance (Cap. 571 of The Laws of Hong Kong), "the SFO"). This report is not intended for, and should not be relied on by, any person other than professional investors (as defined in the SFO). Any securities and related financial instruments described herein are not intended for sale, nor will be sold, to any person other than professional investors (as defined in the SFO). The author or authors of this report is or are not licensed by the SFC. Professional investors who receive this report should direct any queries regarding its contents to Mark Jones at WFSAL (email: wfsalresearch@wellsfargo.com ).

**Japan** - This report is distributed in Japan by Wells Fargo Securities (Japan) Co., Ltd, registered with the Kanto Local Finance Bureau to conduct broking and dealing of type 1 and type 2 financial instruments and agency or intermediary service for entry into investment advisory or discretionary investment contracts. This report is intended for distribution only to professional investors (Tokutei Toughika) and is not intended for, and should not be relied upon by, ordinary customers (Ippan Toughika).

The ratings stated on the document are not provided by rating agencies registered with the Financial Services Agency of Japan (JFSA) but by group companies of JFSA-registered rating agencies. These group companies may include Moody's Investors Services Inc., Standard & Poor's Rating Services and/or Fitch Ratings. Any decisions to invest in securities or transactions should be made after reviewing policies and methodologies used for assigning credit ratings and assumptions, significance and limitations of the credit ratings stated on the respective rating agencies' websites.

## **About Wells Fargo Securities**

Wells Fargo Securities is the trade name for the capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including but not limited to Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission and a member of NYSE, FINRA, NFA and SIPC, Wells Fargo Prime Services, LLC, a member of FINRA, NFA and SIPC, Wells Fargo Securities Canada, Ltd., a member of IIROC and CIPF, Wells Fargo Bank, N.A. and Wells Fargo Securities International Limited, authorized and regulated by the Financial Conduct Authority.

This report is for your information only and is not an offer to sell, or a solicitation of an offer to buy, the securities or instruments named or described in this report. Interested parties are advised to contact the entity with which they deal, or the entity that provided this report to them, if they desire further information. The information in this report has been obtained or derived from sources believed by Wells Fargo Securities, LLC, to be reliable, but Wells Fargo Securities, LLC does not represent that this information is accurate or complete. Any opinions or estimates contained in this report represent the judgment of Wells Fargo Securities, LLC, at this time, and are subject to change without notice. For the purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. Each of Wells Fargo Securities, LLC and Wells Fargo Securities International Limited is a separate legal entity and distinct from affiliated banks. Copyright © 2017 Wells Fargo Securities, LLC.

SECURITIES NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE