

US Utilities & Clean Tech

PowerPoint: Dominion Feedback, CMS Rate Case, SO Georgia, and Nuclear Assessment

Industry Overview

BofA NYC Conference is Today

Please see our detailed Question Bank: [US Utilities & Clean Tech: 2024 Utilities, Power, and Clean Tech Question Bank: What You Need to Ask 01 March 2024](#)

D: Feedback post Investor Day

We had numerous investor conversations after diversified utility Dominion Energy's (D) Investor Day on Friday March 1st. Dominion underperformed utility peers ~6% after the update which generally fell below investors/Consensus expectations. See our initial takeaways here: [D-Day Is Here: 5-7% EPS Growth Off FY25 \\$3.30 Does Not Support Current Valuation](#). Our investor conversations were mostly cautious with a focus on two areas: (1) 7.5% consolidated and 9% Virginia rate base growth; and (2) non state regulated earnings mix. Dominion's 7.5% rate base and 5-7% EPS growth guidances are comparable to large cap peers Exelon Corp (7.5% RB and 5-7% EPS), Duke Energy (7.2% RB and 5-7% EPS), and American Electric Power (7.2% RB and 6-7% EPS). Dominion guides to an above average ~10% non-state regulated EPS mix versus Duke and Exelon substantially fully regulated (AEP ~4% generation & marketing FY24 guidance and ~2% pro-forma for pending asset sales). As a result, many investors we have spoken to have more deeply discounted the unregulated contribution. As a positive offset, Dominion's 15% FFO / Debt is notably higher than AEP 14-15%, DUK ~14%, or EXC 13-14% targets. We give management credit for the significantly enhanced disclosures and the stronger balance sheet. We look for more companies to provide granular detail and migrate towards more balance sheet cushion like Dominion has. Nevertheless, we maintain Underperform on Dominion with shares relatively expensive vs utility peers.

CMS: Reasonable electric rate case outcome slightly above ALJ

On March 1st, the Michigan Public Service Commission (PSC) issued a final order in Consumers Energy (CMS subsidiary) electric rate case with +\$92Mn rate increase (U-21389), representing +2% monthly bill increase (+\$1.53/month). This was a reasonable rate case outcome vs the +\$171Mn revised request, +\$95-105Mn Staff recommendations, and the +\$86Mn administrative law judge (ALJ). The rate order partially approved the Investment Recovery Mechanism (IRM) with CMS required to file investment plans as soon as possible. The order also approves pilot capex for strategic undergrounding. Finally, CMS is required to file an optimization analysis of line clearing in proceeding U-20697. CMS guides to filing its next electric rate case in 2Q24 and has an active natural gas rate case filed December 15th for +\$136Mn (U-21490). We maintain Buy on shares of CMS which represent one of the best risk/adjusted outlooks. See our latest here: [CMS Energy: Best-in-class utility gets even better: CMS warrants the largest utility premium 08 February 2024](#).

04 March 2024

Equity
United States
Utilities & Clean Tech

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Timestamp: 04 March 2024 06:15AM EST

D: Moody's affirms Corp and SC; VEPCO negative outlook

Minutes following Dominion's Investor Day, Moody's Investor Services (Moody's) affirmed Dominion Energy Inc Baa2 credit rating with a stable outlook and 14% FFO / Debt downgrade threshold (also, affirmed Dominion South Carolina's Baa1 rating and stable outlook). Moody's stated that Dominion's new plan will meet or exceed 14% FFO / Debt through 2026, relative to Dominion's project of ~15% average annual FFO / Debt which management qualified is not fully comparable with each of the rating agency methodologies. Importantly, management emphasized that the credit metrics strengthen throughout the plan. Moody's placed the Virginia Electric Power Company A2 credit rating on negative outlook, which did not appear to be a surprise for Dominion management while the Coastal Virginia Offshore Wind (CVOW) project is under construction. No change in downgrade threshold either, consistent with mgmt's earlier comments from its update. This is key considering earlier concerns that retention of CVOW overrun risks could result in a higher risk profile from the agencies. On balance positive on affirmation; watch VEPCO still.

SO: Georgia consumer advocate? And Vogtle progress.

The Georgia Senate advanced Senate Bill 457 (SB457) 53-0 on February 29th, a bill that would recreate consumer utility counsel (i.e. consumer advocate). The bill will advance to the House next. If this bill is enacted we would view it cautiously for the Georgia utilities, primarily Georgia Power, Southern Company's (SO) primary subsidiary. Separately, Georgia Power announced that new nuclear Vogtle Unit 4 synchronized and connected to the electrical grid for the first time on March 1st. We maintain Neutral on shares of SO which trade at an appropriate premium with a balanced risk/reward currently. We remain doubtful such an effort will ultimately pass considering the numerous challenges to proceed thru the legislative process and note prior efforts have not proven fruitful either.

Nuclear: Detailing the latest NRC views

On March 1st the Nuclear Regulatory Commission (NRC) issued its annual performance assessments for 2023. The six reactors out of 94 that are not in the highest performance column are: Calvert Cliffs 1 (Constellation), Columbia (municipal), River Bend (Entergy), VC Summer (Dominion), Watts Bar 1 & 2 (municipal). There were favorable changes for Davis-Besse (Vistra), Peach Bottom 2 (Constellation/PSEG), Quad Cities (Constellation), and Waterford (Entergy).

We closely watch nuclear for specific operators and the industry overall. NRC events and additional oversight can signify reduced output and/or higher costs, negative developments for merchant plant profitability and regulated ratepayers

Exhibit 1: NRC Annual Performance Assessments: Reactors not in the highest performance column

Showing the changes in nuclear assessment performance the past three years

Owner	2021	2022	2023
CEG		Calvert Cliffs 1	Calvert Cliffs 1
AEE	Callaway		
Muni			Columbia
VST	Davis-Besse	Davis-Besse	
CEG/PEG		Peach Bottom 2	
ETR			River Bend
CEG		Quad Cities	
D		VC Summer	VC Summer
Muni			Watts Bar 1 & 2
ETR		Waterford	

Source: Nuclear Regulatory Commission

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Exhibit 2: Stocks mentioned

Rating and price summary

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
D	D US	Dominion Energy	US\$ 44.79	B-3-7
CMS	CMS US	CMS Energy	US\$ 58.14	A-1-7
SO	SO US	Southern Company	US\$ 66.86	A-2-7

Source: BofA Global Research

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Price objective basis & risk**CMS Energy (CMS)**

Our \$63 PO is based on a 2026E sum-of-the-parts analysis. We use 2026E forward P/E multiples for the utility business and a 2026E forward EV/EBITDA multiple for CMS' power assets. For the utility segments, we apply a +3.0x prem to the average 2026E regulated multiple P/E of 13.0x for the electric segment and of 13.3x for the gas segment, with the 10-yr capex update providing clear sight on rate base growth and further upside, as well as continued favorable regulatory environment, and finally historically proven ability to consistently perform at the high end of guidance range. Both electric and gas peer P/E multiples are grossed up +5% to reflect capital appreciation across the sector, a consistent approach across the coverage universe. For CMS' unregulated assets we apply a blended 9x EV/EBITDA, supported by a discounted cash flow analysis at the largest asset - Dearborn Industrial Generation (DIG) The parent cost offsets are a blended of P/E and net debt approaches

Downside risks are: 1) earned ROEs declining which reduce CMS utility earnings 2) execution risk on capex and cost cutting which would primarily affect the utility earnings, 3) negatives changes to market energy prices which could affect the DIG plant's ability to re-contract at the assumed prices, 4) regulatory, legislative, or political changes, 5) interest rates, 6) natural disasters and storms, and 7) pension plan performance.

Dominion Energy (D)

We value Dominion Energy at \$40 using a 2026E sum-of-the-parts analysis. For the utilities we apply the comparable 13.5x electric peer multiples which we gross-up by 5% to reflect capital appreciation across the sector. We apply -1.5x discount for base Virginia and -1.0x for South Carolina. We apply discount adjustments to lower value utility sources in South Carolina (NND nuclear and bill credits). The pension income is valued 4x P/E, consistent with the 12/31/22 valuation levels.

Contracted assets are valued using 2026 EV/EBITDA: 5x Millstone (13% FCF Yield), and 5x for renewables. For remaining debt beyond that allocated to state utilities, we include a 50% weight towards a straight netting of leverage, with the remaining 50% using a P/E multiple on associated interest expense, in line with the methodology employed for diversified utilities with relatively higher levers of leverage. The interest rate hedge is valued at the stated \$1Bn value 9/30/23 less tax.

Risk to achievement of the Price Objective are 1) regulatory, legislative, and political actions, 2) ability to earn or exceed the regulatory allowed ROE, 3) capital markets and equity requirements, 4) changes to the capital expenditure and rate base forecast for both regulated & unregulated segments, 5) volatility in interest rates and pension returns, 6) changes in commodity prices, 7) natural disasters, nuclear accidents, and weather, 8) nuclear performance, 9) inflation, & 10) offshore wind construction.



Southern Company (SO)

Our \$70 PO is derived from a sum-of-the-parts analysis (SOTP). We use a P/E valuation approach on 2026 estimates and use peer multiples of 14.2x for electric and 13.8x for gas, respectively (with dis/prem applied per asset depending on growth/risk): we then gross up these multiples by +5% to account for sector wide EPS growth to derive a 12-month forward PO. We also apply an adjustment factor to reflect slightly higher interest rate expectations than Street consensus. We subtract 50% of the 2026 parent interest expense multiple by an electric P/E peer multiple to reflect parent leverage supporting the utilities. We net out total parent drag and add back the remaining parent interest expense with a 50% weighting.

Upside/downside risks to achievement of the PO are: 1) Vogtle construction timing and costs, 2) regulatory, political, and legislative changes, 3) ability to earn the allowed rate of return, 4) changes to the capital expenditure forecast, 5) nuclear incidents, weather, and natural disasters, 6) rate of customer and sales growth, 7) O&M trends, 8) interest rates, 9) environmental policies and regulations, 10) M&A, and 11) interest rates.

Analyst Certification

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

Special Disclosures

BofA Securities is currently acting as Financial Advisor to CMS Energy Corp regarding the sale of its home services business which was announced February 5th, 2024.

North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	Array Technologies	ARRY	ARRY US	Julien Dumoulin-Smith
	Atlantica Sustainable Infrastructure	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Entergy	ETR	ETR US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextracker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Energy Group	NWE	NWE US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	PG&E Corporation	PCG	PCG US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra	SRE	SRE US	Julien Dumoulin-Smith
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	TPI Composites	TPIC	TPIC US	Julien Dumoulin-Smith
	Vistra Corp	VST	VST US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Paul Zimbardo
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Paul Zimbardo
	AltaGas	YALA	ALA CN	Cameron Lochridge
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	Generac Holdings Inc.	GNRC	GNRC US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxeon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Southwest Gas Holdings	SWX	SWX US	Julien Dumoulin-Smith
	TransAlta Corp	TAC	TAC US	Julien Dumoulin-Smith
	TransAlta Corporation	YTA	TA CN	Julien Dumoulin-Smith
UNDERPERFORM				
	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith



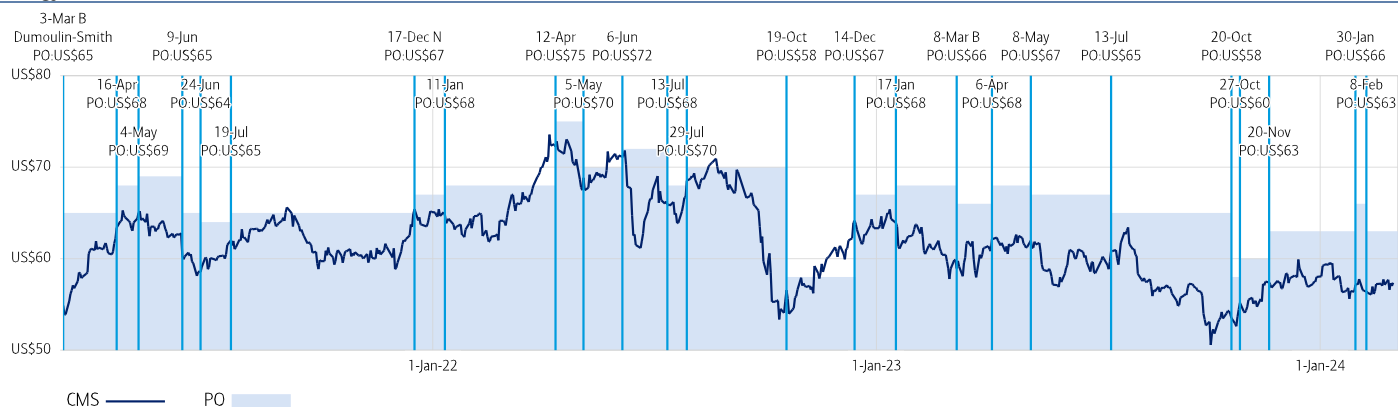
North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Paul Zimbardo
	Avista	AVA	AVA US	Julien Dumoulin-Smith
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Paul Zimbardo
	Edison International	EIX	EIX US	Paul Zimbardo
	Enphase Energy	ENPH	ENPH US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Paul Zimbardo
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	MGE Energy	MGEE	MGEE US	Julien Dumoulin-Smith
	New Jersey Resources Corp	NJR	NJR US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG US	Julien Dumoulin-Smith
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
RVW	New Fortress Energy	NFE	NFE US	Cameron Lochridge

Disclosures

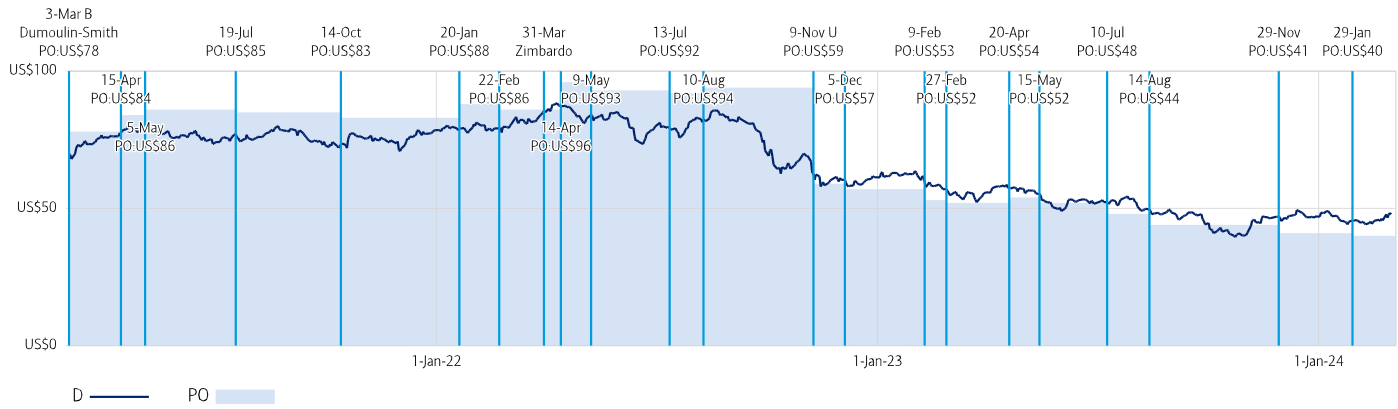
Important Disclosures

CMS Energy (CMS) Price Chart



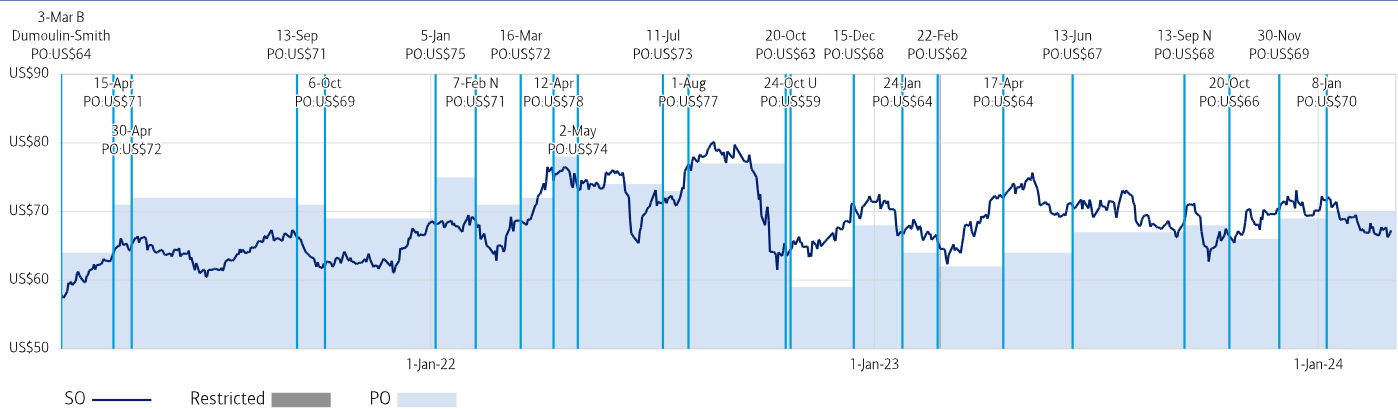
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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 a date no more than one trading day prior to the date of the report.

Dominion Energy (D) Price Chart

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

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Southern Company (SO) Price Chart

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

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Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	46.45%	Buy	52	72.22%
Hold	45	29.03%	Hold	32	71.11%
Sell	38	24.52%	Sell	21	55.26%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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