

US Utilities & IPPs

PowerPoints: DTE Rate Case, SO Vogtle, and Utilities Macro Rates Pain Persists

Industry Overview

DTE: Electric proposal \$90m below Staff

The Michigan Public Service Commission (PSC) Administrative Law Judge (ALJ) in DTE Electric's (DTE subsidiary) rate case filed a proposal for decision (PFD) recommending a net revenue increase of +\$290m predicated on an equity layer of 50% and ROE of 9.8%. This was below the PSC Staff recommendation of +\$379m and an initial company request of +\$583m. The ALJ ROE and equity layer were not below the company's request, with the revenue requirement delta coming largely via rate base disallowances and differences in operating expenses (O&M). Deltas between the PFD and company position include O&M (largely incentive compensation and information technology spending), the ROE, and rate base disallowances (~\$700m difference). Historically – going back the last several rate cases - the PFD recommendation has been below the staff level, while the final order in a non-settled case came in *above* staff on average. A notable exception was the last rate case in 2022 where a difference in load forecast drove a disappointing revenue increase, the company filed request was +\$368m and Staff/PFD came in at 46%/40% of the company request, while the final order was well below these levels at \$30m. Look for company exceptions on Oct 27 as the next data point to track followed by replies on November 8th. Meanwhile settlement discussions are ongoing, and a settlement remains an option up to a final order. Shares of DTE slide after the PFD was docketed October 5th afternoon but we believe it is premature to view this as an overly onerous indicator of the final decision based on the pre-2022 history. *We maintain Buy on DTE given strong growth forecast relative to peers and valuation.*

SO: Vogtle 4 defect identified. Co-owner settlement.

Southern Company's (SO) Georgia Power subsidiary issued an 8K that the company warned of potential cost increases and/or delays to Vogtle Unit 4 new nuclear. The company has identified a motor fault at one of the four reactor coolant pumps (RCP) for Vogtle 4 and has identified an on-site spare in inventory for replacement. SO targets 1Q24 commercial operations date but indicated that "challenges may result in future schedule delays and/or cost increases". Management stated that its Vogtle 3 RCPs are operating as designed and views the Vogtle 4 RCP as an isolated issued. Georgia Power also reached a settlement with Vogtle 3/4 co-owner Oglethorpe Power Company (OPC) related to a cost-sharing dispute in the joint ownership agreement. SO expects a - \$152Mn charge (\$114Mn after-tax) with 3Q23 earnings which does not include a - \$17Mn pre-tax potential exposure for the pending litigation with the City of Dalton. The settlement includes: (1) OGC retaining full ownership and not tendering to SO; (2) \$308Mn immediate payment to OPC for prior construction costs; (3) \$105Mn future payments for prospective projected construction costs; (4) obligation to pay 66% of OPC's construction costs above the current schedule. *Vogtle Unit 3 has had multiple issued with reactor coolant pumps including March and July 2023 which makes this latest Vogtle Unit 4 motor fault more worrisome. Vogtle Unit 4 maintaining the schedule and cost estimates is an offset. The settlement charges are small and help to reduce tail uncertainty on the outlook. SO has been one of the best performing utilities +9-10% YTD vs utility peers (excluding NextEra Energy) and we maintain Neutral as we believe the stock is fairly valued.*

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Equity
United States
Utilities

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PSC: Public Service Commission
ALJ: Administrative law judge
PDF: Proposal for recommendation
O&M: Operating and maintenance
NRC: Nuclear Regulatory Commission
RCP: Reactor Coolant Pump
OPC: Oglethorpe Power Company

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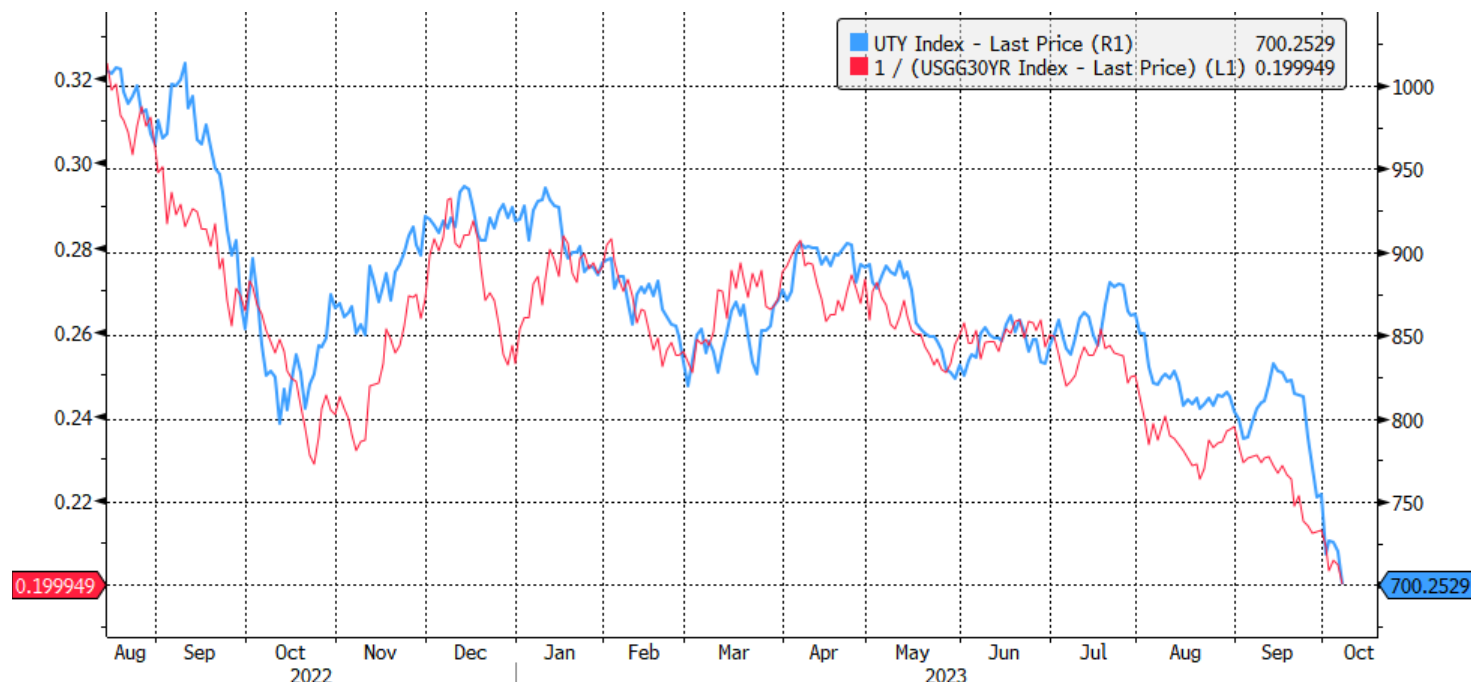
Utilities: Macro pain persists with rates powering higher

The utilities sector is under pressure again in early trading October 6th after the stronger than Bloomberg consensus forecasted payrolls report drive US Treasury rates higher again. The US 30Yr Treasury rate increased ~+10bp to breach 5.0% and trade around that level. This caused a corresponding inversely negative impact of US regulated utilities with the sector down ~2.5%, lagging the S&P by ~2pp. Please see the Exhibit below for the historical relationship which has been very tight over the past year.

See our latest deep dive thoughts: [US Utilities & Clean Tech: Rates, rates, & yes, more rates. Utility and clean energy weakness tied to single factor 03 October 2023](#)

Exhibit 1: Utilities Equities (Blue) vs US Treasury Yields (Red)

Utilities have performed in-step with treasury rights with only short-term deviations



Source: Bloomberg

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SO: Nuclear Regulatory Commission (NRC) Vogtle (Cont.)

This morning Southern Company filed a Nuclear Regulatory Commission (NRC) event (56779) for Vogtle Units 3/4 noting that Unit 3 was not impacted. Interestingly the NRC notice was provided October 5th but the event began on August 7th. Please see below for the "60-Day Optional Telephonic Notification for an Invalid Specified System Actuation.

The following information was provided by the licensee via phone and email:

"At 1439 EDT on August 7, 2023, a spurious level spike on the unit 4 reactor coolant system (RCS) level instrument (4-RCS-LT160A, 'Hot Leg 1 Level') caused actuation of containment isolation, reactor trip, automatic depressurization system (ADS) stage 4, and in containment refueling water storage tank (IRWST) isolation signals. The spurious level changes caused an invalid signal based on the incidental response of the 4-RCS-LT160A instrumentation due to water spray that was being used for reactor vessel cleaning (being performed prior to initial fuel loading). The level fluctuations resulted in engineered safety features actuation signals (containment isolation, ADS stage 4, and IRWST isolation signals) and a reactor trip signal, with the reactor trip signal already present. Three containment isolation valves closed due to the containment isolation signal that was generated. These valves were: 4-CAS-V014, 'instrument air supply containment isolation, air-operated valve,' 4-SFS-V034, 'spent fuel pool cooling system suction header containment isolation, motor-operated valve,' and 4-SFS-V035, 'spent

fuel pool cooling system suction header containment isolation, motor-operated valve.' The other automatic containment isolation valves were either already closed at the time of the event or properly removed from service. All affected equipment functioned properly. The other actuation signals that were observed during this event (ADS stage 4, IRWST isolation, and reactor trip) did not result in any equipment changing position or automatically operating (i.e., the actuation signals occurred while the systems were properly removed from service).

"Units 1, 2, and 3 were not affected. This event did not result in any adverse impact to the health and safety of the public."

[Southern Company: Upgrade to Neutral: Capex opportunities support existing premium valuation 13 September 2023](#)

BofA Global Research Reports

Title: Subtitle

[Xcel Energy Inc: Upgrade to Buy: Capital opportunities to support premium growth](#)
[Clearway Energy: Clear path to capitalizing on Cali – Upgrade to Buy](#)
[US Utilities & IPPs: PowerPoints: NEE/NEP Latest, ED ESG Day, AEP Kentucky, & DUK NC Nuclear](#)
[SolarEdge Technologies: Adverse exposure on too many fronts; Reiterate Neutral](#)
[US Utilities & Clean Tech: Investigating wind repowering: More compelling than we initially appreciated](#)
[US Utilities & Clean Tech: Addressing the elephant in the room: Have rates killed the renewables return?](#)
[NextEra Energy: End of an Era? Time \(and Rates\) Will Tell – Reiterate Neutral and Cut PO](#)
[US Utilities & IPPs: PowerPoints: Transmission Risks, DTE Capex, AES/WTRG M&A and XEL Mgmt](#)
[Eversource, Inc: Upgrade to Neutral: Cautious regulatory catalysts have largely played out](#)
[US Utilities & Clean Tech: Rates, rates, & yes, more rates. Utility and clean energy weakness tied to single factor](#)

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Exhibit 2: Primary stocks mentioned in this report

Prices and ratings for primary stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
DTE	DTE US	DTE Energy	US\$ 94.2	A-1-7
SO	SO US	Southern Company	US\$ 64.59	A-2-7

Source: BofA Global Research

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Price objective basis & risk

DTE Energy (DTE)

We value DTE Energy at \$131 using a sum-of-the-parts (SOTP) approach. We value the utility segment on a 2025E forward P/E multiple basis and the non-utility segment on a 2024E forward EV/EBITDA multiple basis. For the utility segment we apply a 2x premium to both our regulated electric and gas utility peer multiples (of 16.0x and 16.0x, respectively). Both electric and gas peer P/E multiples are grossed up by 5% to reflect capital appreciation across the sector. We value the DTE Vantage segment on a multiple of 2025 EPS - the grossed-up electric multiple of 17.3x to account for the renewable natural gas (RNG) business. We assign an equity value of zero to the Equity Trading



segment given potential for earnings volatility and opacity of the segment. We also reduce the equity value for estimated unallocated parent debt by applying a 17.5x multiple to both the interest expense and corporate overhead expenses at the parent. Risks are: regulatory/political/legislative actions, realized returns from the unregulated Vantage segment, changes in equity needs, load growth/class mix, equity needs, weather/natural disasters, and interest rate fluctuations.

Southern Company (SO)

Our \$68 PO is derived from a sum-of-the-parts analysis (SOTP). We use a P/E valuation approach on 2025 estimates and use peer multiples of 14.6x for electric and 14.5x 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 2025 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

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.

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
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	Ameresco	AMRC	AMRC 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
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Alex Vrabel
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWENA 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
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	ENLT	ENLT US	Julien Dumoulin-Smith
	Enlight Renewable Energy Ltd	XENLF	ENLT IT	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Paul Zimbardo
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	FREYR Battery	FREY	FREY US	Julien Dumoulin-Smith
	FTC Solar	FTCI	FTCI US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Hydro One	YH	H CN	Dariusz Lozny, CFA
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Dariusz Lozny, CFA
	Nextacker Inc	NXT	NXT US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NorthWestern Corporation	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
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Paul Zimbardo
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	ReNew Power	RNW	RNW US	Julien Dumoulin-Smith
	Sempra Energy	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 Energy	VST	VST US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC 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	Dariusz Lozny, CFA
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Dariusz Lozny, CFA
	AltaGas	YALA	ALA CN	Dariusz Lozny, CFA
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	Emera Inc	YEMA	EMA CN	Dariusz Lozny, CFA
	Entergy	ETR	ETR US	Paul Zimbardo
	Essential Utilities	WTRG	WTRG US	Julien Dumoulin-Smith
	Evergy, Inc	EVRG	EVRG US	Julien Dumoulin-Smith
	Fluence Energy	FLNC	FLNC US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Paul Zimbardo
	New Fortress Energy	NFE	NFE US	Cameron Lochridge
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Northwest Natural Holdings	NWN	NWN US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	ONE Gas, Inc.	OGS	OGS US	Julien Dumoulin-Smith
	Ormat Technologies	ORA	ORA US	Julien Dumoulin-Smith



North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	SolarEdge Technologies	SEDG	SEDG 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	Dariusz Lozny, CFA
	TransAlta Corporation	YTA	TA CN	Dariusz Lozny, CFA

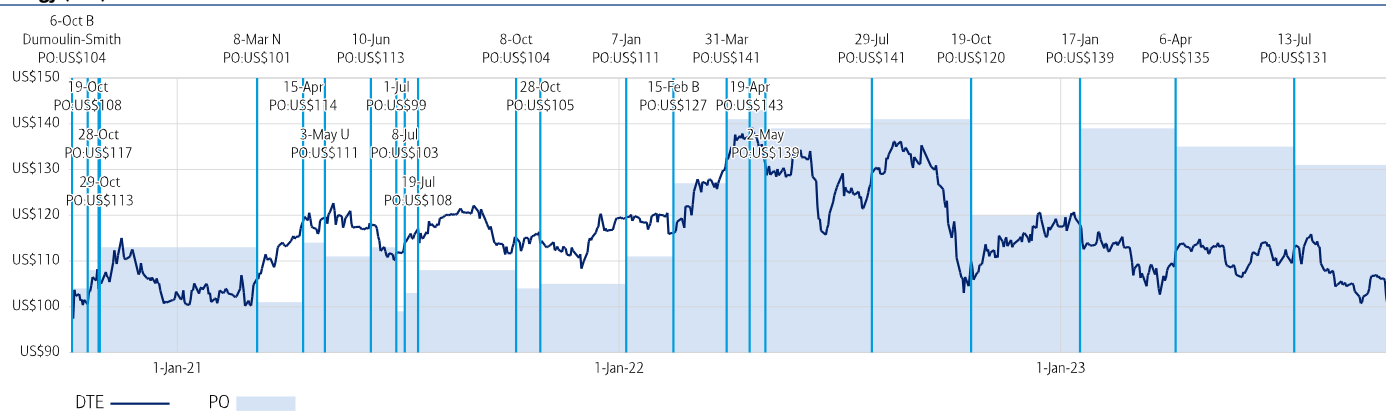
UNDERPERFORM

	Allete Inc	ALE	ALE US	Julien Dumoulin-Smith
	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
	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	Dariusz Lozny, CFA
	Fortis Inc	FTS	FTS US	Dariusz Lozny, CFA
	Generac Holdings Inc.	GNRC	GNRC 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
	Spire	SR	SR US	Julien Dumoulin-Smith
	Stem, Inc.	STEM	STEM US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
	UGI Corp.	UGI	UGI US	Julien Dumoulin-Smith

Disclosures

Important Disclosures

DTE Energy (DTE) 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.

Southern Company (SO) Price Chart



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Equity Investment Rating Distribution: Utilities Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	80	51.28%	Buy	51	63.75%
Hold	42	26.92%	Hold	32	76.19%
Sell	34	21.79%	Sell	22	64.71%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{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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