

Dominion Energy

The Final Countdown: Will Business Review End in 1Q24? Offshore Wind Key.

Reiterate Rating: UNDERPERFORM | PO: 40.00 USD | Price: 45.56 USD

The wait continues. Will the review end in February?

We reiterate Underperform on shares of diversified utility and energy company Dominion Energy (D) ahead of the long-anticipated Investor Day business review reset. The business review has been pending for nearly 15 months with delays with the latest guidance “early 2024”. Dominion scheduled its 4Q23 call on February 22nd, the latest 4Q call in 20+ years for the company. A lack of business review conclusion by then would be a disappointment. We lower our PO to \$40 with details on Page 9.

What is the market missing? Prospective equity needs.

We remain the only Underperform on Dominion per Bloomberg and we believe is a consensus long from our investor conversations. Generalists have been attracted to the Virginia data center angle but we think do not appreciate that the other 20% of Dominion’s earnings are flat/down. Dominion’s high dividend payout (80% 2025), capex build, and non-cash pension income will require ongoing ~\$1.5Bn annual equity. As a result, the 10% Virginia net income CAGR is a 7-8% consolidated earnings CAGR and closer to a 4%.

Will offshore wind be sold? Our base case remains yes.

An offshore wind transaction is the last remaining puzzle piece in Dominion’s business review. We continue to assume a transaction at 1.01x rate base without additional charges beyond the \$65Mn November 2023 impairment, ie \$9.8Bn cost. The comfort and willingness of a buyer to deploy back-leverage to the asset will be key to achieve an attractive risk-adjusted return. With 25% incremental leverage, a 6.4% cost of debt (VEPCO + 70bp), and debt amortization we estimate an ~11% internal rate of return. With some offshore wind developers targeting single digit returns, we do believe a buyer can be found and a sale is still our base case. A ‘no deal’ or cost sharing scenario would increase risk and likely lead to considerably more equity issuances and send a cautious sign.

Trimming EPS on Millstone mark-to-market

Since Dominion’s 3Q23 earnings call November 3rd when illustrative earnings guidance was provided, New England power prices are sharply lower. 2025 is -\$10/MWh and 2026 is -\$6/MWh, representing -\$0.04-\$0.07 pre-hedges. The volatility of the earnings should lead to more conservatism from management on guidance, particularly after unplanned outages. Our new 2025 is \$3.40 and we lower 2024-2028 -60bp on average (-\$0.02-\$0.04).

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	3.86	2.17	2.15	2.86	3.40
GAAP EPS	3.95	0.50	1.30	2.86	3.40
EPS Change (YoY)	9.0%	-43.8%	-0.9%	33.0%	18.9%
Consensus EPS (Bloomberg)			2.56	3.07	3.43
DPS	2.52	2.67	2.67	2.68	2.68
Valuation (Dec)					
P/E	11.8x	21.0x	21.2x	15.9x	13.4x
GAAP P/E	11.5x	91.1x	35.0x	15.9x	13.4x
Dividend Yield	5.5%	5.9%	5.9%	5.9%	5.9%
EV / EBITDA*	20.4x	21.1x	19.4x	16.1x	14.5x
Free Cash Flow Yield*	-5.0%	-10.2%	-6.4%	-14.6%	-12.1%

* For full definitions of *IQmethod*SM measures, see page 13.

29 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	41.00	40.00
2023E Rev (m)	14,765.9	14,768.8
2024E Rev (m)	16,001.1	15,981.4
2025E Rev (m)	16,923.5	16,871.2
2024E EPS	2.88	2.86
2025E EPS	3.44	3.40

Paul Zimbardo
Research Analyst
BofAS
+1 646 855 1470
paul.zimbardo@bofa.com

Julien Dumoulin-Smith
Research Analyst
BofAS
+1 646 855 5855
julien.dumoulin-smith@bofa.com

Stock Data

Price	45.56 USD
Price Objective	40.00 USD
Date Established	29-Jan-2024
Investment Opinion	B-3-7
52-Week Range	39.18 USD - 63.68 USD
Mrkt Val (mn) / Shares Out	38,125 USD / 836.8 (mn)
Free Float	99.8%
Average Daily Value (mn)	224.46 USD
BofA Ticker / Exchange	D / NYS
Bloomberg / Reuters	D US / D.N
ROE (2023E)	6.9%
Net Dbt to Eqty (Dec-2022A)	162.6%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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Timestamp: 29 January 2024 05:45AM EST

iQprofileSM Dominion Energy

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	2.9%	2.1%	2.9%	3.8%	4.2%
Return on Equity	12.7%	7.0%	6.9%	9.3%	10.9%
Operating Margin	21.6%	18.1%	23.4%	27.9%	29.7%
Free Cash Flow	(1,923)	(3,891)	(2,444)	(5,568)	(4,617)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	2.0x	4.2x	2.5x	2.4x
Asset Replacement Ratio	2.2x	2.4x	3.2x	3.4x	3.2x
Tax Rate	13.7%	26.3%	18.1%	20.0%	21.7%
Net Debt-to-Equity Ratio	138.9%	162.6%	170.2%	123.7%	136.1%
Interest Cover	2.2x	2.5x	1.7x	2.3x	3.0x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	13,964	15,257	14,769	15,981	16,871
% Change	-1.5%	9.3%	-3.2%	8.2%	5.6%
Gross Profit	10,443	9,914	10,796	11,961	12,802
% Change	-5.0%	-5.1%	8.9%	10.8%	7.0%
EBITDA	5,497	5,318	5,774	6,969	7,710
% Change	7.4%	-3.3%	8.6%	20.7%	10.6%
Net Interest & Other Income	(1,354)	(1,108)	(1,983)	(1,970)	(1,685)
Net Income (Adjusted)	3,121	1,813	1,798	2,403	2,893
% Change	6.1%	-41.9%	-0.8%	33.6%	20.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	3,288	538	1,170	2,546	3,181
Depreciation & Amortization	2,768	3,113	3,165	3,356	3,536
Change in Working Capital	(2,174)	(3,336)	1,300	0	0
Deferred Taxation Charge	487	9	1,379	346	343
Other Adjustments, Net	(332)	3,376	579	(284)	(245)
Capital Expenditure	(5,960)	(7,591)	(10,037)	(11,532)	(11,432)
Free Cash Flow	-1,923	-3,891	-2,444	-5,568	-4,617
% Change	-142.5%	-102.3%	37.2%	-127.9%	17.1%
Share / Issue Repurchase	192	1,866	97	168	750
Cost of Dividends Paid	(2,036)	(2,209)	(2,233)	(2,244)	(2,277)
Change in Debt	4,586	3,526	1,452	(12,406)	5,499

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	408	341	290	307	318
Trade Receivables	2,568	3,357	1,921	2,046	2,137
Other Current Assets	4,293	6,152	6,738	6,885	6,993
Property, Plant & Equipment	59,774	63,460	67,188	55,231	63,293
Other Non-Current Assets	32,547	30,933	29,633	29,633	29,633
Total Assets	99,590	104,243	105,770	94,101	102,374
Short-Term Debt	3,155	6,764	3,568	2,629	3,045
Other Current Liabilities	5,518	6,686	5,749	5,822	5,876
Long-Term Debt	37,426	38,914	43,562	32,095	37,177
Other Non-Current Liabilities	24,573	23,998	25,377	25,723	26,957
Total Liabilities	70,672	76,362	78,256	66,269	73,055
Total Equity	28,918	27,881	27,514	27,832	29,319
Total Equity & Liabilities	99,590	104,243	105,770	94,101	102,374

* For full definitions of iQmethodSM measures, see page 13.

Company Sector

Electric Utilities

Company Description

Dominion Energy is a predominately regulated utility holding company focused on Virginia and South Carolina utilities plus unregulated nuclear in Connecticut. The company announced a comprehensive business in 2022. In September 2023 Dominion announced an agreement to sell local distribution gas utilities to Enbridge to reduce parent company leverage.

Investment Rationale

We rate Dominion Energy shares as Underperform, as we see risks outweighing opportunities. Our long-term adjusted EPS forecast is below Consensus and materially lower than the company's last long-term guidance. Dominion has regulatory, legislative, capital markets/M&A, and construction uncertainty that warrants a discount. We also expect minimal dividend growth (sub-1%) for the company. We think investors are underappreciating the degree of earnings rebase and uncertainty in 2024 and beyond.

Stock Data

Average Daily Volume 4,926,657

Quarterly Earnings Estimates

	2022	2023
Q1	1.18A	0.45A
Q2	0.79A	0.54A
Q3	0.94A	0.77A
Q4	0.60A	0.40E

The closing arguments on Dominion

Dominion's business review could conclude in the next thirty days if there is resolution on offshore wind sale. We have written extensively on Dominion's opportunities, risks, and the overall business case. While there are many moving parts and unknowns, we stay cautious on shares despite underperforming utility peers -15% since January 2023 because we see an above-average risk profile (offshore wind construction, merchant nuclear, and Virginia legislation/regulation), below-average regulated earnings mix (pension income, merchant nuclear [again], and historical non-GAAP adjustments), and subdued EPS growth rate (~4% \$3.40 2025 starting point) from the high payout ratio and non-cash earnings mix. Combined, we believe that Dominion is expensive and should trade at a wider discount versus the utilities sector.

From our extensive conversations, investors expect Dominion to initiate a 6-7% EPS CAGR off \$3.45-\$3.50 FY25 starting point. We believe most investors we speak to are too optimistic without enough future equity needs.

Exhibit 1: Dominion Net Income to Adjusted EPS Drivers

Walking from 10% Virginia net income CAGR to 7.5% consolidated earnings CAGR to 4% EPS CAGR

Dominion Summary Model	2025	2026	2027	2028	CAGR
Virginia Net Income	2,137	2,495	2,659	2,854	10.1%
Non-Virginia Net Income	756	690	774	735	-0.9%
Consolidated Net Income	2,893	3,186	3,433	3,590	7.5% (A)
Equity Issuance	750	1,500	1,500	1,500	26.0%
Dilution*	-2.0%	-3.9%	-3.9%	-3.9%	-3.4% (B)
EPS	3.40	3.64	3.79	3.83	4.0% (A)-(B)
Capex	(11,432)	(10,465)	(9,920)	(9,420)	-6.2%
Dividend Payment	(2,277)	(2,349)	(2,437)	(2,525)	3.5%

Source: Company Filings, Bloomberg, & BofA Global Research. * Minor rounding on equity dilution

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When Dominion initiated the business review in November 2023 they emphasized a desire to have high quality earnings that are predictable – we will be closely watching the 4Q non-GAAP adjustments as well as any future adjustments.

Legislation and regulatory updates

Dominion remains active in politics although smaller dollars in 2023

Per the Virginia Public Access Project (VPAP), Dominion remains a top donor to the Virginia state legislature. In 2023, Dominion was the #3 Senate donor at \$4Mn (similar to Clean Virginia Fund) and #3 House donor at \$3Mn. Combined Dominion made \$11Mn of contributions in 2023. In 2024, Dominion is the top donor for both the Senate and House although the dollars are much lower to date at \$200-300k. Dominion's top target in 2024 is Democrat Don Scott in the House with Dominion the top donor at \$1Mn since 2019.

Variety of bills have been introduced with our focus on data centers

As expected, more utility-oriented proposed bills have been introduced in the past week in Virginia. Of note is SB578 which would have competitive procurement process for subsequent Virginia offshore wind after Dominion's Coastal Virginia Offshore Wind Project (CVOW). We continue to focus most closely on the data center related bills which includes cost allocation (SB191/HB1288), siting (SB284/SB285/HB337/HB338/HB1010), sales & use tax (SB192/HB116), consumption (HB910), noise (SB288), and water (SB289).

SB591 has support from Virginia Customers for Energy Choice with members including NRG Energy (NRG), Vistra (VST), Calpine, Covanta, and Sierra Club.

Below are the 50+ pieces of draft legislation we are monitoring this legislative session.



Exhibit 2: Virginia 2024 Draft Legislation as of January 28th, 2024

Data center bills have received among the most media attention along with solar permitting

State Id	Bill Title	Last Action On
SB191	Electric utilities; data center demand, allocation of costs among customer classes.	1/26/2024
HB636	Siting of energy facilities; approval by the State Corporation Commission.	1/26/2024
HB785	Energy storage systems; clarifies the tax treatment of systems.	1/26/2024
HB28	Fossil fuel projects moratorium; transitioning energy workers, environmental justice protections.	1/25/2024
HB275	Public utilities; delay of termination of service for certain residential customers, report.	1/25/2024
HJR30	Investor-owned electric utilities; SCC to study performance-based regulatory tools.	1/25/2024
HB910	Data centers; energy usage.	1/25/2024
HB714	Electric utilities; pilot program for underground transmission lines; additional project.	1/25/2024
HB337	Siting of data centers; impacts on resources and historically significant sites.	1/24/2024
HB338	Siting of data centers; locality to perform site assessment before approval.	1/24/2024
HB1010	Data centers; sitings near parks, schools, and residential areas.	1/24/2024
HB119	Electric utilities; clarifies definition of energy efficiency programs.	1/23/2024
HB124	State Corporation Commission; annual report filing requirements.	1/23/2024
HB402	Electric utilities; retail competition for purchase and sale of electric energy, etc.	1/23/2024
HB403	Electric utilities; temporary power purchase agreements.	1/23/2024
SB289	Stormwater management regulations; enterprise data center operations.	1/23/2024
HB1027	Energy policy of the Commonwealth; state authority, legislative declaration.	1/23/2024
HB1074	Renewable energy portfolio standard; eligibility of hydrogen and nuclear resources.	1/23/2024
HB862	Electric utilities; integrated resource plans, grid-enhancing technologies and advanced conductors.	1/23/2024
HB1288	Public utilities; classification of customers.	1/23/2024
HB1323	Electric utilities; recovery of development costs associated with small modular reactor.	1/23/2024
SB557	Renewable energy portfolio standard; eligibility of hydrogen and nuclear resources.	1/23/2024
HB856	Public utilities; rate increases during certain months prohibited.	1/18/2024
HB976	Electric utilities; SCC to ensure energy policy at lowest reasonable cost.	1/18/2024
HB792	Electric utilities; regulation of rates, prohibited recovery.	1/18/2024
SB688	Offshore wind capacity; development, prohibited cost recovery.	1/18/2024
HB106	Shared solar programs; amends existing program provisions to apply to Dominion Energy Virginia.	1/16/2024
HB108	Shared solar programs; SCC to establish by regulation, etc.	1/16/2024
HB109	Electric utilities; regional transmission entities, annual report.	1/16/2024
HB117	Net energy metering; solar interconnection, cost recovery.	1/16/2024
HB118	Electric utilities; cost recovery for electric vehicle charging infrastructure.	1/16/2024
HB139	Underground infrastructure work; minimum wage standards, application of Prevailing Wage Act.	1/16/2024
HB340	Electric utilities; underground transmission lines.	1/16/2024
HB397	Electric utilities; development of renewable energy facilities, etc.	1/16/2024
HB469	Electric utilities; retail competition, aggregated competitive purchasers.	1/16/2024
HB638	Electric utilities; energy efficiency programs, duty to implement the Energy Policy, etc..	1/16/2024
HB741	Nuclear energy electric generation facilities; permitting.	1/16/2024
SB591	Electric utilities; customer energy choice, notice required for customer return to service.	1/10/2024
SB567	Siting of energy facilities; approval by the State Corporation Commission.	1/10/2024
SB578	Electric utilities; offshore wind generation facilities, competitive procurement process.	1/10/2024
SB271	Net energy metering; eligible customer-generators and agricultural customer-generators.	1/9/2024
SB253	Shared solar programs; amends existing program provisions to apply to Dominion Energy Virginia.	1/9/2024
SB286	Electric utilities; underground transmission lines.	1/9/2024
SB288	Data centers; noise abatement.	1/9/2024
SB255	Shared solar programs; SCC to establish by regulation, etc.	1/9/2024
SB284	Siting of data centers; impacts on resources and historically significant sites.	1/9/2024
SB230	Electric utilities; energy efficiency programs, duty to implement the Energy Policy, etc..	1/9/2024
SB285	Siting of data centers; site assessment.	1/9/2024
SB500	Electric utilities; integrated resource plans, grid-enhancing technologies and advanced conductors.	1/9/2024
SB508	Renewable energy portfolio standard; geothermal heating and cooling systems.	1/9/2024
SB454	Electric utilities; recovery of development costs associated with small modular reactor.	1/9/2024
SB192	Sales and use tax exemption; data centers.	1/8/2024
SB137	Electric utilities; SCC to ensure energy policy at lowest reasonable cost.	1/5/2024
SB152	Electric utilities; retail competition, aggregated competitive purchasers.	1/5/2024
HB116	Retail Sales and Use tax; exemption for data centers.	1/1/2024

Source: Insight Engine and BofA Global Research

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SCC finally back to full strength

The Virginia legislation confirmed two new members of the State Corporation Commission (SCC), finally restoring the leadership staffing after a period of absences. The two new Commissioners are Kelsey Bagot who was recently an attorney for NextEra Energy (NEE) and former legal adviser to Federal Commissioner Christie. Bagot was originally a Federal Trial Attorney. The other new Commissioner is Sam Towell who was recently a Smithfield Foods attorney and former Deputy Attorney General for Civil Litigation Office of Attorney General.

Clean Virginia described the SCC appointments as positive for Virginia customers with the new Commissioners having experience in customer protection along with electric utility knowledge.

Offshore modification proposed that would increase long-term revenue

On January 24th Dominion filed with the SCC that it “has identified a need to (i) propose an accounting modification that would more accurately align the revenue requirements in future Rider OSW [offshore wind] updates with the serial commissioning approach described in prior offshore wind proceedings; and (ii) propose to utilize a proration methodology whereby it would project rate base, depreciation expense, and certain other costs into the rate year in future revenue requirements for Rider OSW and other new projects on a going-forward basis.” (Docket PUR-2023-00195).

Dominion reaffirmed its December 2026 commercial operations date target. If the modification is not approved, Dominion states that there could be potentially significant future under-recoveries and associated carrying charges for customers. Since the proposed modification relates to timing of in-service, there is not a requested change to the current rider year revenue requirement, but Dominion says will impact the long-term revenue requirement and customer bills.

We will see if the revenue and earnings impacts of the project are quantified in future Dominion filings. This request appears to be a way to minimize regulatory lag and we do not believe it will impact the long-term earnings power.

Separately, Bladt Industries recently reported that the first offshore substation for Dominion’s offshore wind project reached the Denmark production site from the Spanish prefabrication site.

Can offshore be sold? Yes but a limited buyer pool

The top question we receive is whether Dominion can find a buyer for its offshore wind asset. We calculate an 11% IRR with 25% back leverage and 14% with 50% back leverage, assuming fully amortizing debt.

Exhibit 3: Dominion Offshore Wind Investment IRR Scenarios

We assume 1.01x transaction price, no further cost increases, 6.4% cost of debt, and 30yr debt amort.

Assumed Back leverage	IRR
0% Back leverage	9.7%
25% Back leverage	11.3%
33% Back leverage	12.0%
50% Back leverage	14.2%

Source: Company Filings, Bloomberg, & BofA Global Research

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VC Summer inspection planned

At VC Summer, the Nuclear Regulatory Commission (NRC) has scheduled a routine Comprehensive Engineering Team Inspection (CEWTI) for weeks of March 25 and April 8, 2024.



Millstone in the dark

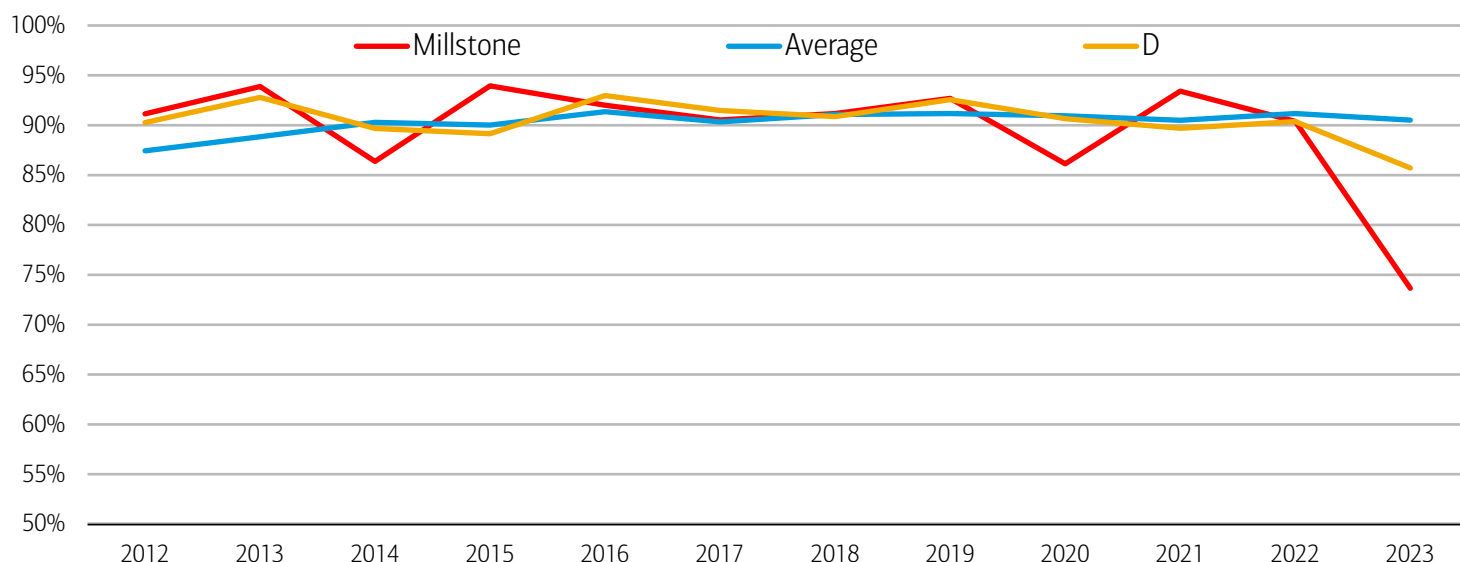
Latest outage highlights the inherent volatility

Dominion's merchant nuclear plant Millstone had below average performance in 2023 and recently had an unplanned outage in January. Per NRC data, Millstone Unit 3 was offline January 9-17 and began returning to service the morning of January 18th with full output on January 20th. Dominion has been hiring for the plant throughout 2023 and early 2024 and we look to see if additional operating and/or capital investments will be required for the plant. Unlike other merchant nuclear plants, Millstone has premium pricing above the PTC support levels, which introduces more volatility into earnings.

Historically Dominion has been a slightly above-average nuclear operator as measured by annual capacity factor. Millstone's poor performance in 2023 led to 71-76% capacity factors and pulled down Dominion's overall average performance.

Exhibit 4: Nuclear Capacity Factors: Millstone Unit 2 & 3 Average, US Average, and Dominion Fleet Average

Millstone's 2023 output was one of the lowest, breaking a streak of average performance



Source: Nuclear Regulatory Commission

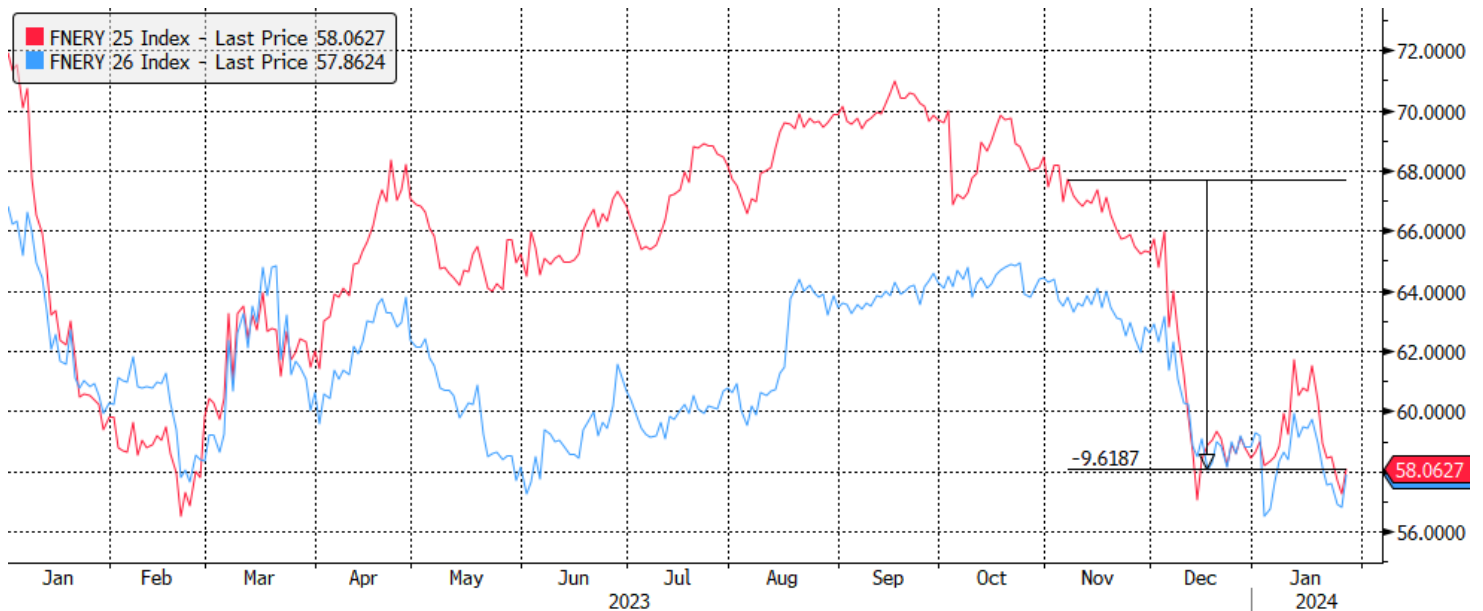
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Power price volatility underappreciated

The earnings and cash flow contribution from the merchant nuclear plant is now larger pro-forma for completed, announced, and potential asset sales. New England power price as are meaningfully off their highs but still above pre-Russia/Ukraine levels. For example, power prices in 2025-2026 are now ~\$58/MWh versus 2025 \$70/MWh and 2026 \$64/MWh in September. Few investors we speak to have been including this as a negative driver in their 'EPS walks' from the early November 2023 earnings call. While the impact in 2024-2025 is subdued due to hedging, this has a more meaningful impact on 2026+ and the earnings CAGR that is not fully appreciated. We continue to believe that management will embed more conservatism in its long-term EPS guidance because of Millstone's pricing and output volatility.

Exhibit 5: New England Around the Clock (ATC) 2025 and 2026 Power Prices (\$ per megawatt hour)

Millstone merchant power prices are at their recent lows but much higher than in 2021



Source: Bloomberg

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Data center permit denied without prejudice

A third-party developer is working on the NE Edge 300MW data center project with Dominion which would be sited at Millstone. Dominion has signed a memorandum of understanding with NE Edge. Various levels of regulatory approval are still pending and the project. Dominion Energy Nuclear Connecticut Inc.'s application petition to the Connecticut Siting Council was denied January (Petition 1586). Dominion petitioned that a neither a new Certificate of Environmental Compliance and Public Need (CECPN) nor a modification to the existing CECPN was required. The City Council stated that it denied the petition without prejudice due to a lack of detailed filing information.

Dominion has not disclosed its plans for Millstone as it relates to a data center but success here could provide more visibility into earnings and cash flow. Depending on the contract structure, pricing, and duration, this could lead to more value ascribed to Millstone and potential make the asset more transactable in the future.

License extension could help earnings via lower depreciation

Dominion has indicated that it plans to request subsequent life extensions for its Connecticut nuclear assets Millstone Unit 2 (2035 currently to 2055) and Unit 3 (2045 currently to 2065).

The most important element here is whether Dominion extends the depreciable life for GAAP accounting purposes, leading to lower depreciation in the future. This could increase earnings but not cash flows and would be value neutral. Dominion does not disclose the economics for the asset but the overall contracted generation segment has ~\$90Mn annual depreciation so we do not believe that a change here would be overly material. Dominion has historically changed its depreciable life for Virginia assets which has had more material impacts, sometimes positive and sometimes negative.

Elevated hiring activity at Millstone

Below are the active Dominion job posts as of January 28th for Waterford, Connecticut, per Dominion. Throughout the past year we have seen more Millstone-oriented job posts than in prior years.



Exhibit 6: Waterford, CT Dominion Job Posts

Dominion has over ten open roles in Waterford, CT

Title

Nuclear Plant Equipment Operator - Accelerated Program
 Engineer II/III - Emergency Diesel Generators Systems Engineer - Millstone Engineering
 Engineer II/III or Engineering Technical Specialist II/III - Valve Component Engineer - Millstone
 Engineer II/III or Engineering Technical Specialist II/III - Mechanical Engineering Millstone
 Engineering Technical Specialist II/III-Electrical Engineering Millstone
 Engineer I/II or III - Electrical Engineering Millstone Nuclear
 Senior Nuclear Construction Specialist (Millstone)
 Senior Instructor (Nuclear)
 Nuclear Plant Equipment Operator (Millstone)
 Sr Reactor Operator In Training (Direct SRO) (Millstone)
 Nuclear Instrument Technician I/II/III
 Engineer II/III or Engineering Technical Specialist II/III - Welding - Millstone Nuclear

Date

13-Jan-24
 20-Jan-24
 21-Jan-24
 13-Jan-24
 27-Jan-24
 1-Jan-24
 25-Jan-24
 13-Jan-24
 9-Jan-24
 10-Jan-24
 1-Jan-24
 27-Jan-24

Source: Dominion Energy

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Adjusted EPS

We revise our EPS estimates down -50 to -100bp to reflect the mark-to-market decrease in wholesale power prices, increase in interest rates, and decline in utility equity valuations since our last refresh. Additionally we slightly trimmed 1Q24 for the unplanned January Millstone outage and 2025 declines for shaping of anticipated planned refueling outage activity. Contracted assets EPS changes vs our prior is -\$0.02 2024, -\$0.04 2025, -\$0.03 2026, -\$0.02 2027.

We reduced the 2025 equity issuance assumption to \$750Mn from \$1,000Mn and now assume a flat \$1,500Mn in 2026-2028 contributing to ~4% annual dilution. We reduced our funds from operations (FFO) to debt assumption slightly to 14.3-14.4% from 14.5% which is a corresponding positive driver of earnings. We believe that Dominion will target less of an equity cushion than earlier our assumption earlier in the business review as the earnings outlook has declined.

Exhibit 7: Dominion Financial Snapshot

In 2026 we estimate \$0.49 EPS is from pension income/other at the Corporate level.

Dominion EPS Estimates	2021	2022	2023	2024	2025	2026	2027	2028	'25-'28 CAGR
Dominion Energy Virginia	2.37	2.41	1.95	2.38	2.51	2.85	2.94	3.05	6.6%
Gas Distribution	0.74	-	-	-	-	-	-	-	N/A
Dominion Energy South Carolina	0.54	0.61	0.61	0.63	0.60	0.63	0.61	0.62	0.7%
Contracted Assets	0.53	0.40	0.17	0.33	0.36	0.27	0.39	0.36	0.4%
Corporate & Other	(0.33)	(0.25)	(0.57)	(0.47)	(0.07)	(0.11)	(0.15)	(0.19)	40.7%
Total	3.86	3.16	2.15	2.86	3.40	3.64	3.79	3.83	4.0%
Prior BofA	2.17	2.17	2.15	2.88	3.44	3.65	3.81	3.86	3.9%
BofA Change from Prior %	78.0%	45.7%	0.1%	-0.5%	-1.0%	-0.2%	-0.6%	-0.8%	
EPS Consensus	3.86	4.11	2.56	3.07	3.43	3.66	3.93	4.20	12.7%
BofA vs Consensus (%)	0.0%	-23.0%	-15.9%	-6.7%	-0.9%	-0.6%	-3.6%	-8.7%	
EPS Guidance	\$3.80-\$3.90	\$4.03-\$4.18	2.10/2.90	4.65	4.95	5.27	5.62	5.98	N/A
BofA vs Guidance (%)	0.4%	-23.0%	-50.7%	-38.4%	-31.3%	-31.0%	-32.5%	-36.0%	
Dividend per Share	\$2.52	\$2.67	\$2.67	\$2.68	\$2.68	\$2.69	\$2.69	\$2.70	0.2%
DPS Consensus	\$2.53	\$2.67	\$2.67	\$2.69	\$2.72	\$2.75	\$2.80	\$2.80	1.0%
BofA vs Consensus (%)	-0.4%	0.0%	0.0%	-0.4%	-1.4%	-2.3%	-4.0%	-3.8%	'25-'28 Δ
Payout Ratio: Mid 60% Over Time	65%	84%	124%	93%	79%	74%	71%	70%	-8.4%
Consensus Payout Ratio	66%	65%	104%	87%	79%	75%	71%	67%	N/A
FFO / Debt: Moody's Methodology	11.6%	13.4%	12.7%	15.8%	15.7%	14.4%	14.4%	14.3%	-1.4%
Assumed VEPCO Avg Earned ROE	13.6%	12.6%	9.1%	9.9%	9.6%	10.0%	9.7%	9.7%	0.1%

Source: Company Filings, Bloomberg, & BofA Global Research

BofA GLOBAL RESEARCH

Dominion recently declared an unchanged \$0.6675 quarterly dividend, unchanged for the past two years since January 2022. We continue to assume de minimis ~\$0.01 annual DPS increase with the elevated payout ratio.

Six month \$2.5Bn term loan extension

On January 12th, Dominion filed an 8K extending the maturity date of its \$2.5Bn one-year term loan to July 12, 2024 from January 12th, 2024. Dominion notes in the 8K that it entered into the natural gas local distribution sale agreement in September 2023 and intends to fully repay the facility upon closing the transaction. Our base case is that the gas utility transactions close in late 2024 with debt reduction 1/1/24. We and investors are closely watching for clues as to the timing of the business review conclusion.

Valuation

Our \$40 Price Objective is based on a 2026 Sum-of-the-Parts analysis with no changes to the methodology since our last November 29th refresh. The base utilities average P/E is 13.5x 2026, grossed-up +5% across our utilities coverage universe to 14.2x to reflect sector capital appreciation. The large merchant business anchored by the Millstone nuclear plant in Connecticut warrants a discounted P/E versus pure play utilities with less unregulated exposure. As of 12/31/22 the pension funded status was \$1,346Mn versus estimated \$282Mn net income, or a ~5x P/E. We will look to see the new funded status at 12/31/23 with the 10K which should be a positive update given the decline in interest rates that should outweigh the probable decline in asset values.

Exhibit 8: Dominion Energy SOTP Valuation (2026E)

Most of the value is in Virginia. The parent/other segment requires additional decomposition.

Dominion Energy SOTP Valuation (2026E)

	2026E EPS	Group P/E Multiple	P/E Adjuster	Value	Value per Share
Electric Utilities		13.5x			
Group EPS CAGR		5.0%			
Grossed-Up P/E Multiple		14.2x			
VEPCO	\$2.85	14.2x	-1.5x -11%		\$36.15
SCE&G - Electric	\$0.44	14.2x	-1.0x -7%		\$5.84
SCE&G - NND	\$0.08	14.2x	-2.0x -14%		\$0.98
SCE&G - Gas	\$0.10	14.2x	0.0x 0%		\$1.45
NPV of SC Bill Credits				-\$583	(\$0.69)
Total Regulated					\$43.73
Unregulated/Contracted Assets		EBITDA	EV/EBITDA	Value	Value per Share
Power			FCF Yield		
Millstone Nuclear		\$521	5.0x	2,605	\$3.07
Millstone NDT				806	\$0.95
Less: Tax on Sale				(651)	(\$0.77)
Net Equity Value				2,760	\$3.25
Renewables (Wind & Solar)		\$162	5.0x	810	\$0.95
Less: Net Debt				(335)	(\$0.39)
Net Equity Value				475	\$0.56
Other					
Offshore Wind Vessel: \$650Mn cost				115	\$0.13
Renewable Natural Gas: \$1Bn Investment YE23				570	\$0.67
Total Unregulated					\$4.61
Corporate Parent	Amount (\$Mn)/EPS	Group P/E Multiple	Weight	P/E Adjuster	
Interest					
50% Weight: Deduct Debt	(6,781)		50%		-\$3.99
50% Weight: P/E Multiple on Interest Expense	-\$0.24	14.2x	50%		-\$1.70
Interest Rate Hedges	\$732				\$0.86
Leverage per Share					(\$4.83)
Other Parent					
Other Income/Pension	\$0.49	14.2x	-10.0x -71%		\$2.04
Remaining Parent	(\$0.36)	14.2x	0.0x 0%		(\$5.08)
Total Corporate					(\$7.88)
Total Equity per Share					\$40.00
Current Share Price (01/28/24)					\$45.56
NTM Dividend Yield					5.9%
Total Potential Return					-6.3%

Source: Company Filings, Bloomberg, & BofA Global Research

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We summarize the Dominion valuation below which more clearly shows the low P/E for the pension asset as implied from Dominion's carrying value.

Exhibit 9: Dominion Energy Simplified Sum of the Parts Valuation

The pension asset is on Dominion's balance sheet which provides their GAAP view

Dominion Simplified SOTP	2026E EPS	Implied P/E	Prem or (Disc)	Value \$/Sh	Prior
Dominion Energy Virginia	2.85	12.7x	-11%	\$36	\$37
Gas Distribution				\$0	\$0
Dominion Energy South Carolina	0.63	12.1x	-15%	\$8	\$7
Contracted Assets	0.27	16.8x	19%	\$5	\$5
Corporate & Other - ex-Pension/Other Income	(0.60)	16.6x	17%	-\$10	-\$10
Corporate & Other - Pension/Other Income	0.49	4.2x	-71%	\$2	\$2
Total	3.64	11.1x	-18%	\$40	\$41
Electric Peer Group 2026E	3.66	13.5x			
Total Potential Return inc. Div. Yield	-6.3%	5.9 % Dividend			

Source: Company Filings, Bloomberg, & BofA Global Research

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[Dominion Energy: Raining on the Dominion Holiday Parade: Why we are still Underperform after rally](#)
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[Dominion Energy: Virginia's Rebellion: Why We Are Still Cautious As Business Erodes](#)
[Dominion Energy: Downgrade Feedback & Virginia Deep Dive: Why We Are Still Underperform](#)
[Dominion Energy: Another Reset Ahead Puts Shares in Penalty Box: Downgrade to Underperform](#)

Primary Author

Paul Zimbardo
 Julien Dumoulin-Smith
 Paul Zimbardo
 Paul Zimbardo
 Paul Zimbardo
 Paul Zimbardo
 Paul Zimbardo
 Paul Zimbardo
 Julien Dumoulin-Smith
 Paul Zimbardo
 Paul Zimbardo
 Paul Zimbardo
 Paul Zimbardo
 Paul Zimbardo

Date Published

29 November 2023
 16 October 2023
 06 September 2023
 14 August 2023
 08 August 2023
 11 July 2023
 10 July 2023
 15 May 2023
 06 April 2023
 31 March 2023
 27 February 2023
 13 February 2023
 09 February 2023
 05 December 2022
 09 November 2022

Price objective basis & risk

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.

Analyst Certification

I, Paul Zimbardo, 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
	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
	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
	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
	Hydro One	YH	H CN	Julien Dumoulin-Smith
	MDU Resources Group, Inc.	MDU	MDU US	Julien Dumoulin-Smith
	Nextrackr 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



North America - Utilities and Alt Energy Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
	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
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	ChargePoint Holdings	CHPT	CHPT US	Cameron Lochridge
	Constellation Energy Corp	CEG	CEG US	Paul Zimbardo
	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
	Idacorp	IDA	IDA US	Paul Zimbardo
	Maxon Solar Technologies	MAXN	MAXN US	Julien Dumoulin-Smith
	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
	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
	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
	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	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

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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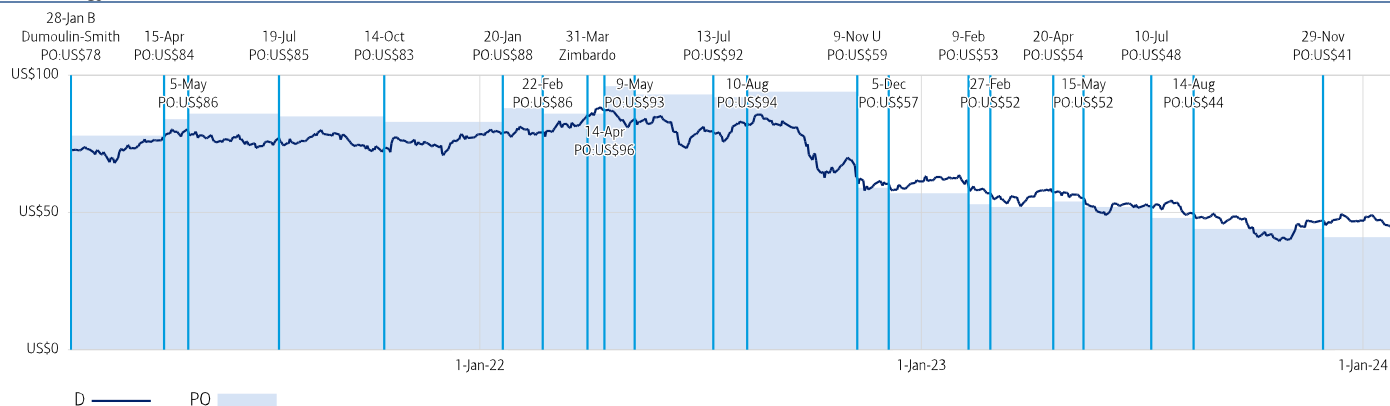
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Disclosures

Important Disclosures

Dominion Energy (D) 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.

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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the report: Dominion Energy.

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