Q1 2017 Earnings Call

Company Participants

- Diane G. Leopold, President & Chief Executive Officer
- Mark F. McGettrick, Chief Financial Officer, Executive Vice President & Director
- Paul D. Koonce, Chief Executive Officer-Dominion Generation Group
- Thomas F. Farrell II, Chairman, President & Chief Executive Officer
- Unverified Participant

Other Participants

- Angie Storozynski, Analyst, Macquarie Capital (USA), Inc.
- Greg Gordon, Analyst, Evercore ISI
- Julien Dumoulin-Smith, Analyst, UBS Securities LLC
- Michael Weinstein, Analyst, Credit Suisse Securities (USA) LLC
- Stephen Calder Byrd, Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to the Dominion Resources and Dominion Midstream Partners First Quarter Earnings Conference Call. At this time, each of your lines is in a listen-only mode. At the conclusion of today's presentation, we will open the floor for questions. Instructions will be given as to the procedure to follow if you would like to ask a question.

I would now like to turn the call over to Tom Hamlin (0:28), Vice President of Investor Relations and Financial Planning, for the Safe Harbor Statement.

Unverified Participant

Good morning and welcome to the first quarter 2017 earnings conference call for Dominion Resources and Dominion Midstream Partners. During this call, we will refer to certain schedules included in this morning's earnings releases and pages from our earnings release kit. Schedules in the earnings release kit are intended to answer the more detailed questions pertaining to operating statistics and accounting. Investor Relations will be available after the call for any clarification of these schedules. If you have not done so, I encourage you to visit the Investor Relations page on our websites, register for email alerts, and view our first quarter earnings documents. Our website addresses are dom.com and dommidstream.com. In addition to the earnings release kit, we have included a slide presentation on our website that will follow this morning's discussion.

And now for the usual cautionary language. The earnings releases and other matters that will be discussed on the call today may contain forward-looking statements and estimates that are subject to various risks and uncertainties. Please refer to our SEC filings including our most recent annual reports on Form 10-K and our quarterly reports on Form 10-Q for a discussion of factors that may cause results to differ from management's projections, forecasts, estimates, and expectations.

Also on this call, we will discuss some measure of our company's performance that differ from those recognized by GAAP. Reconciliation of our non-GAAP measures to the most directly comparable GAAP financial measures we are able to calculate and report are contained in the earnings release kit and Dominion Midstream's press release.

Joining us on the call this morning are our CEO Tom Farrell; our CFO Mark McGettrick; and other members of our management team. Mark will discuss our earnings results for the quarter and Dominion's earnings guidance. Tom will review our operating and regulatory activities and review the progress we have made on our growth plans.

I will now turn the call over to Mark McGettrick.

Mark F. McGettrick {BIO 2066297 <GO>}

Good morning. Dominion Resources reported operating earnings of $0.97 per share for the first quarter of 2017. Mild winter weather including a record mild February reduced earnings for the quarter by $0.08 per share. Excluding the weather impact, operating earnings for the first quarter were $1.05 per share which was near the top of our guidance range. Compared to the midpoint of our guidance, positive factors for the quarter were higher weather normalized electric sales, lower income taxes, and lower operating expenses.

GAAP earnings were $1.01 per share for the first quarter. The principal difference between GAAP and operating earnings for the quarter were gains recorded in our nuclear decommissioning trust. A reconciliation of operating earnings to reported earnings can be found on Schedule 2 of the earnings release kit.

Moving to results by operating segment. Dominion Virginia Power recorded EBITDA of $414 million for the first quarter which was in the middle of its guidance range. The impact of mild weather was offset by higher weather normalized sales and revenues and higher than planned earnings from electric transmission. EBITDA at Dominion Generation was $695 million, also in the middle of its guidance range. Offsetting the weather impact were higher weather normalized sales and revenues, lower operating and maintenance expenses, and higher than expected realized margins from our merchant plants. Dominion Energy produced EBITDA of $582 million, just under the midpoint of its guidance range. Mild weather impacted results from the LDCs and retail. Overall, we're very pleased with the results from our operating segments.

For the first quarter of 2017, Dominion Midstream Partners produced adjusted EBITDA of $75.4 million which was three times the level produced in the first quarter of last year. The acquisition of Questar Pipeline in December of last year was the principal driver of the increase. Distributable cash flow of $44.1 million was more than double the level of last year's first quarter. On April 21, Dominion Midstream's Board of Directors declared a distribution of $0.274 per common unit payable on May 15. This distribution represents a 5% increase over last quarter's payment and is consistent with our 22% per year distribution growth rate plan.

Now moving to treasury activities at Dominion. Cash flow from operating activities were $1.4 billion for the first quarter. We have $5.5 billion of credit facilities. And taking into account cash, short-term investments, and commercial paper outstanding, we ended the quarter with available liquidity of $3.2 billion. For our planned debt financings in 2017, please see slide seven. And for statements of cash flow and liquidity, please see pages 14 and 25 of the earnings release kit.

As we move through 2017, Dominion will continue to see very strong capital growth, with the final year of construction at Cove Point, ongoing construction of the Greensville County Power Station, and the start of construction of the Atlantic Coast Pipeline. However, with the completion of Cove Point and the planned asset drop in Dominion Midstream Partners, the company's cash flow profile will change dramatically, moving from negative to significantly positive. As we have highlighted in the past, we expect to receive $7 billion to $8 billion of cash between 2016 and 2020 from Dominion Midstream Partners, which will be used to reduce Dominion-level debt, increase dividends in excess of 8% per year, invest in new growth projects, and repurchase common stock.

As to hedging, you can find our hedge position on page 27 of the earnings release kit. We have hedged 89% of our expected 2017 production at Millstone. We plan to limit our hedging for 2018 production until we see the outcome of pending legislation in Connecticut. This legislation, which was voted out of committee and will be taken up by the full House and Senate, would allow Millstone to bid into a competitive procurement conducted by Connecticut regulators to secure carbon-free energy for the state's customers. It will potentially cover up to one-half of Millstone's expected output for five years. The legislative session in Connecticut is scheduled to adjourn on June 7. If approved, the competitive auction would likely take place this fall, for power deliveries beginning sometime next year.

Now to earnings guidance at Dominion. Operating earnings for the second quarter of 2017 are expected to be between $0.60 and $0.70 per share, compared to operating earnings of $0.71 per share in the second quarter of 2016. Positive factors for the second quarter compared to last year are a return to normal weather and sales growth at Virginia Power. Negative factors compared to last year are lower earnings from Cove Point due to the roll off of one of our import contracts, lower investment tax credits from solar investments, and lower realized margins at Millstone. Dominion's operating earnings guidance for all of 2017 remains at $3.40 to $3.90 per share.

As we discussed on our last earnings call, we believe operating earnings for 2018 will increase by at least 10% over 2017, driven primarily by earnings from our Cove Point export facility, which is expected to be in service late this year. With the growth we expect across all of our business segments, we expect a 6% to 8% compound average growth rate in earnings off a 2017 base through 2020. Not only is this one of the best growth rates in the industry, but coupled with our stated intent to grow our dividend rate at over 8% annually beginning next year, Dominion provides investors with one of the best total return opportunities in the utility space.

So let me summarize my financial review. First quarter operating earnings were $0.97 per share. Weather normalized earnings were $1.05 per share. Second quarter operating earnings guidance is $0.60 to $0.70 per share. And 2018 earnings are expected to be at least 10% above 2017. And finally, our 2017 to 2020 earnings growth rate should be 6% to 8%.

I will now turn the call over to Tom Farrell.

Thomas F. Farrell II {BIO 1509384 <GO>}

Good morning. Strong operational and safety performance continued at Dominion in 2017. All of our business units either met or exceeded their safety goals in the first quarter. I'm pleased that our employees set an all-time OSHA Recordable Rate of 0.66 last year, and we have a goal of improving on that record this year. Our nuclear fleet continues to operate very well. The net capacity factor of our six units during the first quarter was over 100%.

Now for an update on our growth plans. Construction of the 1,588-megawatt Greensville County Combined Cycle Power Station continues on time and on budget. As of March 31, the $1.3 billion project was 30% complete. All three gas turbines, the gas turbine generators as well as the steam turbine generator and casings have been placed on their foundations. All three heat recovery steam generators have been set with modules loaded. With the major equipment on-site, the risk to the schedule is greatly reduced. Greensville is expected to achieve commercial operations late next year.

We have a number of solar projects under development, and continue to see demand for renewables from our customers including data centers, military installations, and the state government. In total, we have announced 408 megawatts that will go into service this year and expect to add another 200 megawatts by the end of next year, bringing our gross operating portfolio to about 1,800 megawatts, about 700 of which will be in Virginia and North Carolina.

We have begun the process to seek operating license extensions for our four nuclear units in Virginia. Earlier this year, the Virginia General Assembly enacted legislation establishing that the spending on these efforts, which could be up to $4 billion reaching into the next decade, will be recoverable through a separate rate rider. The general assembly also stated the construction of one or more new pumped storage electric generating facilities in Southwest Virginia is in the public interest with cost also recoverable through a rider. We are evaluating a number of options and expect to have sites selected later this year.

We have a number of electric transmission projects in various stages of regulatory approval and construction. $784 million worth of these assets were completed in 2016 including our new system operation center. We plan to invest $800 million in our electric transmission business this year.

Our strategic underground program continues at Dominion Virginia Power. Earlier this year, the Virginia General Assembly confirmed its support for the program and clarified the standards by which distribution lines would be prioritized. We plan to invest up to $175 million per year in this program to reduce the number of outage locations and their duration during major events.

We're seeing improving prospects for electric sales growth in Virginia. New customer connections at Virginia Power in the first quarter were 17% higher than last year. We also connected three new data centers in the first quarter, two more than in the first quarter of last year, and anticipating connecting eight to nine new data centers each year through the end of the decade. In addition, anticipated increased federal spending on defense will provide strong support for the Virginia economy which is the largest recipient of defense dollars in the nation. All of these factors support our expectation that annual electric sales growth of at least 1% will continue.

Progress on our growth plan for Dominion Energy continues as well. Our Cove Point liquefaction project is now 89% complete. Engineering and procurement is essentially finished. Structural steel and large diameter piping installation are coming to completion and the post-installation pipe testing is about 60% complete. Over half of the project systems are now in the commissioning phase, on line with schedule. As we work toward commercial in-service later this year, we will be commissioning the power block this quarter and begin to ramp down the construction-related labor. Last month, FERC approved our request to begin flowing gas to the site in order to begin firing the two auxiliary boilers as a (14:57) step in the power block commissioning. The boiler first test was successfully completed last week.

Third quarter will bring the project to a state of ready for start-up, and construction will reach essentially complete status. We have filed a request with the Department of Energy to export LNG produced during commissioning. Finally, the fourth quarter will provide a period of sustained production of LNG prior to achieving commercial in-service late this year.

We're continuing to work toward the commencement of construction on the Atlantic Coast Pipeline and the related Supply Header project. FERC issued its draft environmental impact statement in December. The report was favorable and concluded that all environmental impacts will be effectively mitigated and that there would be no significant public safety impacts. The public comment period ended in early April. And this week, we filed responses to FERC information requests and all of the comments received during the public comment period. After receiving the final EIS this summer, we expect to receive the final permit from FERC by late summer or early fall. We're in the process of securing all the necessary water crossing and other federal and state permits and expect to complete that process later this year.

ACP and Supply Header have essentially completed the design and engineering, executed the construction contract, and completed over 80% of materials procurement. We remain on track to start construction in the second half of this year and expect completion of the Atlantic Coast Pipeline and the Supply Header in the second half of 2019.

We have an additional six pipeline growth projects underway with $700 million of investment. Five of these projects are expected to be completed this year. We're seeing continued interest in pipeline expansion projects driven by new power, industrial, and LDC load throughout our system. We believe a federal policy that supports infrastructure investments will increase drilling activity and gas demand from industrials and other sectors. Importantly, it will also expedite approvals of gas infrastructure which will, in turn, accelerate investments in needed pipeline expansions. Based on these factors, we expect to secure at least three or four new growth projects this year and significantly more through 2020 throughout our entire footprint, including our traditional Appalachian Basin, our new Western system and our expanding

Eastern footprint which has direct access to the fast-growing Mid-Atlantic and Southeast U.S. markets.

So to summarize, our business has delivered strong operating and safety performance in the first quarter. Construction of the Greensville County project is on time and on budget. Construction of the Cove Point liquefaction project is also on time and on budget. We continue to work toward FERC approval for the Atlantic Coast Pipeline and the Supply Header project. And as we complete our major projects, we will deliver strong earnings and dividend growth starting next year.

As Mark stated earlier, we expect earnings growth of at least 10% in 2018, and a diverse set of positive factors will support continued growth in the years to come. Because of our unique MLP structure, our superior cash flows will also allow a dividend growth rate at Dominion higher than 8% per year for the foreseeable future.

Finally, this will be the last earnings call for Dominion Resources. Following a shareholder approval at next week's annual meeting, the company's name will change to Dominion Energy in recognition of our focus on the evolving energy marketplace and to unify our brand after last year's merger with Questar Corporation. The new logo is shown on slide 17. Our electric and gas distribution companies will unify under the single brand and change their doing business names in Idaho, North Carolina, Ohio, Utah, Virginia, West Virginia, and Wyoming. The names of our operating segments will change as well, to the Power Delivery group, the Power Generation group, and the Gas Infrastructure group. We will begin using these names in our reporting of operating results next quarter. The name of our master limited partnership will change to Dominion Energy Midstream Partners. The ticker symbols for both companies remain the same.

Our company and our employees are proud of the work we've done in delivering energy for 119 years, and of the reputation we have built through reliable and affordable service.

With that, we will be happy to take your questions.

Q&A

Operator

At this time, we will open the floor for questions. And the first question will come from Julien Dumoulin-Smith with UBS. Please go ahead.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Hey. Good morning. Can you hear me?

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Good morning, Julien.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Excellent. There's a little bit of background noise here I'm hearing. So first question, if you can. Millstone's obviously garnered a good amount of attention. I wanted to ask it in a, perhaps, a little bit of a differentiated manner. Public Service has talked about their nuclear portfolio as being principally framed around the decision to deploy incremental capital. How do you guys think about Millstone, not just in terms of earnings and cash contribution, but more importantly, in terms of your willingness to continue to contribute capital to that asset and whether it's earning its "cost of capital" specifically?

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Julien, we're nearing the end of the Connecticut Legislative Session, as you know. They're scheduled to adjourn at the end, I guess, of the first week of June, June 7. Occasionally, that carries on a little bit as they finish up their budget negotiations. We've been in touch with folks in Connecticut. We're keeping keep close contact with it. We've said all that we're going to say about Millstone at this time. But there's no question that continued support of Millstone is very important for us to be able to make continued improvements to that facility, look at potential relicensing in the future years, as we are in Virginia. So it's an important outcome for us, and we're paying very close attention to it.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Got it. Excellent. A second, little bit of a detail. Obviously, you've expanded your solar portfolio over the last year pretty dramatically. I'd be curious if you're thinking about the continued ownership of these solar assets after or throughout the ITC recapture period, as that winds down. Have you ever thought about potentially rethinking your ownership through this ITC period?

A - Thomas F. Farrell II {BIO 1509384 <GO>}

I think the answer is a complicated answer to a very straightforward question, I think, because partly, it depends on what assets you're talking about. The assets that we're developing through our regulating customers here in Virginia and North Carolina, we have full intention to continue to own those. In fact, the way some of them are structured that are now under contract, we will own in the future once (22:41) certain period of time. And as far as harvesting part of the portfolio that's a little bit older, I'll let Mark answer that part of the question.

A - Mark F. McGettrick {BIO 2066297 <GO>}

Yeah. Julien, we kind of guided everybody a couple of years ago on what our direction would be on our long-term contracted assets outside of our footprint here in Virginia and North Carolina when we sold down a third of a number of solar facilities, and we're still able to utilize the ITC. So once that window is over, which is typically five years, we'll look at the economics around that. And if it makes more sense for us to go ahead and sell those assets and recycle that capital into higher return businesses, we will look at that.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Got it. Lastly, I suppose, if I could expand on the utility side of the business just very briefly. You all have been emphasizing growth on that side of the business of late. Can you elaborate a little bit on the potential avenues for future growth and the rider treatment therein? I suppose of late, you all have been emphasizing the repowering investments on the nuclear side. Are there any other such mechanisms and riders we should be paying attention to, as you think about the next wave of VEPCO reinvestments?

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Well you have the existing riders that have been around since 2007. For example, the GENCO riders like Greensville County. There was a clarification of the law to make sure that very significant investments that may be necessary to extend the lives of our North Anna and Surry Power Stations to 80 years will be recoverable through riders. We have our undergrounding distribution or undergrounding rider that covers 4,000 miles. Now we have 56,000 miles of distribution lines in Virginia but about 4,000 have a higher likelihood of extended outages when we get significant storms because of the topography or the trees that are in the neighborhoods or whatever. So we've been working on those.

The new one. I'm not sure, folks, on the fact that we actually own 60% of and operate 100% of the world's largest pumped storage facility in Virginia at our Bath County Power Station. It's the closest thing to a real battery that can work with renewables of any scale. We've been looking in the South Western part of our state that could use continued economic development, and those will be subject to riders as well. So and then if you're continuing to operate a coal facility and you need expenses around environmental spending to keep that plant operated, for example, coal ash ponds, remediation, et cetera is also recoverable through a rider.

So there's lots of opportunities and, as we've said, the Virginia economy is beginning to perk up a little bit. New connects were 17% higher in the first quarter and the sales growth is strong. Mark can give you the details on that. The budget that has been agreed to through September includes significantly more dollars for defense spending which many have been asking for in Congress for years now. Mark?

A - Mark F. McGettrick {BIO 2066297 <GO>}

Yeah. Julien, I'll just mention weather normalized sales for a moment. Our lagging 12 months of growth has now exceeds 1% in the state. We had an extremely strong first quarter in terms of growth. Data centers are just an unbelievable growth machine for us where if you look at it they're now about 18% of our commercial load. Tom referenced we're going to build eight or nine, bring them online. I should say we're not going to build them but somebody else would build them, bring them online annually over the rest of the decade. And we're really seeing good signs of strength in the economy. So we're quite bullish on sales growth and construction in the state and we'll see how that works its way out through the rest of the year.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Got it. Last quick detail if I can. On the Supreme Court, the Virginia Supreme Court specifically. If there's an outcome on the rate freeze, just what's the timeline for you all needing to file because, obviously, you'd revert back to this biennial system I presume anyway? So I'll let you respond.

A - Thomas F. Farrell II {BIO 1509384 <GO>}

The case, of course, does not involve Dominion; it involves APCo. Its impacts would likely impact Dominion. We're not going to comment on that since the Supreme Court has it and they'll issue their opinion in the summertime.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Great. Thank you all very much for your patience.

Operator

Thank you. The next question will come from Michael Weinstein with Credit Suisse. Please go ahead with your question.

Q - Michael Weinstein {BIO 6584239 <GO>}

Hi, guys. Could you elaborate a little more on the capital opportunity and some of the additional pipeline spending that you alluded to through the remainder of the decade?

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Diane Leopold runs our newly called Gas Infrastructure group. She can comment more fully on that.

A - Diane G. Leopold {BIO 16365511 <GO>}

Okay. Hello. Yes, we're in negotiations and discussions with local distribution companies, with large-scale industrials, and with power producers and some gas producers also really throughout our region. So in that Appalachian region, we're seeing a lot of industrial load looking to come back. Same again in our Eastern region, in our Carolina area. And then in our Western growth strategy, we're also looking at some of the local distribution companies and industrial demand in that region. So much of it is demand-driven, and we're already in the later stages of negotiations in some smaller projects and expect that to increase as we move towards the end of the decade on some of the larger projects.

Q - Michael Weinstein {BIO 6584239 <GO>}

Is there any, like, dollar figure that you can attach to that in terms of the current CapEx forecast?

A - Thomas F. Farrell II {BIO 1509384 <GO>}

It'll be over $1 billion.

A - Diane G. Leopold {BIO 16365511 <GO>}

Yeah. It's in line with our projections and our growth strategy, and certainly continues to increase as we move to the early part of the next decade.

Q - Michael Weinstein {BIO 6584239 <GO>}

So it's fair to say that it's in the current forecast?

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Yeah. It's part of our overall growth plan that we've been talking about since 2015. As we've said, whenever we've given out these growth plans over the years the later part of the period is – We know where all the gas projects are in the first two, three years, and as we go through the period we start filling up the bucket later in the years. That's what Diane was just speaking about.

Q - Michael Weinstein {BIO 6584239 <GO>}

Got you. And is there any commentary that you can provide on Blue Racer and the status of natural gas liquid processing in the Southern Utica and how that business is progressing?

A - Mark F. McGettrick {BIO 2066297 <GO>}

Michael, this is Mark. It continues to progress but at a slower pace than we thought several years ago. They will have good year-over-year growth from 2016. We're seeing some modest increase in drilling. So the guidance that we gave a quarter ago, between now and 2020, we feel comfortable that Blue Racer will be a contributor to that. But we think it'll certainly be much slower in terms of growth profile than what we thought two or three years ago.

Q - Michael Weinstein {BIO 6584239 <GO>}

Okay. Thank you very much, guys.

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Thank you.

A - Mark F. McGettrick {BIO 2066297 <GO>}

Thank you.

Operator

Thank you for the question. The next question will come from Greg Gordon with Evercore ISI. Please go ahead.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Good morning.

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Good morning, Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

These other guys have been extremely thorough. So I only have one question, but it's in 27 parts. Just kidding.

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Okay. We'll write them down as you go.

Q - Greg Gordon {BIO 1506687 <GO>}

Now that you've been the owner of Questar for some period of time, can you tell us relative to the base plan that you thought you could achieve in terms of the three segments of the business, the LDC, the pipelines, which you – and maybe this is building on the last question a little bit – which you thought were underinvested and lacked focus, and also the regulated E&P business, how do the prospects look for those three segments now that you've got your hands on them for an extended period of time versus your base case in terms of the growth outlook for those businesses?

A - Diane G. Leopold {BIO 16365511 <GO>}

Hi. So this is Diane Leopold again. All the business are performing well and they're in line with expectations. On the distribution side, we're on track to be investing $65 million in pipeline replacements in 2017 as part of our infrastructure replacement program. Customer growth last year was about 1.9%, so in line with what our expectations were. We had a large recontracting, one of our largest contracts, on Questar Pipeline. And we also had some incremental capacity signed with Questar Pipe that was a contract with Questar Gas that will be in service late 2019. So we're continuing to focus on business development there, as well as proactive integrity management on our pipeline and storage facilities.

On the Wexpro side, we had a successful Wexpro II application for inclusion of additional properties into the cost of service framework. So our drilling and development plan is on track to deliver strong cost of service results there. So we're in line with all of our expectations. We're very pleased with it.

Q - Greg Gordon {BIO 1506687 <GO>}

And the growth prospects on the long-haul transmission segment there. One of the sort of upsides that you guys talked about when you looked at this platform was the longer-term trend of gasification in the region, and how you thought that that would ultimately trickle down to more growth opportunities we're seeing. I cover PNM, so I know – I see what they're doing with the San Juan power generation station, for instance. As you look at your longer-term growth plans, is that growth opportunity at Questar already baked in to your aspirations, or would it be incremental?

A - Diane G. Leopold {BIO 16365511 <GO>}

No. That one's really incremental. That was always going to be longer-term anyway. So, a lot of our growth prospects in the nearer-term were not relying on that. Obviously, the Clean Power Plan, we still do believe that, in the future, there will be facilities that are going to move from coal to natural gas. But that's really into the next decade, and will be incremental.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. Thank you.

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Thank you, Greg.

Operator

Thank you for the question. The next question will come from Stephen Byrd with Morgan Stanley. Please go ahead.

Q - Stephen Calder Byrd {BIO 15172739 <GO>}

Hi. Good morning.

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Good morning, Steve.

Q - Stephen Calder Byrd {BIO 15172739 <GO>}

Yeah. So I think most of the topics have been hit on. I just wanted to touch base on solar power and, obviously, you're continuing to grow and deploy more and more capital there. Is there a possibility of a step change upward later in the decade, as solar costs keep dropping, to the point where you might think about making broader resource shifts towards solar, or do you think it's likely just to be more gradual, and there is some sort of a step change coming up that you see?

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Well, as we've mentioned in the past, we're shifting our focus away from these contracted assets, the assets we've been buying out, particularly in the West. I think we got a couple more to do this year. Paul will comment on those. But we're focusing in North Carolina and Virginia, our regulated customer base, and we filed a new integrated resource plan document, and for the first time, solar passed the economic test in any significant amounts and that IRP says you could logically build up to 5,200 megawatts of solar over the next 15 years. Now, as you know, as you build more renewables like that, that comes hand-in-hand with pipelines and gas-fired peakers to support the renewables when they are unable to operate. So, we'll have to see how that all goes over the next few years, but that is becoming a real increasing possibility. Paul, go ahead.

A - Paul D. Koonce {BIO 3892592 <GO>}

Yeah. Thanks, Steve. This is Paul Koonce. Over the last couple of years, 2016, 2017 especially, we have really refocused our effort on meeting customer needs here in Virginia and North Carolina. We have one project that remains under construction out West, in California. It'll go out into service later this year. But all of the projects that we've announced over the last two years have either been in North Carolina or Virginia, really to meet specific customer requirements on the DBP (36:24) system, and I don't see that changing. As Tom mentioned, we filed an integrated resource plan earlier this week, which I think highlighted the cost competitiveness of solar. So it is going to be an increasing part of our mix, but it'll be here in Virginia.

Q - Stephen Calder Byrd {BIO 15172739 <GO>}

That's great. That's all I had. Thank you.

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Thank you.

Operator

Thank you. The next question will come from Angie Storozynski with Macquarie. Please go ahead.

Q - Angie Storozynski {BIO 15115714 <GO>}

Thank you. So I wanted to go back to the load growth that you guys are talking about, strong new connects, and the data centers. So how does it reconcile with PJM's ongoing negative revisions to the load growth projections in the Dominion zone?

A - Mark F. McGettrick {BIO 2066297 <GO>}

Hey, Angie. It's Mark. I think we're going to be stronger than that. And, again, they've identified our region as one of the, if not, the strongest grower in a revised plan. But what we've seen in the last year and what we were expecting in improved military spend in the state we think will drive our growth to at least 1% (37:34) and maybe higher. And I'll let Paul expand on it.

A - Paul D. Koonce {BIO 3892592 <GO>}

Angie, just one important distinction I'd like to point out between PJM's forecast and our own forecast. They characterize solar as a load reducer. So when they look at load growth, they subtract from their load growth the amount of solar generation that comes on your system. So I think that's part of the difference that you see there that requires some investigation.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And just one question on the quarter. So could you quantify the tax benefits? And is this just something that's going to reverse later in the year and what exactly was it related to?

A - Mark F. McGettrick {BIO 2066297 <GO>}

You're referring to the slightly better than guidance tax, not ITC's, right?

Q - Angie Storozynski {BIO 15115714 <GO>}

Yes.

A - Mark F. McGettrick {BIO 2066297 <GO>}

Okay. Yeah. Angie, it was about $0.02 for us, above expectations and they were also around the state and federal tax settlements. We anticipated that that would occur this year, but it occurred a little bit earlier in the year than we had thought. So that will not be incremental at year end.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And then the last question on Millstone. So the guidance of at least 10% year-over-year growth in earnings between 2017 and 2018 does not account for any legislative help in Connecticut to Millstone?

A - Mark F. McGettrick {BIO 2066297 <GO>}

That's right. We said in the last quarter call that we've assumed at that point in time what the market strip was with a CPI type growth through the next several years. So if there's a different bidding approach in Connecticut that would be something that we'd have to factor into guidance.

Q - Angie Storozynski {BIO 15115714 <GO>}

CPI type of growth to forward power prices?

A - Mark F. McGettrick {BIO 2066297 <GO>}

That's what I mentioned on the last quarter's call, that that's what we had on our forward growth rate for Millstone. CPI type increases.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. Thank you.

A - Thomas F. Farrell II {BIO 1509384 <GO>}

Thank you, Angie.

Operator

Thank you. This does conclude this morning's conference call. You may disconnect your lines, and enjoy your day.