Q3 2020 Earnings Call

Company Participants

- James R. Chapman, Executive Vice President, Chief Financial Officer and Treasurer
- Robert M. Blue, President and Chief Executive Officer
- Steven Ridge, Vice President, Investor Relations
- Tom F. Farrell, II, Executive Chairman

Other Participants

- Jeremy Tonet, Analyst, J.P. Morgan
- Michael Weinstein, Analyst, Credit Suisse
- Shar Pourreza, Analyst, Guggenheim Partners
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good morning, and welcome to the Dominion Energy Third 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 for the procedure to follow if you would like to ask a question.

I would now like to turn the conference over to Steven Ridge, Vice President, Investor Relations. Please go ahead.

Steven Ridge {BIO 20475546 <GO>}

Thank you, Casey. Good morning, everyone, and thank you for joining on a very busy earnings day. Earnings materials, including today's prepared remarks, 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 estimates and expectations.

This morning, we will discuss some measures 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, which we can calculate are contained in the earnings release kit. I encourage you to visit our Investor Relations website to review webcast slides, as well as the earnings release kit.

Joining today's call are Tom Farrell, Executive Chairman; Bob Blue, President and Chief Executive Officer; Jim Chapman, Executive Vice President, Chief Financial Officer and Treasurer, and other members of the executive management team.

With that, I will turn the call over to Tom.

Tom F. Farrell {BIO 1509384 <GO>}

Thanks, Steve, and good morning. Excuse me. Earlier this week, we completed the sale of the majority of our Gas Transmission & Storage assets to Berkshire Hathaway. We expect the remaining around 20% of the transaction to close early next year. This is a major milestone in the strategic repositioning of our company, and I wish to thank the nearly 1,900 employees who served our company with great distinction in the safe and reliable operation of these best-in-class assets. I have no doubt that these men and women will continue to serve their customers, which includes Dominion Energy and their communities with the same level of dedication and professionalism. I also wish to thank the team at Berkshire Hathaway, who have been excellent partners throughout the process, who have demonstrated strong commitment to their newly acquired employees and customers. Jim will touch on the financial details of the transaction in his prepared remarks.

We believe that the investment proposition created through Dominion Energy's strategic repositioning is compelling. We are a pure-play, state regulated utility company operating in some of the nation's most attractive states. We offer an industry-leading clean energy profile. In presentations and IRP filings, we have highlighted regulated and long-term contracted capital investment of up to $55 billion over the next 15 years in projects that directly reduce our emissions footprint, including offshore wind, solar, energy storage, nuclear life extension, renewable natural gas and gas delivery system modernization. That is in addition to many billions of dollars we will also invest over the next decade in complementary programs, such as electric transmission, electric grid modernization, strategic undergrounding and renewable enabling quick-start generation.

Our earnings and dividend growth rates, 6.5% and 6%, respectively, are competitive with the highest value companies in our sector. We have a strong balance sheet and a significantly improved business risk profile, and we are focused on transparency and consistency and believe that our shareholders will benefit greatly from the continued execution of our business strategy.

Turning to Virginia. Pending gubernatorial review this week, the Virginia General Assembly special session incorporated financially for our customers that have fallen behind on our utility service payments, in addition to extending the service disconnection moratorium and strengthening flexible repayment plan options, the budget calls for the forgiveness of customer balances that are more than 30 days in arrears as of September 30. That forgiveness, which represents around $125 million, will be appropriately accounted for during the 2021 triannual review process. Bob will provide additional commentary on the impact of COVID in our service territories in a few minutes, but sufficed to say, electric demand levels continue to prove resilient, reflecting the economic strength of our premier regulated jurisdictions.

Turning to the election for a moment, we like everyone else continue to monitor results. We'll wait to see exactly how future policy reflects the final result. But in any case, we are on an unwavering and industry-leading path to net zero emissions, consistent with state level policy priorities. A more sustainable energy future is what our shareholders, customers, communities and employees want, and we intend to deliver.

Finally, we're announcing today several important changes to our Board of Directors. First, following more than 20 years of distinguished service on our Board, including six years as lead Director, John Harris has chosen to retire from the Board effective today. John has been a critical element of our company's success over the years, sharing his diverse experiences as a business community and Board leader to our organization and to me personally as a trusted advisor. I thank him for the outstanding leadership and strategic perspective he has provided during his service, and also for his commitment as he delayed his expected retirement date through much of this year as we navigated some transformational events, including the sale of our Gas Transmission & Storage business and all the -- also the transition to our new CEO, will absolutely be missed.

The Board has chosen as its new new lead Director, Rob Spilman, who will succeed John effective today. Rob who serves as Chairman, President and CEO of Bassett Furniture Industries joined the Board in 2009 and has served as Chair of our Audit Committee since 2014. Like John Harris, Rob is a proven and experienced business leader, community leader and valued and trusted member of our Board. We look forward to working with him in this new capacity. I'm also pleased to announce that Bob Blue who recently succeeded me in the role of President and CEO, obviously, will be joining our Board also effective today, taking the seat vacated by John as a part of our transition plan. We look forward to having his perspective in the Boardroom as both CEO and fellow Board member.

I will now turn the call over to Jim.

James R. Chapman {BIO 19939701 <GO>}

Thank you, Tom. Our third quarter 2020 operating earnings shown on slide four, $1.08 per share, which included a $0.04 help from better than normal weather in our utility service territories. Weather normalized results at $1.04 per share, we're at the top of our guidance range, and for the 19th consecutive quarter, we're at or above the quarterly guidance midpoint. Note that our third quarter and year-to-date GAAP and operating earnings together with comparative periods are adjusted to account for discontinued operations associated with the sale of assets to Berkshire Hathaway Energy.

GAAP earnings for the quarter were $0.41 per share, which includes the impact of a customer credit reinvestment offset for the benefit of customers in Virginia, as well as charges associated with our long-term contracted renewable portfolio outside of our core service territories. We also had a positive impact attributable to net gains on our nuclear decommissioning trust funds. As a reminder, we consistently report such gains and losses on those funds as non-operating. A summary of adjustments between operating and reporting -- reported results is included in Schedule 2 of the earnings release kit.

Turning to our earnings outlook on slide five. As usual, our guidance ranges assume normal weather, variations from which could cause results to be toward the top or the bottom of these ranges. We are initiating fourth quarter 2020 operating earnings guidance with a range of $0.73 to $0.87 per share. As mentioned, this range reflects the impact of recasting operating earnings to exclude discontinued operations.

Consistent with our press release in late September, we now expect our annual weather-normal operating EPS to be above the midpoint, so in the top half of our annual guidance range. This strong anticipated result is partly a function of lower than assumed COVID-related headwinds and partly a function of continued focus on managing controllable costs carefully. We estimate that through the end of September, lower than budgeted sales associated with the impacts of COVID-19 across our electric utility operations have reduced operating income by approximately $0.05 per share, which is lower than our original expectations and thus far has been largely offset with corporate initiatives.

Turning now to slide six, we will, as usual, provide 2021 guidance on our fourth quarter call early in the New Year, but we continue to expect the midpoint of our 2021 guidance range to be between 10% and 11% higher than the midpoint of our 2020 guidance range. We are affirming our long-term annual earnings growth guidance of 6.5% off of 2021 base, as well as annual dividend growth guidance of 6% post 2021. Our focus is on executing our financial plan and extending our track record of meeting or exceeding the midpoint of our guidance.

Turning to slide seven, let me briefly touch on the status of the Gas Transmission & Storage sale. As Tom mentioned, we closed on the first phase, representing over 80% of the transaction value earlier this week. We also took receipt of approximately $1.3 billion of cash in anticipation of the sale of the Questar Pipeline assets, which we expect to complete early next year following HSR clearance. At that time, we will transfer control and the remaining $430 million of Questar Pipeline related indebtedness to Berkshire, bringing the total amount of debt reduction for the transaction to nearly $6 billion.

We've now completed almost $900 million of direct share repurchases in addition to the previously communicated $1.5 billion accelerated share repurchase agreements that will support ongoing stock repurchases into December. With Phase 2 equity proceeds now in hand, we expect to augment our repurchasing activity between now and the end of the year, bringing our total share repurchases to around $3.1 billion, an increase from prior guidance of about $100 million. There are no changes to our existing equity or fixed income issuance guidance, which are replicated from previous materials in the appendix.

Finally, just a reminder that we plan to use our fourth quarter earnings call to provide something of a mini Investor Day style refresh, with supplementary appendix disclosures aimed at providing projected CapEx, rate base and other inputs, which we hope will assist investors in their financial evaluation of our company.

So, to summarize my remarks, we remain focused on extending our track record of delivering financial results that meet or exceed our public commitments. We aim to complete share repurchases of approximately $3.1 billion by year-end. We expect our weather-normal operating earnings per share to be above the midpoint of the range for 2020, and we affirm our long-term earnings and dividend growth guidance, and we look forward to engaging with many of you at next week's EEI Financial Conference.

I'll now turn the call over to Bob.

Robert M. Blue {BIO 16067114 <GO>}

Thank you, Jim, and good morning. Let me begin with an update on the company's safety performance. As shown on slide eight, the record setting performance from the first half of the year continued during the third quarter, and we remain on track to deliver the safest year of operations in the company's history. At the current pace, our annual OSHA recordable rate would be around 40% lower than last year and represent a 79% improvement since 2006.

Turning to the pandemic, I'd like to express our gratitude to the front line workers who continue to help people affected by COVID-19, as well as all those who are engaged in developing vaccines and new therapies. I'm also grateful for our employees, who perform a vital public service by keeping homes, hospitals and businesses energized. We continue to reflect the latest public health guidance in our COVID-19 policies to keep our employees, customers and communities as safe as possible.

The graphs on slide nine depict weather-normalized electric demand since the emergence of COVID-19 relative to the two-year historic weather-normal average. On the left side, demand in the PJM DomZone continues to be very resilient despite the pandemic, largely due to robust residential and data center demand. As shown on the right side, electric demand in South Carolina has not been quite as resilient, so we saw a significant improvement from April lows through the high volume third quarter summer months. As a reminder, impacts from COVID on our gas distribution operations are much more muted, partly as a result of decoupling and other regulatory mechanisms.

Turning to slide 10. We also benefit from operating in states that have proven economically resilient. During the third quarter, we saw continued improvement of utility fundamentals across our largest state. In Virginia, we continue to see strong growth in new customer connections and very strong data center demand growth. Customer growth is up 1.4% year-over-year and year-to-date data center sales were up 19%. In South Carolina, year-over-year customer growth is 2.1% for electric operations and gas customer growth is 3.8%. Gas distribution utilities recorded customer growth of between 1.5% and 3.8% across Ohio, Utah and North Carolina. Unemployment levels in several of our primary states are well below the national average, and have all shown dramatic improvement.

That said, we are mindful of our customers and the difficult time this has been for many of them. As Tom discussed, we have work to assist our customers in addressing the financial challenges they may be facing. COVID impacts remain difficult to predict, so we are reiterating the demand-related earnings sensitivities that we provided on the first quarter call and which can be found in the appendix of today's presentation.

Beyond our day-to-day performance, we're engaged in an enterprise-wide effort consistent with state policies to increase the sustainability of our products and services. Highlights include an updated Sustainability and Corporate Responsibility Report published last month, the submission on our first renewable portfolio standard filing, which describes our plans to comply with the objectives of the Virginia Clean Economy Act, our most recent solar generation filing in Virginia representing nine solar facilities totaling nearly 500 megawatts and the beginning of renewable natural gas production which is significantly carbon-negative from our first Smithfield Foods partnership facility.

Perhaps our most notable efforts are around offshore wind. In 2013, we acquired a 112,000 acre lease 26 miles off the Coast of Virginia. We were the first company to successfully complete the federal permitting process coordinated by BOEM for a wind project in federal waters. That permit covered our 12 megawatt test project, which was successfully energized just weeks ago and is depicted on the cover of today's presentation materials. We continue to be on track to submit our permit application for our 2.6 gigawatt $8 billion full-scale deployment at year-end. And just as a reminder, our existing leasehold acreage will fully support that project. We expect BOEM permitting to take around two years with capital investment to start to ramp up in 2023 and full-scale construction commencing in 2024. We do not expect that recent pronouncements regarding the future federal offshore leasing will have any impact on our plans.

Lastly, let me address the Dominion Energy South Carolina electric rate case. We've been participating in discovery and initial testimony processes. Hearings are scheduled to begin early next year, with the decision in February. We believe our proposal, which equates to less than 1% per year bill increase since the last general rate case fairly reflects the substantial investments we've made in the last eight years or so to connect over 80,000 new customers and achieved the reliable and responsive service that our customers deserve. We look forward to a constructive outcome for all stakeholders.

As you heard Tom describe, we've positioned our company strategically in a way that we believe will provide the greatest long-term value to shareholders, employees and communities. Our focus now is on execution. We are well positioned across our pure-play electric and gas utilities to make investments that grow our company and deliver value for customers and investors.

With that, I'll summarize today's call as shown on slide 12. Our safety performance is on track to set a new company record. We achieved weather-normalized operating earnings that exceeded the midpoint of our guidance range for the 19th consecutive quarter. We affirmed our current and long-term earnings and dividend per share growth guidance. We believe we offer a compelling investment opportunity and we're focused on executing our robust organic growth plan, and we are aggressively pursuing our vision to become the most sustainable energy company in the country.

With that, we're ready to take your questions.

Questions And Answers

Operator

Thank you. And ladies and gentlemen, at this time, we will open the floor for questions. (Operator Instructions) Our first question comes from Shar Pourreza with Guggenheim Partners.

Q - Shar Pourreza

Good morning, guys.

A - Robert M. Blue {BIO 16067114 <GO>}

Good morning, Shar.

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

Good morning.

Q - Shar Pourreza

Just a couple of quick questions here. On just the offshore wind, I think you guys plan to file the COP for the 2.6 gigawatts of offshore wind that you highlight with BOEM later this year, and we've seen some other developers kind of in the Northeast have some delays in the time between filing the COP and receiving the review schedule from BOEM. Wondering, what's given you a sense that you're going to receive a review schedule from BOEM in '22, just to get a little bit of a sense there. I mean, obviously, you guys have some cushion in your construction schedule and how you guide investors, so just curious how we should think about what we're seeing in the -- on the Eastern side with you guys.

A - Robert M. Blue {BIO 16067114 <GO>}

Thanks a lot Shar, this is Bob.

Q - Shar Pourreza

Hi.

A - Robert M. Blue {BIO 16067114 <GO>}

We're keeping an eye on those Northeast projects, obviously, and we're learning from them as they move through permitting. And we also intend to take advantage of our experience with permitting as we described in our opening remarks, the only project currently in federal waters. We're comfortable with our schedule, we'll file as you noted at the end of this year. We expect about two years for BOEM review and that will, we think, be a comfortable timeframe for us to get our construction and our project in service in '26. So, we're very bullish on that commercial project. Look forward to the process with BOEM and getting that project under construction.

Q - Shar Pourreza

Got it. And then, obviously, potentially higher corporate tax rates with the new administration or maybe a new administration, have you guys done sort of any preliminary work assuming like, let's say, an increase to 28% tax rates, for instance, on the whole co or the opco and potential impacts to maybe your ongoing equity needs? I mean, obviously, you're obviously a consolidated taxpayer. And then just any sense on what the potential bill impact could be as we think about the higher corporate tax rate, maybe a question for Jim.

A - James R. Chapman {BIO 19939701 <GO>}

Yeah, Shar. Let me address that. Obviously, as Tom mentioned, we're all watching developments and it's pretty hypothetical at this stage, the election and any follow-on tax reform result. But yeah, we're watching and we're doing some math. Really it's pretty early. It's too early to tell. So, if it happens, tax reform, we -- first of all, we expect that will be addressed across our utility properties in every state in different ways, like it did last time. Some of it just through rider true-ups, like in Virginia and some of our larger LDCs, some of it through regulatory proceedings on that topic, but we are a cash taxpayer currently. It's heavily shielded from -- based on our tax credit positions that we currently pay on a cash basis, 5% or so, cash taxes. So, if the rate went from 21% to 28% as it's proposed, that cash tax rate will go from around 5% to around 7%. So, not a quantum leap.

So, there would be, we assume, some credit metric help there for the forecast period. We don't know enough yet to understand the quantum of that help, so it's a positive. Now, is it enough to impact equity financing plan, which is part of your question, we're not there yet to say that. I would say that in light of our spending program, our investment capital program, our equity financing plan is already pretty modest, and all of it's anticipated to our existing program. So, we're not quite there. We think the tax reform, if it happens, will be a positive, but we don't have the exact math yet to see how positive it would be. On the customer bill, the other part of your question, also hypothetical, doing some rough math. The devil is in the details, but we are seeing -- there are some differences state-to-state, but it probably would be kind of in the range of a 1% to 2% kind of customer bill increase and we prefer that not happen, but it's in that kind of modest range.

Q - Shar Pourreza

Got it. Got it. So, very manageable. And -- very clear cut quarter guys. That's all the questions I had. Thanks.

A - Robert M. Blue {BIO 16067114 <GO>}

Thanks a lot.

A - James R. Chapman {BIO 19939701 <GO>}

Thank you.

Operator

Our next question comes from Steve Fleishman with Wolfe Research.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah. Hi, good morning. I just wanted to follow up, I guess, on the first question regarding the offshore wind, and it seems like in New England the -- there is this -- they agreed to this one-by-one mile configuration and that everyone for the most part agrees with that, except for the fishing community. So, could you maybe just give color on kind of, is that the configuration you're planning to use and do you have any of the same opposition of the kind of fishing community that you've had up in New England?

A - Robert M. Blue {BIO 16067114 <GO>}

Yeah. Thanks, Steve. Fishing issues are different off our Coast than in New England. So, on turbine spacing, we're going to work with the Coast Guard and other stakeholders, shipping lanes in addition to fishing shipping lanes are going to be different for us than they might be in other projects and particularly ones that are several projects that may be strong together, whereas ours does not have that at the moment. So, we'll make sure we work with Coast Guard, other interested parties, but we're confident that we can get spacing that makes sense for our project and is going to work for regulators and other interested parties.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay, that's great. That was it from me. Thank you.

A - Robert M. Blue {BIO 16067114 <GO>}

Thank you.

Operator

We'll take our next question from Jeremy Tonet with J.P. Morgan.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

A - Robert M. Blue {BIO 16067114 <GO>}

Good morning, Jeremy.

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

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Maybe continuing with offshore wind, if that's okay here and just thinking about the construction side a bit, can you talk about what you've learned with the trial project so far and how that might help with your future development, such as navigating the supply chain?

A - Robert M. Blue {BIO 16067114 <GO>}

Yeah, Jeremy. That's a great question. And I think you hit on one of the things that we've learned a great deal about is the supply chain and the importance of the supply chain. We've selected our preferred turbine vendor already and we have a very good understanding I think in ways that maybe we didn't before of how to sequence this project, so you need to make sure that when step 2 is ready to go, that step 1 has been completed, it's -- that's much more crucial maybe on this kind of project than even on some others. Things have to be done sequentially. So, we've learned a great deal about that and we've learned a great deal about the other parties in the industry, it's not an enormous industry. And so, we've had an opportunity to get a lot to know a lot of folks that way. Those kind of relationships are going to be really valuable to us as we move forward with construction of this project. So -- and then finally, back to the permitting side, we've certainly learned about working with them. So, all of those things together I think have helped us out as we move forward with the bigger project.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful. Thanks. And maybe just pivoting to South Carolina here. And as you -- just any thoughts you have as how the first rate case in South Carolina could progress, your first one after acquiring Scana here? And could you just give a sense for how you think the relationships have developed there over time?

A - Robert M. Blue {BIO 16067114 <GO>}

Yeah. We have worked very hard and succeeded in meeting the commitments that we made when we announced this transaction. And I think that credibility is important for us and then we filed a case that was very much down the fairway, solid, well supported case, and we're moving through the process the way you would expect. So, I think the credibility that we seek to establish that we're going to continue to maintain will help us out, and also thinking very carefully about what we were looking for when we filed that case will pay off, I believe.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That makes sense. That's helpful. I'll stop there.

A - Robert M. Blue {BIO 16067114 <GO>}

Thanks, Jeremy.

Operator

Our next question comes from Michael Weinstein with Credit Suisse.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi. Good morning, guys.

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

Good morning.

A - Robert M. Blue {BIO 16067114 <GO>}

Good morning.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hey. Do you think a -- if Biden is elected President, do you think there would be a possibility that the two-year timeframe that BOEM could be shortened or accelerated in some way? And if that happens, would that accelerate the construction process at all or is that just on its own timeline no matter what?

A - Robert M. Blue {BIO 16067114 <GO>}

Well, obviously, with all the caveats about, we don't know who is going to be the next president.

Q - Michael Weinstein {BIO 19894768 <GO>}

Right.

A - Robert M. Blue {BIO 16067114 <GO>}

I think our focus really is we've got a timeframe that we think makes sense, both for permitting and construction. And that's what we're going to stick to. And again, sort of back to where we started, we feel very confident in that schedule. I don't think we're sort of thinking about shifting that around. We have plenty to say grace over with the permitting and construction process for that project.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got you. And is there anything that investors should be aware about as you prepare your first triannual review filing, I think you said last time that you were going to be filing it next year, in the midyear?

A - Robert M. Blue {BIO 16067114 <GO>}

Yeah. So, we've talked about this, we're going to file in March, expect an order in November. It will review the period 2017 to 2020 and we'll know -- we'll have an order at the end of the year, next year, pretty straightforward.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay. Is -- do you see growing data center demand in Virginia as -- I don't know, as that says potentially helping with the filing at this point or is that something that can help offset any other increase in costs, anything else [ph]?

A - Robert M. Blue {BIO 16067114 <GO>}

Yeah. I mean, the strength of our customer base is always helpful, and we're not seeing a lot up in data center demand, it's continuing.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got you. All right, thank you.

A - Robert M. Blue {BIO 16067114 <GO>}

Thank you.

Operator

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