Q4 2022 Earnings Call

Company Participants

- David McFarland, Vice President, Investor Relations
- Robert M. Blue, Chairman, President and Chief Executive Officer
- Steven D. Ridge, Executive Vice President and Chief Financial Officer

Other Participants

- Durgesh Chopra, Evercore ISI Group, Inc.
- Jeremy Tonet, J.P. Morgan
- Ross Fowler, UBS
- Shahriar Pourreza, Guggenheim Securities
- Steve Fleishman, Wolfe Research

Presentation

Operator

Good day, everyone, and welcome to the Dominion Energy Fourth Quarter 2022 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 call over to David McFarland, Vice President, Investor Relations. Please, go ahead.

David McFarland {BIO 20946446 <GO>}

Good morning, and thank you for joining today's call. Earnings materials, including today's prepared remarks, 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 Bob Blue, Chair, President and Chief Executive Officer; Steven Ridge, Senior Vice President, Chief Financial Officer; and Diane Leopold, Executive Vice President, Chief Operating Officer.

I will now turn the call over to Bob.

Robert M. Blue {BIO 16067114 <GO>}

Thank you, David, and good morning, everyone. During 2022, we delivered earnings and dividend growth in line with our guidance; provided safe, reliable and affordable energy while demonstrating careful environmental stewardship; served our customers and invested in our communities; and made meaningful progress on our regulated investment programs focused on decarbonization and resiliency.

I'll begin by highlighting our annual safety performance. As shown on Slide 3, our employee OSHA injury recordable rate continues to compare favorably with the company's long-term historical results as well as national, industry and regional electric utility averages. However, our ultimate goal has been and continues to be that none of our colleagues get hurt ever.

Next on reliability, which our customers consistently indicate as their highest priority. In the past year, customers in our electric service areas in Virginia, South Carolina, and North Carolina had power 99.9% of the time excluding major storms. And it's worth noting that Virginia reached record summer peak demand in August and all-time peak demand in December. As they do time and time again, our colleagues rose to the challenge and kept our system delivering without major or extended interruption during these demanding load conditions. The skill of our team and resiliency of our system were never more evident than during the December winter storm when we also did not experience any major or extended service disruptions.

Finally affordability, our rates continue to be lower than national and regional averages. As we discuss later, we're very focused on ensuring that our customers are not priced out of the significant long-term benefits that will result from our decarbonization and resiliency investment programs.

On that same theme, 2022 was a significant year in terms of advancing our regulated decarbonization and resiliency strategy. In Virginia, the State Corporation Commission approved several rider-eligible investment programs, including our offshore wind project, subsequent license renewals of our four nuclear units, our second clean energy filing of new solar and energy storage projects and Phase 2 of our grid transformation program. Additional rider-eligible investments currently under SEC review include new solar and energy storage projects and our third annual clean energy filing and high-voltage electric transmission necessary to continue to serve growing customer demand and data center load.

In South Carolina, we achieved our second best year ever for service reliability. In December, Moody's upgraded Dominion Energy South Carolina's credit rating, citing evidence of the company's quote improved regulatory and stakeholder relationships.

In our Gas Distribution segment, we invested over $300 million modernizing infrastructure that is safer, more reliable and better for the environment. We completed our LNG peaking supply facility in Utah, and we increased the number of our renewable natural gas projects in operation or under construction to 21. All told, our nuclear units produced about 50 million megawatt hours of low-cost zero-carbon baseload power. That's roughly 40% of our total generation production as a company. Our fleet's performance continues to be exemplary, especially in periods of extreme weather during which our stations provide vital stabilizing support to the grid and price stability in their respective regions. Our power purchase agreement in Connecticut saved customers nearly $300 million.

In summary, the regulated decarbonization and resiliency investment opportunity that we've outlined on previous earnings calls will continue to play a key role in driving the long-term growth of the company for years to come.

Before transitioning to comments on the business review, let me also highlight progress around our sustainability goals. I'm pleased to report that through 2021, we've reduced Scope 1 carbon emissions from our electric operations by 46%, since 2005. And Scope 1 methane emissions from our gas operations by 38% since 2010. Notwithstanding the strong performance, we recognize the need to look holistically at our company's footprint, which is why during 2022 we extended our net zero commitment to include all Scope 2 emissions and the material categories of Scope 3 emissions. These new commitments align with our focus on helping our customers and suppliers decarbonize.

Finally, we increased the diversity of our workforce to 37%, an increase of nearly 4 percentage points since 2019, while also increasing our procurement spend with diverse suppliers to over $1.3 billion, representing 17% of our supplier spin, an increase of 4 percentage points since 2019.

Now let me turn to the top-to-bottom business review. I'm leading the effort with support from the full management team and infrequent consultation with our Board. We're devoting all necessary resources to ensure that we thoroughly and methodically review every aspect of our business. When we announced the review in November, I indicated that we would be guided by the following principles as shown on Slide 5. A commitment to our state-regulated utility profile with an industry-leading investment opportunity focused on decarbonization and resiliency. A commitment to our current dividend, a commitment to our current credit profile, and a commitment to shareholder value enhancement and to transparency, none of those principles have changed.

We are proceeding with pace and purpose. And as a result, we're able to provide additional commentary on how we believe we should optimally position Dominion Energy at the conclusion of the review to create maximum long-term value for our shareholders. First, focus on delivering durable, high-quality and predictable long-term earnings growth profile. We recognize the importance of executing consistently against any earnings guidance offered post-review. Second, we believe it is critical to position our regulated utilities to earn a fair and competitive return on investment. We know that investors have choices about where they can confidently allocate long-term capital.

Third, we know it is our responsibility to constantly look for ways to optimize the efficiency of our operations without losing sight of the absolute necessity of meeting high customer service standards. In recent years, we've driven down cost through improved processes, innovative use of technology and other best practice initiatives. We've included our O&M performance metrics in the appendix of today's materials. As part of the review, we're evaluating what we can additionally do on costs within the context of the significant operational and cost efficiency, we have achieved over the years.

Fourth, we believe that our financial credit metric performance needs strengthening. We want to emerge from the review with the ability over time to consistently meet and exceed our downgrade thresholds even during temporary periods of cost or regulatory pressure. As part of the review, we're analyzing the most efficient sources of capital to fund our growth programs while seeking to minimize any amount of ongoing external equity financing needs.

Finally, we believe it is important to affirm our commitment to the dividend. I'll note here our announcement this morning that the 2023 dividends, subject to Board approval, will be equal to the 2022 dividend. We believe that it is important to achieve potentially over time and without reducing the dividend, a payout ratio consistent with our current 65% ratio.

Since the announcement, we've spoken with hundreds of equity and fixed income investors and received valuable and direct feedback, much of which has affirmed our focus on these priorities. Investors have also understandably been focused on the go-forward earnings potential of the company. Given that the review is still underway, we have and we'll continue to refrain from providing that guidance until the review is complete. I will say that the outcome will be informed by the principles and priorities I just outlined. We will continue to be deliberate in making ourselves available for input from the company's current and prospective capital providers

Let me now turn to address the Virginia legislative session. There is legislation pending that revises our regulatory model. In addition, there is legislation that would, subject to commission approval, provide for a passive equity partner in our offshore wind project. It is too early to predict the outcome of any legislation. We remain engaged with stakeholders in the process.

In terms of timing, as shown on Slide 6, the Virginia General Assembly is scheduled to adjourn on February 25. The Governor then has until March 27 to sign amend or veto legislation that has passed both chambers. In the case that the Governor amends or vetoes a bill, the legislation returns to the General Assembly for what is typically a one-day reconvene session on April 12. At that time, the General Assembly may vote to override a veto or accept or reject amendments proposed by the Governor. The Governor then has approximately 30 days to act on legislation that has been addressed in the reconvene session.

Having a clear and definitive understanding of the future Virginia regulatory construct is a key input for the business review. Therefore, legislation timing will influence the cadence at which we are able to share more details about the business review in the future. Steven will share some additional thoughts on investor communication in his prepared remarks.

I know the business review is of paramount importance to our stakeholders. Let me reiterate my confidence that we're executing a thorough expeditious and comprehensive review with the goal of ensuring that Dominion Energy is best positioned to create significant long-term value for our shareholders, our customers and our employees.

With that, I'll turn it over to Steven to address financial matters before I provide further business updates on the execution of our plan.

Steven D. Ridge {BIO 20475546 <GO>}

Thank you, Bob, and good morning, everyone. Our fourth quarter 2022 operating earnings as shown on Slide 7 were $1.06 per share, which for this quarter represented normal weather in our utility service areas. These results were at the midpoint of our quarterly guidance range. Positive factors as compared to last year were weather, normal course regulated growth, the absence of a Millstone planned outage, absence of last year's COVID deferred O&M and tax timing. Other factors as compared to last year were interest expense and share dilution.

Full year 2022 operating earnings per share were $4.11 per share, slightly above the midpoint of our guidance range for the year. 2022 GAAP results were $1.09 per share. Here, I'd highlight one adjustments which is described in Schedule 2 of the earnings release kit. In connection with the business review, management has reviewed the unregulated solar portfolio that reports to our Contracted Assets segment. These approximately 30 solar facilities representing around 1,000 megawatts operate primarily under long term power purchase agreements with third parties. Consistent with prior commentary, the company no longer intends to invest in unregulated solar projects for purposes of generating investment tax credits or ITCs. As a result, the company impaired the portfolio in the fourth quarter and recognized a non-cash charge of $1.5 billion.

Moving now to guidance on Slide 8. Given the pending business review, we are not providing full year 2023 earnings guidance nor are we refreshing our long-term capital investment plans at this time. For the first quarter 2023, we expect operating earnings to be between $0.97 and $1.12 per share. Last year's first quarter operating earnings were $1.18 and included $0.01 of benefit from weather. Positive year-over-year changes include growth in regulated investment, higher sales and higher Millstone margins. Negative changes include higher interest expense as a result of higher rates as I will touch on more in a moment, lower DEV margins for certain utility customer contracts with market-based rates. Apart from pension and OPEB as a result of 2022 asset performance, higher depreciation, the absence of solar investment tax credits, and O&M and tax timing. And just briefly as relates to pension, I'd note that our pension funded status at year-end was 108%.

Turning to Slide 9, let me address electric sales trends. Weather-normalized sales increased 3.4% in 2022 as compared to 2021. Components of this growth include a slight decline for residential as you'd expect with continued back-to-the-office trend and higher growth for the commercial segment driven by data center customers in Virginia. For 2023, we expect to remain above our long-term demand growth assumption of 1% to 1.5% per year, as Bob will touch on more in a moment.

Briefly on financing. Since our last call, we've bolstered our liquidity at DEI with an opportunistic long-term debt issuance of $850 million late last year and 364 days of term loan facility of $2.5 billion which we closed last month. These financings provide incremental flexibility including to address first quarter maturities which are described in the appendix of today's materials. We'll refresh our financing plans pending the outcome of the business review.

Let me share some color on two macro topics. First, higher interest rates. We maintain a level of floating rate typically short-term debt at our holding company and operating segments primarily to fund working capital as well as more permanent capital needs between long-term fixed-rate issuances. This floating rate portfolio represents around 20% of our total debt or $8 billion. Since this time a year ago, we've seen our borrowing costs on this part of our capital structure increase by about 400 basis points. We will provide an update on rate assumptions, interest expense, hedging strategies and other mitigants when we conclude our business review.

Another macro headwind is fuel costs. We have very clear-cut pass-through mechanisms for fuel costs across all our utilities. We employ prudent hedging and mitigation strategies to keep fuel costs low while ensuring security of supply. In aggregate, as of December 31, we have an under-collected balance of approximately $2.5 billion in fuel costs across the company. We've included a slide in the appendix with these details.

As we've discussed previously, we don't want our customers to miss out on the significant long-term benefits of our decarbonization and resiliency investment programs as a result of temporary cost pressure such as fuel. We will continue proactively working with regulators to employ mitigation measures to keep any increase to customer bills as muted as possible.

Turning now to credit, which Bob highlighted as one of our business review priorities. We continue to target high BBB range credit ratings for our parent company and signal A range ratings for our regulated operating companies. Over the last several years, we've steps to position Dominion Energy as an increasingly pure-play state-regulated utility with a differentiated clean energy transition profile. And as a result. We've improved our business risk profile.

Despite this meaningful qualitative improvement, our Moody's published CFO pre-working capital debt, one of the primary quantitative metrics used to determine our credit rating, has underperformed our downgrade threshold for the last several periods. Moody's has indicated publicly that under the status quo they expect that underperformance to persist, leaving consistently below our downgrade threshold is not a place we want to be. As Bob mentioned, we want to emerge from the review with the ability over time to consistently meet and exceed our downgrade threshold even during temporary periods of cost or regulatory pressure. Achieving and maintaining that will require meaningful credit repair, considering both the size of our balance sheet as well as the substantially elevated regulated capital investment over the next few years.

Finally, as shown on Slide 10, we intend to provide a business review update this spring with final timing to consider the status of the Virginia legislative process. We would expect to use that update to discuss any changes to the Virginia regulatory model as well as next steps as it relates to the business review. That meeting would be followed with an Investor Day in the third quarter that would include a comprehensive update of the business plan.

I will now turn the call back over to Bob.

Robert M. Blue {BIO 16067114 <GO>}

Let me turn to other business updates and execution of our growth program. As I've discussed in previous earnings calls, the strength of our Virginia service area economy supports our robust capital investment programs at DEV. Two recent announcements have confirmed Virginia's economic strength. First, PJM recently published its annual forecast of demand growth. The Dominion zone continues to be the highest growth rate among all zones within PJM, covering 13 states and the District of Columbia. PJM projects the 10-year summer peak load to grow at a 5% annual rate. This growth primarily driven by data center loads, which have been increasing at an unprecedented rate we'll require significant new capital investment.

Second, last month Amazon announced its plans to invest $35 billion by 2040 to establish multiple data center campuses across Virginia. These new campuses will combine expandable capacity to position Amazon for long-term growth in Virginia, and create an estimated 1,000 jobs. Data centers currently represent about 20% of our total sales in Virginia and have provided strong sales growth to date, a trend supported by these two announcements, we certainly expect to continue.

Our work continues to advance projects to bring both new and upgraded infrastructure to enable the continued connection and expansion of data center customers. For example, we filed for a new 500 KV transmission line with the SEC with an expected end service date of late 2025. The submission included around $700 million of capital investment.

Turning to Offshore Wind on Slide 12. In December, the SEC approved the cost-sharing settlement agreement developed in collaboration with key stakeholders, including the Office of the Attorney General and other parties. We're very pleased to be extending our track record of constructive regulatory outcomes.

As relates to the project execution, it's very much on track and on budget. We have continued to work closely with the Bureau of Ocean Energy Management and other stakeholders to support the project's timeline. In particular, we received the draft environmental impact statement, which started the 36-day public comment period, that will close later this month. The draft DEIS was thorough and contain no surprises. Public hearings have already taken place, and we continue to work collaboratively with BOEM and all of the cooperating agencies.

Advanced engineering and design work, which has allowed us to release major equipment for fabrication, and advanced procurement and other pre-construction activities for the onshore scope of work. Project costs, excluding contingency are currently 80% fixed and we continue to expect about 90% of the project costs excluding contingency, will be fixed by the end of the first quarter. We remain on schedule to complete construction of the project by the end of 2026. We expect DEIS record of decision in late October of this year. Slightly later than expected, because of the DEIS timing but still in support of our current project schedule. Next, our Jones Act compliant turbine installation vessel is currently 65% complete. We continue to expect it to be in service for the 2024 turbine installation season.

Turning to other business updates on Slide 14. As part of our ongoing resource planning, Dominion Energy South Carolina is replacing several of our older generation peaking turbines with modern, more efficient units. These peaking units which often operates seasonally during certain times of day when the demand for energy is at its highest, play an important role in our generation fleet with their ability to go from idle to producing energy quickly. Modernizing this equipment will lower fuel costs to customers, proven environmental performance, and provide reliability and efficiency benefits. These important resources are also critical to support the grid as solar continues to be added to our system. Construction activities will begin later this year for two of the facilities, and the all-source RFP for a third facility is on track.

On the regulatory front, we filed our 2023 IRP last month. Our preferred plan continues to be indicative of the potential for accelerated decarbonization and assumes all coal-only units are retired by the end of the decade. We look forward to engaging with all stakeholders on this planning process.

Next is our Gas Distribution business. We continue to see strong support for timely recovery on prudently incurred investment that provides safe, reliable, affordable and increasingly sustainable service including pipeline replacement efforts and expansion of service to rural communities. For example, in December, the Public Service Commission of Utah, approved a general rate increase of $48 million and allowed ROE of 9.6%. In this constructive outcome, they also approved the continuation of the infrastructure replacement tracker programs and the cost related to our natural gas storage project in Utah, Magna LNG, which was placed in service at the end of last year and will be used to meet system reliability for customers gas supply in the Salt Lake City area.

On RNG, we remain one of the largest agriculture-based RNG developers in the country. We have six projects producing negative carbon renewable natural gas and 15 additional projects in various stages of development. We're also reviewing potential tax benefits available to RNG through the Inflation Reduction Act. When we launched this business, we did so on the strength of the underlying project economics and the very robust decarbonization benefit of agricultural renewable natural gas. Those investment criteria have not changed. If the projects are deemed eligible for tax incentives, we would expect to capture that value on behalf of our shareholders.

With that, let me summarize our remarks on Slide 15. Safety remains our top priority as our first core value. We delivered 2022 financial results that were in line with our guidance range. We continue to aggressively execute on our decarbonization and resiliency investment programs to meet our customers' needs while creating jobs and spurring new business growth. Our offshore wind cost-sharing settlement agreement was approved which allows the project to continue moving forward on schedule and on budget. And the top-to-bottom business review is proceeding with pace and purpose. I'm focused on ensuring that Dominion Energy is best positioned to create significant long-term value for our shareholders.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. At this time, we will open the floor for questions. (Operator Instructions) Our first question comes from Shahriar Pourreza with Guggenheim Partners.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, good morning, guys.

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

Good morning, Shahriar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning. So just starting Bob with the business review priorities you kind of discussed in the prepared remarks and you kind of laid out on Slide 5. Specifically, kind of on the dividend comment, can we maybe try to parse through the words here a little more closely? I mean, obviously, we understand that you guys are holding the dividend at the current level for obvious reasons, and that's obviously consistent with your support for the dividend. But I guess what is the language around quote unquote potentially overtime mean, as we think about the payout ratio bounds in the near-term? I guess, what do you mean by potentially? Could this mean a faster or slower trajectory to get to the 60% range. I mean we've received a lot of inbounds on these three words. So any sort of visibility you could provide would probably be a reprieve.

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

Yes. Sure, Shahr. I appreciate that. As we said in our prepared remarks slightly more detailed than on the slide, our current payout ratio is 65% to the extent that that were to go up, our expectation and plan would be to return to 65% without cutting the dividend. That's consistent with what we said when we announced the review.

We're doing a business review right now. So I can't answer exactly what the payout ratio might end up. But if it is above 65%, our expectation is to get it back to 65% without cutting the dividend.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. Okay. I guess we'll wait for additional color there. And then Bob, you took a large impairment on the solar projects. I understand the test was triggered by the decision to not stay on the investment ITC recognition [ph]. But what part of the impairment test did you actually fail?

A - Steven D. Ridge {BIO 20475546 <GO>}

Shahr, hey, it's Steve. I can take that. So just to be specific, this has to do with our contracted assets solar portfolio. And there were really two primary purposes for the development of the portfolio. The first was to develop expertise in developing solar, so we could employ that expertise credibly across our regulated footprint, which is what we're doing right now. So in effect, that task has been completed.

The second was to generate investment tax credits. We believe given the attractiveness of our decarbonization and resiliency capital investment opportunity, the capital we've used in the past to generate those ITCs can be employed elsewhere to greater long-term shareholder older benefit.

So the first sort of gating decision was are we going to continue to invest in that portfolio for purposes of generating ITC, and the answer we've said is no. That led to a subsequent impairment test where we looked at the carrying value or book value when we compared it to a series of discounted and non-discounted cash flows consistent with accounting guidance, and ultimately determined that the fair market value was lower than the carrying value and that led to the impairment.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Got it. Got it. That's helpful. And just really quick lastly from me. Just from a legislative process standpoint, I guess how should we think about the likelihood of slippage into a reconvene session? I mean, put differently, if you had firm clarity on March 27, could we see the schedule accelerate?

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

Shahr, it's Bob. It's way too early to predict what the timing of the Virginia General Assembly, and any action on any particular bill, including ones that relate to us may be. As we laid out in our prepared remarks, General Assembly is scheduled to adjourn on the 25th of February. And then the Governor -- bills go to the Governor at that point or earlier once they've passed. And bills that arrive on the Governor's desk with fewer than seven days left in the legislative session, the governor has 30 days to act on those bills. If he chooses to propose an amendment or veto a bill, then the General Assembly, as you noted, comes back for a one-day reconvene session, and then they address those gubernatorial actions. So, I can't give you any more clarity, because we don't know what the time frame on the General Assembly may be. Once we do know something, that will allow us to address our own schedule.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Terrific, guys. Thank you so much, and I'll jump back in the queue. Appreciate it.

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

Thank you, Shar.

Operator

Thank you. Our next question comes from Steve Fleishman with Wolfe Research.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes. Hi, good morning. Thanks.

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

Good morning, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

Can you hear me okay?

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

Yes.

Q - Steve Fleishman {BIO 1512318 <GO>}

There you go, great. So just first on the credit comment, could you -- you say you're kind of both targeting high BBB, but then also seem to imply kind of targeting above current met -- current thresholds, which I think your ratings are mid-BBB at the parent. So could you just clarify are you targeting the mid-BBB and above that, or are you targeting high-BBB, because that's a big difference?

A - Steven D. Ridge {BIO 20475546 <GO>}

Yes. Hey, Steve, this is Steve. I'll take that one. So on an issuer rating, we're actually high-BBB at two of the three rating agencies. At Moody, we're mid-BBB. Our objective is to maintain those targeted rating categories, and the downgrade thresholds at least at Moody's associated with that is 14% on the down and 17% on the up. As we mentioned in the call script, we intend to meet and exceed that downgrade threshold even in times of temporary pressures from costs like fuel costs and regulatory adjustments. And that has been one of the drivers of our underperformance historically, relative to our downgrade threshold. So we're still targeting high-BBB, it's where we are on two of the three agencies from an issuer rating perspective, and the appropriate downgrade threshold, at least from the Moody's perspective, is 14%.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. So for the senior unsecured rating, which we typically use, that would be mid-BBB?

A - Steven D. Ridge {BIO 20475546 <GO>}

Depending on the specific methodology, but yes.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. So, you're basically targeting the ratings you're currently at, not a higher rating than your current?

A - Steven D. Ridge {BIO 20475546 <GO>}

That's right.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then, on -- just on the payout comment, just to maybe clarify that a little better, trying to know, at this point in the process is purposely probably -- purposely vague. Is it fair to say you're saying that in the likely outcome, your payout ratio will be above the 65% for a period of time? And then you'll obviously get back in target to that?

A - Steven D. Ridge {BIO 20475546 <GO>}

Yes, Steve. It's -- I apologize for not giving you a specific answer. But what we're saying is, to the extent that the payout ratio changes as a result of the review that if they're -- an obvious point, if our EPS changes as a result of the review and the dividend remains constant, as we have said, it will, that changes the payout ratio. And what we're indicating is if there is a change in the payout ratio, we're going to get back to it, but without reducing the dividend. That's the point that we're attempting to make here.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. But that's more still kind of hypothetical or theoretical for now. It's not the likely outcome of --

A - Steven D. Ridge {BIO 20475546 <GO>}

Correct. We're in a business review. And as we have indicated in prior calls and this call as well, we don't yet know what the outcome of that business review will be. So yes, it's hypothetical is a good way of describing it.

Q - Steve Fleishman {BIO 1512318 <GO>}

And then just lastly the timeline the overtime, is there any like timeline for the overtime?

A - Steven D. Ridge {BIO 20475546 <GO>}

Again, we can't set that until we're finished with the review. So, not yet.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. Understood. Thank you.

A - Steven D. Ridge {BIO 20475546 <GO>}

Thanks, Steve.

Operator

Thank you. Our next question comes 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 - Steven D. Ridge {BIO 20475546 <GO>}

Good morning, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Just want to pivot a little bit if I could towards Millstone here, interesting backdrop here. Just wondered if you can provide us updated thoughts with what's the status to state regional discussions around Millstone. How are you thinking about locking in more of this market upside to the asset?

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

Yes. Thanks, Jeremy. As we've talked about before, we believe Millstone is a great asset, and we believe the policymakers in New England are recognizing increasingly its value for them to meet reliability and any chance to meet the kinds of decarbonization targets that they may have.

Our focus is thinking about ways that we can ensure the long-term viability of Millstone, and we're happy to have conversations with policymakers about opportunities to do that. As we noted in our opening comments, the existing Millstone contract has been very good for customers in Connecticut in recent months and over the last year. We see the possibility of being able to take action with policymakers to give us the certainty we would need in order to extend the life of Millstone and have that valuable resource for New England for some time to come. We don't have as yet specific approach to that. But, we're certainly interested in engaging with policymakers on that.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. And then kind of switching gears and realize on [ph] at risk of putting the horse ahead of the cart here, but as (inaudible) potential asset sales, I was just wondering does this sore impairment kind of tip that you might look to sell this asset as part of the business review, and I guess we're out with news out of black hill this morning with regards to their thoughts on LDC sales. And so, was just wondering if you had any thoughts on what could potentially be or what could be prioritizing the sale processes if you chose to do that?

A - Steven D. Ridge {BIO 20475546 <GO>}

Jeremy, I would say that as part of the review, we're looking at each and every one of our assets, and in consistent with the priorities and principles that we've laid out on today's call and supplement to what we provided on third quarter call, that's what we'll inform our ultimate steps as relates to the business review, to the extent that there is changes to business mix, which is again, something we're evaluating as part of review, but no decisions have been made. So we'll look at everything dispassionately to position the company to provide the greatest long-term value to shareholders.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. And just a real quick last one if I could. If you might be able to kind of parse more finally what we might expect on 2Q business review update versus the 3Q Investor Day? Is the 2Q update really just an outcome of the Virginia legislation or potentially more updates on other elements of the plan?

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

Let me do it from the reverse perspective, which is the Investor Day, we intend to provide a comprehensive business and financial update. It will effectively be at the conclusion of the review process. The spring update which is going to coincide with timing around the Virginia legislative session will give us an opportunity to comment on what if any changes occurred during the session that would impact Virginia, where are our perspectives on that, and how that informs the appropriate next steps of the business review.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. I'll leave it there. Thanks.

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

Thanks, Jeremy.

Operator

Thank you. Our next question comes from Durgesh Chopra with Evercore ISI.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning, team. Thanks for taking my question.

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

Good morning, Durgesh.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Good morning, Bob. Just Steve, I think this maybe in your view house. I just wanted some clarification on the impairment. And then how does it impact your base earnings? So I know like that could impact your future earnings if you decide not to invest there, because that's what you're suggesting. But when I look at the Q1 '23 to Q1 2022 bridge on Slide 8, there is a down arrow, because of solar ITC. So I'm just -- is there -- does the impairment impact your ongoing base business earnings?

A - Steven D. Ridge {BIO 20475546 <GO>}

No. So the impairment doesn't change that the revenue we generate under those existing PPAs. The impairment does have a slight impact on the depreciable life, because the -- or the depreciation rather than the depreciable life because the carrying value is now lower than previously assumed.

The bridge is something different. The bridge when we refer to that ITC -- solar ITC, it's effectively the lack of solar ITCs consistent with the comments we've made on this call and previously with the regard to pivoting that capital allocation elsewhere in our business. So it's effectively simply saying that, a year ago, we would have had some solar ITC in earnings, this quarter of this year, we do not have that. So the impairment is a different -- it doesn't have any impact on that bridge.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. So basically, Q1 '23 over Q1 '22 is really lack of new solar ITCs, right?

A - Steven D. Ridge {BIO 20475546 <GO>}

That's right. It's about $0.04.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Thanks. And then just one quick bookkeeping question. The Q2 timeline that you mentioned for the business review update, is that the Q1 call or like, are you going to do another meeting, or 8-K just any thoughts around that?

A - Steven D. Ridge {BIO 20475546 <GO>}

It will depend a little bit on the timing, Durgesh. We do typically have our first quarter call in early May. It may coincide, it may not. That won't keep us from sort of advancing the discussion around the business review when we have the information necessary to actually have that discussion.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Understood. Thanks, guys.

A - Steven D. Ridge {BIO 20475546 <GO>}

Thanks, Durgesh.

Operator

Thank you. Our next question comes from Ross Fowler with UBS.

Q - Ross Fowler {BIO 16864050 <GO>}

Hey, Bob. Hey, Steve. How are you this morning?

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

Hi -- Ross.

Q - Ross Fowler {BIO 16864050 <GO>}

Just a couple of things to clean a couple of things out. But I apologize, the call cutout, if this is already answered. But the cap -- the go-forward CapEx that you have had associated with sort of that competitive solar adjustment, can you sort of scale that for us and sort of the cash that you wouldn't be spending into that going forward?

A - Steven D. Ridge {BIO 20475546 <GO>}

Yes. Ross, that's on the order of about a $800 million.

Q - Ross Fowler {BIO 16864050 <GO>}

Okay. And then sort of a bigger picture question following on to Jeremy's question. And I appreciate the fact that you're in a strategic review at the moment, but just maybe even anecdotally, Bob, as you look at this -- I think Steve made some comments around the need for significant balance sheet repair, and if we're going to get above that 14% -- meaningfully above that 14% FFO to debt ratio, yes, I think given comments -- it's clearly off the table given your comments, but could you maybe prioritize other options even just anecdotally in your mind at this point as to how you sort of get back to that level?

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

Yes. The best priority I could give you is that our objective, as we have already described, is to strengthen the balance sheet with the goal of using the most efficient sources of capital without -- with the ability to minimize external equity needs. Beyond that, Ross, we're doing a review of every line of business. And once we're finished with that, we'll be able to outline the ways that we will go about addressing the balance sheet.

Q - Ross Fowler {BIO 16864050 <GO>}

Okay. I appreciate that, Bob. And then 2023 guidance, I think your comments were that you're just -- you're not going to provide it sort of for the full year given the strategic review. So is that just to expect sort of quarterly guidance going forward as we walk through the year? And can we kind of use Q1 guidance where we're at as sort of a starting point status quo guide post, and then make our own assumptions around where the strategic review lands to sort of get ourselves to a 2023 or 2024 number, or how should we think about that going forward?

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

Ross, I anticipate we'll be providing quarterly guidance as we go through the year. With regard to using our first quarter guidance as a guide, I would just say there's a couple of things. On our third quarter call, we've provided a pathway to our 6.5% growth in 2023 much of that's not changed.

Q - Ross Fowler {BIO 16864050 <GO>}

Right. Got it.

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

There's a couple of changes that you'll -- that have impacted the first quarter. One is, we walked through as much as $0.30 of solar ITCs, we've obviously made a comment about that.

Q - Ross Fowler {BIO 16864050 <GO>}

Right. That's helpful.

A - Steven D. Ridge {BIO 20475546 <GO>}

And it's the lack of the run rate as well as the lack of the incremental as reflected in the first quarter. The other major change -- really the only other big change besides a little bit of tax timing in the first quarter that we wouldn't -- we'd expect to balance out through the remainder of the year, is interest rates, which effectively in the guide we gave on the third quarter call suggested that interest rate is up 2% to 3%, that was a $0.13 to $0.19 hurt or about $0.15 at a midpoint. Those rates have now gone up about 4%, which takes that sort of 15-ish midpoint to more like $0.30. So the combination of the lack of solar plus the incremental headwind with interest rate is what informs the first quarter.

I wouldn't know that over time, we expect that interest rate headwind to ameliorate, as I think most people do unsure exactly what the timing of that will be. But that should be somewhat temporary.

Q - Ross Fowler {BIO 16864050 <GO>}

Okay. Thank you for that. Appreciate it.

Operator

Thank you. That will conclude our question-and-answer session. I'll turn the call back over to management for any additional or closing remarks.

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

Thanks very much. We appreciate it, and we'll talk to you at our next call.

Operator

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