Q3 2016 Earnings Call

Company Participants

- Mark F. McGettrick, Chief Financial Officer, Director & Executive VP
- Thomas E. Hamlin, Vice President, Financial Planning and Investor Relations
- Thomas F. Farrell, Chairman, President & Chief Executive Officer

Other Participants

- Angie Storozynski, Analyst, Macquarie Capital (USA), Inc.
- Jeremy B. Tonet, Analyst, JPMorgan Securities LLC
- Julien Dumoulin-Smith, Analyst, UBS Securities LLC
- Michael Weinstein, Analyst, Credit Suisse
- Praful Mehta, Analyst, Citigroup Global Markets, Inc. (Broker)
- Rose-Lynn Armstrong, Analyst, Barclays Capital, Inc.
- Steve Fleishman, Analyst, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, and welcome to Dominion Resources and Dominion Midstream Partners 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 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, Vice President of Investor Relations and Financial Planning, for the Safe Harbor Statement.

Thomas E. Hamlin {BIO 1506669 <GO>}

Good afternoon and welcome to the third quarter 2016 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've not done so, I encourage you to visit the Investor Relations page on our website, register for email alerts and view our third 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 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 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 afternoon are our CEO, Tom Farrell, our CFO, Mark McGettrick, and other members of our management team. Mark will discuss our earnings results for the third quarter and Dominion's earnings guidance for the fourth quarter. He will also discuss Dominion Midstream's financing of its planned acquisition of Questar pipeline which was priced this morning. 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 afternoon. Dominion Resources' reported operating earnings of $1.14 per share for the current quarter of 2016, finishing well above the top of our guidance range. Positive factors relative to guidance for the quarter were favorable weather, lower operating expenses, and earlier approval of our Questar acquisition and partnership income from one of our large solar projects. Some of the partnership income is timing-related and will reverse in the fourth quarter. Negative factors were an unplanned outage at Millstone and higher major storm restoration cost.

GAAP earnings were $1.10 per share for the third quarter. The principal difference between GAAP and operating earnings were charges related to transaction cost for our merger with Questar. 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, for Dominion Virginia Power, EBITDA for the third quarter was $423 million, which was in the upper half of its guidance range. Favorable weather conditions were partially offset by higher major storm restoration costs.

Dominion Generation produced EBITDA of $921 million in the third quarter, which exceeded the top of its guidance range. Favorable weather was the principal factor in the strong performance, partially offset by an unplanned outage at Millstone.

Third quarter EBITDA for Dominion Energy was $310 million, which was above the top of its guidance range. Lower operating expenses and an earlier-than-planned contribution from

Questar were the principal drivers of the strong results. Overall, we are very pleased with the performance of each of our operating segments.

For the third quarter of 2016, Dominion Midstream Partners produced adjusted EBITDA of $27.9 million, 37% higher than the level produced in the third quarter of last year. Distributable cash flow increased 22% to $24.1 million, which was consistent with management's expectations.

On October 21, Dominion Midstream's Board of Directors declared a distribution of $0.2475 per unit payable on November 15. This distribution represents a 5% increase over last quarter's payment and is consistent with our plan to achieve 22% annual distribution growth for LP units.

Moving to cash flow and treasury activities at Dominion, funds from operations were $3.1 billion for the first nine months of the year. 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 $2.5 billion. For statements on cash flow and liquidity, please see pages 14 and 25 of the Earnings Release Kit.

During the third quarter, we completed a number of financing transactions to support our growth plan and cover the acquisition of Questar. Slide 6 highlights our recent financing activities. We have one public debt financing planned for the remainder of this year at VEPCO. Looking ahead to the fourth quarter, Dominion's operating earnings guidance is $0.90 to $1.05 per share. The midpoint of that range is $0.28 per share above operating earnings of $0.70 per share for the fourth quarter of 2015.

Positive earnings drivers for the quarter compared to last year are a return to normal weather, the absence of a refueling outage at Millstone, lower capacity expenses and the addition of Questar. Negative drivers for the quarter compared to last year include higher financing costs and DD&A. Dominion's operating earnings guidance for the year remains $3.60 to $4.00 per share.

As to hedging, you can find our hedge positions on page 27 of the Earnings Release Kit. As of mid-October, we have hedged 8% of our expected 2017 production at Millstone. We expect to add to our hedges over the next three months and plan to have about 80% of our 2017 production hedged by the end of January.

So, let me summarize my financial review. Operating earnings were $1.14 per share for the third quarter of 2016, which was well above our guidance range. Operating results for Dominion Midstream Partners were in line with management's expectations. And finally, Dominion's operating earnings guidance for the fourth quarter is $0.90 to $1.05 per share and full-year earnings guidance remains $3.60 to $4.00 per share.

I'll now turn the call over to Tom Farrell.

Thomas F. Farrell {BIO 1509384 <GO>}

Good afternoon. Strong operational and safety performance continued in the third quarter. All of our business units are on track to meet their safety goals for the year. We expect to set another company-wide safety record this year. Our nuclear fleet continues to operate well. The net capacity factor of our six units was 93% for the first nine months of the year. The contribution of the Brunswick County Power Station helped our regulated power generation group achieve record net generation.

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. Approximately 480 workers are on site performing civil and structural work. The $1.3 billion project is expected to achieve commercial operations in late 2018. Our two large contracted solar projects, Four Brothers and Three Cedars in Utah, were completed in September on time and on budget. We own 50% of the two projects that have a combined capacity of 530 megawatts and are secured by 20-year power purchase agreements.

We have a number of solar projects under development in the state of Virginia, and continue to see demand for renewables from our customers, including datacenters, military installations and the state government. The 80-megawatt solar facility on Virginia's Eastern Shore is complete and went into the service – went into service over this past weekend. Three other Virginia solar projects totaling 56 megawatts are also expected to be in service by year-end. Earlier this month, we announced a 60-megawatt solar development in North Carolina, secured by 25-year power purchase agreements. This project should also be in service by the end of this year.

We have filed with State Corporation Commission for approval of an additional 20-megawatt solar facility at the site of our Remington power station to be in service next year. In July, we signed a lease with the Department of the Navy to develop an 18-megawatt solar facility at the Oceana Naval Air Station in Virginia. If approved by the State Corporation Commission, this solar facility is expected to be in service by late next year. This will bring our operating solar fleet to 1,200 megawatts by the end of 2017. We are in discussions with multiple parties for further solar development in the future, and we fully expect to exceed our goal of adding 500 megawatts of solar farms in Virginia and North Carolina.

We have a number of electric transmission projects at various stages of regulatory approval and construction. $580 million worth of these facilities have been completed so far this year, including our new systems operation center. We expect to place over $730 million of new transmission assets into service by year-end.

Progress on our growth plan for Dominion Energy continues as well. Our Cove Point Liquefaction project is now 75% complete, with over 2,000 construction workers on site. Our engineering, procurement and construction contractor, IHI/Kiewit, has installed well over half of the 21,500 tons of the structural steel required, and the piping installation is proceeding on plan. All major components have been delivered to the site, and all will be installed on their foundations by year-end.

Our operation staffing plan is also on schedule. The project continues to be on time and on budget for a late 2017 in-service date. We continue to work towards the commencement of construction on the Atlantic Coast Pipeline and the related Supply Header Project. FERC issued its Notice of Schedule on August 12. We expect to receive the Draft EIS in a few weeks and the final EIS in June. We anticipate beginning construction upon receipt of the FERC certificate during the second half of next year.

Surveying and pipeline engineering is nearly complete and will be finished this year. We're finalizing our detailed construction plans, and on September 16, executed the construction contract with Spring Ridge Constructors. We expect completion of the Atlantic Coast Pipeline and Supply Header in the second half of 2019.

In addition to the Atlantic Coast Pipeline and Supply Header, we have 10 pipeline growth projects underway with $1 billion of investment to move 1.5 million cubic feet per day for customers by the end of 2018. On the (13:02) project, with more than 200,000 dekatherms per day of capacity, it was put into service in October. And we have another three projects to come online this year. Our new expansion projects are primarily demand driven, moving gas and to end-use power generators for local distribution companies.

In regulatory matters, hearings were held earlier this month for Dominion's base rate case for our North Carolina service territories, seeking approval of a $51.1 million increase in base rate revenues. A settlement was reached with the staff and a group of investor customers calling for a $34.7 million increase based on a 9.9% return on equity. We will implement the proposed rates subject to refund tomorrow with permanent rates becoming effective January 1 of next year. A decision is expected in December.

Finally, I want to update you on our merger with Questar Corporation. The Public Service Commission of Utah approved the merger on August 23 and the Wyoming Public Service Commission approved it on September 14. We completed the merger two days later. Ron Jibson, Questar's retired Chairman and CEO, has joined Dominion's Board of Directors. Harris Simmons, the former lead Director for Questar has joined the board of Dominion Midstream Partners. We are excited about adding Questar to Dominion's operations and look forward to developing new growth opportunities in the Western states.

So to summarize, our business has delivered strong operating and safety performance in the third quarter. Construction of the Greensville County project is on time and on budget. Construction of the Cove Point Liquefaction project is on time and on budget. We continue to work toward FERC approval for the Atlantic Coast Pipeline and the Supply Header Project. And we are excited about our future opportunities that will come as a result of our merger with Questar.

I will now return the call to Mark for a discussion of our financings at Dominion Midstream Partners.

Mark F. McGettrick {BIO 2066297 <GO>}

Thank you, Tom. We issued press releases this morning announcing the launch and subsequent pricing our Dominion Midstream financing to acquire Questar Pipeline. I wanted to discuss it on this afternoon's call for a number of reasons. First, it represents one of the largest financing transactions by a publicly traded MLP this year. Second, based on the low initial yield for the preferred equity and the modest discount to market for the common units, this financing was the least expensive for an MLP issuer this year. It provides clear evidence of the high level of interest by investors in DM equity.

Third, despite being one of the largest offerings this year, demand for the common equity was significantly oversubscribed, leading us to upsize the offering. Fourth, the successful financing validates our strategic plan for Dominion Midstream Partners which involves accessing capital markets at advantageous terms to fund the acquisition of midstream assets from Dominion that will in turn support a 22% annual distribution growth rate. And finally, this successful financing in low-achieved yields confirm the value accretive proposition underlying the formation of Dominion Midstream two years ago for investors of both D and DM.

As noted in this morning's press releases, Dominion Midstream Partners will acquire 100% interest in Questar Pipeline on or about December 1 for an implied enterprise value of $1.725 billion or about 10.3 times 2016 EBITDA. About $435 million of existing long-term debt will remain in place at Questar Pipeline, leaving net consideration of just about $1.3 billion. As announced this morning, we have priced common unit offering including both an underwritten offering in a private placement totaling some $500 million assuming underwriters exercise the greenshoe option.

Again, I would note that this common unit offering registered is one of the largest MLP unit offerings of the year and at just 2.9% reflects, by far, the smallest discount to any trade of any offering this year.

We have also received commitments from a group of private investors led by Stonepeak Infrastructure Partners for up to $600 million in convertible preferred securities, which was priced together with this morning's offering and which closes in conjunction with the transaction close on December 1.

Among comparable securities offered by MLPs, this preferred security has the lowest ever initial yield of 4.75% and an attractive conversion premium of 15%. It is clear from the interest in DM preferred structure, investors see very high growth potential in DM shares. We very much appreciate the overwhelming interest and participation in this offering from both public and private investors.

At closing, the cash consideration to Dominion provided by these offerings will be used to repay existing Dominion level debt. We will also refinance the existing DM intercompany note with a three-year term note from a group of banks.

As shown on slide 19, including the $1.2 billion of proceeds from this transaction, we expect the MLP to generate about $7 billion to $8 billion in cash for Dominion through 2020, which will be used to reduce holding company debt, increase dividends, invest in new growth projects and repurchase common stock.

We realize the D/DM structure is somewhat unique in the utility space, and investors have been waiting for us to begin to execute our dropdown strategy. We expect that with the success of today's transactions, both D and DM investors will see the clearer long-term growth in value for both shareholders and unit holders.

With that, we'll 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.

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

Hey, good afternoon.

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

Good afternoon.

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

Hey. So, perhaps, first quick question, can you elaborate just a little bit on the Millstone hedging plan from here on out? I just want to make sure if I heard you right; 80% from 8% largely today by early 2017. Is that sort of irrespective of the commodity environment? And perhaps, more importantly, how are you thinking about hedging future years, 2018, 2019 at this point?

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

Julien, it's Mark. The answer to the first part of your question is it's regardless of what the market power price will be between now and the end of January. We committed over many years to investors and the credit agencies that there'll be a clear firm cash flow stream from Millstone as we put guidance out in the current period. So we've always hedged Millstone in the 80%-plus range by the end of the year call, and we plan on doing the same for 2017.

In terms of future periods, we will be very cautious on hedging Millstone for a number of reasons. One is we believe that the current forward strip is dramatically understating the value of the market. And second, as you know, there is a lot of discussion in Connecticut about potential legislation and the ability to Millstone bid into future auctions. We hope that would be cleared up in the first half of next year, and we would want to see what the outcome of that would be before we hedge 2018 and beyond.

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

Got it. Excellent. Just to follow up real quickly – obviously, well done on closing Questar. Just what's the status in terms of future growth opportunities? Can you elaborate just real quickly in terms of where you stand on some of the initial thoughts you'd originally delineated with that transaction?

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

Julien, the more we look, the more opportunities we see. The West – that part of the West is largely powered by coal-fired power plants. Many of them are going to have to close or be converted to natural gas. There's an increasing amount of RPS requirements in states on – particularly on the Western Sea Coast where, as you know, and I think investors know, the more renewables that are built, the more gas-fired peakers are going to be required to deal with the fact that it's intermittent.

So, that's just one potential opportunity that we see in the West. There's a lot of natural gas infrastructure that's going to be required in the future there. Now, it's not on the same scale obviously as the Mid-Atlantic as far as population goes. But starting from the base that we have in the West, we think there's a tremendous amount of opportunity.

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

Got it. But nothing more specific at this point in time?

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

No.

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

Okay. Excellent. Thank you, guys.

Operator

Thank you. Our next question will come...

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

Nothing more after six weeks of ownership, no.

Operator

Thank you. The next question will come from Jonathan Arnold with Deutsche Bank. Please go ahead. Mr. Arnold, please make sure your phone is not on mute, sir. The next question will come from Jeremy Tonet with JPMorgan. Please go ahead.

Q - Jeremy B. Tonet {BIO 15946844 <GO>}

Congratulations on the equity offerings today, especially on the preferred, which effectively look like the same cost of equity as the common when factoring in the IDRs. Given your ability to access far more equity than the majority of your MLP peers out there, I'm just wondering if you can provide us any updated thoughts as far as what you think about opportunistic M&A out there given your ability to access so much equity on attractive terms today.

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

Jeremy, this is Mark. We were very pleased – although we were always confident, as we've stated to investors over the past nine months, based on what we've heard from investors that lack (24:39) liquidity in the DM stock. We knew there'd be a lot of interest. We've been particularly pleased with the convert and interest shown in that by multiple parties, and the very aggressive financing around that. So, I think that just reinforces our view that if we see an asset out there that fits the DM profile that we can fund it within the DM umbrella if we need to, or with D parent support if required. But I think today's results just validate for us that the DM shares are highly valued and will be a great source of future equity financing if we decide to enter the M&A stage (25:20) at all.

Q - Jeremy B. Tonet {BIO 15946844 <GO>}

That makes sense. And then, just one follow-up if I could. There's been some concern in the market with regards to recent developments from the IRS, and just wondering if you might be able to comment there, maybe this alters one mechanism that you guys were looking at for dropdowns, but it seems like your targets over time would be largely unchanged. Is that a fair way to think about things?

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

Yes. Our targets will be unchanged, and I think your reference is that the IRS after this calendar year do not allow certain tax shields that existed prior to that – that MLPs can make themselves available to. But we have a long-term tax planning for each of the years through 2020. We were aware of that potential down the road, and it will not impact either our growth rate or distribution focus going forward. That has been incorporated into our tax planning for quite some time.

Q - Jeremy B. Tonet {BIO 15946844 <GO>}

Great. That's it for me. Thank you.

Operator

Thank you for the question. The next question will come from Steve Fleishman with Wolfe Research. Please go ahead, sir.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah. Hi. Mark, just on – you mentioned this solar that you booked in the quarter, but then some of it will come out in Q4. Could you just explain that a little better?

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

Sure, Steve. This solar involves partnership income from one project, Four Brothers in Utah, and it's complicated partnership accounting. When we put the guidance out – actually, when we put the budget together this year, we thought the contribution will be evenly distributed over a number of quarters, but the final accounting determination required us to book $0.04 in the third quarter and that will roll off $0.02 in the fourth quarter and $0.02 in the first half of next year. So that's a timing issue for the quarter, but for year-end, there's no impact on our guidance at all.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then, can I just have handy the number for the full year of what you're expecting for earnings to be for 2016?

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

And I believe – in terms of ITCs, I think we're looking about $290 million.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then, on the transaction, which is great, you got that done. The – just in terms of thinking about kind of the – so you're selling the asset down, you're getting the IDRs back. I think you're keeping – what percent of DM are you going to own now after this transaction?

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

North of 50% still.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. All right.

Operator

Thank you for the question.

Q - Steve Fleishman {BIO 1512318 <GO>}

Good.

Operator

The next question will come from Rose-Lynn Armstrong with Barclays. Please go ahead.

Q - Rose-Lynn Armstrong

Hi. Can you provide an update on the outlook for the ITC realization in 2017? I think on the last quarter call, you indicated potential for up to $0.30 of ITCs next year.

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

Yes, Rose-Lynn. I would continue to model $0.30 for next year.

Q - Rose-Lynn Armstrong

Okay. And are those from identified projects at this point or still to be announced, still to be determined?

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

Almost all of them are identified. We have a few others that we're still working on. But I would say we're very far down the road in terms of identifying what supports the ITC estimate for 2017.

Q - Rose-Lynn Armstrong

Okay. Thank you.

Operator

Thank you for the question. The next question will come from Angie Storozynski with Maguire – Macquarie, I'm sorry. Please go ahead.

Q - Angie Storozynski {BIO 15115714 <GO>}

Thank you. So, I just want to go back to the 2017 guidance. So, what do we need as far as developments to happen for you to be able to provide 2017 guidance? Are we waiting for some legislative actions in Connecticut? Are we waiting for the start of commercial testing at Cove Point, or are we simply waiting for the annual Analyst Day around, say, February, March timeframe?

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

Angie, for 2017, we almost always give guidance on the year-end call, which is typically at the very end of January, beginning of February. The only thing we're really waiting on for 2017 is what will the actual hedge price be at Millstone. And since we're pretty open at Millstone right now, we hesitate giving any guidance range for 2017 until we're much further down the road on hedging.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And now, the dropdown today to DM, clearly very successful, but is it coming a bit early in a sense – I understand that the funds that you're raising from DM are aimed to de-lever the balance sheet, but are you, in a sense, trying to manage your interest expense for 2017 by accelerating this DM dropdown, or is it simply an opportunistic timing?

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

It's more of the latter. We really believe we have overhang on both these stocks based on an anticipated offering at DM. We also, I think – as I mentioned earlier, people have been waiting for us to validate the structure of D and DM and those advantages and really answer the question, can you access the equity market at DM at a very high level that benefits both DM and D. So, based on that, we elected to go early. We didn't have to do it until the third quarter of next year, but we wanted to get it behind us. It does help us on financing a little bit at D next year, but the principal reason was to validate the model and to show the investor base that DM is a security that is sought after and has huge benefits to DM and D shareholders.

Q - Angie Storozynski {BIO 15115714 <GO>}

And then, the last question on Atlantic Coast Pipeline. So, with the start of construction in, I think you said, second half of 2017, are we basically assuming that you're booking AFUDC from the moment you start construction, and so the impact on earnings of the delay of the start of operations (32:53) simply because you're booking AFUDC earning during construction?

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

I think that's right, Angie. I think that's why you ought to have it in your – in mind.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. Thank you.

Operator

Thank you. The next question will come from Praful Mehta with Citigroup. Please go ahead.

Q - Praful Mehta {BIO 19410175 <GO>}

Thank you. Hi, guys.

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

Good afternoon.

Q - Praful Mehta {BIO 19410175 <GO>}

The first question – hi. Good afternoon. First question was on – you've kind of indicated the $7 billion to $8 billion of cash that you expect Dominion to generate from the MLP through 2020. Just wanted to understand what kind of financing mix you're thinking about at the MLP to kind of fund the growth and kind of pay back Dominion. And secondly, in terms of future ownership, how do you see that ownership level of Dominion stay over this timeframe through 2020?

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

Praful, this is Mark. I think you're going to see it, and today's examples are a good one. You're going to see the financing will be a combination of preferred common units and debt by adding leverage at DM; although, we said many times that we're going to make sure it's investment-grade rated when we decide to rate it, but it'll be a mix of the three. We'll also potentially take back some units as part of that for tax planning purposes.

But again, with the ability today and the market we have today to raise over $1 billion for the first transaction out there, and as the size of DM grows over the next couple of years, we're very optimistic about being able to place the financing.

In terms of ownership, I think you could – should assume that for the next several years our ownership is going to stay in the 50% range, and then over time, toward the end of the decade, start to move down more into the 40% range.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Thank you. And then originally, you were talking about Millstone, and just nuclear in general, you were talking about – thinking about hedging depending on the support you get. Just wanted to get a little bit more color on what you expect in terms of the kind of support, is it similar to a New York ZEC kind of program or what you expect and where in the regulatory approval process it stands right now?

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

Let's go back to – the hedging will happen, as Mark said, regardless of what the price is. We've done that for a long time and we will continue to do it into the future. So everybody knows what expectations we should have for earnings and cash flows.

As far as the Connecticut, the New York example, as I understand New York, is a – basically a tax payer subsidization of two facilities in the northern part of New York without any support going to the Indian Point reactors outside New York City. That's how I understand it. Just from recent trade press, I see similar moves are being followed into Illinois, for example.

Connecticut has gone about it in a different way. They have a RPS standard there and an auction has been established for some years where the LSEs bid – take their – meet their RPS requirements by auctions from renewable suppliers into that RPS auction on an annual basis. The contemplation by the legislature, not the regulators, in Connecticut is to expand that to a clean power standard that would include nuclear which would allow up to approximately 50% of Millstone to be included in that auction. That at this point obviously is still in contemplation by the legislature. There is some momentum behind it. We're following it very closely, but it won't affect 2017. It would affect 2018 and beyond.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Thank you.

Operator

Thank you for your question. The final question will come from Michael Weinstein with Credit Suisse. Please go ahead. Mr. Weinstein, please make sure your phone is not on mute, sir.

Q - Michael Weinstein {BIO 19894768 <GO>}

How about – hello, can you hear me now?

Operator

Yes, sir.

Q - Michael Weinstein {BIO 19894768 <GO>}

Sorry about that. Hi. Congratulations on getting the financing done. What kind of an assumption are you making on the $7 billion to $8 billion cash projection going forward? Considering the price that was received, I guess, for $23.20 for the LP units, and can we assume that it's going to still be a 10 to 11 (37:43) dropdown based on $7 billion to $8 billion?

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

We can't answer that question today. We'll have to see what the market bears and what the conflicts committee is comfortable with. It's a long period of time, but I will say that the remaining dropdowns this decade are principally around the Cove Point export facility which we place a very high value on. So we'll see. We said two years ago if we were to model it, we'd model 11 times. So, this transaction went at 10.3. I think anything between 10 and 11 would be a very realistic data point, but we'll have to see what asset drops and what the market will bear at that time.

Q - Michael Weinstein {BIO 19894768 <GO>}

When do the converts – when do the preferred converts convert over?

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

That's a complicated question. We have certain conversion rights here at Dominion and then there's other conversion rights by the owners. I'll be glad to answer that after the call for you, but it's probably too complex to go into on the call.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay. Got you. Anyway, congratulations. Thank you.

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

Thank you.

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

Thank you.

Operator

Thank you. This does conclude this afternoon's teleconference. You may now disconnect your lines and enjoy your day.