Q2 2021 Earnings Call

Company Participants

- Diane Leopold, Executive Vice President and Chief Operating Officer
- James R. Chapman, Executive Vice President, Chief Financial Officer and Treasurer
- Robert M. Blue, Chairman, President and Chief Executive Officer
- Steven Ridge, Vice President, Investor Relations

Other Participants

- David Peters, Wolfe Research
- Jeremy Tonet, J.P. Morgan
- Paul Zimbardo, Bank of America

Presentation

Operator

Welcome to the Dominion Energy Second Quarter 2021 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 Steven Ridge, Vice President, Investor Relations.

Steven Ridge {BIO 20475546 <GO>}

Thank you, and good morning, everyone. Thanks for joining today's call. 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 discussion of factors that may cause results to differ from management's estimates and expectations.

This morning, we will discuss some measure of our company's performance that differ from those recognized by GAAP. Reconciliation of our non-GAAP measures to the most directly comparable GAAP financial measures, 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; Jim Chapman, Executive Vice President, Chief Financial Officer, and Treasurer; and other members of the executive management team.

I'll now turn the call over to Jim.

James R. Chapman {BIO 19939701 <GO>}

Thank you, Steven, and good morning, everyone. I know there's some competition for utility investors' attention this morning, a couple of competing calls in this time slot, so thank you for joining our call and we promise to keep our call today somewhat brief.

Before I report on our strong quarterly financial results, I'm going to start with a recap of our compelling investment proposition and highlight our focus on the consistent execution of our reposition strategy. We expect to grow earnings per share 6.5% per year, through at least 2025, supported by our $32 billion five-year growth capital plan. As outlined on our fourth quarter call in February, over 80% of that capital investment is emissions reduction enabling and about 70% is wider recovery eligible. We offer a nearly 3.5% yield and expect dividends per share to grow 6% per year, based on target payout ratio of 65%. Taken together, Dominion Energy offers an approximately 10% total return and based on our pure-play, state-regulated utility profile, operating in premier regions of the country, more on that in last 10 minutes. Our industry-leading ESG positioning includes the largest regulated decarbonization investment opportunity in the nation, which, as you'll hear in today's prepared remarks, is steadily transforming from opportunity to reality.

Turning now to earnings, our second quarter 2021 operating earnings, as shown on Slide 4, were $0.76 per share, which include the $0.01 penny hurt from worse than normal weather in our utility service territories. Well, the actual result and weather normalized result of $0.77, we're above the midpoint of our quarterly guidance range. So this is our 22nd consecutive quarter, so 5.5 years now of delivering weather-normal quarterly results that meet or exceed the midpoint of our quarterly guidance range.

I hope that our second quarter and year-to-date GAAP and operating earnings, together with comparative periods, are adjusted to account for discontinued operations including those associated with our gas transmission and storage assets. Second quarter GAAP earnings were $0.33 per share and reflect the mark-to-market impact of economic hedging activities, unrealized changes in the value of our nuclear decommissioning trust fund, the contribution from Questar Pipeline, which will continue to be accounted for as discontinued operations until divested, and other adjustments. A summary of all adjustments, including operating and reported results as usual, included in Schedule 2 of our earnings release kit.

Turning now to guidance on Slide 5. As usual, we're providing a quarterly guidance range, which is designed primarily to account for variations from normal weather. For the third quarter of 2021, we expect operating earnings to be between $0.95 and $1.10 per share. We're affirming our existing full-year and long-term operating earnings and dividend growth guidance as well, no changes here from prior communication. For the first half of the year, weather-normal operating EPS of $1.86 represents approximately half of our full-year guidance midpoint, so we're tracking nicely in line with our expectations.

We'll provide our formal fourth quarter earnings guidance as a typical on our next earnings call, but let me provide some commentary on the implied kVs of our earnings over the second half of the year. While Q3 guidance is roughly in line with weather-normal results from a year ago, we'll see a multitude of small year-over-year helps in Q4, such as normal course regulated rider growth, the impact of the South Carolina electric rate settlement, strengthening sales, modest margin health, including from lockdown, continued expense management and tax timing, when combined, will help us to deliver solid second half results. We continue to be very focused on extending our track record of achieving weather-normal results as least equal to the midpoint of our guidance on both a quarterly and annual basis.

Turning now to a couple of macro items. First, overall electric sales trends. In Virginia, weather normalized sales increased 1.2% year-over-year in the second quarter and 3.2% in South Carolina and both states increased usage from commercial and industrial segments, overcame declines among residential users as the stay-at-home impact of COVID rained. Some context on that. You'll recall that demand in DOM Zone last year was, despite the pandemic, pre-resilient due to robust, residential, and data center demand, so it's not surprising to see South Carolina's relatively higher growth in Q2, given the larger toll COVID had on sales there last year. We're encouraged by the strong return of commercial and industrial volumes in South Carolina in the second quarter, and looking ahead, we expect electric sales growth in our Virginia and South Carolina service territories to continue to a runway of 1% to 1.5% per year, so similar to what we were observing pre-pandemic.

Next, let me discuss what we're seeing around inboard prices. As discussed on last quarter's call, we're continuing to monitor raw material costs and it seems to be the case across a number of industries right now. We're observing higher prices, although we have seen a moderation in the upward pressure over the last few months, especially in steel. Despite these cost pressures, as related to offshore wind in particular, we remain confident in our ability to deliver that project, in line with our previously guided levelized cost of energy range of $80 to $90 per megawatt-hour.

On the solar side, we're seeing, again, what others are seem to be seeing, supplies tight and prices for steel, poly[ph], and glass are up, but our 2021 projects remain on track with most material now already on site. We're beginning to see moderation in pricing and relief from modest shipping constraints, which well below what we expect for our post-2021 projects. So again, we're watching, but no material financial impacts at this time.

Let me address a few additional topics on Slide 6, first, Questar Pipeline. Last month, Dominion Energy and Berkshire Hathaway Energy mutually agreed to terminate our plant sale of Questar Pipeline as a result of ongoing uncertainty associated with the timing and the likelihood of ultimately achieving Hart-Scott-Rodino clearance. A few thoughts here. First, so we obviously felt that the timing of the clearance and closing was the logical outcome, given the facts and circumstances surrounding that transaction. We did build there into the original Berkshire sale contract, the flexibility to easily accommodate a termination, if needed. Second, we are already at a reasonably advanced stage of an alternate competitive sale process for Questar Pipeline with expected closing by the end of this year. Third, its termination has no impact on the sale of the gas transmission storage access to Berkshire, which we successfully completed back in November last year and which represented approximately 80% of the originally announced transaction value. And finally, these are the -- this termination nor the outcome of the ongoing sale process impacts Dominion Energy's existing financial guidance. As mentioned, Questar Pipeline will continue to be accounted for as discontinued operations excluded from the company's calculation of operating earnings.

Briefly, on credit, we've continued to deliberately enhance our qualitative and quantitative credit measures. Last month, we were pleased to see Fitch upgrade Dominion Energy South Carolina's credit rating from DDD-plus to A-minus. Fitch cited both improved regulatory relationships, including the unanimous approval of the general electric rate case settlement, which Bob will discuss in some more detail, as well as good balance sheet management.

So let me turn now to a couple of ESG related topics. In June, we announced the successful syndication of sustainability linked credit facilities totaling $6.9 billion and we very much appreciate the efforts and support of all the banks who worked with us on what we do is a very interesting new type of financing. The $6 billion master credit facility links pricing to achievement of annual renewable electric generation and diversity and inclusion milestones and the $900 million supplemental facility presents the first-of-its-kind structure, where pricing benefits accrue withdrawals related to qualified environmental and social spending programs. So in other words, going forward, if we meet or exceed our quantifiable goals in these areas, our borrowing costs decline, and of course, the opposite is also true. If we fail to meet our goals, we'll pay more. So after this financing, we're very much putting our money where our north[ph] is when it comes to ESG performance and we're looking for more ways to deploy green capital wedges as we execute on our fixed income financing plan during the balance of the year.

In July, we issued an updated and comprehensive climate report, which reflects the task force on climate-related financial disclosures or TCFD methodology. We are just one of six US electric utilities that have pledged formal support for TCFD. As described in the report, which is available on our website, we've modeled several potential pathways to achieve net zero emissions across our electric and gas business, that reflect 1.5-degrees scenarios, and are consistent with the Paris agreement on climate change. The climate report shows we are a leader in both greenhouse gas emission reductions over the last 15 years and in our commitment to transparent progress towards our goal of net zero emissions.

With that, I'll turn the call over to Bob.

Robert M. Blue {BIO 16067114 <GO>}

Thanks, Jim. Good morning, everyone. I'll begin my prepared remarks by commenting on our safety performance. Switching on Slide 7, I'm very pleased that our results of the first two quarters of this year surpassed even our record-setting results from last year. Our safety performance matters immensely to our more than 17,000 employees, to their families, and to the communities we serve, which is why it matters so much to us and why it's our first core value.

Turning to Slide 8, I often describe our pure-play state-regulated strategy is centering around five premiere states, all of which share the philosophy that a common sense approach to energy policy and regulation, that's a priority on safety, reliability, affordability, and increasingly, sustainability. We were pleased that CNBC's list of America's top states for business like Virginia, North Carolina, and Utah, has one, two and three respectively, a podium sweep for three of our five primary jurisdictions, with a fourth major service territory, Ohio, also ranking in the top ten. This is the second consecutive number one ranking for Virginia. Obviously, an assessment of this variety is just one of several possible ways to evaluate state-specific business environments, but we're pleased with the independent confirmation of what we observe everyday working on the ground in all of our regions. We've strategically repositioned our business around the state-regulated utility model in order to offer investors increased stability, which is further enhanced by our concentration in these fast-growing, constructive, and business-friendly states.

Next, I'd like to highlight the outstanding work done across our operating segments by the women and men of Dominion Energy, who exemplify our core values of safety, ethics, excellence, embracing change in one Dominion Energy. At gas distribution, our colleagues have collaborated across our national footprint to share best practices, resulting in a nearly 20% reduction of third-party excavation damage to our underground infrastructure as compared to 2019. Each instance of damage prevention enhances the safety and reliability of our system, while also reducing the emissions profile of our operations.

At Dominion Energy South Carolina, our ability to work in close partnership with state and local officials, combined with our commitment to meet an aggressive timeline for electric and gas service delivery, will key to attracting a new $400 million brewery to the state last year. The facility is expected to create 300 local jobs and is one of the largest breweries built in the United States in the last 25 years. Being on time, however, wasn't good enough for our South Carolina colleagues who safely completed the infrastructure upgrades and installation, ahead of an already ambitious schedule. We take pride in examples like this, that demonstrate how DESC plays a key role in supporting South Carolina's economic and job growth.

And in Virginia, despite several days of near-record peak demand in June, our generation colleagues deliver exceptional performance as evidenced by the absence during those periods of any forced outages across our fleet. Our transmission and distribution team members kept the grid operating flawlessly under demanding load conditions, while also keeping pace with robust residential connects and remarkable data center demand growth, which continues the trend of robust growth over the last several years with no end in sight.

I'll now turn to updates around the execution of our growth plan. The 2.6-gigawatt Coastal Virginia offshore wind project received its notice of intent or NOI from the Bureau of Ocean Energy Management in early July, consistent with the timeline we had previously communicated. The issuance of an NOI formally commence the federal permitting review, which based on our previously disclosed timeline is expected to take about two years.

Key schedule milestones are shown on Slide 10. Later this year, we'll file our CPCN and Rider applications with the Virginia State Corporation Commission. In June, we announced an agreement with Orsted and Eversource, under which, they will charter our Jones-Act compliant wind turbine installation vessel for the construction of two offshore wind farms in the Northeast. The Vessel remains on track for delivery in late 2023 and will be an invaluable resource to DEV as well as to the growing US offshore wind industry.

Turning to Slide 11. The Virginia, Triangle review is currently in discovery phase and the company is providing timely responses to requests for information, all of which, generally conform with what we would reasonably expect during a rate proceeding of this size and complexity. As a reminder, the earnings review applies only to the Virginia base portion of our rate base, which becomes smaller as a percentage of DEV and Dominion Energy during our forecast period.

Virginia rider investments like offshore wind, solar, battery storage, nuclear life extension, and electric transmission, which are outside the scope of the preceding, represent the vast majority of the growth at DEV.

We've provided a summary of our filing position as well as key milestones in the procedural schedule. A few items to reiterate here. First, our filing highlights the compelling value we've provided to customers during the review period of 2017 to 2020. We've delivered safe and reliable service at affordable rates that are well below regional, ready, and national averages, all while taking aggressive steps to accelerate decarbonization by pursuing early retirement of fossil fuel power generation units. Second, at the direction of the general assembly, we've provided over $200 million of customer arrears forgiveness to assist families and businesses in overcoming financial difficulties caused by the pandemic. Third, we've invested over $300 million in CCRO eligible projects, including our offshore wind test project, which is the first operational wind turbines built in Federal waters in the United States. Finally, our filing reports a regulatory return that aligns closely to our authorized ROE, plus 270 basis point color. Inclusive of arrears forgiveness, this financial result warrants neither refund or change to revenues.

Our offshore wind in the Triennial review are understandably areas of focus. We'd be remiss if we didn't also highlight the blocking and tackling we're doing to advance other very material growth investments and their associated regulatory processes for the benefit of our customers, communities, and the environment. Since our last update, we received our fourth consecutive regulatory approval for investments in utility-owned rider recoverable solar projects. We've now surpassed 1,000 megawatts of Dominion Energy owned solar generation in-service in Virginia and there is a lot more to come. In fact, our pipeline of company-owned solar projects in Virginia, under various stages of development, currently totals nearly 4,000 megawatts, which gives us great confidence in our ability to achieve the solar capacity targets setforth in Virginia law and which support our long-term growth capital plans.

In the very near term, about 25 days, to be specific, we'll make our next and largest to-date clean energy submission. We expect the filing to include as many as 1,100 megawatts of utility-owned and PPA solar, roughly consistent with the 65/35 split identified in the Virginia Clean Economy Act. It will also include around 100 megawatts of battery storage, including 70 megawatts of utility-owned projects. Taken together, the filing will represent as much as $1.5 billion of utility-owned and rider-eligible investment, further derisking our growth capital guidance provided on our fourth quarter 2020 earnings call.

Next, the State Corporation Commission approved our inaugural renewable portfolio standard development plan and rider files. This annual accounting is mandated under the VCEA and provide a status update on the company's progress towards mainly both near and long-term requirements under the state's RPS targets. We received commission approval for our regional greenhouse gas initiative or RGGI rider filing. Under state law, Virginia is joined with other RGGI states to promote a marketplace for emissions credits, with the goal of significantly reducing greenhouse gases overtime and this approval allows for timely recovery of our cost of compliance.

Next, we received authorization from the Nuclear Regulatory Commission to extend the life of our two nuclear units at the Surry Power Station for an additional 20 years. These units currently provide around 45% of the state zero carbon generation, and under this authorization, we'll be upgraded to continue providing significant environmental and economic benefits for many years to come. We expect to file for rider cost recovery associated with license renewal capital investment later this year.

And last but not least, progress on our grid transformation plans. Our first phase, covering 2019 to 2021, is well underway and we recently filed our Phase 2 plan with Virginia regulators covering the years 2022 and '23. The second phase includes approximately $669 million in capital investment, which is needed to facilitate and optimize the integration of distributed energy resources, while continuing to address the reality that reliability and security are vital to our company and its customers. We expect the final CPCN order around the end of the year.

Our customers and our policymakers have made it abundantly clear. They want cleaner energy and they want it delivered safely, reliably, and affordably. We're, therefore, very pleased to be executing on that vision on multiple fronts, while extending the track record of constructive regulatory outcomes to the benefit of all stakeholders.

Turning, now to our gas distribution business. We're leading industry and initiatives to reduce the carbon footprint of our essential natural gas distribution services. Our efforts include modifications to our operating and maintenance procedures, systemic pipeline and other aging infrastructure replacement, third-party damage prevention, piloting applications for hydrogen blending, producing and promoting the use of carbon beneficial renewable natural gas, and offering innovative customer programs.

For example, in Utah, we're seeking approval for a program that would enable customers to purchase voluntary carbon offsets. For around $5 per month on a typical residential bill, customers that opt into the program will offset the carbon impact of their gas distribution use. This program which, like our existing GreenTherm program, allows customers to make choices about how to manage and lower their individual carbon profiles, is just one way we're re-imagining how gas distribution service intersects with an increasingly sustainable energy future.

Along those lines, our hydrogen blending pilot in Utah is performing in line with expectations and we're in the planning stages of expanding the pilot to test communities. We filed for similar blending pilot in North Carolina and are evaluating appropriate next steps for blending in our Ohio system. And as it relates to our already industry-leading renewable natural gas platform, we're pleased to announce an expansion of our strategic alliance with Vanguard Renewables.

As a result, we expect to grow our dairy RNG portfolio from six projects in five states to 22 projects in seven states through the second half of the decade and enhance our development pipeline with specific projects towards our aspirational goal of investing up to $2 billion by 2035. Our current pipeline of projects will result in an estimated annual reduction of $5.5 million metric tons of CO2e, which is equivalent to removing 1.2 million cars from the road.

Turning now to South Carolina. On July 21, the South Carolina Public Service Commission, with the support of all parties, unanimously approved the proposed comprehensive settlement in the pending general electric rate case. We appreciate the collaborative approach among the parties over the last six months, which allowed us to produce this agreement that provides significant customer benefits, as shown on Slide 14, supports our ability to continue providing safe, reliable, affordable, and increasingly sustainable energy, and aligns with our existing consolidated financial earnings guidance. Further, the approval allows all parties to turn the page and focus on South Carolina's bright energy future.

It's also worth noting that the commission also recently approved our modified IRP, which favors a plan that would result in the retirement of all coal-fired generation in our South Carolina system by the end of the decade. While the IRP is an informational filing and does not provide approval or disapproval for any specific capital project, we look forward to continuing to work with stakeholders, including the commission, to drive towards an increasingly low carbon future.

Before I summarize these prepared remarks and open the line for your questions, I'd like to recognize three interrelated organizational changes we announced yesterday that will affect our team and our investor relations efforts. First, Senior Vice President, Craig Wagstaff, who has provided over 10 years of exemplary leadership for our gas utility operations in Utah, Idaho, and Wyoming, will be retiring early next year, and I can say definitively on behalf of all of our colleagues, he will be sorely missed. Craig joined Questar Corp in 1984 and we have benefited greatly from his contributions since the Dominion Energy-Questar merger in 2016. Best wishes to Craig and his family on his retirement.

With that, Steven Ridge, our current Vice President of Investor Relations, to relocate the Salt Lake City, and effective October 1, assume the role of Vice President and General Manager for our Western Natural Gas Distribution operations. Steven has been a valuable member of our IR efforts over the last nearly four years and I think he has gotten to know most of you pretty well. We have every confidence in his ability to follow Craig's long-standing example of serving our Utah, Wyoming, and Idaho customers and communities well.

And finally, David McFarland, who's been working on our investor relations team since October of last year, will assume responsibility for our IR efforts as Steven transitions into his new role later this year. We congratulate David on this new opportunity. Our investors should expect no change to our aim to provide consistently a high level of responsiveness and accuracy they've grown to expect from our current IR team.

With that, let me summarize our remarks on Slide 15. Our safety performance year-to-date is on track to improve upon last year's record setting achievement. We reported our 22nd consecutive quarterly result and normalized for weather meets or exceeds the midpoint of our guidance range. We affirmed our existing annual and long term earnings guidance and our dividend growth guidance. We'll focus on executing across project construction and achieving regulatory outcomes that serve our customers well and we are aggressively pursuing our vision to become the most sustainable regulated energy company in America.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. At this time, we'll open the floor for questions. (Operator Instructions) Our first question comes from Paul Zimbardo with Bank of America.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Hi, good morning.

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

Good morning.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Congratulations, Steve and David on the new role, well deserved.

A - Steven Ridge {BIO 20475546 <GO>}

Thank you.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Just going to ask, can you provide a little more of an update on the conversations you're having around Questar pipe sales process, such as what parties you're talking to and balancing the considerations there? Any additional color you're willing to provide will be appreciated.

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

Yes, sure, Paul. Thanks for joining. Good question. You'll probably appreciate that we need to exercise a little bit of discretion as we're in the middle of process. So more information will come over time. But really high level, we, of course, laid the groundwork for this process with a bunch of preparation prior to the termination of the prior deal. So we're in a pretty good spot.

We are -- as I mentioned in the prepared remarks, we're in the relatively advanced stage of that process, of an auction process. We have, for example, received first round bids. I can say that the participation and the interest level is certainly robust. We have a really good number of highly credible strategic and financial participants there. And beyond that, I'm sorry to say more information will come.

We'll provide updates when we can. But it's very much on track. We're satisfied with the progress. And we, as mentioned, expect that transaction to close late this year. But again, no impact one way or the other on our financial guidance of operating earnings for the year.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay. Also, I wanted to check, given the relatively unique geographic footprint you have being in Virginia, could you discuss some potential opportunities you're focused on from the draft infrastructure bill, threats around some of the support for advanced clean technologies, renewables procurement, things like that? Thank you.

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

Yes. Thanks, Paul. I think it would come as no surprise, we're philosophically very much aligned with the intent of the package. We are focused on rural broadband, EV charging, grid reliability and resiliency. These are all items that are in that package that we're -- we think, make a lot of sense. So we'll obviously be watching as it makes its way through the process, pay attention to how the details get work out -- worked out for appropriations if the bill passes.

A couple of specifics. We're very much in favor of support for R&D on clean technologies like hydrogen, small modular reactors. Those are things that we're focused on. And to the extent that there's broad-based support that allow a commercialization in a way that can be quick and customer beneficial, we think that's very important and certainly something that we support.

And obviously, clean energy manufacturing tax credits, which can help enable U.S. renewable supply, particularly offshore wind and solar, we think, are really valuable. So we're very much engaged in Washington and participating in the process. We like the direction that it's going. Details yet to come, but we think there are some real possibilities there.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Great. Thanks again.

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

Hey, Paul, I wasn't fast enough on the draw there when we started. I failed to mention -- congratulations to you, too, on your new role at, also well deserved. We look forward to working with you in this new context.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Great. Thank you very much. And we really appreciate you not reporting yesterday with everyone else.

Operator

Thank you. Our next question comes from David Peters with Wolfe Research.

Q - David Peters {BIO 20551535 <GO>}

Yes. Good morning, everyone.

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

Good morning.

Q - David Peters {BIO 20551535 <GO>}

First question I just have is on the Trane triannual review in Virginia. I know you have intervenor and staff testimony due next month. But can you maybe just better frame out some expectations heading into that? And also understanding that downside risk is limited in this case just by law, but could you also touch on or remind us some of the tools for the T2 review?

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

Yes, sure. Thanks, David. So on triannual one, look, it's a rate proceeding. And we would expect, as in any rate proceeding, that there's going to be a wide variety of approaches and positions taken by the parties. We'll obviously know more, as you said in the question, early September we'll hear from interveners.

And then a couple of weeks later, we'll hear from the staff. So we'll get a sense then, but it's a rate case covering a 4-year period and then setting rates going forward with the guardrail you mentioned. So I wouldn't be surprised if we see a pretty wide variety of opinions expressed by the parties.

But if you take a step back and just think about the bigger picture here in that case, we have rates below national regional averages. Our performance of our utility is outstanding on the generation and the wire side. And we're reducing our emissions and improving -- reducing our impact on the environment. And so that's a pretty good place to be in a rate case. So we feel very good about that.

As to T2, that's obviously -- we're only a few months into the period that is going to be reviewed for T2. So a lot of details yet to go on the second triennial. But the tools that are in the toolbox, like the customer credit reinvestment offset will be available to us in triennial two.

And then as we pointed out in our prepared remarks, and as we've noted for some time, as we move forward in this plan, the portion of our earnings that come from Virginia base as opposed to the rest of the business and, in Virginia, in particular, the riders, decreases as a percentage of the overall amount. So I think those are important considerations to keep in mind. Obviously, a long ways to go between now and triennial 2. But we've got tools in the toolbox and the percentage of our earnings affected by triennial 2 as compared to the rest of the company will continue to decrease.

Q - David Peters {BIO 20551535 <GO>}

Great. And then maybe just one more. I know you have another filing pending before the Corporation Commission for capital related to the great transformation plan. I think last time in your Phase 1 plan, there were some disallowances for some of the grid-mod related spend. But just could you give us a sense of how you're feeling about your proposal this time around? And has kind of anything changed?

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

So we're feeling very good about our proposal this time around. So last time, bear in mind, I think about $200 million of capital got approved in the filing last time, but some things have changed since that last filing.

The most significant one is that the Virginia Clean Economy Act has passed, and we now have an obligation to seek approval for a substantial amount of renewables over the course of the next 1.5 decades , offshore wind, storage, all of that. And we're going to need to modify the grid in order to make sure that we keep operating in that environment. And that's what we told the commission in that filing. Things like distributed energy resource management system will be incredibly important in this new world that we're moving into.

So the Clean Economy Act is different. That didn't exist when we filed last time. Obviously, we also have the benefit of what we heard from the commission and the order on the last filing, and we can target and we have targeted what we're doing with this most recent filing based on precisely what they told us last time. And then some of this filing is continuation of programs that they did approve last time.

As I mentioned, they approved $200 million of capital in the last filing. So all of those factors lead us to believe that we should have a lot of confidence in that filing. We'll hear, as I said in the opening, around the end of this year, but it's a strong filing. It's important for us as we integrate additional renewables to make sure that we operate the system well.

Q - David Peters {BIO 20551535 <GO>}

Thank you for the color.

Operator

Thank you. Our next question comes from Jeremy Tonet with JPMorgan.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

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

Good morning, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Just wanted to start off with RNG. I know you guys touched on that a bit in the slides here, but I just wanted to see if you can outline the expanded Vanguard alliance a bit more and the factors that went behind this expansion. How does this fit within your overall R&D strategy, I guess, going forward?

A - Diane Leopold {BIO 16365511 <GO>}

Okay. Sure. Good morning, Jeremy. Diane Leopold here. So as Bob outlined in his prepared remarks, we really see RNG as a great way to intersect the essential gas service that we provide in reliable and affordable means to our customers in all of our states with our local gas distribution companies and enhanced sustainability.

So while this is a very early phase of development with renewable natural gas that we have been on the path on for the last several years, we decided in our investments to focus on agricultural RNG, so our swine and our dairy partnerships. And the reason we did that is because we believe that was the most carbon-negative, carbon-beneficial means to capture methane and repurpose that waste stream for a more environmentally friendly use.

So when it comes to the actual investment side of it, we now already have between, both partnerships, one project in service, which happens to be a swine project; and five projects under construction; and several more under construction by year-end.

So as we were looking at our Vanguard partnership, we were really moving forward with development of a lot of prospects at a good rate, and we saw enough interest in the demand for this renewable natural gas, multiyear contracts with customers that are interested in ensuring a source of supply for their sustainability targets.

So we're really looking to develop these projects in the short to medium term for these customers. It could be the transportation market. It could be other local distribution companies. It could be thermal industrial users. And then long term, look to our regulated gas customers to help them lower their carbon footprint.

So we're working with stakeholders and regulators and policymakers towards that goal. And the green therm programs in Utah, and we've already asked for in North Carolina, is just one step in that path to try to move the renewable natural gas towards our regulated customers.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. And maybe I just want to come back to Questar for a moment, if I could. I know you can't comment too much on the sales process here. But just wanted to hear your thoughts the overall environment to sell an asset now. I think oil was approaching negative 37 when you were first marketing it. Now it's about 70. Just wondering any thoughts you could share about the environment to sell a midstream asset now.

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

All right, Jeremy. I'm taking notes during your question. I'm going to distribute that to our bidder universe like where we're going. Well, look, the environment is pretty strong.

As you know, in the last year, equities are up, midstream phase, commodities way up, as you mentioned, Equities are up in part because for true midstream companies, growth is up, so all good. The macro environment is good.

I would mention, just to moderate that a little bit, that Questar pipeline, this asset, as you know, it's awesome. It's an awesome asset. It is, though, a utility like. That's the way we always operated it, what it is now. It earns money through long-term contracts for its capacity. So it's not really as much as a rocket ship up or down as maybe the overall midstream true midstream market. That said though, we're pretty happy with where we're going, robust interest, as mentioned, and we'll come back and give updates as soon as we can.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That makes sense. I'll leave it there. Thank you.

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

Thank you.

Operator

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