Q1 2018 Earnings Call

Company Participants

- James Chapman, Senior Vice President, Mergers & Acquisitions and Treasurer
- Mark McGettrick, Executive Vice President, Chief Financial Officer and Director
- Paul Koonce, Executive Vice President, President and Chief Exective Officer of Power Generation Group
- Thomas Farrell, Chairman, President & Chief Executive Officer of Dominion Energy Midstream GP LLC
- Thomas Hamlin, Vice President of Financial Planning and Investor Relations

Other Participants

- Angieszka Storozynski, Analyst, Macquarie
- Greg Gordon, Analyst, Evercore ISI
- Jeremy Tonet, Analyst, JPMorgan
- Jonathan Arnold, Analyst, Deutsche Bank
- Michael Weinstein, Analyst, Credit Suisse
- Praful Mehta, Analyst, Citigroup
- Shahriar Pourreza, Analyst, Guggenheim Partners
- Stephen Byrd, Analyst, Morgan Stanley
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

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

It is now -- I would like to now turn the call over to Tom Hamlin, Vice President of Investor Relations and Financial Planning for the Safe Harbor statement.

Thomas Hamlin {BIO 1506669 <GO>}

Good morning. And welcome to the first quarter 2018 earnings conference call for Dominion Energy and Dominion Energy 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 e-mail alerts and view our first quarter earnings documents. Our website addresses are dominionenergy.com and dominionenergymidstream.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 report 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 that we are able to calculate and report are contained in the Earnings Release Kit and Dominion Energy Midstream Partners press release.

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

I will now turn the call over to Mark McGettrick.

Mark McGettrick {BIO 2066297 <GO>}

Good morning. Dominion Energy reported operating earnings of $1.14 per share for the first quarter of 2018, which was at the top of our guidance range. Positive factors for the quarter relative to our guidance include higher margins from our merchant generation business, farmout transactions, growth in our electric transmission and gas distribution businesses, lower operating expenses and more benefit from tax reform than anticipated.

The principal negative factor for the quarter relative to guidance was about a 1 month delay in the in-service date for Cove Point. GAAP earnings were $0.77 per share for the quarter, the principal differences between GAAP and operating earnings were a $215 million pretax charge for future rate credits to our electric customers in Virginia, pursuant to recently enacted legislation. And a market loss of 43 million pretax on our nuclear decommissioning trust. A reconciliation of operating earnings to reported earnings can be found on Schedule 2 of the Earnings Release Kit.

Moving to results by business segment, our Power Delivery group produced EBITDA of 423 million in the first quarter, which was in the upper half of its guidance range. Lower than expected operating expenses and better results from our electric transmission business, drove the positive results. EBITDA for our Power Generation group was $748 million in the first quarter, which exceeded the top end of its guidance range. Higher margins at our merchant generation business reflecting colder weather in excellent unit availability was the principal positive factor. The Group also had lower than expected operating and maintenance expenses.

Our gas infrastructure group produced EBITDA of $612 million in the first quarter, which was in the lower half of its guidance range. As mentioned earlier, Cove Point exports in-service date was about one month later than was expected at the time we issued guidance and therefore made no contribution to earnings in the first quarter. It was a primary factor in the under-performance. Partially offsetting the impact or the execution of two farmout agreements as well as strong results from our gas distribution operations. Overall, we are pleased with the very strong results from our operating groups.

Dominion Energy Midstream Partners produced adjusted EBITDA of 79.5 million for the first quarter of 2018 compared to $75.4 million produced in the first quarter of 2017. Distributable cash flow was 52.1 million, which was 18% above last year's first quarter. During the first quarter, we secured a $500 million revolving credit facility for Dominion Midstream to replace their prior credit line with the parent company. On April 20, Dominion Energy Midstream's Board of Directors declared a distribution of $0.3340 per common unit payable on May 15. This distribution represents a 5% increase over last quarter's payment. Our coverage ratio remains strong at 1.23 times.

On March 15, FERC made an unexpected announcement that reversed our long-held policy with regard to rate making for natural gas pipelines owned by master limited partnerships. This decision caused the sell off of MLPs, whereby $30 billion of market value was lost over the 10 trading days that followed the announcement. We and others have filed for expedited rehearing of this issue with FERC. We believe it will take years before FERC's policy change has any impact on Dominion Energy Midstream Partners distributable cash flow and any change will be immaterial to earnings at Dominion Energy.

We hope that the MLP market conditions was efficiently improved to enable us to utilize DM to recycle capital investments in Cove Point and the Atlantic Coast Pipeline both of which remain MLP eligible and are not directly impacted by FERC's actions. As long as this issue of FERC is unresolved and pipeline MLPs continue to trade at such depressed levels. We do not believe we can access to capital markets for new equity at DM on reasonable terms. Therefore, absent a material improvement in the MLP capital markets and Dominion Energy Midstream market price, we will not be making the previously planned drop-down of a portion of our investment in Cove Point this year.

Furthermore, we plan to restructure incentive distribution rights at DM prior to our returning to the market for new equity. In the meantime, we will continue to recommend 5% quarterly increases in distributions to the Board of Directors, as long as our coverage remains above one times supported by strong, stable cash flows from the current assets in the partnership.

Moving to treasury activities at Dominion Energy. On our last call, we outlined a number of initiatives we have planned for 2018, which are in support of our balance sheet and credit profile. First, we issued $500 million of new common equity through our aftermarket program in January. Second, we reduced our planned capital expenditures by $1 billion over the next two years. Third, we upsized Dominion's credit facilities to a total of $6 billion and added a $500 million line of credit for Dominion Midstream.

In light of the disruption in the capital markets for MLPs following FERC's policy changes, we have made a number of changes to our financing plans in order to achieve our financial objectives. Recall, we were planing to use the MLP markets to upstream between $7 billion and $8 billion of cash to the parent between 2016 and 2020. The comparison of that original plan and our alternative plan is shown on slide eight.

In the alternative plan, financing at the MLP is being replaced with debt financing at Cove Point. Both proposals are primarily secured by the same cash flows, which were stable 20 year payments from our Cove Point export customers. We expect to complete the debt financing's this year. Earlier this month, we entered into agreements to issue an incremental $1.5 billion of common stock later this year, bringing our total for the year to $2 billion.

With the exception of about 300 million per year that we plan to issue under our normal DRIP program. This completes our planned marketed equity issuance through 2020. Finally, we have targeted some non-core assets for potential sale, including our share of the Blue Racer joint venture. These actions will enable us to achieve our parent company level debt reduction targets two years earlier than planned, while still achieving our earnings growth targets.

Now to earnings guidance at the Dominion Energy. Operating earnings for the second quarter (Technical Difficulty) 2018 are expected to be between $0.70 and $0.80 per share compared to $0.67 per share earned in last year's second quarter. Positive factors for this year relative to the second quarter of 2017 are earnings from Cove Point, the absence of a refueling outage at Millstone, lower tax expense due to tax reform and a return to normal weather.

Negative factors relative to last year are lower store related investment tax credits, higher financing costs and a higher share count. Operating earnings guidance for 2018 is unchanged at $3.80 to $4.25 per share. The midpoint of our range is 10% above the middle of last year's guidance range. Given the strong results for the first quarter, we now expect to produce results that are above the midpoint of our guidance range for the year.

Our earnings growth rate estimate also remains 6% to 8% from 2017 through 2020. So let me summarize my financial review. Operating earnings were $1.14 per share leading at the top our guidance range. These results were driven by strong performance in each of our businesses and a higher benefit than expected from tax reform. We are taking aggressive steps to respond to the depressed MLP financial markets in light of FERC's unexpected policy change. 2018 operating earnings are still expected to be at least 10% above the mid-point of our 2017 operating earnings guidance range consistent with our previous guidance. Our 2017 to 2020 earnings growth rate remains 6% to 8% despite the changes made to our financing plans.

Finally, with regard to our dividend growth rate, we reiterate our intention to increase our dividend 10% in 2018 and 2019. The growth rate in 2020 is expected to be between 6% and 10% depending on the viability of the MLP market at that time.

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

Thomas Farrell {BIO 1509384 <GO>}

Good morning. Our employees record setting safety performance continued through the first quarter of 2018, an all-time low OSHA recordable rate of 0.66 was reached in 2016. Than last year, that record was exceeded by an additional 10% improvement to a new record low of 0.60. For the first quarter of this year, each of our business segments are meaningfully ahead of last year's record setting pace. I'm very proud of our company-wide commitment to industry-leading safety performance.

Our nuclear fleet continues to operate well, the net capacity factor of our six units for the first quarter was 98.5%. On March 31, Dominion Energy's nuclear fleet achieved a new company record, operating for 538 days and counting without an unplanned automatic reactor shutdown. Previous record was 339 days set in 2012. Weather normalized electric sales for the first quarter were up 1.7% over the first quarter of 2017, led by growth in sales to data centers and residential customers. During the quarter, six new data center campuses were connected, three more than last year's first quarter. Over the last 12 months, we've added over 400 megawatts of demand across 16 data centers and expect to continue to see strong growth.

Now for an update on our growth plans. The Cove Point Liquefaction project was declared commercial on April 9. Cove Point is the first export facility to operate on the East Coast of United States, and only the second new LNG facility to be constructed nationwide. Construction began on October 2014 following more than three years of federal, state, local reviews and approvals. At a cost of $4 billion, it is the largest construction project to-date for Dominion Energy, and is actually the largest project ever constructed in the state of Maryland. It has involved more than 10,000 craft workers with the payroll of more than $580 million.

Liquefaction facility has nameplate capacity of 5.25 million tons per annum of LNG equivalent to about 8.3 million gallons per day. All of the export output from Cove Point is fully contracted for 20 years with a joint venture of Sumitomo Corporation and Tokyo Gas and an affiliate of GAIL. Cove Point will generate about $700 million of annual EBITDA to Dominion Energy.

Also during the first quarter, the Charleston expansion project for Dominion Energy and Carolina gas was completed and placed into service. The $125 million project included 60 miles of new natural gas pipeline and a new compressor station to deliver 80,000 dekatherms per day to customers in South Carolina. This is the largest expansion project investment in Carolina gas's history and a third growth project completed since 2015, when Dominion Energy began operations in South Carolina.

On January 19, we began cutting trees along the pipeline route for the Atlantic Coast Pipeline and the related Supply Header project. Despite the late start, we were able to complete tree felling on more than 200 miles of the 600 miles project, which is about 0.75 of our planned miles this year. We've also begun to receive approvals to begin full construction in numerous areas, including several compressor stations and other facilities.

Just this week, FERC granted our request to begin full construction on a section of pipeline in the Supply Header project. We have filed with FERC to request full pipeline construction to begin in West Virginia, and plan to make a similar filing for North Carolina in the near future. A final approval of our erosion and sediment plant by the Virginia DEQ, which we expect in the coming weeks. We will file for notice to proceed for mainline construction in Virginia as well.

The Atlantic Coast Pipeline and Supply Header projects are expected to be in service in the fourth quarter of next year. Construction of the 1,588 megawatt Greensville County combined cycle power station continues on time and on budget. As of March, 31, the $1.3 billion project was 84% complete. All major equipment is set and flushing of the combustion turbines is nearly complete. The primary natural gas line and metering and regulated station are complete and awaiting final commissioning.

Greensville is on schedule to achieve first fire this quarter and is expected to achieve commercial operations late this year. We are pleased that Connecticut's procurement for clean energy, including nuclear power continues to progress. On February 1, Connecticut regulators determine they will proceed with a solicitation forbids for new and existing carbon free resources, which includes Millstone Power Station to meet its public policy goals. Connecticut's RFP will be issued by May 1 and responses are expected to be due in September. Simultaneously, Millstone has the opportunity to participate in a proceeding determining that it is an at-risk resource. That designation would mean that Millstone's bid will be judged on price and non-price attributes, such as carbon reduction, fuel diversity, economic impact etcetera. Dominion plans to request at-risk designation and looks forward to submitting a competitive bid that will help Connecticut to meet its energy and environmental goals, while also stabilizing Millstone's revenue.

Finally, I want to make a few comments on our offer to merge with SCANA Corporation. As you know in January 3rd, we announced our agreement, where Dominion would exchange 0.669 shares of it's common stock for each SCANA share. Included in the offer was a proposal for upfront payments and ongoing bill reductions, which would substantially reduce the cost to customers in the abandoned nuclear development project.

We have received clearance from the Federal Trade Commission and approval from the Georgia Public Service Commission. We expect the SCANA shareholder approval this summer and still needs approval from the state utility commissions in North Carolina and South Carolina. We have participated in legislative hearings to explain our proposal lawmakers who are considering temporary changes to the South Carolina Base Load Review Act. Recent polling indicates very strong support for our proposal within the state. And a recent study by one of South Carolina's leading economist indicated that the state could see more than $18.7 billion in increased economic output as a result of our merger. We are optimistic that our proposal will be viewed favorably by regulators and we can complete the transaction later this year.

So to summarize, our business has delivered record setting operating and safety performance through the first quarter. Cove Point is in commercial operations, construction of the Greenville County project is on time and on budget. We have begun full construction on portions of the Atlantic Coast Pipeline and Supply Header project, and anticipate full construction throughout the entire project later this spring. We are on track to be in service late next year. We are optimistic that we will complete our merger with SCANA later this year. And with our alternative financing plan, we expect to meet our earnings per share growth targets and credit objectives.

Finally, we have reviewed our dividend growth assumptions with our Board and reconfirm our policy to increase the dividend 10% annually in 2018 and 2019. The growth rate in 2020 is expected to be between 6% and 10% depending upon the viability of the MLP market at that time.

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

Questions And Answers

Operator

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

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, good morning, guys.

A - Mark McGettrick {BIO 2066297 <GO>}

Good morning.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

So just on the updated dividend language. It's good to see that you've maintained your support for '19. The 2020 growth rate is somewhat of a wide band. Obviously, the book end just stipulated by whether the MLP markets remain broken or not. So what sort of drives the dividend within the band, and more importantly, even at the bottom end at 6%, it's about 100 million in cash flow savings. So why even have this sort of change in language in the outer years, especially since you should be able to maintain it beyond '19?

A - Mark McGettrick {BIO 2066297 <GO>}

Sure. This is Mark. We can maintain it beyond '19, but we have to be confident that the MLP market is going to be open to us long-term. And right now, as we said in our prepared remarks that we're not quite sure where that's going to be. So we wanted to put a range out in 2020 that would be kind of with and without the MLP market. If we cannot access the MLP market for those cash flows, then it will drift into the lower end of that range. If we can it will be back at the high end of that range.

Now, why do we keep it at 10% for '18 and '19, because we have plenty of cash flow in the current assets that are in our MLP without any further drops to support an elevated dividend for the next two years. After that, as you say, it's about $100 million, it's not a big number to us, but we would be cautious that that payout ratio. We wouldn't want to get higher if we can't access MLP equity on a long-term basis.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Got it, that's helpful. And then just lastly, you clearly highlight the FERC ruling has no material impact in your earnings. But you have sort of an updated plan that includes keeping Cove Point at the D [ph] level leverage at Cove Point, which should be more back-levering opportunities than a DM. If some equity issuances, some asset sales, so there is something like, sort of pushes and takes here. And you clearly -- you do have some very strong or incremental growth opportunities like Atlantic Coast Pipeline 2 or 3 renewables. So you sort of think about your long-term earnings CAGR, are you comfortable continuing sort of guide at your midpoint even beyond '18. And what would actually drive you to the bottom end of this given, which seems to somewhat of a good runway.

A - Mark McGettrick {BIO 2066297 <GO>}

Sure. I think we are comfortable guiding to the midpoint. We always put range out, but we always -- as we get the question to say, we always target to midpoint. I think what could drive us to the bottom end, we're weather sensitive company and that could well take us to the lower end or the upper end depending where we are. But you raised a good point, which we haven't heard from investors yet. And that is, we were going to utilize and may still utilize the MLP structure to optimize cash flows back to the parent. But if the market is not open and we do not do that, all of Cove Points EBITDA that would have been in the MLP by the end of decade will be at the parent, that's an incremental $350 million. So again, we have a lot of levers that we're going to evaluate, we feel very comfortable with the middle, and we'll work toward beating that as we look like we're able to do this year as well.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Terrific, guys and congrats on the results today.

A - Mark McGettrick {BIO 2066297 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Greg Gordon with Evercore ISI.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Good morning, guys.

A - Mark McGettrick {BIO 2066297 <GO>}

Good morning, Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Great quarter. I agree, really good performance. What do you think a reasonable time-frame of expectations is for getting to a point, where you are -- you feel like you can come to a conclusion on whether you've achieved the right total cumulative outcomes in the asset sales. Are we looking at a process that takes six months a year? When do you think we should be expecting us -- when should we be expecting you to come back to us with proceeds and next steps?

A - Mark McGettrick {BIO 2066297 <GO>}

I think Greg by the end of the year, we'll have a real clear view on that. We may have a few things that we can clear up before that, but I would target fourth quarter for us to get some clarity around that. If you look at the bar chart, it's really not that big a number that we're targeting in asset sales. In terms of what's left to be done in the alternative financing plan, the majority of it is get at the asset echo point and we expect to put that asset between $2.5 billion and $3 billion this year, probably toward the high-end of that, that would keep it strongly investment grade range. And that only leaves us a 1 billion to maybe 1.5 billion on asset sales. So we think it's a very reasonable conservative number, and we have a number of assets we're evaluating and the one we specifically have mentioned is Blue Racer.

Now, we'll say, although we are screening a number of assets. If we don't believe we can get fair value in a market, we're not going to sell the assets. But based on what we've heard so far, there'll be a lot of interest in the type of assets we have out there.

Q - Greg Gordon {BIO 1506687 <GO>}

Great. So, when I look at that bar chart, it's actually very helpful. Thank you. There's two things that you have to achieve to meet your credit targets. One is, there's certain percentage of holdco debt as a percentage of parent debt, which you clearly and quickly achieved through the Cove Point debt transaction and that's very elegant and simple. But then you're saying that to get to your FFO to debt metric, you need just an incremental 1.5 billion of asset sale proceeds, so 1.5 billion of equity that you did through the forward sale plus the 500 you did at the beginning of the year, plus the CapEx cuts you announced at the beginning of the year, plus the 1.5 for asset sales. That total of financing activity you're saying gets you to an FFO to debt metric that achieves your credit goal from that perspective is that -- I know there was a lot, but is that fair?

A - Mark McGettrick {BIO 2066297 <GO>}

Yeah. I think the only caveat I'll put on that is -- I wouldn't hang on 1.5, I'll give you a range of a 1 billion to 1.5 billion. But yes, we want to -- we need to execute that over a period of time. It doesn't have to be done this year, but we need to execute it certainly in the period to meet our credit targets.

Q - Greg Gordon {BIO 1506687 <GO>}

And then I know, I'm jumping the gun here, and time is definitively on your side in terms of trying to be deliberate in the way you think about DM. But if the MLP market would not recover, was there a consolidation transaction that you could contemplate here, because by my math at least with DM at this valuation that would not necessarily be a bad outcome for both shareholders.

A - Thomas Hamlin {BIO 1506669 <GO>}

Greg, this is Tom. We're going to just see how this plays itself out. There is a variety of options with DM, you've mentioned one that would be an option and others are pursuing that. But we're in no rush. We think what FERC did was unreasonable outcome. There's been a lot of pushback on them over that. We'll just see how it plays itself out. We have plenty of cash available at DM to meet our distribution goals at least for the -- for now. And so, we'll see. We're going to give it time to play out, but -- and then we'll consider options as we go along.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. Thank you, guys very much. Have a good day.

A - Mark McGettrick {BIO 2066297 <GO>}

Thank you.

Operator

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

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah, hi. Good morning. The kind of assets sale timing or Cove Point by year end, is that actually getting outcomes of asset sales, so we'll know the money is coming in or is that kind of what the plan is by then?

A - Mark McGettrick {BIO 2066297 <GO>}

I think depending on what assets we decide to move ahead with Steve, you will probably have some outcomes and you may have some that might spillover into early 2019.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then, what would it take to get the credit agencies to stabilize the rating or go off negative outlook I guess? Do you need to complete that stuff or any sense of that?

A - Mark McGettrick {BIO 2066297 <GO>}

Yeah. I don't really want to speak for the agencies, but I will say, yes Steve, you -- we've been very transparent with the agencies, we met with them a number of times along the process. They know exactly what our plan is. And I think in our opinion, and again, you have your own and others would. But as we've look at other companies that have been impacted by tax reform on credit to the extent we have. We believe we have one of the most aggressive plans out here to address the shortfall on credit due to taxes. In my opinion, what the agencies are looking at is execution on plans that have been announced and to work into the range that they put out there on various metrics. So, well -- Moody's, S&P, Fitch, they all have their own comments, I'm sure on that. But again, I think if you look at what we've done, what we've announced, it's probably the most aggressive plan in terms of not only of speed but in amount, whether it be equity or asset sales or CapEx reduction of any company out there.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then one other clarification on that 6% to 8% growth rate. Is there now like a base case that you're using and you are kind of taking these different scenarios of asset sales, keep DM, not DM and you're saying that, in all those scenarios, you're in the 6% to 8%. Does that makes sense, the question?

A - Mark McGettrick {BIO 2066297 <GO>}

Yes. And we have run multiple scenarios on it. We have assumptions on asset sales in terms of valuation. And as far as we want to put out this alternative plan bar chart to kind of give everybody the range that we're expecting in the area. We have built ourselves a lot of flexibility on the MLP by quickly addressing the financing needs to replace to $7 billion to $8 billion. But we do have an alternative plan that includes the MLP, it also gets us in the same range down the road. So again, I think we have a lot of options, but we're not going to wait for the MLP market to open up. We're going to address that immediately and that's why we want to come out with the alternative plan and with a fair amount of detail around it.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Thank you.

Operator

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

Q - Jeremy Tonet {BIO 15946844 <GO>}

Good morning. Just wanted to turn to the DM strategy a bit more here. And with regards to kind of increasing the distribution until coverage going to hit 1.0. Can we kind of read into that, that any eventual impact in the FERC, you would think would not be very material in pressure coverage at that point or is the matter of there's drop downs that you could offset any holes to that point? Just trying to see, what we should be thinking about here?

A - Mark McGettrick {BIO 2066297 <GO>}

Well, as we said in our prepared remarks, we're going to go ahead and recommend to the Board, of course, its the Board's decision to go ahead and continue distribution increases at the 5% quarterly level. As long as we have coverages above one times. We do not anticipate right now dropping anything else into DM in 2018 with the current market conditions. And I think it will take FERC a bit of time to evaluate all the requests and rehearing. And I don't want to put time-frame on that. But that's -- we have made decision to move ahead on alternate financing for this year. And so I think the earliest we might see a recovering MLP market and the DM share price, where we would like to be open to drop something in at a fair valuation would probably be next year.

I would say that it's not just a reversal or clarification of the FERC opinion. But DM's market price is going to have to reach a level that makes sense for the parent to go ahead and drop with the lower cost of capital, which has been the design of DM from day one. And so our approach on this is to be patient, to pay the distribution as long as we can, and hope that this market opens back up as some clarity comes out of FERC.

Q - Jeremy Tonet {BIO 15946844 <GO>}

That's helpful, thanks. And then just one last one if I could. I was curious as far as -- it's a very difficult question. But if there's just no resolution from FERC, if things don't change. I guess how long until you feel like you want to take affect some new strategy at DM? Any thoughts you can provide us as far as the timeline there?

A - Mark McGettrick {BIO 2066297 <GO>}

Not at this time. We're just going to see what happens here for the next few months at least. I'm not going put a timeframe on it.

Q - Jeremy Tonet {BIO 15946844 <GO>}

That makes sense. Thank you very much.

A - Mark McGettrick {BIO 2066297 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Angie Storozynski with Macquarie.

Q - Angieszka Storozynski

Thank you. Okay, so continuing on DM. So just sort of I understand. So if you add that to Cove Point, the project that, how would it impact a potential ability of you to drop this asset into DM. I mean, is it simply that cash flows of the distributable cash flow from this on this asset it would drop, because you added that there would be amortizing. If this the only issue that that would be limiting your ability to drop it into the MLP assuming that the MLP market recovers?

A - Mark McGettrick {BIO 2066297 <GO>}

Well, Angie, I'll give you a quick answer on that, and that is, it won't limit our ability to drop DM. But Jim Chapman is here today, and let me have him go ahead and expand on the financing around Cove and how we would go ahead and drop that.

A - James Chapman {BIO 19939701 <GO>}

Hey, Angie, good morning, it's Jim. To try to -- to clarify a little bit. I think from a traditional through project for net finance perspective, there's just very significant debt capacity of Cove. And if we had a need for the kind of capacity, we could end up with a structure of financing structure that might have limitations like you seem to be suggesting in its terms. But our need right now is much more modest as Mark mentioned 2.5 billion to 3 billion at Cove for the near term. And with that kind of debt quantum, we expect a great deal of flexibility in the terms of that financing. When it comes to things like pre-payability or transferability or amortization or not. So we just don't see the current financing plan being a constraint in any way on potential future drops into DM, lots of flexibility in our plan.

Q - Angieszka Storozynski

Okay. And my other question is, if you are so convinced that the EBITDA or cash flow detriments to the pipeline that DM currently holds is not going to be material following via the FERC actions into future. Why not just swap these assets? Why not just take these assets into the -- and give DM a portion of either Cove Point or some other assets that doesn't have this issue. And (inaudible) you would face a reduction in the rates only to your level of taxation versus zero.

A - Mark McGettrick {BIO 2066297 <GO>}

Angie, that's a good question. I guess what we want to really get clarified not only for D and DM is by FERC, what was the intent of their policy change. It seems to be fairly broad brushed. And there is some incentive, if they don't change that you could have a gross up of 21% as a C corp [ph] versus other assets that will be a pure MLP and that's something we obviously looked at. But our whole approach is going to be, there's been a lot interest and request to FERC to ahead and provide clarity, we like to do that. We think that'll springboard to market. If they do that and our support of the MLP structure long term, and we're going to be patient and wait for that.

Q - Angieszka Storozynski

Okay. And my last question, the 6% to 8% CAGR, what is the starting point and is the Connecticut's uplift included in the midpoint of that range?

A - Mark McGettrick {BIO 2066297 <GO>}

The starting point of that is the middle of the range of 2017 through 2020. Millstone, I think as I've said, maybe a year or so ago, where when we put that out there. That we use to market curve, when we put the new range out at Millstone that did have some growth in it between '17 and '20. But currently, it does not include any auction impacts or benefits that we might accrue in the Millstone auction.

Q - Angieszka Storozynski

Okay. Thank you.

Operator

Thank you. Our next question comes from Michael Weinstein with Credit Suisse.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi, guys.

A - Mark McGettrick {BIO 2066297 <GO>}

Good morning.

Q - Michael Weinstein {BIO 19894768 <GO>}

Good morning. How long do you think the CAFD [ph] at DM will remain above the one-time -- one times measure metric. And as you grow at 5% per quarter. Is that going to be go -- are you saying that it will grow through 2020 and, at that point then, you need to make the decision?

A - Mark McGettrick {BIO 2066297 <GO>}

No. Michael, this is Mark. No, it's not going through 2020. It could certainly go through several quarters with current performance. We are evaluating how to extend it longer through changes in maintenance CapEx , timing, et cetera. But it's a much shorter window than that, that we will be able to support 5%. But I think it's a window that gives FERC a reasonable time to address the request in front of them, and takes us through, as I say at least several quarters maybe longer.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got you. And then also -- I think you mentioned that the equity could be more of a range right between 1 billion and 1.5 billion. Is that driven primarily by the asset sale proceeds that you might get or is there some other factors?

A - Mark McGettrick {BIO 2066297 <GO>}

Okay, that's not an equity comment. I'm sorry if I said it, I misspoke. Our equity is done besides DRIP. What that reference was to cash value from asset sales between 1 and 1.5 that we would bring back and reduce debt with. At some time throughout this year and into next year potentially.

Q - Michael Weinstein {BIO 19894768 <GO>}

Yeah, I misheard that. Okay, thank you.

Operator

Thank you. Our next question comes from Praful Mehta with Citigroup.

Q - Praful Mehta {BIO 19410175 <GO>}

Hi, guys.

A - Mark McGettrick {BIO 2066297 <GO>}

Good morning.

Q - Praful Mehta {BIO 19410175 <GO>}

Good morning. So I guess a question on DM. Again, going with the same theme, but just trying to understand from a flexibility perspective. It looks like you're paying up a little bit to keep the flexibility around DM and waiting for the market to recover. So for example, obviously from project financing to keep the flexibility around some of the options that Jim brought up, would cost a little bit in terms of the project financing cost. So firstly, wanted to understand what are the different elements that would cost D right now to kind of keep the flexibility around DM. And if it is going to cost this much, is it worth keeping that flexibility or like an earlier question brought up, why not just buyback DM sooner?

A - Mark McGettrick {BIO 2066297 <GO>}

Well, Praful, this is Mark. I mean, we see great value in the financing flexibility of the MLP bringing cash back to the parent, always have. And I think shareholders of Dominion Energy starting to appreciate that over the years. So it's worth something to us to keep that moving. We also owe it to unitholders at Dominion Midstream to stay with this structure as long as we can. If there is a reasonable chance that the market will rebound and that we can place equity at a reasonable level here and at a reasonable DM price.

Now the cost of D in terms of financing is going to be very minimal we believe, because the cash flows are the same. We may well get better financing by putting its asset within the C corp initially before you were to let it travel. So we don't see that cost as being material at all, and it just allows us incremental flexibility to wait on DM until we see what's going to happen there.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Fair enough. Just switching quickly to SCANA. How do you see it playing out from here. Do you see concessions needed? You've kind of held this strong line of we don't think concessions are needed and this is kind of our offer. Do you see any change to that or do you see any room for flexibility around that at all?

A - Mark McGettrick {BIO 2066297 <GO>}

No. There's no flexibility. We've made our offer and they can -- it's going through the political process now and that will -- political, they adjourn next Friday, excuse me, two Friday's from now, they're finished there for the year, the political sphere that it's been so far, but it's also going through the regulatory sphere. Lot's of questions going back and forth with typical regulatory process. We have a hearing scheduled November. We'll have a result by December. So that's what we're going to proceed that way, we've made our offer.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. That's pretty clear. Okay, and then finally just on Millstone. It sounds like progress is pretty constructive in terms of the reports at least around Millstone. Any path forward you see I guess, what's the timing to kind of get all that done and get financial benefits from Millstone?

A - Mark McGettrick {BIO 2066297 <GO>}

Praful, Paul Koonce is here. He will answer that for you.

A - Paul Koonce {BIO 3892592 <GO>}

Yeah, good morning. Thanks for the question. The schedule that has been laid out by DEEP and PURA is that the RFPs will be issued in May. They will accept bids through September and concurrent with that, if you determine that you are an at-risk resources, then you can -- then as Tom mentioned in his comments, you can pursue that designation, which we planned to do, which means that, you can also include into your bid non-price factors like zero carbon, fuel diversity, grid reliability. They have a report, DEEP and PURA, they have a report Leviton [ph] produced that showed what it would cost consumers if Millstone were to retire. So I think there is some recognition of the value of Millstone. So really that is all supposed to play out between now and September with bids been approved by year-end.

Q - Praful Mehta {BIO 19410175 <GO>}

Great. Thank you so much, guys.

Operator

Thank you. Our next question comes from Stephen Byrd with Morgan Stanley.

A - Mark McGettrick {BIO 2066297 <GO>}

Good morning.

Q - Stephen Byrd {BIO 15172739 <GO>}

Hi, good morning.

A - Mark McGettrick {BIO 2066297 <GO>}

Good morning, Steve.

Q - Stephen Byrd {BIO 15172739 <GO>}

Congratulations on Cove Point. But just actually following up on the last question on the Connecticut process. Could you remind us just on the at-risk designation, what that process looks like in terms of information to be submitted and the criteria used to get that designation?

A - Paul Koonce {BIO 3892592 <GO>}

Sure. They have determined that it will be a confidential proceeding that made up of state agencies and Dominion. We have -- and have agreed to provide validated cost information. So it will really be between the applicants, in that case us, and the state agencies DEEP and PURA. They have invited the consumer advocate to also participate in their proceeding. But it will be a confidential proceeding, and it will be their determination whether they conclude the asset is at-risk. And once they conclude that, then the other non-price factors will be taken into account.

Q - Stephen Byrd {BIO 15172739 <GO>}

That's helpful. And then just shifting to Virginia, just given legislation and just given the needs in the state. I'm curious just if you wouldn't mind giving me your thoughts in terms of the potential for further capital expenditures in the State additional plans, just as we think about growth in your core state of Virginia?

A - Mark McGettrick {BIO 2066297 <GO>}

Well, we've announced plans last fall about moving from our large projects to more programmatic programs. And I think the legislation that was enacted by the General Assembly this session supports that program. So I don't -- there's no real changes to that program. There -- I think we said $3.5 billion a year on average in growth capital in Virginia through the next or at least a decade. We don't see any changes to that. We think the legislation is supportive of it.

Q - Stephen Byrd {BIO 15172739 <GO>}

Understood. So in other words, just familiar with the plan that you had laid out, there is not a incremental capital over and above, whether it be for generation or any other sort of types of resource that could be additive in the near to medium-term over and about the plan as you've already laid out?

A - Mark McGettrick {BIO 2066297 <GO>}

It's possible, but we have more planning to go along as we see.

Q - Stephen Byrd {BIO 15172739 <GO>}

Okay. Very good. That's all I had. Thank you.

A - Mark McGettrick {BIO 2066297 <GO>}

Thank you.

Operator

Thank you. Your final question comes from Jonathan Arnold with Deutsche Bank.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Good morning, guys.

A - Mark McGettrick {BIO 2066297 <GO>}

Good morning.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Could I ask just on the dividend comments about Dominion and the range on the growth rate. Do you have a specific payout ratio in mind, you would want to be added in the longer term and sort of with and without DM capital raising scenarios?

A - Mark McGettrick {BIO 2066297 <GO>}

Hey, Jonathan. As we've laid DM before, we were in the mid '80s or so with DM as we went forward and we were pretty comfortable with that. I think over the next couple years '18, '19, we will be in the low to mid '80s. We're comfortable with that, with cash flows coming out of the DM. I don't think we want to get much higher than that, and over time, we will probably bring that down to a more reasonable utility like level. If we don't access the MLP market. We have said before that this dividend rate was premised on -- we would not burden our regulated entity with anything more than a 75% payout ratio and anything incremental to that would have to come from non-regulated assets or the MLP, and we still have that view. But again, I think the math would tell you on the next couple of years that, that payout will be in the low to mid '80s. And depending what happens with MLP long-term, we'll start to bring that down.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great, thank you. And then just secondly, on the last call, you talked about the $1billion that was coming out of sort of non-growth CapEx in '18 and '19. Have you made progress on identifying specifically what that's going to be in the bag now and can you give us some insight into and what types of things that are there?

A - Mark McGettrick {BIO 2066297 <GO>}

We're pretty much done identifying it, and we've already started to execute a portion of that for 2018. It looks like it maybe somewhat 50-50, maybe 40-60 between '18 and '19 as we've looked at it. It will come out of maintenance capital, it will come out of a reprioritization of capital and reduction in areas that don't provide near-term earnings support for us. It will come out of what we call general capital which are building funds, things like that. So it's across the board. It's something I think we're pretty comfortable with. Our facilities are in good shape and our service reliability is in very good shape. So, I think we can have a short-term pause in some of this maintenance capital and be fine for two years.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay, great. That's perfect. Thank you, Mark.

A - Mark McGettrick {BIO 2066297 <GO>}

Thank you, Jonathan.

Operator

Thank you. This does conclude this morning's conference. You may disconnect your lines and enjoy the rest of your day.