# Q1 2022 Earnings Call

## Company Participants

- David McFarland, Director, Investor Relations
- Diane Leopold, Executive Vice President & Chief Operating Officer
- James Chapman, Executive Vice President, Chief Financial Officer
- Robert Blue, President, Chief Executive Officer & Chairman

## Other Participants

- Durgesh Chopra, Evercore ISI Institutional Equities
- Jeremy Bryan Tonet, JPMorgan Chase & Co
- Paul Andrew Zimbardo, BofA Securities
- Shahriar Pourreza, Guggenheim Securities, LLC
- Steven Isaac Fleishman, Wolfe Research, LLC

## Presentation

### Operator

Welcome to the Dominion Energy First Quarter Earnings Conference Call. (Operator Instructions) I would now like to turn the conference call over to David McFarland, Director Investor Relations.

### David McFarland {BIO 20946446 <GO>}

Good morning, and thank you 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 a discussion of factors that may cause results to differ from management's estimates and expectations.

This morning, we will discuss some measures of our company's performance that differ from those recognized by GAAP. Reconciliation of our non-GAAP measures to the most directly comparable GAAP financial measures, which we can calculate are contained in the earnings release kit. I encourage you to visit our Investor Relations website to review webcast slides as well as the earnings release kit.

Joining today's call are Bob Blue, Chair, President and Chief Executive Officer; Jim Chapman, Executive Vice President, Chief Financial Officer; and Diane Leopold, Executive Vice President and Chief Operating Officer. I will now turn the call over to Jim.

## James Chapman {BIO 19939701 <GO>}

Thank you, David, and good morning. Before I begin, I'll remind everyone of the extensive disclosure package and growth capital roll forward we shared on last quarter's call. We're very focused on overall execution of those plans, including extending our track record of delivering results in line with our financial guidance as we did again this quarter.

I'll begin with a recap of our compelling investment proposition and again, highlight our focus on the consistent execution of our strategy. We expect to grow our earnings per share by 6.5% per year through at least 2026, based largely on our continued execution of our $37 billion five-year growth capital program, as shown on slide 3. As a reminder, over 85% of that capital investment is emissions reduction enabling and over 75% is rider recovery eligible. The resulting approximately 10% total shareholder return proposition is combined with an attractive pure-play state-regulated utility profile and an industry-leading ESG profile.

This utility profile is centered around five premier states, as shown on slide 4. All of these states share the philosophy that a common sense approach to energy policy and regulation puts a priority on safety, reliability, affordability and sustainability, as Bob will touch on in his remarks in just a moment.

Turning to slide 5. We see up to $73 billion of green investment opportunity across our entire footprint through 2035, nearly all of which will qualify for regulated rider recovery. We believe we offer the largest, broadest in scope, longest in duration and most visible regulated decarbonization opportunity among U.S. utilities, which, as you will hear in today's prepared remarks, is continuing to steadily transform into reality. The successful execution of this plan is already benefiting our customers, communities, the environment and our investors.

Before handing it to Bob for his business update, I'll discuss our first quarter results and related financial topics.

Our first quarter 2022 operating earnings, as shown on slide 6, were $1.18 per share, which included $0.01 of help from better-than-normal weather in our utility service territories. Weather-normalized results were at the midpoint of our quarterly guidance range, extending to 25 consecutive quarters, our track record of delivering on our financial commitments to our investors. Positive factors as compared to last year include growth from regulated investment across electric and gas utility programs, interest expense and modest margin help. Other factors as compared to the prior year include capacity expense and share dilution.

First quarter GAAP earnings were $0.83 per share and reflect a noncash mark-to-market impact of economic hedging activities, unrealized changes in the value of our nuclear decommissioning trust fund and other adjustments. A summary of all adjustments between operating and reported results is as usual, included in Schedule two of the earnings release kit.

Turning now to guidance on slide 7. As usual, we are providing a quarterly guidance range, which is designed primarily to account for variations from normal weather. For the second quarter of 2022, we expect operating earnings to be between $0.70 and $0.80 per share. Positive factors as compared to last year are expected to be normal course regulated rider growth, sales growth and a return to normal weather. Other factors as compared to last year are expected to be a millstone planned outage and some tax timing. We are affirming our existing full year and long-term operating earnings and dividend guidance as well, no changes here from prior guidance.

Turning to slide 8. Let me take a minute to recap our O&M management and highlight our strong performance relative to our guidance of keeping O&M flat normalized for riders. Since our 2019 Investor Day, when we spent some time describing our flat normalized O&M target. We created a material value for our customers and shareholders by removing about $250 million in costs, a reduction over 8% during that four-year period, something we view as quite an accomplishment.

Looking forward, we're focused on keeping normalized O&M flat by driving down costs through improved processes, innovative use of technology and other best practices or cost-cutting initiatives. It's a dynamic process. We very intentionally go through each of our segments, each of our assets, each of our locations to find opportunities to lean into technology to improve business processes and to improve in areas like smart buying across our platform. Finally, consistent with our current guidance, we expect to achieve flat normalized O&M through 2026, no changes here also from prior communications.

Next, I'll touch on inflation, one of the more prevalent themes for this earnings season, it seems. While we don't have a crystal ball on where inflation rates are heading, how high and for how long, let me share some color on the way we think about the impact of inflation on our business. As I mentioned, a substantial portion of our existing rate base and over 75% of our growth capital is rider eligible which allows for timely annual true-ups, including recovery of any changes to cost and interest rates without the need to wait for less frequent base rate proceedings.

So how about inflationary impacts on our largest single rider project, regulated offshore wind? As discussed on our fourth quarter call, that project has been largely derisked from inflationary impacts at this point. Our five major fixed cost agreements collectively represent about $7 billion of the total capital budget. Within those contracts, only about $800 million remains subject to steel and metals commodity indexing, and this component of the budget already reflects commodity cost increases observed in 2021, leading up to our filing date.

So what about interest rates? Inflation is, of course, generally accompanied by a rise in rates. And we reflect market expectations, so increases in our planning process and in guidance. We, of course, don't just model flat rates. About 80% of our balance sheet is fixed rate and is long in duration, over 13 years in average tenure. Looking ahead the future issuances of long-term debt, we manage that interest rate exposure through a variety of hedging and treasury activities including throughout currently about $10 billion notional of pre-issuance interest rate hedges, which will help us keep future costs low.

So what does that mean? That portfolio allows us to lock in treasury rates for issuances between now and 2026 at rates as low as almost 1%. This year, we've already issued $1 billion of long-term debt at Dominion Energy Virginia at a weighted average cost of 2.6%, consistent with our 2022 financing plan guidance. As it relates to additional fixed income issuances remaining for the year, we will continue to monitor market conditions and look for opportunities to further derisk our plan and create shareholder value.

Finally, a reminder that economic growth, inflation and higher interest rates are all part of the mix when it comes to determining authorized ROEs across our utility businesses in our periodic rate proceedings.

So in summary, the current inflation environment is, of course, dynamic, and we are monitoring it closely. At present, however, due in part of the factors I've just described, we're not currently forecasting a material earnings impact associated with inflation. I would also note the impact that the current inflation environment can have on our customer bill. We, of course, prioritize customer affordability and implement various mitigation strategies as Bob will discuss in a moment.

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

## **Robert Blue** {BIO 16067114 <GO>}

Thank you, Jim. I'll begin with safety. As shown on slide 9, through April of 2022, our OSHA recordable rate was 0.52. While overall results are tracking slightly higher than a year ago, they remain low relative to historical levels and substantially below industry averages. 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 me and why it is our first core value..

Now I'll turn to updates around the execution of our growth plan. Our regulated offshore wind project continues to be on schedule and on budget. Major project milestones are listed on slide 10. As we reported earlier and as Jim mentioned, contracts for major offshore equipment suppliers were completed and signed in late 2021. These include contracts for foundations, transition pieces, substations, transportation, installation and subsea cabling and turbine supply and long-term service agreements. We've been pleased with the progress of the State rider approval review with intervener and staff testimony received, rebuttal testimony filed and a hearing scheduled to commence later this month. The final order is expected from the SEC in early August.

The federal permitting process also continues and the next major milestone is receipt of the draft environmental impact statement expected in the second half of this year. A few items to reiterate here. First, offshore wind, zero fuel cost and transformational economic development and jobs benefits are needed now more than ever. The project will also propel Virginia closer to achieving its goal to become a major hub for the burgeoning offshore wind value chain up and down the country's East Coast. Second, unlike any other such project in North America, this proposed investment is 100% regulated and eligible for rider recovery in Virginia. Finally, the VCEA provides very specific requirements on the presumption of prudency for investment in the project, which we are confident that we have already met.

Turning to our Jones Act vessel. The SEC in March approved our Affiliates Act application for DEV's contract. The vessel remains on track for delivery in late 2023, and we expected to be entering service with plenty of time to support the 2024 turbine installation season.

Turning to other notable clean energy investment updates. On April 23, we filed with the support of the SEC staff and Consumer Council, a settlement in the pending nuclear subsequent license renewal rider filing. Nuclear life extension represents nearly $4 billion in capital investment through 2035. And this settlement agreement includes the first phase, which represents about $1 billion of that total. This agreement is very good news, and if approved by the SEC, resolves all issues in that case.

In our estimation, the success of greenhouse gas emissions reduction targets requires the ongoing viability of existing nuclear facilities. These Virginia units have performed exceptionally well for years, providing over 30% of our customers' energy needs and providing that energy at low cost and carbon free.

Based on PJM's carbon intensity rate, just in the last year, Suria North Anna avoided approximately 14 million tons of regional CO2 emissions. To provide some context, this is equivalent to a reduction of more than three million nonelectric cars for the entire year. Successful nuclear life extension is a win for customers and the environment, and we want to thank the parties to this proposed settlement for their efforts.

On solar, I'm very pleased that the SEC in March approved our most recent clean energy filing, which included nearly 1,000 megawatts of solar and energy storage capacity, our fifth consecutive such approval. We also recently issued an RFP for an additional 1,200 megawatts of solar capacity and 125 megawatts of energy storage. Our next clean energy filing will take place later this year.

Our current portfolio of utility-scale projects which are under various stages of development represent over seven gigawatts of capacity. This pipeline goes a long way towards fulfilling our plan to meet the approximately 10 gigawatts of utility-owned solar by 2035 as called for by the VCEA.

Turning to the solar supply chain. As we discussed on prior calls, there continue to be challenges, supply is still tight and prices for certain components are still up. Recently, there's been a lot of focus on the potential impacts from the Department of Commerce's anti-circumvention review. Let me share a few thoughts on; One, our expectations for that review; two, the degree to which we have already substantially derisked our development activities; and three, our view of what the impacts could be if there are delays and what we might do to mitigate them.

First, what do we expect in relation to the review? We expect that preliminary findings will be known by as early as late August. And at that time, we should have a better informed view of whether tariffs apply to panels being imported from the four Southeast Asian countries included in the review. To clarify, our view is that panels are currently physically available as this review is not about prohibiting imports. What is not clear is whether or not tariffs will apply to panels from the countries included in this review. I'd also note that we're encouraged by the Department of Commerce announcement earlier this week, which further narrowed the focus of this proceeding.

Second, how have we derisked our development program? For 2022, our projects are not impacted by the review as the panels needed for those projects are already in the country. These projects remain very much on track. This holds true for our regulated solar project in Virginia and the more modest amount of unregulated solar we're developing on behalf of key customers. For 2023, our portfolio of projects is also largely derisked and on track.

All projects in this portfolio, which totaled some 1,100 megawatts across 16 regulated and unregulated projects are fully contracted with 60% of the panels being installed within this portfolio not expected to be impacted by the review, including panels that have been domestically sourced. For the remaining 40%, we expect the timing to be such that there is adequate time to resolve all potential tariff cost issues, if any, following the resolution of at least the first stages of the review.

Now what would be the impact if tariffs are applicable at the end of the day? Given our competitive advantages, including the strength of our supplier relations and contracts, we work to minimize the cost impact. Keep in mind that while a tariff could be a material percentage of an individual panels cost, it may not be as major a cost driver of an overall utility scale solar installation. To provide some context, panels typically account for 30% of a project's total cost. So a 50% tariff on panels would increase the total cost of the project by 15%.

So what does that mean for our 2023 portfolio? For the up to 40% potentially subject to review, which represents $800 million in planned capital investment, a hypothetical 50% tariff, if applied to every module, represents only about $120 million of incremental capital or less than 1% of our total capital budget for that year.

For our regulated solar projects, these additional costs will become part of our rider approved solar project in Virginia and be subject to approval during the normal annual true-up for approved projects. For our nonregulated solar projects, which are being done on behalf of our key customers, typically very large C&I and data center customers, we expect to work with these customers to minimize the impacts of the tariffs. And given the time line for development as well as the relative importance of these projects to those customers who have their own clean energy goals, we remain comfortable with our current development expectations.

For 2024 and beyond, our view is that there's more than adequate time for us to see where all this goes. If tariffs supply, costs become part of our rider process for our regulated projects and PPA pricing would adjust for our unregulated projects.

In the meantime, we're not standing idly by. We're actively engaged with the Biden Administration, both through trade groups and directly through our federal delegation. This outreach is intended to remind the administration that in order to meet its longer-term climate goals, there has to be stability. We remain focused on the customer impact and advocate for energy policy that provides for an affordable clean energy transition.

Finally, purely hypothetically, if there are delays related to this tariff review, what would the financial impacts be and what might we do to mitigate them? First, we look to accelerate other capital to maintain the same financial profile while maintaining affordable customer rates. We've already noted the very substantial programs we're working on. These customer beneficial programs are focused on resiliency and decarbonization. On the other hand, if there are delays and were unable to accelerate capital, there'd be a slight help as lower capital needs would reduce financing needs. Lastly, we also would look to additional O&M control initiatives as we have successfully demonstrated our ability to manage controllable costs, as Jim mentioned earlier.

In summary, it's still early and we'll have to work through these issues. We're working closely with policymakers and other industry participants, and we'll continue to provide updates as things develop, but we simply do not see any material financial impacts at this time.

Shifting gears, let me now address Regie. In anticipation of the withdrawal of Virginia from Regie, we filed this morning with the SEC to suspend our rider Reggie that was approved to recover the pass-through costs related to required purchases of allowances through the Regie market-based trading program for carbon dioxide emissions. We also requested that Regie compliance costs incurred through July 31 and not yet recovered totaling approximately $178 million be alternatively recovered through DEV's base rates currently in effect. If approved, this proposal will provide a meaningful reduction to customer bills in a way that allows us to continue the rapid decarbonization of our system in Virginia.

Our view on Regie -- from the comments we made to the Virginia DEQ in 2018. While we are committed to the ongoing transition to cleaner and lower carbon emitting resources, we're concerned that Virginia's linkage to the Regie program through the Virginia Carbon proposal would result in a financial burden on customers with no real mitigation of greenhouse gas emissions regionally.

Next is our gas distribution business. As we've discussed in the past, our gas utility operations are enhancing sustainability and working to reduce Scope I and III emissions with focused efforts around energy efficiency, renewable natural gas and hydrogen blending, operational modifications, potential changes around procurement practices and unique customer product offerings. For example, in March, we launched the Carbon Right program in Utah, which allows customers to offset 100% of their carbon emissions from natural gas usage for $5 a month.

On the regulatory front, we continue to see strong support for timely recovery on prudently incurred investment and for the safe, reliable, affordable and increasingly sustainable service including pipeline replacement efforts and expansion of service to rural communities.

Earlier this week, we filed a general rate case in Utah, which is required every three years. We asked in case for an ROE of 10.3% and a revenue requirement increase of $70 million, which represents around a 6% increase to a typical customer bill. We expect new rates based on a typical procedural schedule to be effective in January of next year.

On RNG, we remain the largest agriculture-based RNG developer in the country. We've recently commenced operations at our second RNG project and expect five additional projects to come online this year for a total of seven projects producing RNG-based natural gas. In addition to these seven projects, we have a portfolio of projects in various stages of development.

At Dominion Energy South Carolina, I'd first like to highlight that business's excellent operating performance. Our employees completed the quarter with zero injuries, a goal that remains the top priority for our entire company. In addition, our commitment to the customer is unwavering. During the quarter, the average annual customer outage minutes, or SAIDI, was reduced by 20% relative to the same period last year, placing us again in the top quartile among all utilities in the Southeast. This commitment to our customers was recently validated when Dominion Energy South Carolina was recognized as the easiest utility to do business with by Escalent, a top human behavior and analytics advisory firm.

As it relates to our generation modernization program in South Carolina, we're on track. As a reminder, we're placing several of our older generation peaking turbines with modern, more efficient units. Modernizing this equipment will lower fuel cost to customers, improve environmental performance and provide reliability and efficiency benefits to accommodate the large and growing intermittent solar generation in South Carolina. We're moving forward with two of the proposed sites, and we'll hold an RFP for a third later this year.

Turning to slide 13. Let me recap where we are on customer rates in Virginia, our largest service territory. Again, we are dedicated to the delivery of safe and reliable energy to our customers, which is also affordable. Over the past 10 years, our rates, including fuel recovery, have increased on average by less than 1% per year which is much lower than the average annual inflation rate over that period. Meanwhile, the share of our customers' wallet attributable to DEV's customer bill has declined over that time period, a testament to the fact that DEV's rates have remained relatively stable despite an overall increase in household income during that time. We also have rates that remain below the national and various regional averages. Based on EIA data, our typical customer rate is 13% lower than the national average.

Looking ahead, we expect to continue to offer a compelling value proposition to our customers with the addition of zero fuel resources to support sales growth driven by very robust data center demand, the ramp-up in electric vehicle adoption in our service territory and continued customer growth.

In summary, we continue to be on an unwavering path to meet Virginia's clean energy goals by 2045. And it's incumbent upon us to deliver energy that is safe, reliable, affordable and increasingly sustainable.

Finally, let me highlight noteworthy developments in the legislative landscape for our company in Virginia. The General Assembly passed and the Governor signed House Bill 894, which tasks the SCC with setting up a site readiness program to encourage utility infrastructure investment in industrial sites designated as high demand. It also directs the Virginia Department of Energy to convene a work group to identify strategies for promotion of advanced small modular nuclear reactors. This bill exemplifies Virgin's Pro business common sense approach to energy policy and regulation that puts a priority on reliability, affordability and sustainability.

While still early, we applaud efforts to support research and development of technologies that will allow the utility industry to drive further carbon emissions reductions. I see all this is consistent with the common sense approach to energy policy regulation that we typically see across our premier state jurisdictions.

With that, let me summarize our remarks on slide 14. Safety remains our top priority for the entire company. We extended our track record of reporting results in line with our financial guidance. We affirmed our existing annual and long-term earnings guidance and our dividend growth guidance. We're focused on executing across project construction and achieving regulatory outcomes that serve our customers well, and we're aggressively pursuing our vision to be the most sustainable regulated energy company in America.

We're now ready to take your questions.

# Questions And Answers

## Operator

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

## Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning, guys. That was quite a comprehensive update there. Thanks for that.

## A - Robert Blue {BIO 16067114 <GO>}

Good morning, Shar.

## Q - Shahriar Pourreza {BIO 15145095 <GO>}

Bob, I guess if we could start with offshore wind. There's obviously been some back and forth in the docket and the testimonies, which I think was to be expected, but maybe start there. And I'm also curious if there are any updates on the remainder of the pricing that was indexed to commodities?

## A - Robert Blue {BIO 16067114 <GO>}

Yes. So Shar, you're right. The back and forth was expected. It's a regulatory proceeding. There's always a bit ask there.

What I would say though is if you look at our rebuttal testimony and we were of this view when we filed the case, but I feel even stronger as now all the testimony is in, we have a very strong case on offshore wind. The legislation, the Virginia Clean Economy Act lays out the parameters for spending that is presumed prudent and we've clearly met all of those. And we showed in our rebuttal testimony under a variety of scenarios that this project is customer beneficial, particularly when you think about the updated PJM load forecast, which shows increased sales in Virginia.

So this project will help us meet that need. It will provide incredible economic benefits for the state. It is strongly supported, and we feel very comfortable with where we are on this as you recognize fully regulated offshore wind project.

On pricing. Yes, as you point out, there are portions of our contracts that have some indexes. They sort of move around but we contracted late last year, as you know, on these projects. And as we said in our prepared remarks, there's no change or update to budget or schedule on offshore wind. So we're still in what we believe was a very strong position we were in when we filed the case.

## Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. And then just obviously, separately, we just saw one of your peers in the Northeast put their wind business on the block. Just -- I just want to confirm your level of interest with any offshore wind opportunities outside of your current construct.

## A - Robert Blue {BIO 16067114 <GO>}

We're a state-regulated pure-play utility, and we're interested in state-regulated projects like the one that we're doing in Virginia. That's our interest in offshore wind.

## Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. And then just real quick classic for me. Just in light of, obviously, the rising financing costs, I mean, at the parent and obviously, an extremely favorable commodity backdrop. I hate to sound like a broken record, but the backdrop for assets kind of remains really hot at this kind of a gas price environment. So any updated thoughts on Millstone in light of the current paradigm? And even co-point, just given the value of LNG assets given what we're seeing overseas. You clearly have incremental spending needs. I mean your capital growth is extremely healthy and eventually, you may need some sort of financing. So just curious on maybe the other parts of the business that may be seen as not a base or core, right?

## A - Robert Blue {BIO 16067114 <GO>}

Yes, Shar. I appreciate the fact that you, every time we get a chance to see, you ask us about this. So that's good and I admire your consistency. And we'll give the same answer and try to be consistent as well, which is we like the assets that we have to deliver on the performance that we've laid out. We're very focused on execution.

I will note specifically with Millstone, as we've been saying for some time, there's, we think Millstone is critical to Connecticut and the region achieving its decarbonization goals. And the Connecticut legislature just overwhelmingly passed a bill proposed by Governor Lamont for -- based on his executive order for zero carbon by 2040. And as you'll recall last year, the deep -- the Department of Energy and the Environment in Connecticut did a study on meeting that 2040 goal when it was executive order and showed that cases that keep Millstone in are hugely customer beneficial. So we think that Millstone is a really solid asset that has operated very well. But overall, we like the asset mix that we've got to achieve the goals that we've set out.

## Q - Shahriar Pourreza {BIO 15145095 <GO>}

Perfect. And Bob, yes, that was consistent from a couple of weeks ago. I'm going to say that's so. Thanks.

## A - Robert Blue {BIO 16067114 <GO>}

Absolutely wouldn't expect anything less. Thanks.

## Operator

Thank you. (Operator Instructions) Our next question will come from Steve Fleishman with Wolfe Research.

## Q - Steven Isaac Fleishman {BIO 1512318 <GO>}

Yes, hi, good morning. Thank you. Just on the offshore wind, should we assume this just goes to a litigated outcome in August. Is there any chance to settle with the parties.

## A - Robert Blue {BIO 16067114 <GO>}

Yes, Steve, as you know from our approach that we've taken on regulatory issues, if there's a way to find a constructive settlement, we're all in favor of that. This project has a litigated time line or a litigation time line that has a hearing set for a couple of weeks from now and then an order in early August. And that's obviously, the presumption on any regulated proceeding.

If there were an opportunity to settle in a constructive way, we'd obviously do that. I expect you to hear that from every party to every litigated matter. But we've got a schedule and that's what we're following.

## Q - Steven Isaac Fleishman {BIO 1512318 <GO>}

Okay. And just going to the -- that was a very helpful update on the solar project situation for the company. Just on -- do you think when you get a preliminary decision in August, either way, would that be enough information likely to be able to kind of move forward with project decisions just because kind of likely be the rough range of outcome?

## A - Robert Blue {BIO 16067114 <GO>}

Yes. We would think that would give us a very good sense.

## Q - Steven Isaac Fleishman {BIO 1512318 <GO>}

Okay. And I'm also just curious how the C&I, the data center, those types of customers are? As you mentioned, a lot of them have ESG-type requirements and the like. Like do they seem to kind of get -- if it is a little more expensive, it just is like in terms of flexibility on that? Obviously, gas price is a lot higher, too, since this all started.

## A - Robert Blue {BIO 16067114 <GO>}

Yes, Steve. Our data center customers are very sophisticated energy buyers. They understand market dynamics. So none of this. They're obviously -- given their own clean energy goals, given the sophistication of their operations, they certainly understand what's going on in the market here.

## Q - Steven Isaac Fleishman {BIO 1512318 <GO>}

Okay, I'll leave it there. Thank you.

## A - Robert Blue {BIO 16067114 <GO>}

Thanks, Steve.

## Operator

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

## Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning team and I want to second Steve's comment there on the crisp solar disclosures. I have two questions, both on that solar front. Bob, you mentioned narrowing the scope of the investigation last week. Maybe just elaborate on that as to sort of why do you think that's a positive update? And how does that impact you and others in the industry?

## A - Robert Blue {BIO 16067114 <GO>}

Yes. I mean I can't -- there's not a lot of specifics that I would say, but it just gives us more confidence as you're sort of narrowing what they're looking at. I think there was some lack of clarity on that at first and that helps. So directionally positive. I can't identify that there's a particular specific number that it changes for us.

## Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. I guess it sounds like they narrowed the scope and it seems like you feel like the items to be debated are somewhat less. Is that like..

## A - Robert Blue {BIO 16067114 <GO>}

You got it.

## Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. Okay. Understood. And then just the 2023 1-plus gigawatt sort of plan, 60% secured. How are you getting to that 60% secured? Is that because it is sort of -- the procurement there is from domestic entities? Or -- because we're hearing from some of your peers that there's a tremendous amount of tightening in the market on store panels. And given the tariff uncertainty, it's kind of hard to procure. So I'm just kind of curious as to how you get to that 60%? How do you get comfortable with that 60% number in 2023?

## A - Diane Leopold {BIO 16365511 <GO>}

Hey, good morning. This is Diane Leopold. So our 2023 projects are really all under contract. And for 60% of them, we know where our panels are coming from and we know definitively that 60% are not subject to this particular review given the four countries that are under review. So it doesn't mean that the 40% definitely are affected by it, but we do have contracts for our 2023 projects and 60% of them are secured from areas not in this investigation.

## Q - Durgesh Chopra {BIO 20053859 <GO>}

Okay, thanks, Diane. That's very helpful color, I appreciate that. Thank you, guys. I appreciate you taking time.

## Operator

Thank you. Our next question will come from Jeremy Tonet with JP Morgan.

## Q - Jeremy Bryan Tonet {BIO 15946844 <GO>}

Hi, good morning.

## A - Robert Blue {BIO 16067114 <GO>}

Good morning, Jeremy.

## Q - Jeremy Bryan Tonet {BIO 15946844 <GO>}

Just want to keep going with the solar a little bit here. And I know you guys provide a lot of great details, so thank you for that. But just picking up, I guess, in your conversations with key stakeholders here, especially the commission. Since the start of the DOC investigation just wondering if you could provide a bit more color on how that's going? And do you anticipate the next clean energy filing in 2022? Or are those following in 2023 to differ from the latest clean energy filing? And really, how is the commission viewing the higher solar costs relative to other means of generation at this point?

## A - Robert Blue {BIO 16067114 <GO>}

Yes, Jeremy, I'll start and Diane could add any color, if necessary. But if you look, our CE2, Clean Energy II filing that was just approved was slightly higher prices than our Clean Energy I filing that had been approved a year before. And we'll file again for our third round later this year. And that was approved. The commission looked at the cost inputs associated with that and approved that filing.

So we're not -- we have not had specific conversations with the commission about this, but we'll -- we file the next round of solar, it will be on a similar kind of scale as what we filed before. And to the extent that there are some additional cost pressures, we'll show why they're there.

I do think it's important to understand that we've got a statute in Virginia, the Clean Economy Act, that calls for us to file for solar every year and hit those targets that are set out in the statute. And I think there's an understanding by all the parties there. And we still see solar as a very good value for our customers as we think about the overall clean energy transition.

So we'll do the next filing. We're obviously well underway with working through the pieces of that. We'll have that filing done later this year, but we're still very much on track.

So we have not had a specific conversations with the commission about this, but when we file the next round of solar, it will be on a similar kind of scale as what we filed before and to the extent that there are some additional cost pressures will show why they're there. I do think it's important to understand that we've got a statute in Virginia Clean Economy Act that recalls for us to file for solar every year and hit those targets that are set out in the statue and I think there is an understanding by all the parties there.

And we still see solar as a very good value for customers, as we think about the overall clean energy transition. So we'll do the next filing we're obviously well underway with working through the pieces of that we'll have that filing done later this year, but we're still very much on track.

## Q - Jeremy Bryan Tonet {BIO 15946844 <GO>}

Got it. That's very helpful there. And then just pivoting here towards the hope gas. Just want to see if there's any updates that you could provide us there in the process or any expectations, if anything's changed or just on track at this point?

## A - James Chapman {BIO 19939701 <GO>}

Hey, Jeremy, that process is very much on track. It's going well. We cleared the HSR hurdle already. We are in the process of discussing that and doing a load of filings with the Western Commission. So far, that seems to be progressing well, and we very much expect closing by the end of the year.

## Q - Jeremy Bryan Tonet {BIO 15946844 <GO>}

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

## A - Robert Blue {BIO 16067114 <GO>}

Thank you.

## Operator

Our next question will come from Paul Zimbardo with Bank of America.

## Q - Paul Andrew Zimbardo {BIO 18277958 <GO>}

Hi, good morning. Thank you. I definitely can pass on the solar question. Thanks for the details there. On your commentary about O&M, I was curious, what does the pension performance been year-to-date? And are you thinking there could be a benefit or a headwind for '23 when you factor in the asset performance and also changes to the discount rate?

## A - James Chapman {BIO 19939701 <GO>}

Well, good question. We've heard that come up from a few of our peers this earnings season. It's interesting because our take -- our view is that it's too early to tell. Here we are at the end of Q1, yes, assets are down. So discount rates are up. So we just don't think it's meaningful to make a determination on what that's going to mean for the 12/31 remeasurement date for all that.

A little more color though. We -- at year-end, we're at about 110% funded status. And based on rough math, mark-to-market today, assets are down a little bit, returns are down, discount rates are up, we still think it's in that same 110% range.

But of course, for the natural pension expense for next year and beyond, first of all, it's only really mark-to-market at one time, which is 12/31, so some time to go in the year before we get there. And then both those elements, of course, factor in. If assets are down, of course, that's a hurt to pension expense, more pension expense. And the corollary is that if discount rates and interest rates are up, it's a help.

So we've seen those two things really offset so far on the rough mark-to-market through the first four months -- three or four months. But really, it's just too early to be able to tell much. What really matters where we are at the end of the year.

## Q - Paul Andrew Zimbardo {BIO 18277958 <GO>}

Okay. Great. And then a bigger picture, longer-term question, if I could? I noticed there's a fair amount of storm damage in the quarter and also last year as well. Are there any kind of initiatives, whether capital or O&M that you can take to kind of preemptively mitigate some of this like more strategic undergrounding or other avenues such as that?

## A - Robert Blue {BIO 16067114 <GO>}

Yes. Certainly, things that we look at. Obviously, we have a grid transformation program underway. That'll be a decade long. Strategic undergrounding is an important part of that, being able to sectionalize lines more quickly and isolate faults and restore service without as much human intervention will be part of it. Some of the just basics of bigger poles, stronger conductor will also help. So yes, we've got programs underway that we will continue and always look for ways that we can cost effectively strengthen our system for customers.

## Q - Paul Andrew Zimbardo {BIO 18277958 <GO>}

Okay, great. Thank you all very much.

## Operator

Thank you, ladies and gentlemen. This concludes today's event. Thank you for joining us. You may now disconnect.