Q4 2020 Earnings Call

Company Participants

- James Chapman, Executive Vice President, Chief Financial Officer & Treasurer
- Robert Blue, President & Chief Executive Officer
- Steven Ridge, Vice President, Investor Relations
- Thomas Farrell, Executive Chairman

Other Participants

- Daniel Ford, Analyst, UBS
- Durgesh Chopra, Analyst, Evercore ISI
- James Thalacker, Analyst, BMO Capital Markets
- Jeremy Tonet, Analyst, JP Morgan
- Julien Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Michael Lapides, Analyst, Goldman Sachs
- Michael Weinstein, Analyst, Credit Suisse
- Shahriar Pourreza, Analyst, Guggenheim Securities
- Srinjoy Banerjee, Analyst, Barclays
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Welcome to the Dominion Energy Fourth Quarter 2020 Earnings Conference Call. At this time each of your line 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>}

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'll 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 Tom Farrell, Executive Chairman; Bob Blue, President and Chief Executive Officer; Jim Chapman, Executive Vice President and Chief Financial Officer and other members of the executive management team.

I will now turn the call over to Tom.

Thomas Farrell {BIO 1509384 <GO>}

Thank you, Steve and good morning everyone. I want to start by outlining Dominion Energy's compelling shareholder return proposition. We expect to grow our earnings per share by 6.5% per year through at least 2025, supported by our updated $32 billion five-year capital growth plan. We offer an attractive dividend yield of approximately 3.5%, reflecting a target payout ratio of 65% and expected long-term dividend per share growth rate of 6%. This resulting 10% percent total shareholder return proposition is combined with an industry-leading ESG profiles characterized by what we believe is the largest regulated decarbonization investment opportunity in the country.

We plan to invest tens of billions of dollars over the next several years to the benefit of the environment, our customers, our communities and our local economies. Our strategy is anchored on a pure play, state-regulated, utility operating profile that centers around five premier states as shown on Slide 5. All share the philosophy with a common sense approach to energy policy and regulation. It's a priority on safety, reliability, affordability and increasingly sustainability. These states also strive to create environments to promote sensible economic growth, which like the rising tide lifts all boats. For instance, three of these states jurisdictions rank consistently in the top four best states for business, that's determined by independent analysis carried out by CNBC and by Forbes. Out state-regulated utility model offers investors increased predictability and is enhanced by our concentration in these fast growing, constructive and business friendly states.

Turning to Slide 6, Dominion is a purpose-driven company and has adopted a comprehensive stakeholder approach. We are driven by the belief that the world's best companies could serve the interest not just of investors, but also employees, customers and communities and the well-being of the environment. Our actions are grounded in adherence to our five core values and we embrace transparency and stakeholder engagement as hallmarks of responsible corporate citizenship. The well-being of our over 17,000 employees is critical to our long-term success and there is no measure more important to our company than the safety performance of our employees. 2020 represented by a wide margin, the safest year of operations in the history of our company as depicted on Slide 7. This result did not happen overnight, as you can see it takes years of dedicated effort to drive sustainable improvement. I congratulate my colleagues on the significant achievement. Turning now to our customers and communities. We believe that it is not enough that will provide energy safely. We must also provide energy that is affordable. We are pleased with the residential rates that our two electric utilities compare favorably to State, National and where applicable ready state averages. Looking forward, we expect our customers to be very competitive even as we invest heavily to transform our systems carbon footprint. Bob will address this more comprehensively in his remarks.

With regard to our community initiatives during 2020, which are described on Slide 8. First, the impact of COVID-19 on our customers during 2020 was obviously significant, which is why we voluntarily took immediate action at the onset of the pandemic to suspend service disconnections. In doing this we avoided what otherwise would have been disconnection of over 255,000 customer accounts. We also developed extended and flexible payment plans, resulting in over 330,000 enrollments and we contributed $18 million towards direct energy assistance for our most vulnerable customers. In Virginia, we support and special session legislation, which customers of fresh start by forgiving over $125 million of customer arrears. We also agreed to a pause in our South Carolina rate case proceeding, ensuring that the result of that case will not impact customers until late this year.

Second, we built on our long-standing legacy of supporting social equity by committing $25 million to 11 historically black colleges and universities, funding an additional $10 million for scholarships for underrepresented minority groups and creating a $5 million social justice fund, it supports community efforts to address the impacts of racism. This is in addition to the diversity and inclusion initiatives within our company that Bob will address. As you can tell, we are extremely proud of these accomplishments and I think all of my Dominion Energy colleagues contributed to these successes in what was obviously an extraordinarily challenging year.

Turning now to Slide 9. We have rolled forward our five-year capital growth plan to capture the years 2021 through 2025. This has resulted in a $10 billion or 43% increase to the plan we shared with you in the spring of 2019 as adjusted for the Gas Transmission & Storage sale. We now project $32 billion of growth capital investments on behalf of our customers, over 80% of which reduces or enable emissions reductions. We plan to invest $17 billion in zero carbon generation and energy storage including regulated offshore wind, solar and nuclear relicensing and another $6 billion in electric grid enhancements such as electric transmission and grid modernization, which will enable our system to be more resilient to cyber and climate threats and more responsive to increasing intermittent generation. And we plan to invest $3 billion on the modernization of our LDC networks, as well as our renewable natural gas development, thereby increasing safety and reliability while driving emissions down. Jim and Bob will provide more color on these industry-leading investment programs in a moment.

As meaningful as these near-term plans are, consider on Slide 10 as they compare to the long-term scope and duration of our overall decarbonization opportunity. Our initiatives extend well beyond our five-year plan. We have identified over $70 billion for Green investment opportunity between 2020 and 2035, nearly all of which will qualify for regulated cost of service recovery. This is as far as we can tell, the largest regulated decarbonization investment opportunity in the industry and the accelerating electrification of the transportation sector promises to drive growing demand for utility scale, zero and low carbon generation for many years to come. Company's long-term transformation has multiple beneficiaries. Our customers, who want more sustainable energy, our local communities, which benefit from the economic growth in tax revenue with the company's investments. Our employees, who develop the best practices of the transition to a low carbon future and the environment, via the emissions reductions we illustrate on Slide 11.

Through 2019 inclusive of asset divestitures, we have successfully reduced our enterprise-wide CO2 equivalent emissions by around 55%. This is great progress, but we have more to do. By

2035, we expect to improve that reduction to between 70% and 80% versus baseline on our way to net zero by 2050. As shown on the right side of the slide, by 2035, we expect that approximately 95% of our company-owned generation will be either zero or low emitting, a remarkable transformation from our 2005 to stat [ph] mix

Before turning it over to Jim, I will summarize the actions in advance of 2020, that have positioned Dominion to thrive for years to costs. We took care of one another, in so doing, we achieved an all-time safety record. We took quick action to work with our customers, to address the impact of the COVID-19 pandemic. We announced our ambition to be net zero by 2050. The Virginia Clean Economy Act was adopted by the general assembly, which puts the state on a cutting-edge path to decarbonization and positions the state as a hub for the global green economy transition. We advanced our strategic positioning by selling our gas transmission and storage assets to focus on our premier state regulated utility operations. We simultaneously initiated best-in-class earnings and dividend growth rates. We reported our 20th consecutive quarter of weather normal results that met or exceeded the midpoint of our quarterly guidance and we transitioned both our CEO and Lead Director roles.

With that I will turn it over to Jim.

James Chapman {BIO 19939701 <GO>}

Thank you, Tom, and good morning. Our fourth quarter 2020 operating earnings as shown on Slide 14 were $0.81 per share, which included a $0.01 hurt from worse than normal weather in our utility service territories, both actual and weather normalized results were above the midpoint of our quarterly guidance range. Full year 2020 operating earnings per share were $3.54 above the midpoint of our guidance range and included a $0.09 hurt from weather. Weather normalized result of $3.63, we're at the top of our annual guidance range. Note that our fourth quarter and 2020 GAAP and operating earnings together with comparative periods are adjusted to account for discontinued operations, including those associated with the sale of assets to Berkshire Hathaway Energy and then a summary of such adjustments between operating and reported results is as usual included in Schedule 2 of our earnings release kit.

As shown on Slide 15, this represents our 20th consecutive quarter of five years now of delivering weather normal results that meet or exceed the midpoint of our quarterly guidance range. We've highlighted here the 5th -- the July 5 Gas Transmission and Storage sale announcement on the chart and this was obviously -- obviously has an impact on our original annual guidance, which is of course sets prior to that transaction, but regardless, we believe the historic consistency across our quarterly results is worth highlighting and it's a track record we are absolutely focused on extending.

Turning now to slide -- to guidance on Slide 16. As usual, we are providing a range for the year, which is designed primarily to account for variations from normal weather. We are initiating 2021 operating EPS guidance of $3.70 to $4 per share. The midpoint of this range is in line with the indicative guidance midpoint range we provided in July. Measured midpoint-to-midpoint we expect approximately 10% growth in 2021 also consistent with our July guidance. Looking longer term, we expect operating EPS to grow off the 2021 base at around 6.5% per year through 2025. Finally, we expect first quarter 2021 operating earnings per share to be between $1 and $1.15.

Turning to Slide 17, we expect our 2021 full-year dividend to be $2.52 reflecting our target payout ratio of approximately 65%. We're also extending the long range dividend per share growth rate of 6% of that '21 base through 2025.

Slide 18 provides a breakdown of the five-year growth CapEx going forward, which Tom introduced. For more details on this, I would point to the very comprehensive appendix materials. We've really put some effort in providing all the more granular detail, which we expect will be useful for understanding and modeling each part of this growth profile. But just a few items I'll highlight here. We are forecasting a total five-year rate base CAGR of around 9% broken out here by segment and by major driver. I would note that nearly three quarters of this planned growth CapEx is eligible for rider recovery. That nomenclature varies by capital invested underwriters, rate adjustment clauses or trackers or their calls in various in various jurisdictions, allows for more timely recovery of prudently incurred investments and costs. They are filed and trued up at least annually in single-issue proceedings, so outside of the more time consuming and less frequent general base rate proceeding.

In some larger restrictions including Virginia, rider recovery mechanisms utilize a forward-looking or projected test period and/or allows for construction work in progress, all of which minimizes traditional regulatory lag, that other cases can prevent utilities from earning at their authorized return levels. Rider eligible CapEx programs varies a little by state, but prominent examples for us include offshore wind, solar, energy storage, nuclear relicensing, electric transmission, strategic undergrounding, grid transformation, rural broadband and gas distribution infrastructure integrity and modernization spending.

On that theme and turning to Slide 19, we illustrate how based investment and rider investments are expected to trend at Dominion Energy Virginia through the five-year plan. You will note that the Virginia base investment balance is growing at about 6% annually, driven primarily by new customer connections and and maintenance spending. By contrast, the rider investment balance in Virginia, which comprises half of DEVs investment base today is expected to grow at nearly 20% annually on average. Since the Virginia rider investment programs are reviewed and trued up annually, they are not included in the triennial review process, the first of which of course will commence next month. Based on these growth trends, the base investment balance as a percentage of total DEV declines from 37% to 27% by 2025. It also shrinks dramatically as a percentage of overall Dominion Energy.

On Slide 20, we refresh our outlook for sources and uses of cash. So on average between '21 and '23, we expect to generate annual operating cash flow of around $6.6 billion, return about around $2.4 billion to our shareholders in the form of dividend and invest nearly $8 billion a year on growth and maintenance CapEx on behalf of our customers. Our financing plan assumes, we issue around $400 million of equity annually through our existing DRIP and ATM programs with the residual financing needs satisfied by net fixed income issuance.

Again, as shown on Slide 21, these are multi-year averages. To be clear, in 2021, we don't expect any issuance under our ATM program. This equity guidance is consistent with our prior guidance for the '21 through '24 period. We view this level of steady equity issuance under existing programs as prudent, EPS accretive and in the context of our very sizable growth capital spending program, appropriate to keep our consolidated credit metrics within the guidelines for our strong credit ratings category. To that point, as shown on Slide 22, our consolidated credit metrics have continued their steady improvement as has our pension plans funded status. We're all very proud of these results. We continue to target high BBB range credit ratings for our parent company and A range ratings for our regulated operating companies.

Before I summarize my remarks, let me spend a minute on O&M as demonstrated by our 2020 results. We're focusing on driving O&M through improved processes, innovative use of technology and other best practice cost initiatives to keep normalized O&M flat during the forecast period. This reflects the successful continuation of our flat normalized O&M efforts we discussed in more detail at our last Investor Day. So that, I'll summarize, we reported fourth quarter and full-year 2020 operating EPS, which were above the midpoint of our guidance, extending our track record to five-years of meeting or exceeding the quarterly midpoint on a weather normal basis.

We initiated 2021 full-year operating EPS guidance that represented 10% annual increase midpoint-to-midpoint. We affirmed 6.5% operating EPS growth from '21 through '25. We introduced a $32 billion five-year growth CapEx plan that drives approximately 9% rate base growth. We expect highly disproportionate rider investment spending across our segment and our balance sheet and credit profile remain in very good health.

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

Robert Blue {BIO 16067114 <GO>}

Thanks, Jim and good morning everyone. I'll begin on Slide 25, which provides an overview of the Virginia Clean Economy Act. The law mandates a renewable energy portfolio standard that over the next 25 years moves towards a zero carbon future. In order to achieve the RPS milestones, the law calls on the states utilities to add significant amounts of wind and solar power generation as well as battery storage. Ramps up energy efficiency and demand side management programs requires the use of Virginia-based renewable energy credits mandates that Virginia join the regional greenhouse gas initiative and requires the retirement of substantial coal-fired generation by 2025 and all fossil fired units by 2046 subject to reliability and energy security considerations.

The largest single investment projects come out of the passage of the VCEA is Dominion Energy's initial 2.6 gigawatts offshore wind deployment as described on Slide 26. I'm not going to go through every line item on this slide, but will highlight the following. First, the project, which is the largest of its kind of North America is very much on track. This project will provide a boost to Virginia is growing green economy by creating hundreds of jobs, hundreds of millions of dollars of economic output and millions of dollars of tax revenue for the state and localities. They'll also propelled Virginia closer to achieving its goal to become a major hub for the burgeoning offshore wind value change up and down the country East Coast. Second, as was contemplated in the VCEA, we intend this investment to be 100% regulated and eligible for rider recovery. Finally, the VCEA provides very specific requirements on the presumption of prudency for investment in the project as shown here, which we are confident that we will meet.

On Slide 27, we list the major project milestones. In December of last year, we submitted our construction and operations plan to BOEM. We are encouraged by the incremental funding appropriated to BOEM late last year with the specific direction to augment the agencies resources to process offshore wind permits as well as those recent -- recommencement of processing the Vineyard Wind application. As you likely know by now, we are the only owner in the United States who've completed an offshore wind BOEM permitting process successfully. Our 12-megawatt test project, which recently entered service completed the BOEM permitting process in 2019 and we're applying lessons learned during that process to our application. The underlying model is on the left hand side of this slide. The leases position in shallow water outside of major maritime shipping lanes, away from any other offshore when leaseholds and not in a region that supports a significant commercial fishing industry. We expect to receive final permits in mid 2023 and complete project construction around the end of 2026. The VCEA calls for another 2.6 gigawatts of offshore wind by 2036, while our near-term focus is on successfully executing on our initial deployment, we look forward to finding ways to support the state's additional offshore wind capacity goals. The VCEA provides that the cost of any offshore wind project will be borne by our customers only in proportion to our ownership of the project.

While offshore wind may be our largest single renewable energy projects, the aggregate capacity of solar generation call for by the VCEA is over 3 times larger. In accordance with the law 65% of the target amount is to be utility-owned. It is not a new ground for us or for the commission. To date we've made four cost of service rider recovery filings for solar projects in Virginia. Three representing around 400 megawatts have been approved and the most recent filings is pending approval. We expect to make additional filings annually as we work toward the over 10 gigawatts of regulated solar capacity called for by the law. Current solar technology requires around 10 acres for every megawatt of installed capacity, rough math suggest therefore that the utility owned target of around 10,000 megawatts will require around 100,000 acres of land. We've been hard at work to secure enough land to support our long-range goal and I'm pleased to report that in less than a year, we put 63,000 acres under option.

Turning to Slide 29, what started with an 8 megawatt facility in Georgia in 2013 has today become a portfolio of over 2.2 gigawatts, representing over $5 billion of investment. Our early focus was on the development of long-term contracted projects, mostly outside of Virginia that allowed us to develop the expertise and competency to undertake the substantial regulated solar build out in Virginia that I just described. Going forward, you can see that our emphasis shifts and a very significant majority of our solar capacity investment will take place under regulated cost of service recovery mechanisms in Virginia. Both and long-term contracted solar is limited and driven by large customer request for bilateral 100% renewable power supply. As increasing intermittent generation sources proliferate our system, energy storage will be critical to maintaining reliable service.

We observe a keen interest the recent example of the negative consequences that occur for customers and rapid changes in intermittent generation are not accommodated with sufficient storage and or a quick start gas-fired generation. Hence, the VCEA prudently calls for the development of nearly 3 gigawatts of energy storage by 2036, 65% of which is to be utility-owned and rider eligible. Admittedly, we're starting small when it comes to developing technologies in this area. 16 megawatts of pilot projects across three different sites and three different use-case scenarios as shown on the right side of Slide 30. But starting small has its advantages, as we saw in both our offshore wind and solar development strategies. We're rapidly developing expertise that will ensure we are providing the maximum value to customers as we fulfill the targets of the VCEA. In our estimation, the success of greenhouse gas emissions reduction targets requires the ongoing viability of existing nuclear facilities. That's why we filed for 20-year license extensions for our four Virginia regulated units. Today, these facilities account for 30% of Virginia total electric output and around 90% of Virginia zero carbon electricity. Based on PJM's carbon intensity rate, the ongoing operation of these plants will effectively avoid CO_2 emissions of 16 million tons per year.

Key milestones for the re-licensing process are shown on Slide 31. We expect to submit for rider cost recovery approval in the second half of this year. Our near-term focus is on the Virginia units, but under the appropriate circumstances life extensions over the long term at our other three units may be advisable. Successful nuclear life extension is a win for customers and the environment. The transition to a clean energy future means reduced reliance on coal-fired generation. As Tom showed in 2005, more than half our company's power production was from coal-fired generation. By 2035, we project that to be closer to 5%, perhaps lower the South Carolina Commission prefers an accelerated decarbonization plan as type -- part of our IRP refile from an investment base perspective, which is a rough approximation of earnings contribution.

You can see on Slide 32, the diminished role coal-fired generation plays in our financial performance, driven by facility retirements and non-core investment. We are mindful that this shift has the potential to be disruptive to employees and communities and are being purposeful in our efforts to ameliorate any such negative consequences. You will also note that zero carbon generation grows significantly, such that by 2025 over 60% of our investment base will consist of electric wires and zero carbon generation.

Turning to Slide 33. Let me address customer rates with a focus on Virginia. First, between 2008 and 2020, our typical residential customer rate increased on average by less than 1% per year, which is much lower than average annual inflation over that period of closer to 2%. Second, based on EIA data, our typical customer rate is 13% lower than the national average and 36% lower than other states that like Virginia joining RGGI. And third going forward, we see typical residential rates increasing by a compound annual growth rate of around 2.9% through 2030, which is a comprehensive estimate and includes, among other factors the impact of the decarbonization investment programs we discussed today. If we move the starting point back to 2008, that rate of increase falls to 2.1%, which is lower than projected inflation for 2021. It's incumbent upon us to deliver energy that is safe, reliable, increasingly sustainable and affordable.

Now on Slide 34. Let me address the upcoming triennial review proceeding. Now we developed detailed slides in the appendix that we believe will be helpful to you on this topic. First, the triennial review process will commence next month and conclude by this year. Second, this triennial review will cover four years of performance from 2017 through 2020, and compares ROE return to our allowed return of 9.9% inclusive of a 70 basis point collar. Third, and as Jim pointed out, the review applies only to the Virginia base portion of our rate base. Rider investments are outside the scope of the proceeding. And finally, to the extent the commission concludes that available revenues inclusive of adjustments for impairments, weather and other factors are greater than customer credit reinvestment, it may order a refund as well as a forward-looking revenue reduction of up to $50 million. So let me point out just two factors that we know will be part of the first review process. First, we've invested nearly $300 million in the on-time and on-budget completion of the 12-megawatt offshore wind test project. We've indicated we will not seek a revenue increase from customers associated with this project; rather we will apply that investment as needed as a customer credit reinvestment offset. Second, we provided over $125 million of arrears relief in Virginia to assist customers, many of whom have faced financial hardship as a result of COVID.

Naturally, we're focused on the triennial review filing next month, but we also get questions from time-to-time regarding the second triennial review, which is expected to conclude in almost four years, a few observations there, which are shown on Slide 35. First, we're in the very early days, 43 days I think of that review period. So obviously we have quite a ways to go before being in a position to file the precise regulatory inputs for that proceeding. What we do know, however, is that the structure of the review will be similar to T1. This includes the ability for instance to use customer credit reinvestment offsets, which allow us to invest in projects for the benefit of customers. Second, as Jim described well, the robust growth of our asset base at DEV is concentrated around rider recoverable investments. They are outside the scope of triennial available earnings reviews, combined with growth at our other state-regulated operating segments, the proportion of the company's earnings and cash flows, which are subject to triennial earnings cash will naturally diminish over the forecast and beyond.

Third, the very nature of our business is a state-regulated utility company is working with regulators to deliver beneficial outcomes for both customers and investors; it's something we've been doing for many years. We expect to continue to apply the experience we've gained to upcoming rate proceedings of all varieties, including the triennial reviews. We firmly believe that there are a number of paths that converge on a single objective, serving customers, employees, communities, the environment and investors. On top of that, we're incredibly excited about what Dominion Energy is planning to accomplish well beyond the next two triennial reviews. Specifically over the next 15 years, the investment of upwards of $70 billion of Green Capital, nearly all of which will grow earnings under regulated rider mechanisms and significantly reduce emissions, while maintaining competitive customer rates. We don't believe any other company in the United States offers the duration, visibility and scope of regulated decarbonization growth that Dominion Energy now offers.

Shifting gears a little on Slide 36. We summarized the status of the pending South Carolina general rate case proceeding, which is presently in a six-month pause, which we supported. As part of the pause, the commission ordered the parties to report on a monthly basis on their progress toward reaching a settlement. We can't report to you this morning on the status of current negotiations, and we look forward to continuing to engage with parties to the case and also finding a suitable resolution to bring before the Commission for approval. In the meantime, our commitment to customers is unwavering. Over the last approximately 15 years, we've reduced average annual customer outage minutes or SAIDI by 40%. Investments made in prior periods including the years covered by our recent rate case filing are critical to system reliability and the continuation of this trend to the benefit of our customers. We're committed to being 100% of our merger commitments, establishing trust with our customers and communities and working toward an increasingly sustainable future for South Carolinians.

In that regard, let me provide an update on our integrated resource plan. Briefly the commission asked us to re-file the plan and consider among other changes accelerated renewable energy deployment and increased sensitivities to potential carbon pricing. In the table on the right hand side, you can see how one of the cases we filed with our original IRP called Plan 8 is indicative of the potential for accelerated decarbonization, but only slightly higher customer cost as compared to the prior base plan. Plan 8 would retire 1300 megawatt of coal-fired generation in 2028 and add 300 megawatts of storage and 700 megawatts of new solar, which would result in a nearly 60% reduction in CO2 emissions by 2030 and only cost approximately 3% more than the base plan. We look forward to engaging with all stakeholders on this planning process.

On Slide 38, we provide key elements of our Gas Distribution segment growth from sustainability strategy. Our utilities operate in some of the fastest growing areas of the country with the annual customer growth rates approaching 3% in two of our three largest markets. These customers simply prefer natural gas service for cooking, heating and other residential, commercial and industrial applications. We're also fortunate to operate in jurisdictions where regulation prioritize the safety and reliability. Decoupling mechanisms promote the implementation of increased efficiency measures, which helps to reduce customer bills, and infrastructure modernization and integrity trackers allow us to make critical investments and upgrades to both reduce emissions and raise the bar on safe and reliable service. When it comes to natural gas distribution, location matters. We know that for natural gas to be relevant in the future, we must continue to focus on increasing the sustainability of our service.

We've adopted ambitious Scope 1 emission targets, but that isn't enough. We're now looking at Scope 3 emissions in cutting-edge ways. We formalized our support for federal methane regulation and we're working towards procurement practices that encourage and enhance disclosures by upstream counterparties on their emissions in methane reduction programs. Further, we're considering a preference for suppliers and shippers, who adopt a net zero commitment. For downstream emissions, we plan to increase our annual spend on energy efficiency by 45% over the next five years and provide our customers with access to a carbon calculator and carbon offsets. We're also developing plans, which will require a collaboration with policymakers and regulators to increase access to R&D for our customers and ultimately to initiate mandatory R&D blend levels that would act to offset our customers carbon footprint. And finally we're pursuing innovative hydrogen use cases, which we discussed in more detail in the appendix. This includes our participation as a founding member of the low carbon resources initiative as it surpassed $100 million of funding from over 30 industry members.

I'll conclude my remarks by addressing several important topics we took in 2020 that enhanced our industry-leading ESG profile. In February, we announced a goal of net zero carbon and methane emissions by 2050. Over the summer, as the nation began to reexamine important points around rates, we built upon our existing legacy of social equity by committing $40 million to social justice and equity projects [ph]. In October, we published our latest Sustainability and Corporate Responsibility Report, which confirms with the major and best-in-class reporting standards, including the Global Reporting Initiative, Sustainability Accounting Standards Board and the UN Sustainable Development Goals framework. Also, in October, we established a new commitment to increase our total workforce diversity by 1% each year. During 2020, we got to a strong start with half of our company's new hires being diverse, and in November, we announced our formal support for the task force on climate related financial disclosures or TCFD, making us one of only six utilities to adopt such support.

Looking ahead on Slide 40, we have more to do. In January, as I mentioned, we publicly formalized our support for federal methane regulations. During the second quarter of this year, we'll publish an updated Climate Report that will reflect TCFD recommended methodologies and throughout 2021, will advance our efforts to address Scope 3 emissions, firstly in our gas distribution businesses as I previously described. These and other ESG oriented efforts have been recognized by leading third-party assessment services as shown on Slide 41, by each measure our performance exceeds the sector average. We've been recognized as part of the leadership and by CDP for our climate and water disclosure as trendsetters for the third consecutive year by the CPA-Zicklin report on political accountability and transparency and as part of the JUST 100 for the second consecutive year by JUST Capital for our actions to promote increased equity.

I'll conclude the call on Slide 42, which you saw on Tom's remarks as well. We are taking steps today to chart a course that over the next decade will put our company on a remarkable journey to becoming the most sustainable energy company in America. Our future is bright and we're focused on executing this plan for the benefit of our employees, customers and communities, the environment and our investors. With that, we're ready to take questions.

Questions And Answers

Operator

Thank you, sir. At this time, we will open the floor for questions. (Operator Instructions). Our first question comes from Steve Fleishman with Wolfe Research.

Q - Steve Fleishman {BIO 1512318 <GO>}

Hi, thanks, good morning. So just first question on the -- your growth rate now goes out to 2025, which would encompass I guess 2024 triennial outcome in it. Can you talk a little bit of how you're kind of including that in your assumptions, what are you assuming for that?

A - Robert Blue {BIO 16067114 <GO>}

Yeah. Thanks, Steve. Appreciate the question. We're -- as I mentioned earlier, we're only 43 days into three-year period, that's going to be reviewed and we don't even file a case for more than three years. So, not surprisingly, lots of details to come. Do you think it's important -- when we look at a developing a long-term growth rate, we look at a variety of planning scenarios, we don't assume a single outcome for the 2024 triennial or any other major planning assumption that far out in our plan. I will say one thing that is certainly assumed in all of our forecasted outcomes 2024 or any other years that Virginia regulation continues to be constructive just the way it worked over the years, which is provided our customers with solid reliability rates more than 10% below the national average and a greener and greener generation portfolio. And then I think it's also important to remember as Jim and I talked about earlier that a portion of our base rates, that, the portion of our earnings that come from base rates in Virginia as we go through time and riders and other mechanisms outside Virginia grow in importance, our growth between now and the '24 triennial and then after the '24 triennial is driven by rider investments that are outside the '24 triennial or any other triennial proceeding.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. So is -- is the punch line then you kind of feel like you've got ability to deal with a variety of outcomes for that or in the scheme of things or -- and that's kind of encompassed in there in your assumptions.

A - Robert Blue {BIO 16067114 <GO>}

Yeah, Steven, this is what -- this is what we do is what we've done over the years as we worked with regulators, policymakers on constructive outcomes for customers and and health of the utility, and we fully expect that we'll be able to continue that going forward.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then one other question related to that is -- I did notice that it does seem like the base component of the rate base in Virginia and the percentages seen lower they had been from your other recent disclosures, could you just explain maybe some of the changes there, I guess maybe, Jim?

A - James Chapman {BIO 19939701 <GO>}

Hey Steve, good morning, let me take that and I'm not sure if everyone has the full backend program, but for our future reference set out on Page 60 in the appendix. But you're right, the total rate base in Virginia has not changed, other than due to the passage of time and the completion of the year. But what we did do is we refined the calculation of the elements of total rate base. We've been showing the schedule since like 2019, we started this, I guess our last Investor Day, where we at that time in the triennial was very far away, we were trying to make it simple, so we lost some things together. And now we've refined that and the refinement relates to about $4 billion of rate base that previously we had categorized as Virginia base and other -- and $4 billion is really the other and we've now -- we always do that to other categories.

So what's in the others? Those are contract where we serve various entities in the state, municipalities, State of Virginia itself, the federal government, entities like that where the contracts reflect different economic construct. Some of them are just sort of negotiated, those are in the other category in our new slide and others track more, some of the riders, whether it's transmission rider or legacy ASICs riders, so reallocated to be more precise. Now Virginia base is not Virginia base and other, it's just Virginia base. It brings down that number to about $9 billion. So I think that's helpful to folks that they do math and sensitivities to have that more refined division in the various buckets of our total preliminary base.

A - Robert Blue {BIO 16067114 <GO>}

Okay, thank you very much.

A - Steven Ridge {BIO 20475546 <GO>}

Thanks, Steve.

Operator

Thank you. Our next question comes from Dan Ford with UBS.

Q - Daniel Ford {BIO 1498929 <GO>}

Hi, good morning. Thanks very much for the time today. So

A - Thomas Farrell {BIO 1509384 <GO>}

Dan, thanks for joining.

Q - Daniel Ford {BIO 1498929 <GO>}

Thank you. So this question is for you, Bob. So the Virginia Legislature has several live utility and energy economy related bills still floating around and Governor Northam has asked for a special session. Can you put all the noise if this creates for investors into perspective for us?

A - Robert Blue {BIO 16067114 <GO>}

Yeah, sure. I don't think I can remember a fourth quarter call, we've done where we didn't get a question on the Virginia General Assembly. I guess that's a function of the timing of our fourth quarter call and the session. So I'm glad you asked us, we would have been disappointed if we didn't -- If we didn't get one this year. You know it's been, now I guess, more than 15 years since I worked in the governor's office in Virginia, but there are a few things about the legislative process that I think are probably still true. The first one, the legislature doesn't follow the scripts. You you make a mistake or you make predictions with certainty about the outcome of legislation at your peril and I think that is still true. The second is that build for it to become law have to clear a number of hurdles. it's not just one house or the other, It's both houses and its committees of both houses and an example of that from this year session would be the one bill introduced in the Senate that related to our regulatory model was defeated in committees on a pretty strong bipartisan vote. And then the last thing that is still true about the legislature in Virginia is it moves quickly.

So I don't think we're going to have to wait a long time. This year the timing has been a little bit different as you mentioned, the session went -- it's constitutionally mandated 30 days and then the governor called a special session, but the process is still moving pretty quickly. And so I think there's bills that you're referring to will be resolved relatively soon, because that's the way the Virginia General Assembly moves. We'll keep an eye on them, but I think it's important to remember that they got hurdles, they would still have to clear before they could become law.

Q - Daniel Ford {BIO 1498929 <GO>}

Okay, thanks very much. And I guess one also for Jim. So Jim, thanks for all the detail on the CapEx going forward as well as what's rider eligible versus not. Can you talk a little bit about the impact that the -- on the CapEx mix and the rider eligible projects will have on cash flow conversion as we go through the next five years?

A - James Chapman {BIO 19939701 <GO>}

Yeah. I'm going to do that. So as I mentioned, almost well over 70%, almost three quarters of our capital spending in the five year plan everything is in rider format in Virginia and elsewhere. So what that means is we invest that capital, there is no regulatory lag. There is a proportional increase in operating cash flow from that investment. So that's quite an assistance in our plan for the sources and uses of cash, given the lack of regulatory lag and kind of the proportional advancement of our rider spin and our rider rate base growth and also our operating cash flow. We think it's quite a (inaudible) feature of this structure.

Q - Daniel Ford {BIO 1498929 <GO>}

Great, thanks very much guys.

A - Thomas Farrell {BIO 1509384 <GO>}

Thanks Dan.

Operator

Thank you. Our next question comes from Shar Pourreza with Guggenheim Partners.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, good morning guys. Just a, just a quick housekeeping and I have a quick follow-up. Just maybe starting with the '21 guidance, obviously you've highlighted an expectation for a 10% or better growth of that 2020 base, but bottom end sort of implies about 6 % year-over-year growth. There's a lot of visibility with the plans. So just trying to get a sense on any scenarios outside of weather that could put you at that lower end? And then I know the midpoint of the range is about $0.025 cents lower versus prior. Is that -- is that South Carolina GRC delay-related, can you manage it, just sort of our conservatism built in there?

A - James Chapman {BIO 19939701 <GO>}

Yeah. A lot of parts of that question as normal Shar. So let me (multiple speakers) South Carolina has no impact on that guidance range, non. Let me walk through the elements of our guidance. So we have -- our long-term EPS growth guidance of 6.5%, which is intended to be more precise than our peers. It's opposed to 200 basis point range. And every year as we -- as we go along that 6.5% long-term, we choose a midpoint for our annual guidance. And around that midpoint, we have a range and every quarter we mentioned that that range is intended primarily to capture different weather outcomes. Now, going back a few years, that range is pretty wide. In the last five years it was $0.50 and was $0.45 (technical difficulty) the primary reason for that range this year included is to incorporate, to accommodate various weather outcome. The midpoint of the range is 3.85 and we're very confident in making that number and continuing our track record of meeting or exceeding on weather normal basis, like we talked about for the last five years. So, this range, the midpoint -- the midpoint, again as I said in my prepared remarks is consistent with the very narrow range of potential midpoints that we guided in July. No rollouts in the South Carolina process.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it, got it. Thank you for that. Jim. And then just lastly on the ratings, obviously you're presenting a really healthy cash flow, the business risk profile has obviously improved, 9% utility growth, a lot of it is rider treatment, single issue rate making, 15% FFO to debt levels, any sort of -- an agency obviously also has on positive outlook, the metrics seem to point you closer to the (inaudible) minus, any sense on how the conversations are going with the rating agencies?

A - James Chapman {BIO 19939701 <GO>}

Let me say it this way, I think generally across the three rating agencies, there is a recognition of the senior management focus on credit, it has been a part of all of the transactions and financings we've done in the last -- in the years. And there's a recognition of the improvement that we've accomplished. So we're in a good spot. Going forward, I wouldn't speculate or operate, but what I -- what I would expect and maybe I'm not trying to get ahead of agencies, but what we hope for is increased recognition of the very material improvement in our business risk profile from a credit perspective. Overall, the last year, there was just -- the dust has barely settled, right on the last step of that would fail on the Gas Transmission and Storage, but I would hope that that element would work its way more into the dialog and even the thresholds, that the various agencies apply to our company.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Terrific. That I was trying to get out, Jim, I appreciate it. Thank you, guys.

A - James Chapman {BIO 19939701 <GO>}

Good luck to you Shar.

Operator

Thank you. Our next question comes from Julien Dumoulin-Smith with Bank of America.

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

Hey, good morning team, thanks for the time and opportunity. Perhaps a follow up on some of the last questions, I've got a couple real quickly, if you can. I believe you just said a second ago with respect to the 6.5% and the increased level of precision, I think Steve brought up earlier, obviously there is a lot baked into that five-year outlook into '25. How do you get yourself so confident around that 6.5% precision that you guys articulate? I mean, obviously it's purpose, you just said, if you can speak to a little bit more narrowly about the level of confidence you have in these outcomes to drive that number, that's great? And then I have a quick follow-up if you don't mind.

A - James Chapman {BIO 19939701 <GO>}

Yeah, I mean I think I answered simply this way, Julian. We were confident in July, when we announced 6.5% growth rate and nothing has changed since then. We're still confident. We've outlined as you've heard today some roll forward of our CapEx. We've got a lot of clarity on rider recoverability of that CapEx and all of that contributes as we sort of develop our assumptions around our long-term growth rate to maintaining the confidence that we had last summer in that 6.5%.

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

Got it. Fair enough. And then, turning back to South Carolina quickly, if you can. Obviously, I heard what you said about '21 here. How do you think about prospects for settlement timeline there, given some of the gyrations then ultimately CapEx, obviously, we're paying attention what's going on with (inaudible) Carolinas here too, how do you think about CapEx opportunities as well?

A - James Chapman {BIO 19939701 <GO>}

Yeah, so on settlement, we are working through the pause that was ordered by the commission that we agreed to, with monthly reports on that and we're always optimistic about our prospects of settling cases because we think we're very creative in finding ways that we can resolve issues that are beneficial for customers and for the company. Ultimately, it requires all the parties to agree to settle and it's -- I can't tell you what's in the mind of the counterparties, I can just tell you that we're working very hard towards that and we have an endpoint that the commission said if you haven't settled, we'll start the case back up again. So we'll get there either with settlement or we'll finish the case and it's a strong case. We are very confident in the case that we filed. We haven't had a base rate case in eight years and we've invested substantially in the system and improved the system and we're entitled to return on those -- into a return on those investments. So we think it's very strong case. Hopefully, we can settle it, if we can't, we're very comfortable with our ability to defend the position that we took in that case.

As to potential future growth, I mean obviously, we need to get through this rate case and see, and that's our focus at the moment, along what they ensure that we maintain our commitments that we made in the merger process. The IoT process obviously suggests that going forward, there may be some further investment opportunities. I will certainly take advantage of those, but right now, what we're focused on is getting this first rate case resolved in a constructive manner.

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

(Inaudible) Best of luck.

A - James Chapman {BIO 19939701 <GO>}

Thanks.

Operator

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

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi guys. I'm wondering if -- to what extent has additional tax credit extensions and some of the renewable stimulus planning that you're expecting to see from the Democrats over the next few months built into the plan? And is there a potential for upside, especially when I look at like the solar (technical difficulty) and maybe even -- just in terms of customer affordability, maybe you could afford to do some more work, maybe undergrounding or grid transformation?

A - Robert Blue {BIO 16067114 <GO>}

Yeah, that's a great question, Michael, and you're right. For us in the regulated environment that we're talking about, the extension of the ITC and various tax credits is customer rate beneficial and doesn't change the investment return, but definitely reduces the rate that the customers pay. So we'll look at whether there are opportunities. We have a pretty aggressive plan as you've seen and the Virginia Clean Economy Act last year passed an aggressive plan. So we're moving very quickly. If there are opportunities to advance will take them. But the main fact of ITC extension is going to be benefit the customers on rates.

A - James Chapman {BIO 19939701 <GO>}

One think Michael, I'll add to that, it's Jim, is when it comes to ITCs that we -- that we recognize, the earnings benefit from outside the regulatory context, that just to be clear is not really a growth industry for us. Most of what we do, that relates to ITC is in a regulated format where it benefits our customers as Bob said. But two years ago at Investor Day, we gave some guidance that ITC recognition in earnings would be somewhere in the -- up to $0.15 per year range. And where we've been is really below that. In '18 we were $0.09, in '19 we were $0.11, in '20 we were $0.16, but we still plan to trend within that run rate up 15% -- $0.15 year guidance. So that's not a big impact in that period, mostly on that regulated customer benefit side, as Bob described.

Q - Michael Weinstein {BIO 19894768 <GO>}

Right and just to be clear the ITC doesn't reduce the rate base any of the projects that you're working on a regulator side, rightinaudible?

A - James Chapman {BIO 19939701 <GO>}

Yeah, that's exactly right.

Q - Michael Weinstein {BIO 19894768 <GO>}

And my understanding is the strategic undergrounding is driven the limit -- there is a limit to the amount you can invest there by law, is there any talk or perhaps maybe expanding that, considering that these things might be getting more affordable federal tax credits?

A - James Chapman {BIO 19939701 <GO>}

Yeah. So that's a legislative -- cap is in legislation that you're referring to it has to do with the percentage of overall rate base. There is no legislation pending in Virginia right now on that issue. So, if it were to be extended, it's unlikely that would happen this year.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay, great. Thank you very much.

Operator

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

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

A - Thomas Farrell {BIO 1509384 <GO>}

Good morning.

A - James Chapman {BIO 19939701 <GO>}

Good morning.

Q - Jeremy Tonet {BIO 15946844 <GO>}

(Technical difficulty).

A - Steven Ridge {BIO 20475546 <GO>}

Hey Jeremy, we could barely hear you.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Sorry about that, is that better?

A - Thomas Farrell {BIO 1509384 <GO>}

That sounds much better, much better.

Q - Jeremy Tonet {BIO 15946844 <GO>}

You outlined a decarbonization opportunity through 2035 today. How do you think about customer growth and other investments for that period? And given the magnitude of you're clean spend here, do you expect this to capture an increasing share going forward, absent large changes in customer growth?

A - James Chapman {BIO 19939701 <GO>}

I'm sorry. We can talk a little bit about customer growth, I mean we've had pretty consistent growth in -- in our electric utility over the course of the last decade or so that we would expect to continue on a Virginia side, for example, 35,000 new customers connected a year or so. On the gas side of our business, as we mentioned in our prepared remarks, strong -- very strong new customer growth, but I'm not sure I totally followed the second part of the question, I apologize.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Just the relative share I guess of the green CapEx, is -- just wanted to see if that's going to continue to be a large portion of what you're doing going forward or are there other chunky investments in the non-clean side, we should think about there?

A - James Chapman {BIO 19939701 <GO>}

Yeah, no it's the outlook is very much and I think it's really reflected on the slide, it shows at $72 billion opportunity, that is all -- these were all decarbonization related or enabling investment. So that's going to be the absolute lion's share of our investment going out and we would expect that to continue even beyond that long-term period. Obviously 15 years from now is a long time in this business, right.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Great, thanks. And then how much timing and recovery flexibility do you have with CCROs eligible CapEx for the second triennial review period. Does your plan currently assume kind of bake in recovery of any of the spin explicitly?

A - James Chapman {BIO 19939701 <GO>}

Yeah. As I mentioned, we have a variety of assumptions not one single assumption related to the 24 triennial. We do have a slide that shows what's eligible and the total there and we'll sort of take advantage of that as circumstances warrant. It's too early for us to know how much of it, we would expect to use in the '24 triennial. We just know what we're likely to have available, you can see that on that slide.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it, thanks. And one last one if I could. You talked about Virginia legislation and just wanted to see about South Carolina legislation and its securitization came through, how would you deal with that?

A - Robert Blue {BIO 16067114 <GO>}

Yeah, we think securitization makes sense in certain circumstances, storm recovery for example, makes a lot of sense. Obviously, we didn't think it made sense with respect to new nuclear. So we'll see if it passes, it passes in a way that would be constructive, that's great. We'll just -- will have to wait and see how it goes. I know that bill has been introduced a number of times in South Carolina in the past and hasn't been enacted, but in circumstances like (inaudible) makes lot of sense.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Great, thanks so much.

Operator

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

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning. Thanks for taking my question. Jim, on Slide 20, I'm just curious the cash flow sources and you just go through '23 and the (technical difficulty). Am I reading too much into it or are there differences in the kind of the company, the composition of cash, sources and uses in '24 and '25 as you ramp up your offshore investments?

A - James Chapman {BIO 19939701 <GO>}

Yeah, Durgesh, thanks. The reason we went to just a three-year average view here is that over five years, the numbers get pretty big. And maybe a little bit more difficult to bridge from where we are now and where we were in '20, but you probably are reading too much into it. We have elsewhere of course disclosed our equity financing plan through the end of the period on the next slide. So you can see that the financing is going to continue. What will change is the operating cash flow, which will grow on a five year basis and the investing cash flow which will grow slightly it increase a little bit moving back in the five-year plan. But nothing more interesting than that as said.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Understood. Got it. Okay. So more sort of granularity and conviction in near years and -- but no significant changes in the makeup of sources and users.

A - James Chapman {BIO 19939701 <GO>}

Bigger numbers. Okay. All right. Then just quickly following up just on Slide 10 and maybe Bob for you or perhaps even Jim. Just the largest regulated decarbonization plan of it, but in terms of -- when I'm thinking about any legislative support that you need, is it fair to assume that this opportunity of $72 million sort of -- is -- you can accomplish this with the Virginia Clean Energy Act or do you need further legislative support that can act on some of the big opportunities?

A - Robert Blue {BIO 16067114 <GO>}

No, your assumption is correct. This is based upon the Virginia Clean Economy Act and the Grid Transformation and Security Act in 2018. So all of this is already legislatively authorized. Now we obviously have to seek approval from the commission for projects and we've demonstrated on solar, and as I mentioned in earlier remarks, we've had three solar filings approved by the commission already and we've had our electric transmission spend and those kinds of things approved consistently over the years. But we don't need additional, we're not looking for additional legislative enactment to carry out this 15-year regulated support.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Excellent. Thank you for the update today and much appreciate the added disclosure. Thanks a lot guys.

A - Robert Blue {BIO 16067114 <GO>}

Thank you.

Operator

Thank you. Our next question comes from James Thalacker with BMO Capital Markets.

Q - James Thalacker {BIO 1794957 <GO>}

Good morning and thanks for the time guys..

A - Thomas Farrell {BIO 1509384 <GO>}

Good morning.

Q - James Thalacker {BIO 1794957 <GO>}

Just -- I just wanted to circle back on your comments just on bill affordability as you implement your capital plan and Mike Weinstein actually raised a good question. As we saw the extension of the ITC at 30% at the end of the year, could you potentially talk to how that's going to -- how it may be quantified or how it's going to impact customer rates and making things more affordable. Are you implement your capital plan?

A - Robert Blue {BIO 16067114 <GO>}

I don't think we quantified that yet. So we filed a integrated resource plan earlier this year and/or last year, I guess, we are 2021. The 2020 integrated resource plan, we showed a 10-year lock that 2.9% that we talked about. I am confident the updating us -- we certainly have an ROP update later this year in Virginia and I would expect this part of that will run the numbers on customer rates. But we don't have -- we haven't quantified customer rate impacts of that ITC at this point.

Q - James Thalacker {BIO 1794957 <GO>}

Okay, great. But I would assume that it would give you a little bit more flexibility when we are looking down the road here.

A - Robert Blue {BIO 16067114 <GO>}

That is absolutely true. It's going to have benefits to customers in rates and offers us flexibility as we go forward.

Q - James Thalacker {BIO 1794957 <GO>}

And just -- I gusee just to stay along that line, I know you are looking at little bit farther out that -- maybe you can touch a little bit about some of the programs -- I don't know if you're way to qualify, but how are yo thinking about controlling cost to create more head room to continue to implement you capital plan over the say five to seven years?

A - James Chapman {BIO 19939701 <GO>}

Yeah, let me, let me talk about, about that. It's Jim. ITC is one element which will benefit customers for sure, but the other is O&M and let me give some kind of high level (inaudible) on that. When we talk at our last Investor Day about flat normalized O&M so normalized is normalizing for new riders and associated required O&M or things like pension benefits, which discount rates in like make that number go up and down, so we normalize all that, and then we keep it flat. And in 2019, we gave an estimate that by keeping it flat for three years across our entire business, we are going to stay versus a 2% escalator, like additional $200-ish million on a cumulative basis and we did. So now still flat and we're rolling that out for the full five-year period.

Now, we did have some savings and actually went down a little bit in 2019 -- sorry in 2020 from COVID, now that's permanent, but our effort to keep that flat O&M, so negating inflation, our wage increases and things like that, it's not easy. But it's not through big things like some of our peers have talked about, step changes in OEM, discovered during COVID. We had some COVID savings for sure, but our approach is a little bit difference kind of programmatic, it is pushing cost savings as part of the system, the culture. So, finding ways to use technology and work smarter throughout the business. So, we have examples of that that helps us keep that flat O&M they are tiny in comparison to Dominion. Electronic time sheets and electronic signatures and they've got a long list, they're all tiny, but they add up and that the kind of thing, the small efforts throughout the company every state, every location that allow us to keep that normalized O&M flat and the reason we do that is to make room in the customer bill, it helps out on customer side. And potentially also it creates room in that bill for the capital spending, that also benefits customer. So that's kind of our -- our other lever we have in managing customer bill is continuing to manage that flat O&M.

Q - James Thalacker {BIO 1794957 <GO>}

Got it. Great. Thank you very much for the time.

A - James Chapman {BIO 19939701 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Michael Lapides with Goldman Sachc.

Q - Michael Lapides {BIO 6317499 <GO>}

Hi guys. Thank you for taking my question and great slide deck today, lots of detail. I have two questions, one, can you remind us as a percent of rate base or dollar millions, what is the coal generation in rate base both in Virginia and South Carolina?

A - James Chapman {BIO 19939701 <GO>}

We said that out on a whole company basis. Michael, on page 32 and as a percentage of total investment base, which is very, very plus the fixed assets PP&E for for our smaller contracted assets is 7% of rate base effectively. And just this is five year plan. Given obviously the spending on other areas that goes to 4% by 2025 and down from there.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. So if I think about it at the Virginia level and you've done a significant amount of coal retirements in Virginia. If you wanted to retire facilities, even earlier than planned, some of the coal facilities there that would accrue or account as part of the CRO with 2021, 2024 timeframe. Mike there. Am I thinking that that's also an alternative not just investing new capital that would necessarily get a cash return. But the write-downs of some of the older coal plants might as well.

A - James Chapman {BIO 19939701 <GO>}

Yeah, a couple of things there, Michael. One is obviously we don't make decisions on phosphate retirements, based on the timing related to our regulatory proceeding that's we make those decisions based on the sustainability of those plants going forward or if there is a change in the law or those kinds of things. So I think that's an important thing to keep in mind. And then the other is that you are sort of conflating two different topics.

I think one is this customer credit reinvestment offset which is provided for by statute, those are projects that are either grid transformation projects or renewable projects where that capital investment can be applied as as essentially. The customer benefit in an earnings sharing mechanism When you calculate what the when the triennial review is done. And there are available earnings, there was an earning sharing mechanism

And then for the customer portion of that, could you to be a refund or one of these renewable or through transformation project. I think what you're thinking out is if there is if we retire plant early. There was a write-down and then that expense will be treated logically as an expense in the period. If there are available or. And that's the best for customers. It's long-standing practice has been in Virginia. So to sort of slightly different things you're talking about there. Both have some impact on the calculation in the triennial, but we're obviously a long wait away from the second triennial here.

Q - Michael Lapides {BIO 6317499 <GO>}

Understood. And just coming back to the coal generation question, do you think your coal units in both states, given how much power prices have come down, given how much CapEx costs, both renewables and storage have come down, do you think the coal units are currently economic still, the existing operating coal units and is there a dramatic difference between the ones in Virginia and the ones in South Carolina?

A - James Chapman {BIO 19939701 <GO>}

Yeah, I don't know that I'd say there is a dramatic difference. We obviously look at the economics of those plants regularly and make the determine -- make a determination, whether they are viable in the future and whether they are properly valued. So we'll do that -- continue to do that on a regular basis.

Q - Michael Lapides {BIO 6317499 <GO>}

Got it. Thank you, guys. Much appreciated for taking the time.

A - James Chapman {BIO 19939701 <GO>}

Thank you, Michael.

Operator

Thank you. Our final question comes from Srinjoy Banerjee with Barclays.

Q - Srinjoy Banerjee {BIO 17439278 <GO>}

Hey, good morning guys. Thanks for -- thanks for taking the question. Just on FFO to debt metrics as well as the rating. So obviously, you guys have seen a consistent improvement to those metrics 15% in 2020. If you look at the S&P and Moody's targets for (inaudible) will be -- I guess S&P was 15% and Moody's 17%. And so -- how do you see your FFO to debt metrics evolve over the plan period. It would you expect to stay around 15% mark or expect an improvement given the providers that we have?

A - James Chapman {BIO 19939701 <GO>}

Srinjoy, thanks a lot. Good to hear from you. Yeah, the way we think about that is, we've add from an easy to achieve the improvement that we showed along that one slide to get to the solidly mid teens level and that's where we expect it to stay. So I think maybe you are suggesting, is there an upgrade in the air, of course not against that. But, what we really hope comes to pass with some providers again further recognition of the business risk profile improvement. So I wouldn't expect material changes in the metrics and where we are and from what we've achieved, and where we landed. I think that's in a good spot. Further, we will stay, but we'd love to have a little bit more headroom to that recognition, I mentioned and we want that headroom, not because we want to blow through it, but just because we think it's more the better. So that's kind of where we are on credit.

Q - Srinjoy Banerjee {BIO 17439278 <GO>}

Okay, thanks very much and I appreciate the time.

A - James Chapman {BIO 19939701 <GO>}

Thank you.

A - Thomas Farrell {BIO 1509384 <GO>}

Thanks, a lot.

Operator

Thank you. This does concludes this mornings conference call. You may now disconnect your lines and enjoy your day.