

Q3 2015 Earnings Call

Company Participants

- Mark F. McGettrick
- Paul D. Koonce
- Thomas E. Hamlin
- Thomas F. Farrell II

Other Participants

- Brian J. Chin, Bank of America Merrill Lynch
- Daniel Eggers, Credit Suisse Securities (USA) LLC (Broker)
- Michael Weinstein, UBS Securities LLC
- Paul Patterson, Glenrock Associates LLC
- Praful Mehta, Citigroup Global Markets, Inc. (Broker)
- Stephen Calder Byrd, Morgan Stanley & Co. LLC
- Steven Isaac Fleishman, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to the Dominion Resources and Dominion Midstream Partners' Third Quarter Earnings Conference Call. At this time, each of your lines is in a listen-only mode. At the conclusion of today's presentation, we will open the floor for questions. At that time, instructions will be given as to the procedure to follow, if you would like to ask a question. I would now like to turn the conference call over to Mr. Tom Hamlin, Vice President of Investor Relations and Financial Planning for the Safe Harbor statement. Sir, you may begin.

Thomas E. Hamlin {BIO 1506669 <GO>}

Good morning. Welcome to the third quarter 2015 earnings conference call for Dominion Resources and Dominion Midstream Partners. During this call, we will refer to certain schedules included in this morning's earnings releases and pages from our earnings release kit. Schedules in the earnings release kit are intended to answer the more detailed questions pertaining to operating statistics and accounting. Investor Relations will be available after the call for any clarification of these schedules.

If you've not done so, I encourage you to visit our Investor Relations page on our website, register for email alerts and view our third quarter earnings documents. Our website addresses are dom.com and dommidstream.com. In addition to the earnings release kit, we have included a slide presentation on our website that will follow this morning's discussion.

And now for the usual cautionary language. The earnings releases and other matters that will be discussed on the call today may contain forward-looking statements and estimates that are subject to various risks and uncertainties. Please refer to our SEC filings, including the most recent annual reports on Form 10-K and our quarterly reports on Form 10-Q for a discussion of factors that may cause results to differ from management's projections, forecast, estimates and expectations.

Also, on this call, we will discuss the measures of our company's performance that differ from those recognized by GAAP. Reconciliation of our non-GAAP measures to the most directly comparable GAAP financial measures we are able to calculate and report are contained in the earnings release kit and Dominion Midstream's press release.

Joining us on the call this morning are our CEO Tom Farrell, our CFO Mark McGettrick and other members of our management team. Mark will discuss our earnings results for the third quarter and Dominion's earnings guidance for the fourth quarter and full-year 2015. Tom will review our operating and regulatory activities and review the progress we've made on our growth plans.

I will now turn the call over to Mark McGettrick.

Mark F. McGettrick {BIO 2066297 <GO>}

Good morning. Dominion Resources reported operating earnings of \$1.03 per share for the third quarter of 2015, which was in the middle of our guidance range of \$0.95 to \$1.10 per share. Lower operating expenses and high margins from our merchant generated plants accounted for the slightly better than expected performance.

GAAP earnings were \$1 per share for the third quarter. The principal differences between GAAP and operating earnings were out of the period tax-related items for our electric operations. A reconciliation of operating earnings to reported earnings can be found on Schedule 2 of the earnings release kit.

Moving to results by operating segment. At Dominion Virginia Power, EBITDA for the third quarter was \$388 million, which was just below its guidance range. Kilowatt hour sales were modestly below expectations. Excluding weather, year-to-date sales growth was about 1%, which is consistent with our expectations for the year. A delay in commission approval of our strategic undergrounding program also impacted EBITDA for the quarter.

Dominion Generation produced EBITDA of \$796 million in the third quarter, which was in the upper half of its guidance range. Lower operating expenses and higher merchant generation margins were contributing factors to the strong results.

Third quarter EBITDA for Dominion Energy was \$332 million, which was near the top of its guidance range. Positive drivers were lower operating expenses and higher gas distribution margins. On a consolidated basis, interest expenses were in line with our expectations, while income taxes were in the upper end of our guidance range. Overall, we are pleased with the performance of each of our operating segments.

For the third quarter of 2015, Dominion Midstream Partners produced adjusted EBITDA of \$20.3 million and distributable cash flow of \$19.8 million, all consistent with management's expectations. On October 23, Dominion Midstream's Board of Directors declared a distribution of \$0.20 per unit payable on November 13 to unitholders of record on November 3. This distribution represents a 7% increase over last quarter's payment and is consistent with our plan to achieve 22% annual distribution growth for LP units.

In September, Dominion Midstream acquired a 25.9% interest in the Iroquois Pipeline for the issuance of 8.6 million limited partnership units to National Grid and New Jersey Resources. The freeze action will be accretive to DM's distributable cash flows and enable it to meet its targeted 22% distribution growth rate for 2016 without having to access the capital markets to fund an additional drop.

On September 24, Dominion's board authorized the company to invest up to \$50 million over a 12-month period to purchase LP units of Dominion Midstream Partners in the open market. As of last week, the company had acquired a little over 550,000 units at a cost of about \$15.4 million. As we have now passed the one-year anniversary of the IPO, we expect to file a registration statement with the SEC later today. However, as noted, this filing does not relate to any planned issuances prior to 2017.

Moving to cash flow and treasury activities at Dominion, funds from operations were \$3.4 billion for the first nine months of the year. Commercial paper and letters of credit outstanding at the end of the quarter were \$2.6 billion. We have \$4.5 billion of credit facilities. And taking into account cash and short-term investments, we ended the quarter with liquidity of \$2 billion. For statements of cash flow and liquidity, please see pages 14 and 25 of the earnings release kit.

In the financing area, we announced in September that based on our current plans, we'll not need to access the capital markets for new common equity throughout the remainder of the decade. We did access the debt market in September with a \$650 million 10-year note offering from Dominion. We plan to come to market with another issue for Dominion Gas Holdings of \$550 million to \$700 million later this year. We're also pleased that Fitch Investor Services recently reaffirmed its ratings for Dominion and its subsidiaries in the report issued last month.

Looking ahead to the fourth quarter, Dominion's operating earnings guidance is \$0.85 to \$0.95 per share compared to operating earnings of \$0.84 per share for the fourth quarter of 2014. Positive earnings drivers for the quarter compared to last year are higher revenues from our growth projects, lower capacity payments to non-utility generators and higher merchant generating margins.

Negative drivers for the quarter were lower farm-out revenues and share dilution. Dominion's operating earnings guidance for the year remains \$3.50 to \$3.85 per share. As to hedging, you can find our hedge positions on page 27 of the earnings release kit. As of mid-October, we've hedged 99% of our expected 2015 production at Millstone and 83% of our expected 2016 production.

So let me summarize my financial review. Operating earnings were \$1.03 per share for the third quarter of 2015, which was in the middle of our guidance range. Operating results for Dominion

Midstream Partners were in line with management's expectations. And finally, Dominion's operating earnings guidance for the fourth quarter of 2015 is \$0.85 to \$0.95 per share and our operating earnings guidance for the full-year remains \$3.50 to \$3.85 per share.

I will now turn the call over to Tom Farrell.

Thomas F. Farrell II

Good morning. Strong operational and safety performance continued in the third quarter. Year-to-date, OSHA recordables for each business unit are ahead of or are consistent with their respective targets for the year. Our nuclear fleet continues to operate well. The net capacity factor of our six units was 95.9% for the first nine months of the year. Our Power Generation group also performed well with record net generation during the third quarter.

In early October, the citizens of South Carolina, home to our Dominion Carolina Gas subsidiary, were victims of unprecedented floods. Fortunately, the operations of Dominion Carolina Gas were not significantly impacted by the floods. There were no safety incidents, no service interruptions, and no significant damage to our facilities.

Working with local officials, Dominion has been able to assist in the recovery, providing 100,000 bottles of safe drinking water as well as safe kits, hot meals, food and other essential supplies. Company also assisted in aerial transportation for damage assessment, in response made additional contributions to the Red Cross Disaster Relief.

Now, for an update on the biennial review. Hearings on the Virginia State Corporation Commission's review on Virginia Power's earnings for 2013 and 2014 were held in September. A final order is expected late this month. You will recall that neither our base rates, nor the allowed rate of return are subject to change in this proceeding. Biennial review process will resume in 2022, covering earnings for the calendar years 2020 and 2021.

Now for an update on our growth plans. Construction of the 1,358-megawatt combined-cycle facility in Brunswick County was about 90% complete through the third quarter. There are approximately 1,050 workers on site. All major equipments have been installed, and first fire of the initial combustion turbine is targeted for later this month. The facility is on time and on budget with an expected mid-2016 commercial operation date.

The hearing on our request for CPCN and Rate Rider for the proposed 1,588-megawatt Greenville Country project is scheduled for January 12. Major contracts for this project have been executed, including the combustion turbine supply agreement MH Power Systems and EPC agreement with Fluor. This three-on-one combined-cycle facility is expected to achieve commercial operation in December 2018. It will provide approximately \$2 billion in customer benefits over its life.

We've continued our merchant contracted renewable acquisition efforts with the September acquisition of a 50% interest in the 210-megawatt Three Cedars Solar Project in Utah, scheduled for operations next year. The acquisition brings our contracted solar portfolio to 690 megawatts, exceeding 645-megawatt target we had announced earlier in the year.

On September 4, Dominion signed an agreement for the sale of a 33% interest in 425 megawatts to this portfolio with SunEdison for approximately \$300 million. We plan to monetize the remaining two-thirds interest after the ICC holding period was economically advantageous.

Our solar strategy is transitioning from the merchant business to our regulated business in Virginia, where we plan to invest \$700 million this decade to construct 400 megawatts of utility-scale projects in this space. Based on RFPs conducted in August, the company selected three projects totaling 56 megawatts and submitted an application with State Corporation Commission for CPCN and Rate Rider on October 1. If approved, the solar site will be in service by late 2016.

Also during the quarter, we were awarded a 10-year energy sales agreement The United States Navy to supply the Norfolk Naval Station. The Navy has the option to extend the agreement for an additional 10 years. The energy will be generated by 20-megawatt solar facility located in North Carolina, which we agreed to acquire from the solar developer on September 4.

We have a number of electric transmission projects at various stages of regulatory approval and construction. During the third quarter, a \$146 million of transmission assets were placed into service, bringing the year-to-date total to \$660 million. We estimate another \$290 million of replacement service in the fourth quarter for a full-year total of \$950 million. Electric transmissions capital budget for growth projects, including NERC, RTEP, maintenance, as well as security-related investments will average over \$700 million per year through at least the remainder of the decade.

Progress on our growth plan for Dominion Energy continues as well. We closed on the first farm-out of our Utica acreage in September with the transaction covering approximately 16,000 acres. We still have over 160,000 acres in the Utica formation available to serve as farm-out transactions. Interest in the Utica continues to be strong.

We're continuing to work toward the commencement of construction on the Atlantic Coast Pipeline and the related Supply Header Project. We made the formal FERC filings for these projects in September. On Friday we made a supplemental filing to address specific routing solutions for avoidance of threatened and endangered species.

The company is committed to constructing a project that is environmentally sound. Surveying is now over 85% complete, and engineering is about 75% complete. We awarded the small diameter pipe contracts to AMERICAN Cast Iron Pipe in August. Construction bids were received in May and we expect to execute contracts by the end of the year. We plan to begin construction on both projects in the fourth quarter of next year and begin operations in November 2018.

With last week's announcement that Duke Energy has agreed to acquire Piedmont Natural Gas, we have received several questions as to how the combination of two of the partners in the Atlantic Coast Pipeline will impact the project. Dominion will remain the operator, and there will be no changes in the management or operation of the project. It's provided for in our existing agreement that upon closing of the transaction, the ownership structure will be recalibrated

with Dominion retaining its leading ownership percentage, assuming the Southern AGL transaction also occurs. The ownership interest will be Dominion 48%, Duke 47% and Southern 5%.

Now, I'll update on our Cove Point Liquefaction project. Overall, it is approximately 47% complete, and there are about 1,300 workers onsite. Engineering is 95% complete and approximately 95% of the engineering equipment has been procured as of the end of the third quarter. All 34 of the construction projects have been approved by FERC. Also, the cryogenic heat exchanger was delivered by barge to the site last week. The project continues to be on time and on budget for a late 2017 in-service date.

In addition to the Atlantic Coast Pipeline and Supply Header, we have 13 energy growth projects underway with \$1.2 billion of investments to move more than 2 billion cubic feet per day for customers by the end of 2018.

The Edgemoor project in South Carolina and The Western Access Project in Ohio are under construction and proceeding on time and on budget. Since our last call, we received FERC approval for three pipeline expansion projects and received the environmental assessment for a fourth. We have four other projects filed with FERC, and one project in Charleston, South Carolina, we expect to file very shortly. This quarter, we also announced two new demand-driven projects to serve LDC and power generation customers.

There has been a fair amount of press and investor attention recently regarding the large number of gas infrastructure projects that are under development, particularly in the Northeast, and how much of this new capacity may be underutilized because of the low gas price environment does not support enough our production to fill these pipes. The vast majority of these new projects is supported by contracted producers, whose finances are under stress due to low commodity prices leading some to be concerned with the long-term financial viability of the projects.

I want to highlight the significant difference of Dominion's infrastructure growth projects from those of others. With the exception of a couple of smaller producer outlet projects that are well underway to completion, all of Dominion's major expansion projects are secure with firm commitments from consumers of natural gas, not the producers. These demand-driven projects include Cove Point Export, the Atlantic Coast Pipeline, the Supply Header Project, the NewMarket project, CPV and Keys in Maryland, Edgemoor in South Carolina and several others. All are with sound counterparties that are meeting customer demand or fueling electric power production.

So to summarize, our business has delivered strong operating and safety performance in the third quarter. The Brunswick County construction project is proceeding on time and on budget. We continue to work for a FERC approval for the Atlantic Coast Pipeline and the Supply Header Project, and construction at the Cove Point Liquefaction Project is continuing on time and on budget.

Thank you. And we are ready to take your questions.

Q&A

Operator

Thank you. Thank you. At this time, our first question comes from Dan Eggers with Credit Suisse.

Q - Daniel Eggers {BIO 3764121 <GO>}

Hey. Good morning, guys. Tom, it's been a pretty tough quarter, quarters for the MLP space probably and kind of the gas infrastructure assets. Are you guys seeing opportunities of things coming up for sale looking interesting and certainly interest enough for you to go out and issue some more equity capital to get deals done? Are you more content to sit on what you have for the time being and stay out of the equity markets?

A - Thomas F. Farrell II

Well, it's certainly been a tough quarter, really for like maybe four months for the sector, although, I think, objectively that Dominion Midstream Partners has done relatively well compared to some of the rest of the sector. I think that's largely due to the long dropdown schedule we have for organic growth projects. We have looked for things like the Carolina gas transmission, the Iriquois assets, where we were able to place the LP units directly with the sellers. That's the kind of thing we're looking for. We have plenty of projects. We recognize the volatility of the markets right now and we're inclined to just focus on our own projects.

Q - Daniel Eggers {BIO 3764121 <GO>}

And I guess, kind of in that spirit, obviously some pretty big M&A transactions this quarter. Can you remind us on how you guys think about M&A and how you prioritize it against the internal growth opportunities you see?

A - Thomas F. Farrell II

I think we've been fairly consistent for quite a long time. I hope we have, we think, we don't talk about M&A at all. In case somebody decides slightly, we've got a different nuance in the way we say we don't talk about it. So we try not to talk about it. With the exception, we have said since we created Dominion Midstream Partners that we would be looking for assets to contribute to the MLP and we are. But like I said, we have anything that we look at that we're going to judge against our own projects and what issuing LP units, how we've prepared through just organically growing. We like what we have.

Q - Daniel Eggers {BIO 3764121 <GO>}

Okay. Got it. I guess, the last one on solar, you were able to get the SunEdison deal put together this quarter. What do you think about doing with the rest of the megawatts that haven't been committed to the SunEdison thus far? And is there appetite in the market to monetize that next chunk?

A - Operator

Hey, Dan, this is Norris (22:57). We're happy with the sell-down arrangement that we have with SunEd. As you are aware, we can't monetize a fourth those until after the sunset of the ICC period. So you shouldn't look for us to be back in the market anytime soon for that. Those transactions took us through the end of 2015. So we do have some 2016 projects that will be developed next year. We'll see what the market bears at that point in terms of those projects. But, again, don't look for us to access the market for additional sell-down for a bit while.

Q - Daniel Eggers {BIO 3764121 <GO>}

Okay. Thank you, guys.

Operator

Thank you. Our next question comes from Michael Weinstein with UBS.

Q - Michael Weinstein {BIO 5530419 <GO>}

Hi. Hi, guys.

A - Thomas F. Farrell II

Good morning.

Q - Michael Weinstein {BIO 5530419 <GO>}

Good morning. Hey, quick questions. One, have you guys talked at all about the benefits that you expect to have from capacity performance at PJM?

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

Michael, this is Mark. We haven't talked about that. There have been a lot of questions about it. I guess, what the way I would summarize that is, we were very happy with the outcome of those auctions and expect to be a beneficiary.

Q - Michael Weinstein {BIO 5530419 <GO>}

Okay. And with the growth of solar estimates at some of your peers, including Southern and Con Ed, just wondering if you guys plan on increasing your targets yourselves at some point?

A - Thomas F. Farrell II

In terms of incremental of new solar?

Q - Michael Weinstein {BIO 5530419 <GO>}

Yes.

A - Thomas F. Farrell II

We have a pretty good line of sight through the 30% ITC window through next year. I guess, the only caveat I give you on that is, we expect some projects in 2016 become available due to some distress with YieldCos that have a time commitment to build, may need some assistance in financing those. We'll very selectively look at that as we go out, and we will definitely look at Virginia projects for us to build in Virginia to support our future needs in terms of our carbon compliance, so again merchant wise, I'd say, very selective, but our focus really being on the Virginia service territory.

Q - Michael Weinstein {BIO 5530419 <GO>}

And one question about dividends. How are you thinking about dividend growth going forward considering the buybacks of DM shares? And I guess looking forward, spin-off of the GP of the MLP also little less interesting these days than it used to.

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

Yeah, we've never talked about doing anything with our GP, just to answer a statement rather than a question. We see no reason to change our distribution growth rate which is 22%, which is - we think is best-in-class at the MLP and we stated in February that it's our anticipation, subject to board approval, to increase our dividend at Dominion about 8% a year through the balance of the decade.

Q - Michael Weinstein {BIO 5530419 <GO>}

Right. Right. And one last question, about cost savings, if you could just make a comment on that going forward at the utility and also at the merchant generation company? And then, that's it.

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

Michael, on the cost side, you should think about our operating budgets growing at about a rate at CPI that we roll out. The only major fluctuations would be the timing of Millstone outages, where one year you might have two and next year you might have three. But we're focused on CPI type growth going ahead.

Q - Michael Weinstein {BIO 5530419 <GO>}

Okay. Thanks a lot.

Operator

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

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

Yeah. Hey. Good morning. Just wanted to confirm that the long-term growth rates that you've highlighted, earnings dividends, those are all still good.

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

Yes.

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

Okay. And then, on the issues with the - all the things we've heard in terms of lower oil prices, gas prices liquids prices, maybe slowing production, et cetera. If you look at not just your new projects, but also the existing fleet of assets, could you maybe just characterize your exposure, if anything? I assume it's pretty small, but just if it's - is it enough, is there anything that we should worry about in terms of numbers over the next year or two due to these issues?

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

Steve, I'm going to let Paul to answer that question, but I'd also take you back to the script where Tom differentiated our projects versus a lot of others that are in the marketplace. Almost all of ours are demand pull projects with regulated utilities or counterparties, hence we feel real good about that. But let me have Paul to give you more color.

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

Yeah.

A - Paul D. Koonce {BIO 3892592 <GO>}

Yeah. Good morning, Steve. Yeah, the producer outlet projects that we have announced and put into service are really reworks of existing assets. So there really is no credit exposure to speak of for those projects. And we've been very focused on our growth projects. And I think if you kind of check around the market, you'll see that our credit requirements are probably as strict as anybody's and I think that's reflective of our projects. So I don't see anything really that should concern you.

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

Okay. Great. Thank you very much.

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

Thank you, Steve.

Operator

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

Q - Praful Mehta {BIO 19410175 <GO>}

Hi, guys. A quick question on merchants, on the merchant side. With all the retirements happening in New York, New England, how do you see that impacting your fleet of gas assets in New York and New England?

A - Thomas F. Farrell II

Praful, while of course we only have two gas assets, last one in New England in Manchester and one in CGM outside Philadelphia, Fairless. We do see pressure particularly on capacity, ultimately on energy and NEPOOL with some recent announcements. And I think the New York announcement this morning will also put pressure on Northeast prices, particular on capacity as you go out. Since the infrastructure there on gas is not going to be able to significantly, expand gas at least for the next many years, I think continued shutdown on NEPOOL's side in the Northeast will support both higher energy and capacity.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Thank you. And then in terms of, sorry, in terms of taxes. You talked about ITC expiration post 2016 and moving away from solar, merchant solar to more utility scale. I just wanted to understand from a tax perspective, both book and cash taxes, how do you expect the ITC expiration post 2016 to impact your book and cash taxes?

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

I think it's going to depend on, one, what ITC is available. Right now, it's just 10% and on the projects we'll be focused on, they'll be regulated projects. So they will flow through regulated rates through riders to customers in Virginia. So that benefit will flow through back to them.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Thank you, guys.

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

You're welcome.

A - Thomas F. Farrell II

Thank you.

Operator

Thank you. Our next question comes from Brian Chin with Bank of America Merrill Lynch.

Q - Brian J. Chin {BIO 20276978 <GO>}

Hi. Good morning.

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

Good morning, Brian.

Q - Brian J. Chin {BIO 20276978 <GO>}

If we can go to the farm-outs and you mentioned that there is about 160,000 acres left. Just, I guess springboarding a little bit more specifically off Steve's earlier question, given where gas prices are at right now and commodity prices overall, are you seeing a change in the market place out there with regards to farm-out interest and can you just comment on the updated sort of industry outlook for farm-outs here?

A - Paul D. Koonce {BIO 3892592 <GO>}

Brian, this is Paul Koonce. It's interesting, there is certainly a lot of stress among the producer community, but there is also real interest in getting a secure acreage position in this basin. And what our acreage offers is really a lot of acreage that's blocked up, that's contiguous and because this production is held by production, there's no time limit on when the lease will expire. So from that standpoint, there continues to be a lot of real interest, especially when you look at some of these Utica initial production rates. So we've seen a real strong interest and have seen no let up.

Q - Brian J. Chin {BIO 20276978 <GO>}

Excellent. And then one last question. Historically, you guys have not done analyst days in consecutive years. You've generally done it every other year or so. Generally, this year it seems to me at least that you guys have just been executing on what you talked about on the Analyst Day earlier this year. Should we go under the assumption that you guys won't need to do any Analyst Day for next year or do you think one might be merited given just the change in the commodity price environment?

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

Brian, this is Mark. I think, we'll have to evaluate that if we get closer and give guidance for next year. We had a lot of a significant change to talk about it in February this year. I think an Analyst Day will be driven by how much the plan changes long-term, if at all. And if it stays pretty much on course with what we have, we probably will wait another year for an Analyst Day, but again, we'll talk about that in the first quarter call based on what events are at that time.

Q - Brian J. Chin {BIO 20276978 <GO>}

Appreciate it. Thank you, guys.

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

Thank you.

Operator

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

Q - Stephen Calder Byrd {BIO 15172739 <GO>}

Hi, good morning.

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

Good morning.

Q - Stephen Calder Byrd {BIO 15172739 <GO>}

I wanted to touch on the solar procurement process in Virginia, given some of the recent regulatory activity in the state. At a high level, could you talk about how you think about procuring solar on the utility side within Virginia?

A - Thomas F. Farrell II

Well. First, I think you're probably referring to the order, I guess, with last week on the - or the week before on the Remington Solar Project. Steve, to distinguish between that project and the projects for example that we just filed, the projects we filed - I guess, we filed Remington in January or February. We had done a lot of work around RFPs and market conditions in solar in the region, when we filed that and believe that we adequately demonstrated that. We went through a much more rigorous or I shouldn't say a more rigorous -different process, which - over the summer, for these new projects, which we think are more than compliant with what it was the Commission was looking for in the Remington Project.

So we do RFPs, test the market, look at what we get back in return and then we'll file them. The projects are going to be required - are going to be required to meet the Clean Power Plan and they are - the General Assembly said and it's built those path early this year that they believe these are in the public interest. So we'll work our way through this process with the commission. Projects are going to get built and I think they'll look like the ones we just passed.

Q - Stephen Calder Byrd {BIO 15172739 <GO>}

Understood. Thanks and shifting over to, I'm sorry, can I ask this?

A - Thomas F. Farrell II

I'm sorry. I couldn't hear you.

Q - Stephen Calder Byrd {BIO 15172739 <GO>}

Sorry, shifting over to nuclear. I wanted to just, at a high level, get your thoughts on the O&M environment for nuclear. Any trends that you're seeing there just as we think into the future? I know your nuclear operations are very different from some of these smaller units that are retiring. But I'm just curious, any trends you see in terms of nuclear operations' cost requirement going forward, things of that nature?

A - Thomas F. Farrell II

Let me just give a high level response to that, and then I'll turn it over to Dave Christian. Steve, I assume you're referring of course to the announcement today of Entergy and FitzPatrick. We've seen other single merchant power plant, nuclear plants under stress from other companies. We had this happen here, we had this happen with Kewaunee. When I say here, I mean at Dominion. I guess it's happened three years ago, it was very, very difficult decision for us to make. We tried very, very hard to keep that unit operating, but we just couldn't see with the way the market structure we set up at Millstone in particular, that we could make it work without seeing it drain on the balance of our nuclear fleet.

Wasn't a happy day to announce that closing. So everybody is in the different environment. We are all at different plant economics, but it's a structural issue. I think more macro than micro at least it was for us. But today, particularly on O&M and nuclear, well, I think Mark characterized it pretty well. We've had a cap to expected O&M growth at CPIs and that we are also try and work to culture a continuous improvement, we're always scrutinizing costs. We happened to be blessed with some very low cost units and some very large units. So Millstone in particular is largest unit in New England, dual-unit site. It doesn't have a lot of those same characteristics that Pilgrim, BY and Kewaunee, right.

Q - Stephen Calder Byrd {BIO 15172739 <GO>}

Understood. Thank you very much.

Operator

Thank you. Our next question comes from Paul Patterson with Glenrock Associates.

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning.

A - Thomas F. Farrell II

Hi, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Hi.

A - Thomas F. Farrell II

Good morning.

Q - Paul Patterson {BIO 1821718 <GO>}

Just, I'm sorry if I missed this, but could you elaborate a little bit on the merchant performance that drove earnings this quarter?

A - Thomas F. Farrell II

We had higher hedge prices than - versus last year and I'm assuming you're referencing to quarter-by-quarter or versus ...

Q - Paul Patterson {BIO 1821718 <GO>}

Yeah. Just quarter-by-quarter.

A - Thomas F. Farrell II

So we had higher hedge prices than we had in quarter last year and we also had additional one at all of our units at Mills - at Manchester and at Fairless. So it really was a pricing and volume issue for us.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. And then would we talk to the hedging at Millstone? I didn't see any information or any hedging information for 2017. Any thoughts about that? What we're looking at in terms of the hedging for Millstone?

A - Thomas F. Farrell II

Yeah, Paul. A couple of years ago, I'm changed our view on hedging based on the forward curves really being depressed. And as you know, at Millstone, what moves that market is winter weather. So as you saw from the hedge tables today, we have hedged out most of 2016 production hour from 60% to 83%. And as we go into any calendar year, we've always and we'll continue to hedge Millstone between 80% and 90% going into a calendar year. So we're right on schedule for 2016. For 2017, we have not hedged 2017 as of yet. We will see what winter curves look like as we go through, but as we sit here at this time next year, we will be in a very similar hit position for 2017 at Millstone. Then we have historically or just a little more opportunistic about it than we have been in the past.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Great. And then just on the - just a follow-up on the farm-out question, you guys are still pretty comfortable, it sounds like with the \$450 million to \$500 million 2015 through 2020 pre-tax opportunities there, is that still the case?

A - Thomas F. Farrell II

I still feel very good about it.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Great. Thanks so much.

A - Thomas F. Farrell II

Thank you, Paul.

Operator

Thank you, speakers. At this time, I would like to turn the conference call back over to you for closing comments.

A - Thomas F. Farrell II

Thank you. And well, our next call would be at first of the year. Thank you.

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

Thank you.

Operator

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

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