Q3 2018 Earnings Call

Company Participants

- Diane G. Leopold, Executive Vice President and President and Chief Executive Officer - Gas Infrastructure Group
- James Chapman, Chief Financial Officer
- Steven Ridge, Director of Investor Relations
- Thomas F. Farrell, Chairman, President and Chief Executive Officer

Other Participants

- Greg Gordon, Analyst, Evercore ISI
- Julien Patrick Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Praful Mehta, Analyst, Citigroup
- Shahriar Pourreza, Analyst, Guggenheim Partners
- Steven Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good morning, and welcome to the Dominion Energy and Dominion Energy 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. (Operator Instructions)

I would now like to turn the call over to Steven Ridge, Director of Investor Relations for the safe harbor statement.

Steven Ridge {BIO 20475546 <GO>}

Good morning, and welcome to the third quarter 2018 earnings conference call for Dominion Energy and Dominion Energy Midstream Partners.

I encourage you to visit the Investor Relations page on our website to view the earnings press releases and accompanying materials, as well as the slide presentation that will follow this morning's prepared remarks. Schedules in the Earnings Release Kit are intended to answer detailed questions pertaining to operating statistics and accounting and the Investor Relations team will be available immediately after the call to answer additional questions.

The earnings releases and other matters that will be disclosed -- discussed on the call today may contain forward-looking statements and estimates that are subject to various risks and uncertainties. Please refer to our SEC filings, including our most recent annual 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, forecasts, estimates and expectations.

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

For our prepared remarks, Jim Chapman, Chief Financial Officer, will provide a financial updates, including quarterly earnings results; Tom Farrell, Chairman, President and Chief Executive Officer, will review safety and operating performance, highlight progress on growth initiatives and provide other updates.

I will now turn the call over to Jim Chapman.

James Chapman {BIO 19939701 <GO>}

Good morning. Dominion Energy reported operating earnings of $1.15 per share for the third quarter of 2018, which was at the top of our guidance range. Drivers relative to our guidance including -- includes lower operating and maintenance expense, higher-margins at our Power Generation Group and better than normal weather.

GAAP earnings were $1.30 per share for the quarter. The principal difference between GAAP and operating earnings is a gain on nuclear decommissioning trust funds. A reconciliation of operating earnings to reported earnings can be found on Schedule 2 of the Earnings Release Kit.

Moving to results by business segment, EBITDA for the Power Generation Group was $820 million in the third quarter, at the top end of its guidance range. Lower operating and maintenance expense, higher margins and favorable weather contributed to the outperformance. The Power Delivery Group produced EBITDA of $434 million, which was near the mid-point of the guidance range. And the Gas Infrastructure Group produced third quarter EBITDA of $598 million, which was in the top half of its guidance range. Lower operating and maintenance expense was the primary driver for that outperformance.

Overall, we're pleased with another quarter of very strong execution across our businesses.

Dominion Energy Midstream Partners produced third quarter adjusted EBITDA and distributable cash flow of $76 million and $50 million, respectively. On October 19th, Dominion Energy Midstream's Board of Directors declared a distribution of $0.369 per common unit payable on November 15th. This distribution represents a 5% increase over last quarter's distribution.

On September 19th, Dominion Energy announced an offer to exchange each outstanding public Dominion Energy Midstream common unit or 0.2468 of a Dominion Energy common share. The Board of Dominion Energy Midstream has authorized its Independent Conflicts

Committee to evaluate that offer. Given Dominion Energy's existing ownership interest in Dominion Midstream, the consent of third-party unitholders is not required to approve this transaction. We expect to complete a definitive agreement between the two companies this quarter, with closing to follow in early 2019.

We also expect to recommend to the Dominion Midstream Board a fourth quarter 2018 common unit distribution to be paid in early 2019 prior to or in conjunction with transaction close. Given anticipated cash flows and the existing financing mix that final distribution is expected to be equal to the third quarter distribution that was declared on October 19th.

Tom will provide some additional remarks later in the call about the rationale for our decision to eliminate Dominion Energy Midstream Partners as a financing vehicle for Dominion Energy.

Moving now to our credit improvement initiatives, we're pleased to have completed several meaningful steps towards achieving our previously announced credit objectives for the year. First, in September, we closed on a $3 billion non-recourse term loan in our Cove Point facility. Strong demand from a broad lending group drove attractive pricing and terms. Proceeds from the financing are being used to reduce parent level debt.

Second, and also in September, we announced agreements to sell our interest in three merchant power generating facilities, representing some 1.8 gigawatts of generation capacity for approximately $1.3 billion of cash consideration across two transactions. We greatly appreciate the dedicated service of the power station employees who have served our Company with distinction.

Given our increased strategic focus on regulated energy infrastructure, these assets have become increasingly non-core. We are pleased with the results of this initiative and we expect both transactions to be closed before the end of the year. Cash sales proceeds are being used to reduce parent level debt.

Third, as announced this morning, we have executed an agreement to divest our 50% interest in the Blue Racer midstream joint venture to First Reserve and affiliated investment funds for a total consideration of up to $1.5 billion, including cash consideration of $1.2 billion, and up to $300 million of ongoing earning payment -- earn out payments through 2021 based on Blue Racer Midstream's ongoing performance.

We have consistently indicated that Blue Racer, while a very high quality business with an extremely capable management team, it is considered non-core for Dominion Energy and the sale of our interest would be opportunistic based on a compelling valuation and structure. This transaction represents an attractive valuation multiple range of 14 times to 16 times estimated 2018 EBITDA, based on bookends of potential payments to be received under the earn out structure.

We expect to close by the end of the year and upfront cash sales proceeds will be used to reduce parent level debt. We wish to thank the other Blue Racer owners, the management team and the employees for their collaboration and successfully executing the very impressive growth of this business since the partnership was created in 2012.

To summarize, we have sourced funds to reduce our parent level debt by around $8 billion, including approximately $2.3 billion of new equity, approximately $2.5 billion of proceeds from non-core unregulated asset sale agreements, with up to $300 billion of additional payments through 2021, and $3 billion of -- $3 billion from the Cove Point asset level financing.

As a result of these steps, we expect to achieve cash flow coverage metrics that support our existing credit rating and achieve our targeted parent level debt to total debt metric two years earlier than originally planned. By divesting some of our last remaining unregulated businesses, we've also improved our business risk profile.

Now, to earnings guidance at Dominion Energy. Operating earnings for the fourth quarter of 2018 are expected to be between $0.80 and $0.95 per share compared to $0.91 per share earned in last year's fourth quarter. Positive factors relative to the fourth quarter of 2017 include the contribution from Cove Point liquefaction and lower tax expense due to tax reform. Negative factors include lower solar related investment tax credits, higher financing costs and a higher share count.

Given where we are in the year, we are narrowing our 2018 full year guidance range to $3.95 to $4.10 per share, preserving the same mid-point as our original guidance. Assuming normal weather, we continue to expect operating earnings per share for 2018 to be above the mid-point of this narrowed guidance range.

We're also affirming our 2017 to 2020 operating earnings per share compounded annual growth rate of 6% to 8%. Please note that 2019 full year guidance is expected to be provided on our fourth quarter 2018 earnings call to take place early next year.

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

Thomas F. Farrell {BIO 1509384 <GO>}

Thank you, Jim. I congratulate Jim on his new role as our Company's Chief Financial Officer. Since joining Dominion, Jim has played a key role in our most important strategic and financing initiatives and I'm confident that he will do very well in this new role. Also, wish to take a moment to recognize transition of Mark McGettrick, who has been with the Company for 38 years, the last nine of which have been as an exemplary CFO. We wish Mark our very best.

Going into the final quarter of the year, our Company is operating at the lowest OSHA recordable incident rate in our more than 110-year history, exceeding our record-setting results last year and placing us ahead of 15 of the 17 peer companies operating in the Southeast United States. On-the-job safety does not just happen. These results represent years of focus on making sure that every employee returns home in the same condition in which they arrived at work that day. We will continue to improve until we achieve the only acceptable safety statistics, zero.

Operating performance across our asset portfolio continues to be excellent. I'd like to share four examples. First, our nuclear units extended a Company record by operating for 753 days and still counting without an unplanned automatic reactor shutdown. This represents the nuclear power industry's best fleet performance.

Second, Hurricane Michael, represented the sixth-largest outage event in the Company's history, with over 600 000 customers without power at the peak, representing nearly a quarter of our electric customers. Within 48 hours of Michael exiting our service territory, our crews had safely restored power to nearly 90% of the customers affected and we restored service to every customer within just five days.

Third, the Cove Point liquefaction facility, which was the largest single capital project in both the Company's and the State of Maryland's history, has liquefied almost 100 billion cubic feet of gas for export by our customers since entering into commercial service. And during the recent plant outage the site reported no OSHA recordable injuries despite the presence of nearly 600 staff and contractors on site.

Finally, in recent months we have launched an initiative to improve our engagement with investors regarding our industry-leading track record on environmental, social and governance matters. We have enhanced our disclosures and will launch an ESG dedicated website in the coming days. At Dominion, ESG is a Board level priority as evidenced by the recent creation of a Sustainability & Corporate Responsibility Board Commitment, (Technical Difficulty) performance as a sustainable organization and responsible corporate citizen.

Now, I'll turn to business updates. At the Power Generation Group, construction of the $1.3 billion Greensville power station continues to pace and was 98% complete at the end of September. The project is expected to achieve commercial operations on time and on budget in early December. We filed with the Virginia State Corporation Commission for the first of what we expect will be several utility scale solar projects for inclusion in rate base.

We have significantly expanded our solar fleet in recent years and now are ranked as the fourth largest utility owner of solar generation in the United States. We'll continue to add regulated solar capacity and the clean energy gas-fired generation required to complement new solar generation, both at the urging of our state's elected representatives.

On October 16th, we filed with the Nuclear Regulatory Commission for subsequent license renewable for the Surry Power Station reactors. This is an important first step in what we expect will be a multiyear $4 billion investment program that will extend the lives of both the Surry and North Anna nuclear stations by an additional 20 years. We expect to submit the North Anna license extension application in 2020. As a result of this initiatives, our customers will continue to benefit from clean, reliable and low-cost generation from these best-in-class facilities.

We've also filed with Virginia State Corporation Commission for approval to construct two offshore wind turbines under a fixed cost construction contract. Like the solar and nuclear re-licensing investments, this pilot project has the support of Governor Northam and Virginia's General Assembly, and will provide an important early learning that we believe will lay the foundation for commercial scale offshore wind for Virginia's clean energy future.

Finally, on September 14th, we filed our offers in response to the Connecticut Department of Energy and Environmental Protection's RFP for procurement of zero carbon resources. We have requested that Millstone be recognized as an at-risk resource with a contract to sell a portion of Millstone's zero carbon power starting July 1, 2019. We are pleased that both DEEP and the Office of Consumer Counsel have filed briefs asking that the Connecticut Public Utilities Regulatory Authority grant Millstone at-risk designation, which will allow Millstone's offers to be judged on price and non-price attributes, such as zero carbon, economic impact and fuel security. Millstone is vital to Connecticut in each of these respects.

DEEP is expected to select RFP winners by the end of this year. Winning bidders will be validated by PURA and then enter into contracts with the local electric distribution companies. We have been clear with Connecticut policymakers that a contract providing long-term financial assurance is the only path forward for Millstone's continued operation.

At the Power Delivery Group, we continue to benefit from very strong electric sales growth. 2018 year-to-date weather normalized sales are 2.4% higher than the same period last year, led by strong growth across data centers, residential and industrial clients. We have placed nearly $600 million of electric transmission assets into service through the third quarter. In July, we filed a grid moderation plan with the Virginia State Corporation Commission. The first three year phase include over $900 million of investment in grid reliability, resiliency and security.

And in October, we completed a 1,000-mile in our rider program to place 4,000 miles of overhead taplines underground, improving our ability to respond storm events like Florence and Michael. Both of these long-life investment programs were found to be in the public interest in bipartisan legislation signed by the Governor earlier this year.

At the Gas Infrastructure Group, we continue to make progress on the Atlantic Coast Pipeline and supply at our projects. We have been constructing in West Virginia and North Carolina and on October 19th, we received the final Virginia permit required to petition FERC to be underway with full mainline construction in all three states. Following approval from FERC of our notice to proceed filing we will begin mainline construction in Virginia.

We appreciate the professional manner in which all of our permitting agencies have worked collaboratively with us to ensure that this critical energy infrastructure project will meet the stringent environmental standards required by law and regulation. The FERC stop work order and delays obtaining permits necessary for construction have impacted the cost and schedule for the project. As a result project cost actions have increased from a range of $6 billion to $6.5 billion, to a range of $6.5 billion to $7 billion, excluding financing costs.

Atlantic Coast Pipeline is pursuing a phase in-service approach with its customers, whereby we maintain a late 2019 in-service dates for key segments of the project to meet peak winter demand in critically constrained regions. ACP will be pursuing a mid-2020 in-service date for the remaining segments. Abnormal weather and/or work delays may result in costs or schedule modifications in the future.

We're currently working with customers to determine the rates and terms for interim service. Although we can't discuss the details of those discussions, we are confident that we will balance customers' needs and preserve the returns for ACP. The Supply Header project target in-service remains late 2019.

Moving from gas transmission to gas distribution, we're making important progress on our gas utility gas pipeline replacement programs. We're investing over $300 million annually under existing riders across our service territories to enhance the safety and reliability of the gas distribution service that we offer our customers.

We are pleased with the meaningful role that Dominion Energy is playing in delivering critical energy resources to a wide variety of customers and across a spectrum of regulated energy infrastructure platforms. We are constantly challenging the status quo to be sure we are adapting to meet the evolving desires of our customers. In fact, Dominion recently added a fifth element to our long-standing core values of safety, ethics, excellence and one Dominion Energy. Our new core value is embrace change, which speaks to our focus on adapting our business with the accelerating pace of technological change and increased diversity in our society. This focus on innovation and change will drive us to transform the customer experience, deliver affordable energy to our customers that is cleaner more sustainable and more reliable.

Several years ago when we divested our exploration and production portfolio, we set in motion the transformation of Dominion Energy from a heavily commodity exposed E&P and utility company into one of the world's finest regulated energy infrastructure company. The offer to buy in Dominion Midstream, as well as the sale of merchant power generation assets and our interest in Blue Racer Midstream will further reduce commodity exposure and simplify our business model.

We have identified and are actively developing a diverse set of regulated growth plans -- growth programs across all of our operating units that will provide meaningful benefit to our customers and aggregate to billions of dollars annually of growth capital investments, which will support our earnings growth well into the next decade.

Let me turn now briefly to the offer we have made effectively to buy in Dominion Energy Midstream Partners. This decision was the result of a careful and patient evaluation of the sustainable ability of Dominion Midstream to support Dominion Energy's growth capital plans at a cost of capital advantage. We took Dominion Midstream public in late 2014. Since we took them public, there has been a gradual but observable shift in public capital market support to the MLP structure.

That retreat accelerated meaningfully after FERC's March 15th policy reversal on income tax recovery through cost of service rates. Public equity investment and master limited partnerships this year is some 90% lower than in past years. And the outlook for recovery to historic levels is not promising.

In addition to weak capital market conditions, there has been an evolution of limited partner investor views on incentive distribution and governance rights that erodes support for the structure that allowed Dominion Energy as general partner to exercise a level of operational control and retain an amount of financial upside that exceeded the level of our common unit ownership. For these reasons, Dominion Energy has provided Dominion Midstream with an exchange offer that represents fair value for its underlying assets.

Finally, I want to make a few comments on our offer to merge with SCANA Corporation. In North Carolina, we are pleased to have agreed to a settlement with the staff that is currently before the commission and which we expect will be approved in December. In South Carolina, the hearing on a number of related matters commenced this morning. Last week, we submitted an alternative customer benefit plan as an option for the PSC to consider, which provides significant customer value while also preserving the economics of the transaction for Dominion Energy.

While we prefer our original plan, we are comfortable with the new alternative and if the commission determines that the alternative plan is in the best outcome for customers, we are willing to move forward with that solution. We are confident that we will complete our merger with SCANA later this year.

In summary, we have successfully executed several initiatives to support our earnings and credit objectives and the sale of non-core, unregulated assets will further improve our business risk profile and clarify our investment narrative. We have delivered very strong earnings results that have been at or above the high-end of guidance range for three straight quarters and we continue to expect that full year results will be above the mid-point of our narrowed guidance range.

The Company continues to demonstrate a culture of excellence in safety and operating performance. We are embracing enhanced reporting and disclosures around ESG matters and look forward to increased investor outreach on those topics. We are laying the foundation for the diverse portfolio capital investment programs that will drive predictable growth well into the next decade. We continue to progress towards completion of the Atlantic Coast Pipeline. And we are optimistic that we will complete our merger with SCANA late this year.

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

Questions And Answers

Operator

Thank you. At this time we will open the floor for questions. (Operator Instructions) And our first question comes from Shahriar Pourreza from Guggenheim Partners.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey. Good morning, guys.

A - Thomas F. Farrell {BIO 1509384 <GO>}

Good morning.

A - James Chapman {BIO 19939701 <GO>}

Good morning.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

So very healthy transaction multiple on Blue Racer. So quick thoughts there as I'm assuming this surpassed your internal assumptions, but more importantly, can you just elaborate further on the earn outs and are they incremental to your current delevering timeframe assumption or do you assume the earn outs are in your plan? So like what I am trying to get at is, can we see a further re-acceleration of your parent leverage targets?

A - James Chapman {BIO 19939701 <GO>}

Thanks, Shahriar. It's Jim.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Hey, Jim.

A - James Chapman {BIO 19939701 <GO>}

Yeah. We are very happy with that transaction and are satisfied with the value and the term. And in particular, we are happy with the structure which allows us to, on the one hand de-risk at 1.2, but on the other hand, still participate in the growth of that business over the next three years with up 300 million of earn out payments. The details -- the very specific details of these earn outs are not going to be public. That's between I guess us and First Reserve. But it's formulaic. So if Blue Racer revenues and EBITDA grow over that time period above some reasonable threshold, we participate in that every year, participate in that growth up to that $300 million maximum level. So very happy.

As it relates to our credit profile, we are using the upfront proceeds this year to repay parent company debt. I think that brings us to where we need to be on a credit basis already. So the 300 -- the up to 300 over the next three years is just part of the give-or-take on our overall plan of 6% to 8% earnings growth through 2020.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. Okay. So it's incremental. Okay. Great. And then just real quick on ACP, we got the delay. We've got the higher cost estimate right? So can you elaborate a little bit further on how we should think about the impact to the project's returns versus your original estimate? Or does tax reform mitigate any return pressures versus what your original assumptions were?

And then just real quick around the delays. I mean it seems like you are hedging yourself a little bit around potential for further delays. Can you just hit on a little of contingencies you have in place to mitigate any further delays? I mean do you feel better about this updated in-service date?

A - Thomas F. Farrell {BIO 1509384 <GO>}

I'll answer the question on the return Shahriar and Diane Leopold will talk about the hedging as you referred to it. Through this process -- we've already been through one process with customers on the rates and we'll continue to work with them. The returns are going to be very adequate and commensurate with the normal returns we get on projects like this in our Midstream business. Now, I'll turn it over to Diane.

A - Diane G. Leopold {BIO 16365511 <GO>}

Okay. Good morning. This is Diane Leopold. What I would say is, first, when we updated the cost estimates in light of the delay and the stop work order, we also updated all cost estimates for aspects of -- all aspects of our construction plan, including seasonality and when we're going to be building each of the spreads and related productivity factors. We believe those are very reasonable for the plan that we have in place. And then, we did add appropriate contingency levels to cover a range of risks that are typical for a project at this phase.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. Okay. Thanks. Jim, congrats on your first earnings call. Thanks, guys.

A - James Chapman {BIO 19939701 <GO>}

Thank you.

Operator

Thank you for the question. The next question will come from Steve Fleishman with Wolfe Research. Please go ahead with your question.

Q - Steven Fleishman {BIO 1512318 <GO>}

Yeah. Good morning. So just agree on a rate sales price on Blue Racer. Just in the context of reaffirming your 6% to 8% growth, does that fully include now all these asset sales and the debt pay down?

A - James Chapman {BIO 19939701 <GO>}

It does.

Q - Steven Fleishman {BIO 1512318 <GO>}

Okay. Great. And then, Jim, you mentioned the business mix improvement. Is that so -- obviously, we can see that. Is it possible you also get some kind of business risk rejiggering from the agencies, or from these changes or is that not likely?

A - James Chapman {BIO 19939701 <GO>}

I think that's possible. We certainly see it that way, it's the reason we have done it in this manner. It's a little bit early to comment as we haven't really held those discussions yet with the agencies, but that will be a fair argument to make in my view.

Q - Steven Fleishman {BIO 1512318 <GO>}

Okay. And then, maybe one last question for Tom, just on the SCANA deal. I think you said you remain very optimistic on getting it done. It's obviously very noisy down there, and it's hard to -- when you are watching it from the newspapers to necessarily be that strong on it. So could you maybe just give a little more rationale, why you're very optimistic on getting it done?

A - Thomas F. Farrell {BIO 1509384 <GO>}

Sure, Steve. It is noisy. There's lots of things going on, lots of moving parts, but we've been working on all those moving parts now for 10 months. We're very familiar with the folks that we're dealing with and what their interest are and needs are. And in the end of the day, the Dominion offer or two offers now, our original offer which is very popular with customers by the way and the alternative offer which is popular with other kinds of customers, are by far and away -- it's not even close, the best alternative for SCANA in the State of South Carolina. And we were confident that the policymakers will come to that conclusion. We saw that last week or earlier I guess this week with the letter from Speaker Lucas, for example, recognizing that among all the alternatives, this was the best.

Q - Steven Fleishman {BIO 1512318 <GO>}

Okay. Great. Thank you.

Operator

Thank you for the question. The next question will come from Greg Gordon with Evercore ISI. Please go ahead.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Good morning, guys.

A - Thomas F. Farrell {BIO 1509384 <GO>}

Good morning.

Q - Greg Gordon {BIO 1506687 <GO>}

Can you hear me?

A - Thomas F. Farrell {BIO 1509384 <GO>}

Yes. Good morning.

Q - Greg Gordon {BIO 1506687 <GO>}

There is no mention in the official slide deck or the release on dividend policy, so can you just restate where you are on the dividend policy please?

A - Thomas F. Farrell {BIO 1509384 <GO>}

No change to our dividend policy.

Q - Greg Gordon {BIO 1506687 <GO>}

So, 10% growth for '19?

A - Thomas F. Farrell {BIO 1509384 <GO>}

Yes. But obviously it's up to the Board -- it's up to the Board, but that's the expectation, yes.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. Thank you very much. That was my only question. Take care.

A - Thomas F. Farrell {BIO 1509384 <GO>}

Thank you.

Operator

Thank you for the question. The next question comes from Julien Dumoulin-Smith with Bank of America. Please go ahead.

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

Hey. Good morning.

A - Thomas F. Farrell {BIO 1509384 <GO>}

Good morning, Julien.

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

Hey. So, just wanted to follow up a little bit on the credit question still. Can you elaborate a little bit on the use of proceeds here? Just -- Blue Racer, obviously, very well done on the magnitude of proceeds there. But just in thinking about the near-term and practically what you're doing?

A - James Chapman {BIO 19939701 <GO>}

Yeah. So for the Blue Racer sale proceeds and the generation sale process, are expected this quarter. So we will take that and use it to repay parent level debt as mentioned. And we have array of debt in parent company, some of which is prepayable, some of which is commercial paper, which is kind of shock absorber based on timing of their fees [ph] , et cetera. So we have identified ways to use that cash this quarter to pay down parent level debt. What I would say is, I wouldn't expect some big bang liability management exercise with tenders and the like. It's going to be managed on a more subtle basis with our existing securities which are prepayable, et cetera.

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

And maybe to clarify that just, obviously, it's a very good multiples here. I mean net-net, how do see it in terms of accretion/dilution on an earnings basis relative to the liability management?

A - James Chapman {BIO 19939701 <GO>}

Given the sales price -- prices achieved and given the reduction in interest from the debt pay down and given the likely receipt of earn out proceeds on the Blue Racer side, we are very comfortable that that impact is modest and in line with our 6% to 8% growth profile through 2020.

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

Got it. Excellent. And then, just a quick clarification and last one on SCANA. Just with respect to the deal and obviously, the court case pending, I mean how do see that court case, if there is a pathway to that court case and the ability to close the transaction given any range of outcomes?

A - Thomas F. Farrell {BIO 1509384 <GO>}

Well, one of the conditions we have to close is, there is no change in law, that court case would change the law as we -- as it existed when we made the decision transaction. But no order has been entered. Lots of rumors running around South Carolina and I just wouldn't believe everything. One reads in the newspaper about every single thing everybody is saying. We're going to continue to work with all the parties, including that we have the lawsuit, we're not a party of lawsuit. But obviously interested in the outcome of that lawsuit, as well as what's going on at the Public Service Commission. So all of these things have to be resolved without affecting financial parameters that we entered into -- the original financial parameters we entered into with SCANA in January or we won't close. I'm optimistic that that will all work -- we will work our way through all of it and we will close by the end of the year.

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

All right. Excellent. Congrats again, Jim.

A - James Chapman {BIO 19939701 <GO>}

Thank you.

Operator

Thank you. The next question will come from Praful Mehta with Citigroup. Please go ahead with your question.

Q - Praful Mehta {BIO 19410175 <GO>}

Thanks so much. Hi, guys, and congratulations Jim.

A - James Chapman {BIO 19939701 <GO>}

Hey. Thanks, Praful.

Q - Praful Mehta {BIO 19410175 <GO>}

So quickly just following up on SCANA, I wanted to understand what prompted the new proposal? Was there some feedback you received that suggested this would go better? And is there a room for another proposal or this is it, at this point this is what's on the table and you're expecting one of these to go through?

A - Thomas F. Farrell {BIO 1509384 <GO>}

We have been in dialogue with people, variety of customers, customer classes, policymakers, all gamuts, for literally last 10 months. And it became apparent to us that there was a significant interest by many in moving the refund into more of a non-going rate reduction. So we've worked through that and came up with the proposal that you saw us put forward I guess this last week. Things are all sort of running together, but I guess it was last week we put that proposal up. But that's all. There is two proposals, either one we're comfortable with. We don't expect any changes to either one of them.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Fair enough. And then, secondly, in terms of Blue Racer, the 300 million earn out, Jim, is that expected to show up in operating earning or is that going to be removed more as one-time?

A - James Chapman {BIO 19939701 <GO>}

The 300 most likely in operating earnings.

Q - Praful Mehta {BIO 19410175 <GO>}

I got you. And them, finally, just on ACP, if you have -- that you kind of highlighted the point that you want to hit the late-2019 timeframe to meet the critical winter period. If you don't hit that timeframe, is there any implications from an earnings or any penalties' perspective?

A - Diane G. Leopold {BIO 16365511 <GO>}

No. I wouldn't expect any change in earnings. The construction plan and costs are going to be similar regardless given the AFUDC that we have when we get into service.

Q - Praful Mehta {BIO 19410175 <GO>}

All right. Much appreciated guys. Thank you.

Operator

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