Q3 2023 Earnings Call

Company Participants

- David McFarland, Vice President, Investor Relations
- Robert M. Blue, Chairman, President and Chief Executive Officer
- Steven D. Ridge, Executive Vice President and Chief Financial Officer
- Unidentified Speaker

Other Participants

- Carly Davenport, Goldman Sachs
- Jeremy Tonet, J.P. Morgan
- Nick Campanella, Barclays
- Shar Pourreza, Guggenheim Securities
- Steve Fleishman, Wolfe Research

Presentation

Operator

Welcome to the Dominion Energy 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. 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 David McFarland, Vice President, Investor Relations. Please go ahead.

David McFarland {BIO 20946446 <GO>}

Good morning, and thank you for joining today's call. Earnings materials, including today's prepared remarks, contain forward-looking statements and estimates that are subject to various risks and uncertainties.

Please refer to our SEC filings, including our most recent annual reports on Form 10-K and our quarterly reports on Form 10-Q, for a discussion of factors that may cause results to differ from management's estimates and expectations.

This morning, we will discuss some measures of our company's performance that differ from those recognized by GAAP, reconciliation of our non-GAAP measures to the most directly comparable GAAP financial measures, which we can calculate, are contained in the earnings release kit.

I encourage you to visit our Investor Relations website to review webcast slides, as well as the earnings release kit. Joining today's call are Bob Blue, Chair, President, and Chief Executive Officer; Stephen Ridge, Senior Vice President, Chief Financial Officer; and Diane Leopold, Executive Vice President and Chief Operating Officer.

I will now turn the call over to Bob.

Robert M. Blue {BIO 16067114 <GO>}

Thank you, David. Good morning, everyone. I'll begin my remarks by highlighting our safety performance. As shown on Slide 3, our OSHA injury recordable rate for the first nine months of the year was 0.43, a significant improvement relative to already strong historical performance. I commend my colleagues for their consistent focus on employee safety, which is our first core value.

Moving now to the business review. It's been a year since we announced the review. These last 12 months have been a challenging environment for utility investors generally, and even more so for Dominion Energy shareholders.

As stewards of investor capital, we take that very seriously. That said, my conviction around the decision to launch and execute the review has not wavered. It is the right course of action for Dominion Energy, and we are seeing it through to its successful completion with urgency and with care.

Let me take a step back and share some of the most common themes I heard from our investors in the months leading up to the announcement of the review. Dissatisfaction with our track record of inconsistent earnings growth, and an earnings mix which too often had what some investors considered to be lower quality earnings.

Questions about the complexity and durability of the Virginia regulatory model, and concerns around the balance sheet, which included never fully addressing the impact of the failure of our master limited partnership financing model, as well as leaning on our balance sheet to remedy short-term earnings pressures at the potential cost of longer-term credit quality, both of which contributed to our living below our downgrade thresholds, even in a low-interest rate environment, all of which led to inquiries around whether a new approach was needed to deliver results that were consistent with shareholder expectations.

Since announcing the review, I've had the opportunity to engage directly with many of our shareholders. While opinions around the exact path and desired outcome of the review have varied, the common direction I receive, with which I strongly agree is that the review must comprehensively and finally address the foundational concerns that have eroded investor confidence over the last several years. This can't be a series of partial solutions that leave key elements and risks unaddressed.

That's how we've approached this top-to-bottom review, and we've strived to leave no stone unturned in our effort to deliver a result that will provide a durable, transparent, credible, and achievable strategic and financial profile that puts Dominion Energy on a path to compelling long-term value for shareholders, customers, and employees.

We've taken several meaningful steps over the last 12 months in furtherance of our objectives and are rapidly nearing a conclusion to this comprehensive review. With that context, let me recap our progress before turning to what's left to conclude the review. Again, we're moving with urgency, but also with great care, and our guiding priorities and commitments are unchanged.

As shown on Slide 4, we supported bipartisan legislation in Virginia that puts our largest utility on solid and durable footing, which will enable our delivery of the reliable, affordable, and increasingly clean energy that powers our customers every day for decades to come, while also playing a vital role in supporting Virginia job creation, tax revenue, and economic growth.

This legislation supports our compelling value proposition to customers. If you're a residential customer in Virginia, you pay approximately 16% less per kilowatt hour for your electricity than the average U.S. utility customer, and your power is on 99.99% of the time outside of a major storm event.

Furthermore, we're taking an all-of-the-above approach to ensure a highly reliable grid, while we work to decarbonize and meet unprecedented demand growth. We're making billions of dollars of investment in low-to-zero carbon generation resources, as well as transmission and distribution infrastructure that will work together to maintain critical grid reliability.

And for investors, we compete for your capital in support of our customers by enhancing timeliness of recovery for prudently incurred investment by the preservation of riders and the establishment of regular base rate case reviews.

Meanwhile, we will be positioned to deliver constructive regulatory outcomes that appropriately balance customer needs with investor demands for strong capital structure and a competitive return on equity against an industry-leading demand growth backdrop.

Two, we've been and continue to be 100% committed to our current dividend. Earnings growth combined with a period of low to no dividend growth will restore our payout ratio to a peer-appropriate range over time.

Three, we indicated that we are eliminating future operating earnings from sources that investors have told us they consider to be of low quality. That includes the upfront recognition of unregulated solar investment tax credits and certain gains from asset sales.

Four, on a strategic front, we announced and closed on the sale of our remaining interest in Cove Point. We applied the $3.3 billion of after-tax proceeds to reducing debt. This was a significantly credit accretive transaction done with a high-quality counterparty after a robust competitive process.

Five, we announced the sale of our gas utilities to Enbridge, one of North America's largest energy infrastructure companies. We ran broad and competitive processes for each of the individual utilities and we are delighted to have found a partner that not only shares our ideals around safety, reliability, customer service, employee treatment, and community investment, but that was also the most competitive option on value across each of the three utilities.

We intend to apply 100% of the estimated after-tax proceeds of nearly $9 billion to reducing parent level debt, which based on current rates will result in the reduction of around $500 million of pre-tax interest expense annually.

Like Cove, these are significantly credit accretive transactions. By way of update, all state regulatory, HSR, and the initial CFIUS filings have now been submitted, and the HSR waiting period expired on November 1.

We're pleased, though not surprised, with the positive reception the Enbridge team has gotten from employees, regulators, and policy makers. Further, Enbridge has already taken steps to materially pre-fund the acquisition. We expect a staggered close for each of the LDCs, with all three transactions closing in 2024.

Moving to Slide 5. On O&M, we've continued to focus on and identify incremental cost savings, particularly in the area of corporate overhead. We are, have been, and will continue to be one of the most efficient and most reliable electric utility companies in the country.

Finally, on governance, the Board, in direct response to investor feedback, modified my compensation structure for 2023 to align my economic incentives more closely with the financial interests of our shareholders.

As a result, 100% of my 2023 long-term incentive compensation is now performance-based. 70% is premised solely on three-year relative total shareholder return, with a 65th percentile relative performance required to achieve a 100% payout, which is well above the medium threshold of industry peers. Staying with the topic of governance and consistent with corporate best practice, we've maintained a regular cadence of Board refreshment.

Earlier today, we announced that Mike Szymanczyk and Ron Gibson will not stand for re-election next year. I want to thank Mike, whose departure is a result of our age-based mandatory retirement policy, and Ron for their faithful and dedicated service to our company over the last several years.

And I welcome Paul Dabbar and Vanessa Sutherland to the board, effective December 1. Thereby graphical information was included in today's press release, but suffice to say they are both uniquely qualified to continue the strong legacy of governance that Mike and Ron are leaving behind.

As part of our ongoing board refreshment process, we've now added six new directors since 2019, bringing the average tenure of our 11 directors to six years. The board will continue to work to ensure our shareholders' interests are properly represented via robust governance.

Each of these steps serve a valuable purpose in achieving the guiding principles of the review. They enhance the durability of our Virginia regulatory model. They address concerns around earnings quality. They strengthen the balance sheet. They emphasize our commitment to good governance, including a disciplined approach to O&M expense. However, our work isn't complete. Our offshore wind project is a significant focus of our investors. The project, which is fully regulated, is on time and on budget.

Let me just repeat that. Our project is progressing in alignment with our unchanged cost estimate and our unchanged in-service target date. Earlier this year, in recognition of the potential value for customers and shareholders, we supported legislation that allows us to petition the Virginia State Corporation Commission to take a controlling equity financing partner in the project, a non-controlling equity financing partner in the project.

As part of the business review, we're in advanced stages of a process to transact with a partner, with a focus on pro-rata sharing of project costs. The process has driven considerable interest from attractive and high-quality potential counterparties. Their interest is driven by the attractive characteristics of our project, including our priority position in the offshore wind supply chain, our successful track record of on-time permitting with the strong support of federal agencies, the bipartisan and public support of Virginia political, business, and community leadership, a differentiated legislative and regulatory construct that is delivering on behalf of our customers, and significant de-risking, which I'll highlight further later in my prepared remarks, driven by both the advanced stage of development as well as a high percentage of fixed costs.

Combined with the prospect of deploying a significant amount of capital into a high-quality, long-term, regulated investment, it's no surprise to me that the process has generated strong interest. We will conclude the business review when we've made a final decision on an offshore wind project partner. That's the final strategic step outstanding in the business review, and it's in the long-term best interest of our customers and shareholders that we make the right, not just the expedient decision.

A properly structured partnership with the optimal counterparty is an attractive option, but only if the terms of a potential transaction make sense for our customers and shareholders. We expect a decision by year-end or in early 2024.

As we near the review's conclusion, I'm more optimistic than I have ever been about the future of our company. We've always owned great assets and operated at best-in-class levels with an industry-leading workforce of dedicated employees who are devoted to our fundamental mission to provide reliable, affordable, and increasingly clean energy that powers our customers every day. I'm confident that upon concluding the review, we will have a solid long-term financial foundation that matches the remarkable quality of our assets and people.

Let me also be clear. We recognize that we must consistently execute against the financial targets we provide at the conclusion of the review, as is always the case. I am accountable for, and my entire leadership team has embraced our commitment to consistently deliver high-quality earnings growth that meets that plan.

We'll continue to announce updates as events warrant. Upon completion of the review, we expect to host an Investor Meeting to discuss the company's repositioned strategic and financial outlook. Steven will share some additional thoughts on investor communication in his prepared remarks.

Let me now touch on a handful of key business updates, starting with the offshore wind project. As I mentioned, the project is proceeding on time and on budget, consistent with the timelines and estimates previously provided.

We continue to achieve significant milestones. On materials and equipment, as shown on Slide 7, last week we celebrated the arrival of the first eight monopiles from our supplier EEW, at the Portsmouth Marine Terminal with the Virginia Governor, Lieutenant Governor, Attorney General, General Assembly leaders from both parties, representatives from Virginia's Congressional Delegation, leaders from the Bureau of Ocean Energy Management, and other local, military, civic, educational, environmental, labor, and community partners were fortunate to have the remarkable support of these national, state, and local leaders.

The offloading of these monopiles onto the newly upgraded port facilities went exceptionally smoothly. The next transport ship for monopiles is expected to be loaded at the factory later this month and delivered to the port in December. Also worth noting, that turbine blades and the cells remain on track with a fixed production schedule and mature existing manufacturing facilities.

Turning to Slide 8, we continue to expect the project to be completed by the end of 2026. On permitting, the final environmental impact statement was issued on September 29, and the record of decision was signed on October 30, which allows us to begin onshore construction. In fact, we began construction mobilization this week.

On regulatory, as a reminder, our 2022 rider filing for the project was approved in July, representing $271 million of annual revenue. Earlier this week, we made our 2023 rider filing, representing $486 million of annual revenue. We expect a final order by August of 2024.

On project management, there are over 100 personnel dedicated to this project and growing. Many of our offshore wind project leaders and personnel have also managed our most complex construction projects, including thousands of megawatts of large gas fire generation, the Cove Point liquefaction facility, and the offshore wind test turbines.

While each of those projects presented unique complexities and risks, they all required sophisticated management of contracts, vendor relationships, scheduling, engineering, procurement, construction, and oversight. Skills, expertise, and lessons learned, which were now being applied to the full effect to the offshore wind project. In addition, we also have numerous offshore wind industry experts from around the globe supporting the team.

On principal suppliers and vendors, as you might expect, Dianne, Mark Mitchell, who's our Senior Vice President of Project Construction, and I interact frequently, including regular in-person meetings with the CEOs and leadership teams of each of our primary vendors. We perform regular site visits during which we inspect the manufacturing facilities and interact with boots-on-the-ground project managers and members of the workforce.

We maintain near-constant dialogue with our key project partners at a variety of levels. Based on this ongoing monitoring and diligence, we fully expect that our vendors, without exception, will continue their support of the project's timely completion.

On the performance of our test turbines, our two adjacent test turbines have delivered an average net capacity factor over the last three years of approximately 46%, with a 97% availability factor. The high reliability and strong operating performance of our test turbines provide further confidence in the capacity factor of the larger commercial project.

Turning to cost on Slide 9, I draw your attention to the key metrics we've included in the slide, much of which is by way of reminder. First, we updated the project's expected LCOE in our filing earlier this week to approximately $77 per megawatt hour, as compared to our previous range of $80 to $90. The decrease reflects updated and refined estimates around production tax credit, cost of capital, and REC values.

We've provided sensitivities to show how the average lifetime cost to our customers is impacted by capital costs, capacity factor, and interest rates. We remain well below the legislative prudency cap on this metric.

Next, the project, total cost remains $9.8 billion. Project to date, we've invested approximately $2.3 billion, which we expect to grow to around $3 billion by year-end. I'm pleased to update that our current project costs, excluding contingency, have improved to 92% fixed.

The remaining costs to be fixed includes finalizing the construction for the above-ground onshore electrical work, certain commodities consisting mainly of the fuel which will be used for transportation and installation, and other project oversight costs.

Our current contingency estimate, which is included in the $9.8 billion budget, has increased modestly relative to our initial filing position, despite being at a much more advanced phase of project completion and having fixed a significant portion of costs.

At $370 million, the current contingency as a percentage of total budgeted costs, and in the context of this stage of completion, benchmarks competitively when compared to other large infrastructure projects we've studied.

With 92% of project costs now fixed, our current contingency is about half of our remaining unfixed costs. We've been very clear with our team and with our vendors that delivery of an on-budget project is the expectation.

Moving to Slide 10, a couple of final points here on Charybdis. Our Jones Act compliant installation vessel being constructed in Brownsville, Texas by Seatrium, formerly known as Keppel. The vessel is currently 77% complete.

We continue to expect it to be delivered late 2024 or early 2025, which is later than we originally planned, but still supportive of our construction timeline. I personally visited the site earlier this week, met with management and reviewed progress. A few highlights, Seatrium has extensive relevant experience in constructing vessels similar to Charybdis.

The project is considered strategically important to their management team, and they are committed to timely completion of the project. They've dedicated some of their most experienced management and supervision from Singapore to support the efforts in response to project delays.

Labor, which was an initial constraint, has increased from 800 to over 1,000 and is continuing to be augmented. Recent construction milestones, including a major milestone of first leg installation in late August, are being met, and the vessel is on track for engine startup later this year. All major subcomponents are on site and awaiting installation. Supply chain is not a cause of concern.

On costs, there has been no change to the underlying construction cost estimate for Dominion Energy. Last quarter's $75 million increase in total project costs to $650 million, including financing costs, is largely attributable to higher financing costs, related to higher rates, and a longer construction timeline, with the remainder being attributable to small increases to some ancillary costs, such as crew training and capital spares.

In summary, there's no change to the vessel's expected availability to support the current CVOW construction schedule, including its availability to support any third-party charter agreements in 2025. We've provided supplemental information related to our offshore wind project that can be found in materials included on our Investor Relations website.

Transitioning now to the Virginia Biennial review, which is currently in the testimony phase. As a reminder, DEV submitted its biennial filing on July 3, initiating a review of base rates, which represents about a third of DEV's total rate base.

Virginia Rider investments, like offshore wind, solar, battery storage, nuclear life extension, and electric transmission, which are outside the scope of the proceeding, represent the vast majority of the growth at DEV. We look forward to engaging with parties to the case and would expect a final order by March 3 of next year.

Turning to other notable DEV updates, we made our fourth clean energy rider submission in October. The filing included new solar projects and represented nearly $900 million of utility-owned solar and rider eligible investment.

We expect to receive an order from the SCC in the second quarter of 2024. On data centers, we continue to advance a series of infrastructure upgrade projects that will enable incremental increases in power for data center customers in eastern Loudoun County. Four projects have been completed ahead of schedule.

An additional project is currently under construction and on schedule to be completed by the end of 2023. We continue to develop a new 500kv transmission line with an expected in-service date of late 2025. Given the unprecedented growth in areas served by our electric transmission, we continue to see an acceleration of and long-term increase in electric transmission investment opportunity throughout our service area.

As part of PJM's transmission planning process, we submitted numerous new projects that we believe are needed to ensure the electric grid in Virginia is reliable, resilient, and able to adapt to increasing energy demand, while also transitioning to cleaner energy resources. PJM recently advanced the majority of these projects for further evaluation. We've also included updates on our latest grid transformation filing, as well as our fuel securitization proceeding.

Turning to Dominion Energy South Carolina, in addition to delivering safe and reliable energy, DESC's electric rates for residential customers are 8% below the national average. This represents an improvement of 21%, relative to the national average since the time of the merger announcement, when rates were 13% higher than the national average. We're meeting the expanding energy needs resulting from robust economic development and population growth in South Carolina.

On the regulatory front, we reached a settlement in our natural gas general rate case, which the Public Service Commission unanimously approved on September 20. The settlement will result in a $9 million increase, with new rates effective in October. Since the merger, we've now achieved rate settlements in both electric and gas-based rate cases, which is a testament to the company's improved regulatory and stakeholder relationships in the state.

With that, I'll turn the call over to Steven.

Steven D. Ridge {BIO 20475546 <GO>}

Thank you, Bob, and good morning. Our third quarter 2023 operating earnings, as shown on Slide 13, were $0.77 per share, which included $0.02 of help from better-than-normal weather in our utility service territories. Results with and without this weather help were above our updated guidance range midpoint of $0.74.

A summary of all drivers for earnings, relative to the prior year periods is included in Schedule 4 of this morning's Earnings Release Kit. Third quarter GAAP net income was $0.17 per share and a summary of all adjustments between operating and reporting -- reported results is included in Schedule 2 of the Earnings Release Kit.

The sale of Cove Point which closed in September and the announcement of the sale of the gas utilities also in September require changes to our financial reporting structure and recasting of our financial results in accordance with accounting rules.

First for GAAP purposes, Cove and the gas utilities have been reclassified as discontinued operations on the income statement, and held for sale on the balance sheet, and are reported in the Corp and other segment. As a result, earnings from these assets have been removed from operating earnings.

We have recast year-to-date results and their comparative periods to reflect these changes. As I'll explain in a moment, the full impact of expected interest savings from parent level debt repayment as a result of these transactions is not included in 2023 results, even though the full-year earnings contributions from those businesses are now excluded from operating earnings.

Due to the dissolution of the gas distribution reporting segment, our renewable natural gas business is now reported with our contracted energy segment, formerly known as contracted assets, which consists of millstone, existing long-term contracted solar, and the offshore wind installation vessel Charybdis. Again, this change is applied retroactively to prior periods including year-to-date results. We've included a slide in the appendix with this information for your reference.

Turning to Slide 14, we view 2023 as a transition year for the company due to the pending results of actions we've taken as part of the business review to support our long-term objectives. The retroactive reclassification of assets that are being sold as discontinued operations, the non-inclusion of expected interest savings from the redeployment of asset sale proceeds, the partial year impact of the 2023 Virginia legislation, and other non-reoccurring items combined to make 2023 difficult to model as reflected in the disparity we observe in sell-side estimates for the year.

With that in mind, let me provide hopefully helpful housekeeping around 2023 results. Recast year-to-date operating earnings per share through September 30, total $1.75. The recasting simply removes the contributions from Cove Point and the gas utilities.

For the fourth quarter, we expect operating earnings to be approximately $0.35 per share, which assumes normal weather. We've shown here the primary drivers of year-over-year changes to fourth quarter operating earnings, most of which we've identified on prior earnings calls.

Taken together, year-to-date actuals plus fourth quarter guidance would result in 2023 operating earnings of $2.10 per share. However, it warrants highlighting a few adjustments that investors may consider to more accurately assess 2023 results. First, we experienced historically mild weather for the first two quarters of the year, representing $0.16 of year-to-date earnings headwinds. Recall that Q2 was the mildest quarter, relative to 15 year normal in the last 50 years.

We don't expect weather to deviate from historical normal in this manner going forward. Second, we expect approximately $0.50 of additional interest savings, based on the current rate outlook, from parent debt repayment, driven by the sales of Cove Point and the gas utilities.

Again, the way discontinued operations is reflected in our 2023 results, 100% of the earnings from these assets are removed, but the full benefit of use of sale proceeds is not captured. Third, 2023 results include approximately $0.08 of hurt related to what we consider a non-reoccurring extended unplanned outage at Millstone Units 2 and 3 this spring.

We discussed this in the last earnings call and have continued to follow through on the steps we described then to ensure the plant performs consistent with its strong operating history. Also note that 2023 is a double planned outage year for Millstone, which is an additional around

$0.10 hurt in 2023 that we won't see in the next two years as double planned outages occur once every three years.

Fourth, we expect approximately $0.15 of improvement as a result of the anticipated inclusion of market-based revenues from certain customers in the annual fuel factor, as well as lower interest expense due to the securitization of $1.3 billion of deferred fuel balances, that we've been financing with short-term debt during 2023. By way of reminder, the hearing examiner in the fuel filing case recommended adoption of the company's position on both of these topics, given their beneficial impact on our customers.

Finally, and in the opposite direction, we expect approximately $0.18 of additional hurt related to the $350 million rider revenue reduction, given that rate reduction did not impact first half results. Taken together, these adjustments would result in 2023 operating earnings per share of around $2.90.

Turning now to Slide 15, and continuing on this theme, some of the transition we're experiencing in 2023 will continue into 2024, which is why we continue to view 2025 as the foundational year for the company's post-review financial performance. But because the top-to-bottom business review is not complete, we're not providing 2025 earnings guidance at this time.

I'd like to share some thoughts on that topic. We know that this review has been in process for a year, which has created uncertainty. However, investors will not have to wait much longer to get the company's comprehensive post-review financial outlook, including our 2025 earnings expectations, long-term earnings growth rate, credit metric and dividend growth rate targets, CapEx forecast and financing plans, and other relevant financial schedules.

As Bob mentioned, we expect to conclude the review in coming months with an investor event to follow shortly thereafter. As part of that event, we are committed to enhancing transparency and simplifying the financial presentation of our results, so that investors can confidently model and sensitize our company's earnings and credit profile.

I'd caution against applying a growth rate assumption, based off an illustrative 2023 operating earnings to determine an estimate for 2025. That approach would ignore critical inputs, which Dominion Energy hasn't yet disclosed due to the ongoing business review that will have a significant impact on our future earnings power, such as, one, a historic level of near-term regulated rate-based investment, driven by a combination of unparalleled demand growth, policy directives around zero-carbon energy resources, and reliability investments in grid transformation, electric transmission, and nuclear license renewals, among other programs.

Starting with 2023, we expect our annual capital investment budget over the next few years to be significantly higher than any in our history, which will drive meaningful regulated earnings growth. Two, the full results of our evaluation of efficient sources of capital to solidly position our balance sheet for the long term, while seeking to minimize any amount of external equity financing need. Three, O&M initiatives that are the result of our continued focus on being one of the most reliable and efficient utility operators in the country. Four, the impact of potentially higher for longer interest rates in the context of our portfolio of interest rate interest rate derivatives, that on a mark-to-market basis as of earlier this week, we're approaching $1 billion in value. Five, optimization of the company's growing tax attributes, including the use of tax transferability, driven by increased generation of production tax and related credits from our businesses. And six, earnings and free cash flow growth from our contracted energy segment.

During the investor event, we will comprehensively review our updated strategy, provide multi-year financial and capital investment guidance, and participate in Q&A. We would believe that this presentation will provide reference information and insights that will help investors to better understand Dominion Energy's updated profile, as well as the key value drivers of each of our business segments.

Turning to credit. Our commitments and priorities with regard to credit are unchanged. As Bob mentioned, the sale of our remaining interest in Cove Point, and the announced sales of our natural gas distribution companies are strongly credit accretive. Post-sale comments by the rating agencies with whom we maintain regular engagement highlighted the credit positive nature of the transactions.

For example, adjusting for the announced transactions, Moody's published they would expect Dominion Energy's consolidated FFO to debt to be in the high teens' percent range, exceeding our current downgrade threshold of 14%. But as the agency has pointed out, we expect the financing of our significant near-term customer-driven growth to put downward pressure on that metric.

We want to emerge from the review with a sustainable credit foundation that over time will consistently meet and exceed our downgrade thresholds, even during temporary periods of cost, regulatory or interest rate pressure.

Lastly on interest rates. On Slide 16, adjusting for the announced transactions, we have shown how our floating rate debt and all fixed-rate debt maturities over the next three years compares to peers. As you can see, our repricing exposure in this timeframe, on this basis, benchmarks well.

We also continue to manage our interest rate exposure on future issuances of long-term debt through a variety of treasury activities, including through what is nearly $8 billion notional of pre-issuance interest rate hedges.

These hedges, which can mitigate movement in the benchmark underlying our long-term debt issuances, serve to dampen volatility for our DEV customers and for our shareholders. We will provide an update on our planning assumption for rates, interest expense and hedging strategies when we host our investor event.

With that, let me summarize our remarks on Slide 17. Our safety performance this year is commendable. We've taken significant steps to achieve the objectives of the business review. We are moving with urgency and care as we near the conclusion. We recognize the importance of delivering a compelling result and executing flawlessly thereafter.

Our offshore wind project is on time and on budget. We are in advanced stages of a robust offshore wind partnership process that has generated considerable interest. And we continue to make the necessary investments to provide the reliable, affordable, and increasingly clean energy that powers our customers every day. We look forward to seeing many of you in person at the EEI Financial Conference next week. And with that, we're ready for your questions.

Questions And Answers

Operator

(Question And Answer)

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

Q - Shar Pourreza

Hey, guys. Good morning.

A - Unidentified Speaker

Good morning, Shar.

Q - Shar Pourreza

Just a little bit to unpack here, I guess, Bob, can you just maybe drill down a bit further on 14 and 15 Slides and kind of the messaging around breaking ahead? You're clearly trying to tell investors to not put a growth rate on 290 to get to '25, seems to be that you're pointing to more tailwinds than risks.

Can you just maybe elaborate a bit more on the drivers, like some of the balance sheet moving pieces as it relates to the hedge portfolio, transferability, and even potential free cash flow growth at Millstone, right? And a follow-up, should we assume the pending growth rate guide will be off that much higher base in '25? Thanks.

A - Robert M. Blue {BIO 16067114 <GO>}

Shar, I'll take that one. So on the second question, again, we view '25 as the foundational year for our post-review earnings growth. So, when we do our investor meeting, we'll provide our forecast for 2025 and a growth rate off of that 2025 number, a multi-year growth rate off of that 2025 number.

And with regard to Slides 14 and 15, look, we felt it was important, given the uncertainty that's been created as a result of the review, to try and be clear about what we think is an accurate assessment of what 2023 earnings are, not because it's going to be the foundational year, but because it's important that investors feel confident about our ability to deliver good results.

And the language we've provided on Slide 15 is simply an indication that, given a host of very important input variables, which are not public at this time, we would simply caution against taking a simplified approach of applying a growth rate to the $2.90.

Q - Shar Pourreza

Got it. Okay. Okay, well, we'll wait for more details there. And Steven, the deck is so detailed around offshore wind sale process, and it's clearly implying that nothing else is for sale like SCANA, which is good.

There is sort of a big concern for investors, so I have to ask, and I apologize for asking, but would Dominion be willing to accept a portion of their partner's construction in the sale, or will the risk sharing have to be basically 100% symmetric in order for the sale process to proceed? So basically asking, how comfortable would you be absorbing your partner's downside cost risk, especially as we're thinking about balancing that risk for rate payers and shareholders? Thanks.

A - Steven D. Ridge {BIO 20475546 <GO>}

Yeah, sure. Let's take a step back for a moment in this process. When we announced the top-to-bottom business review last call, we didn't even have legislative authorization to take an equity partner in offshore wind.

Now we do, thanks to our proposal and our work with the legislature earlier this year. We didn't have an EIS, a record of decision, for the project. Now we do on the schedule that we expected. We hadn't started manufacturing equipment.

Now our first shipment of monopiles has arrived on time. When we started, we had about 75% of project costs fixed. Now we're at 92%. So I could go on with how well the project is going. So we feel very good about what we've done so far. We've got multiple parties who are engaged with us. And our objective is a true equity partner with pro rata sharing of project costs. That's what we're after.

Q - Shar Pourreza

Okay. Thank you, just answered my question, Bob. That's very helpful. Thank you guys. We'll see you in a couple of weeks. Thanks.

A - Robert M. Blue {BIO 16067114 <GO>}

Thanks, Shar.

Operator

And our next question comes from Nick Campanella with Barclays.

Q - Nick Campanella {BIO 20250003 <GO>}

Hey, good morning, everyone. Thanks for taking my question.

A - Unidentified Speaker

Good morning, Nick.

Good morning, Nick.

Q - Nick Campanella {BIO 20250003 <GO>}

Good morning. I just wanted to ask, I know there's a lot of scenarios on the sell down out there, but even up to like a 50% sell down on the offshore wind, would you still kind of expect common equity needs to fund growth going forward? You're just calling out some items here, contracted energy cash flow, tax credit transferability. Could you just help us kind of think about what the pro forma entity financing needs were if you were to sell down? Thank you.

A - Unidentified Speaker

Yeah, we're not giving that guidance, Nick. The language we continue to use is that we're very specific on what we're attempting to achieve for credit, and we're also very specific on what we're attempting to achieve with regard to evaluating efficient sources of capital, seeking to minimize any amount of external financing need. When we have our investor meeting, we will provide a full outlook on what our financing plan is. And so, we're just not in a position to give that guidance because the review is not complete yet.

Q - Nick Campanella {BIO 20250003 <GO>}

Understood, understood. And then Steve, I think in your remarks, you said the capital budget will be significantly higher than any in your history. And I went back to your slides. I think you had like a $37 billion capital plan before you announced this strategic review. So should we take your comments to say that you should be higher than that number? Or is that even net of LDC sales and the offshore wind sell down? How should we think about that?

A - Steven D. Ridge {BIO 20475546 <GO>}

Yes, Nick, let me provide a little guidance on that. So from 2018 through 2022, our company had a capital budget on average of about $6 billion per year. When we last provided our long-term growth guidance, which was the fourth quarter of 2021, net of gas distribution, so taking gas distribution capital out.

And you can go back and look at our Q4 2021 earnings deck for this. We averaged in '23, '24, and '25 at the time about $9 billion of capital investment each year over '23, '24, '25. We haven't at this time given any update to that, but we've talked a lot about some of the drivers that would potentially increase those numbers.

Another anecdotal piece of information is that year-to-date through 2023, our CapEx has been $7.2 billion. A year ago through 9:30, it was $5.2 billion. And for the full year 2022, it was $7.6

billion. So you can see even in the results year-to-date how significantly increased our capital budget is.

And I want to be clear about what's driving that. What's driving that is demand growth, policy directives, and reliability investments, many of which are already underway under rider programs at DEV, as well as growth at our South Carolina utility. So more to come on that, Nick, but we have a very strong demand growth driving on a very robust amount of capital investment in our regulated businesses.

Q - Nick Campanella {BIO 20250003 <GO>}

Hey, I appreciate that. Thank you.

Operator

And our next question comes from Steve Fleishman with Wolfe Research.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah. Hey, good morning. Thanks. So first, just to repeat Shar's question a little bit on the offshore wind sale, and Bob, I think you said your objective is to find a partner that will have pro rata risk sharing. Do you get the sense that the people looking at it are willing to do that?

A - Robert M. Blue {BIO 16067114 <GO>}

Yes, Steve, we're going to look at the total picture on any deal. So I'm not going to tell you what any specific pieces of it may be, while we sit here today. We're going to judge any deal against the commitments and priorities that we set out at the beginning of the process.

Does it help improve our credit metrics? Does it solidify our credit profile? Does it enhance shareholder value? Does it reduce the company's concentration in this one project? Is it consistent with our goal of reliable performance? Those are the things we're going to look at. And again, our objective is to get a true equity partner with pro rata sharing of project costs. I can't tell you today what the specific pieces of any deal may be, because it's not done yet. That's what we're after.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And just another question on the offshore wind, the 92% fixed cost, that's great, and you've made a lot of progress. I think one of the things, if you look at issues with big projects over time is the suppliers end up having issues and can't meet the obligation they came to, either financially or they're just delayed or whatever. So could you just talk to that issue, since that's often been an issue with big projects that have been problems, suppliers end up not coming through?

A - Robert M. Blue {BIO 16067114 <GO>}

We communicate regularly with them, with our suppliers, and if you look at the deck that we posted on the website on offshore wind, we walk through each one of them and the status of the contracts with each of them, and you can see they're all performing, and they're all performing on time.

Now I know that Siemens in particular is one that's been in the news recently and there are turban provider, I communicate regularly with the CEO of Siemens Gamesa, renewable energy and I most recently heard from him after that news on some of the challenges that they're facing, mostly with their onshore business, and sort of project potential that they have, that they need to be able to post guarantees on those, so they got a lot of growth opportunities, but that's causing them some challenges that have been in the news.

He assured me they're committed to their contractual obligations and he said nothing will change the close and successful partnership we have from their side. So, we're very focused on this. We communicate regularly with all of those providers, and as we outlined earlier and as you can see in the deck, those projects are going very well. They're all performing. They're all on time.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. One last quick one for Steve, just a simple one. The slide that talked about the 290 for '23 and don't just use the normal utility growth rate to '25, and you go through those factors, it looks like pretty much almost all of them are positive factors. So, my interpretation of that is it should be better than that. I just want to make sure that that's correct?

A - Steven D. Ridge {BIO 20475546 <GO>}

Well, we're not giving guidance, so I'll start with that. I think we provided this list to try and be comprehensive and holistic, so that we're not suspected of trying to cherry-pick or give half guidance. We talked a lot internally in advance of this call about staying true to what we've done thus far, which has been disciplined about not providing partial guidance until the review is complete.

And this is in the spirit of that. Now, I would just say on individual items, some of these are certainly tailwinds. Higher rates, of course, I probably wouldn't describe that as a tailwind, but we talk about the in-the-money portfolio of rates. So I don't want to get into a box, given that we're not giving guidance on any of these particular items, except for we felt it was important to highlight, the various inputs that we have not disclosed that we think will be important to analyzing accurately what our 2025 earnings will be.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. Thank you very much. I appreciate it.

Operator

And we have our next question from Jeremy Tonet with JP Morgan.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

A - Robert M. Blue {BIO 16067114 <GO>}

Good morning, Jeremy.

A - Steven D. Ridge {BIO 20475546 <GO>}

Good morning, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Appreciate the commentary you just laid out there, with regards to how you're talking about the review, but just wanted to go to the dividend, if I could, and just wanted to see if the dividend policy remains intact, even if for some reason you keep all of wind. Is there any scenario where keeping the dividend at these levels just wouldn't make sense?

A - Steven D. Ridge {BIO 20475546 <GO>}

We're committed to the dividend, Jeremy. As we said, we're 100% committed to the dividend. Trying to talk about scenarios that people could imagine I don't think is terribly productive. We've been committed to the dividend since the beginning. We haven't wavered in that. We're not wavering on it today.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful. I'm going to leave it there. Thank you very much.

A - Robert M. Blue {BIO 16067114 <GO>}

Thanks, Jeremy.

Operator

And we have our next question from Carly Davenport with Goldman Sachs.

Q - Carly Davenport {BIO 21913922 <GO>}

Hey, good morning. Thanks for taking the questions and for all the color thus far. Maybe just one quick one on the business review. I guess can you just help us frame the risk around the timeline here? Are there any factors in particular that you're watching that could potentially push that beyond the late '23 to early 2024 timeline that you've lined out?

A - Robert M. Blue {BIO 16067114 <GO>}

No. We, I think, laid it out pretty clearly. We're in the last stage here on evaluating an offshore wind equity partner. But, no, there's nothing else out there.

Q - Carly Davenport {BIO 21913922 <GO>}

Great, thanks for that. And then, appreciate the disclosure on the interest rate exposure. Just on the $8 billion in the interest rate derivatives that you highlighted, is there anything you can provide in terms of the tenor on those contracts, just as we think about the moving pieces on financing costs in the coming years relative to that, I think it was the sub-3% average coupon that you highlighted?

A - Robert M. Blue {BIO 16067114 <GO>}

Yes, so we've got derivatives at both VEPCO as well as at the holding company, and more at the holding company than at VEPCO. VEPCO is, because we use hedge accounting, we're a little more restricted on when we utilize those hedges, so those are '24-'25 style hedges at DEI.

We're able to use any time in advance of a future settlement date, so we've got some flexibility in timing of use of that, anywhere between now and 2028, based on the current notional. So, we've got some flexibility there, and as part of the Investor Day, we'll of course provide some incremental disclosure around how we intend to utilize that portfolio.

Q - Carly Davenport {BIO 21913922 <GO>}

Great. That's very helpful. Thank you.

A - Robert M. Blue {BIO 16067114 <GO>}

Thank you.

Operator

And we have reached our allotted time for our question-and-answer session. This does conclude this morning's conference call. You may disconnect your lines and enjoy your day.