Q3 2021 Earnings Call

Company Participants

- David McFarland, Director of Investor Relations
- Diane Leopold, Executive Vice President and Chief Operating Officer
- James R. Chapman, Executive Vice President, Chief Financial Officer and Treasurer
- Robert M. Blue, Chairman, President and Chief Executive Officer

Other Participants

- Charles Fishman, Morningstar
- David Peters, Wolfe Research
- Jeremy Tonet, J.P. Morgan
- Paul Zimbardo, Bank of America
- Shahriar Pourreza, Guggenheim Securities

Presentation

Operator

Welcome to the Dominion Energy Third Quarter 2021 Earnings Conference Call. At this time, each of your line is in a listen-only mode. At the conclusion of today's presentation, we will open the floor for questions. Instructions will be given for the procedure to follow if you would like to ask a question.

I will now turn the call over to David McFarland, Director Investor Relations.

David McFarland {BIO 20946446 <GO>}

Good morning, everyone, and thank you for joining the call. Earnings materials, including today's prepared remarks may contain forward-looking statements and estimates that are subject to various risks and uncertainties. Please refer to our SEC filings, including our most recent annual reports on Form 10-K and our quarterly reports on Form 10-Q for a discussion of factors that may cause results to differ from management's estimates and expectations. This morning, we will discuss some measures of our company's performance that differ from those recognized by GAAP.

Reconciliation of our non-GAAP measures to the most directly comparable GAAP financial measures, which we can calculate, are contained in the earnings release kit. I encourage you to visit our Investor Relations website to review webcast slides, as well as the earnings release kit. Joining today's call are Bob Blue, Chair, President, and Chief Executive Officer; Jim Chapman, Executive Vice President, Chief Financial Officer, and Treasurer; and other members of the executive management team.

I will now turn the call over to Jim.

James R. Chapman {BIO 19939701 <GO>}

Thank you, David. Good morning, everybody.

Let me begin with a recap of our compelling investment proposition and highlight our focus on the consistent execution of our strategy. We expect to grow our earnings per share by 6.5% per year through at least 2025, growth that is driven by a $32 billion five-year growth capital plan. As outlined in our fourth quarter call in February, over 80% of that capital investment is emissions reduction enabling and over 70% is rider recovery eligible. We offer a dividend yield of 3.5% and its dividend per share to grow 6% per year, based on a target payout ratio of 65%. Taken together, Dominion Energy offers an approximately 10% total return, comments on a pure play state regulated utility profile, operating in premier regions of the country. Our industry-leading ESG positioning includes the largest regulated decarbonization investment opportunity in the nation, which as you'll hear today. As you will hear in today's prepared remarks is steadily transforming from opportunity to reality.

We have quite a few exciting developments related to that transformation to discuss this morning, including the pending settlement of our triennial review and our Offshore Wind application in Virginia in addition to other positive updates across our operating segments. Before handing it to Bob, for those and other business updates, I'll discuss our third quarter results and related financial topics.

First, our strong quarterly earnings. Our third quarter 2021 operating earnings as shown on Slide four were $1.11 per share, which for this quarter represented normal weather in our utility service territories. These strong results were slightly above the top end of our quarterly guidance range. Positive factors as compared to last year, include growth from regulated investment across electric and gas utility programs, higher electric sales due to increased usage from commercial and industrial segments, and the impact of the share repurchase completed late last year.

Negative factors compared to the last year include higher depreciation expense and a return to normal weather. This is our 23rd consecutive quarter, so almost six years now, of delivering weather normal quarterly results that meet or exceed the midpoint of our quarterly guidance ranges. Note that our third quarter and year-to-date GAAP and operating earnings together with comparative periods are adjusted to account for discontinued operations, including those associated with the sale of our gas transmission and storage assets.

Third quarter GAAP earnings were $0.79 per share, and reflect a non-cash mark-to-market impact of economic hedging activities, unrealised changes in the value of our nuclear decommissioning trust fund, the contribution from Questar Pipelines, which will continue to be accounted for as discontinued operations until divested at year-end, and other adjustments. A summary of all adjustments between operating and reporting results is as usual included in Schedule 2 of the earnings release kit.

Turning now to guidance on Slide 5. As usual, we're providing a quarterly guidance range, which is designed primarily to account for variations from normal weather. For the fourth quarter of 2021, we expect operating earnings to be between $0.85 and $0.95 per share. Positive drivers as compared to last year are expected to be normal course regulated rider growth, continued modest strengthening of sales from commercial and industrial segments, and slight margins up within contracted assets.

Negative drivers as compared to last year are expected to be a slight catch up in COVID deferred O&M and tax timing. Given where we are in the year, we're narrowing our 2021 full-year guidance range to $3.80 to $3.90 per share, preserving the same midpoint as our original guidance. Assuming normal weather for the remainder of the year, we expect operating earnings per share for 2021 to be in the upper half of this narrowed guidance range.

We're also affirming long-term operating earnings and dividend growth guidance, no changes here from prior communications. We will as usual provide 2022 guidance on our fourth quarter call early in the New Year, but we continue to expect the midpoint of our 2022 guidance range to be 6.5% higher than the midpoint of our '21 guidance range. We continue to be very focused on extending our track record of achieving weather normal results at or above the midpoint of our guidance on both the quarterly and annual basis.

On Slide 6, we've summarized several important financial milestones achieved since our last call. First, we issued $1 billion in 10-year Green bonds at our parent company at a cost of 2.25%. This follows right on the heels of the $6.9 billion in sustainability linked credit facilities, which we announced on last quarter's call. So a lot of activity at Dominion on these types of innovative financings that support our ESG objectives, thanks to all who participated in this important offering. And as a reminder, we'll have additional fixed income issuance at Dominion Energy, Virginia; Dominion Energy, South Carolina; and in our parent company during the remainder of this year.

In October, we announced the sale of Questar Pipelines to Southwest Gas Holdings. This all cash transaction was valued at nearly $2 billion, including the assumption of about $430 million of existing debt. Proceeds from this sale will be used primarily to reduce parent-level debt. We very much expect to close by the end of this year, subject only to HSR approval. Obviously, there's quite a bit of press attention currently on some of the dynamics unfolding around various shareholders of Southwest Gas. But I would highlight that there is no early termination mechanism in our purchase and sale agreement. As a reminder, this transaction does not impact Dominion Energy's existing financial guidance, this quarter or otherwise. Questar Pipelines has been and will continue to be accounted for as discontinued operation excluded from our company's calculation of operating link.

Next, as a result of our continuous focus on both our capital allocation process and on our corporate credit profile, we've elected to monetize additional value from our investment in Cove Point by financing our stake with an attractive non-recourse term loan. We received binding commitments on a $2.5 billion non-recourse term loan, which is at the entity that holds our 50% non-controlling equity method investment in the Cove Point facility. Proceeds from this EPS neutral financing are being used to reduce parent-level debt. Over the past few years, we've been taking -- we've taken intentional and significant steps to effectuate fundamental change to lower our business risks, to maximize the recycling of capital into our attractive regulated utility businesses, and to improve our credit metrics. And this financing is another step along that same path. We expect this non-recourse recapitalization to be completed by year-end.

Bigger picture, this financing provides a good opportunity to take a quick look back on the capital flows from that asset of Cove Point. As you will recall, we invested approximately $4 billion in the construction of the Cove Point liquefaction project. And through the combination of prior stake sales and the project financing we're announcing today, we will have monetized well over $6 billion of capital to date, even before accounting for any distribution.

Turning now to electric sales trends. Weather normalized sales increased 2.4% year-over-year in the third quarter in Virginia and 1% in South Carolina. In both states, consistent with the trends seen last quarter, we've observed increasing usage from commercial and industrial segment, overcoming declines among residential users as the stay-at-home impact of COVID wanes. Looking ahead, we continue to expect electric sales growth in our Virginia and South Carolina service territories to continue at a run rate of 1% to 1.5% per year. Similar to what we were observing pre-pandemic to no changes there from prior communication.

Next, let me discuss what we're seeing around rising natural gas prices as we're hearing a lot about this topic across industry this quarter. We prioritize our customer rate affordability and implement price mitigation strategies across our businesses in a variety of ways to account for the impact of changes in gas prices. So, across our electric and gas utilities, we have very clear cut pass-through mechanisms for fuel costs. So, this is less of an issue as to how the recent price increases may impact earnings this year sustained. But rather, how those impact our customer bills, something we obviously care about and we watch very closely. So let me share a little bit of color on what measures we have in place to mitigate those kinds of impacts.

In our gas distribution service territories, we expect the bill impact of rising fuel prices to be less pronounced than what some recent headlines suggest due to few things - the proximity of gas resources, our widespread use of storage to offset peak day requirements and the effectiveness of our gas supply hedging strategies. In our

Western States, our unique state-regulated cost of service gas production also helps customers avoid price spikes. In fact, we estimate that our customers save over $100 million over just a seven-day period during the winter storms experienced last February. Thanks to this regulatory structure.

In our electric service territory, we also have long-standing risk mitigation strategies, including hedging and storage with most fuel costs trued up to customer bills on a delayed basis, a structure which helps to smooth out the bill impact of commodity swings.

In summary, we certainly don't want to see any increased costs for any of our electric and gas customers. So we'll continue to employ these mitigations measures to keep increases as muted as possible. But for the avoidance of doubt, we currently don't see any impact to our decarbonization focused growth capital investment plan.

In wrapping up, we'll plan to use our fourth quarter call early next year to provide a comprehensive update and roll forward of capital investment, financial outlook and related disclosures akin to the format of our last fourth quarter earnings call, which we believe was well-received. Investor should expect further evidence in support of several fundamental Dominion Energy themes, compelling and earnings and dividend growth, combined with the largest regulated decarbonization opportunity in the industry, and unyielding focus on extending our track record of successful project, regulatory and financial performance.

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

Robert M. Blue {BIO 16067114 <GO>}

Thanks, Jim. I'll start as usual by commenting on our safety performance. As shown on Slide 7, I'm very pleased that our results over the first three quarters of this year are tracking closely to the record-setting OSHA rate that we achieved in 2020. As it relates to our electric utilities, I would note that through the first three quarters of this year, we're in the top quartile of performance for the Southeastern electric exchange in combined incident rates. In fact, we're number one.

Now, I'll turn to updates around the execution of our growth plan as shown on slide 8. At gas distribution in North Carolina, we reached a comprehensive settlement with the public staff last month for our gas operations with weights based on a 9.6% ROE to be effective this month and generally in line with our financial plan expectations. The agreement also includes three new clean energy programs, a new hydrogen blending pilot, which like our existing blending pilot in Utah is part of our goal to be ready to blend hydrogen across our entire gas utility footprint by 2030. A new option to allow our customers to purchase RNG attributes in a new and expanded energy efficiency programs. The settlement is pending commission approval.

In Utah, we received approval for a program that would enable customers to purchase voluntary carbon offsets for $5 per month on a typical residential bill, customers who opt into the program will fully offset the carbon impact of their gas distribution use. This program, which like our existing GreenTherm program allows customers to make choices about how to manage and lower their individual carbon profiles. Just one example of our gas distribution service intersects with an increasingly sustainable energy future. In South Carolina, new rates were affected beginning September 1, after the South Carolina Public Service Commission with the support of all parties unanimously approved the proposed comprehensive settlement in the general electric rate case. It's also worth noting that in September, DEV filed an interim update to our modified 2020 IRP, and resource Plan 8 remains the preferred plan calling for the retirement of all coal-fired generation in our South Carolina system by the end of the decade.

Turning now to Virginia. Last month, we announced a comprehensive rate settlement agreement in our pending triennial rate case in conjunction with the State Corporation Commission Staff, the Office of Attorney General and other intervener parties. We appreciate the balanced, reasonable and cost-effective approach among the parties, which allowed an agreement, which supports continued capital investments in Virginia in order to meet the Commonwealth's clean energy priorities and the need of customers. Those investments include the development of offshore wind, which I'll touch on in a few minutes, as well as growing one of the leading state regulated utility solar and battery portfolios in the country. This settlement also provides significant customer benefits as shown on Slide 9 and supports our existing financial earnings guidance. We're very pleased to be extending the track record of constructive regulatory outcomes to the benefit of all stakeholders. We look forward to a final order likely around the end of the year.

We'll now move to our clean energy filings in Virginia as shown on Slide 10. In September, we made our largest to date multi-project clean energy riding approved rider approval submission. The filing included about 1,000 megawatts of solar and battery storage. We expect to receive an order from the SEC in the second quarter of 2022.

In October, we filed for rider cost recovery for the capital investment associated with extending the lives of our two nuclear units at the Surry Power Station and our two nuclear units at the North Carolina Power Station, each for an additional 20 years. These units will be upgraded to continue providing significant environmental and economic benefits for many years to come. We expect to receive a final order by mid-2022.

Lastly, we've made progress on our grid transformation plans. We participated in hearings with the commission, and based on our filings and testimony, the SEC staff supports or does not oppose approval for nearly all of our capital requests. We expect a final order late this year.

Turning to Offshore Wind, where we have an exciting announcement. Today, we're filing our Offshore Wind application with the SEC consistent with the project schedule that we communicated previously. Key project milestones are shown on slide 11. The filing will outline the important details of our process and costs, including contractor selection and terms, project components, transmission routing, capacity factors and permitting. Due the importance of today's filing milestone and especially given the sizable volume of information, which will be included in this filing, I'm going to spend a little more time than normal this morning summarizing the important aspects. Some background. First, this project represents a viable and needed opportunity for Virginia to achieve its clean energy goals. Once complete in late 2026, this project will generate enough clean energy to power up to 660,000 customer homes and avoid as much as five million metric tonnes of carbon dioxide emissions annually, which is the carbon equivalent of removing more than 1 million cars off the road each year. Further, the project is essential to meeting the policy goals set forth in the VCEA and other legislation mandating the development and deployment of renewable generation resources.

Lastly, as we contemplated in the VCEA, this investment will be 100% regulated and eligible for rider recovery. As a reminder, capital invested underwriters allow for more timely recovery of prudently incurred investments and costs. They're filed and trued up annually in single-issue proceedings. In Virginia, rider recovery mechanisms use a forward-looking test period and allow for construction work in progress, all of which minimizes traditional regulatory lag.

As outlined on Slide 12, we estimate this project will create hundreds of jobs, hundreds of millions of dollars of economic output and millions of dollars of tax revenue for the state and localities, as well as supporting Virginia in becoming a major hub for the burgeoning offshore wind industry in North America. For example, last week, Siemens-Gamesa announced plans to establish the first offshore wind turbine blade factory in the United States. The facility located in Hampton Roads, Virginia will create new jobs in supply turbine blades to offshore wind projects in Virginia and throughout the North American offshore wind industry. Our filing details how we've satisfied the requirements for offshore wind, but let me touch on three key tests required for rider cost recovery.

First, we've complied with the competitive procurement and solicitation standards for the project. Second, our projected levelized cost of energy or LCOE of $87 per megawatt-hour is substantially lower than the $125 per megawatt-hour maximum established by the VCEA. [ph] on that theme in a moment. And third, the VCEA requires that the project's construction commenced is prior to 2024 for U.S. income tax purposes or the plan to enter service prior to 2028. Our project schedule satisfies both milestones.

The long-term cost to our customers of this project, which we believe is the most important metric for regulated project of this nature is $87 per megawatt-hour, and remained in previously guided levelized cost of energy range of $80 to $90 per megawatt-hour. Potential savings realized through ITC tax legislation could also be passed on to customers. For example, it's still early, but we estimate that further expansion to tax credits benefiting offshore wind would reduce the cost of our customers to $80 per megawatt-hour.

As we've developed the project to its current stage, we've gained critical insights from two primary sources. First, our 12 megawatt pilot project, which consists of the only operating turbines in Federal waters has provided considerable benefit to the development and planning of the full-scale development. For example, the pilot project is providing better information about the wind resources off the coast of Virginia. Initially, we assume the lifetime capacity factor of 41.5% for the full scale deployment. After further evaluation of turbine design and wind resources in addition to the real-time data we've gathered from our test turbines, we've determined that our original assumption was too low. We've revised the lifetime capacity factor to be 43.3%. This is beneficial both for the project as well as our customers, because higher generation will result in a lower LCOE.

Secondly, we've contracted with firms that have significant experience in offshore wind farm design, construction and operations to support the project. When we announced the project in September of 2019, the initial pre-engineering and pre-RFP estimated cost is approximately $8 billion. Since that time through the process of detailed engineering and most importantly through competitive solicitations for all components and services, we've now developed a detailed budget of approximately $10 billion. As I've been discussing across several quarterly calls now, the cost increase can be attributed to among other things, commodity and general cost pressures, it seems to be the case across a number of industries right now, and the completion of the conceptual design phase for the onshore transmission route, which has gone through extensive stakeholder engagement with consideration given for resiliency and connection into our existing 500 kV system, as well as to minimize impacts on the surrounding communities including environmental justice communities, private lands, environment scenic and historic resources.

A summary of the major components of the competitive bidding process are outlined on slide 14. These five major agreements collectively represent about $6.9 billion. The remaining project costs include $1.4 billion for onshore transmission, sub-station facilities and currently projected system upgrades, as well as approximately $1.5 billion for other project costs including contingency. The onshore transmission facilities are necessary to interconnect the offshore generation components reliably and to maintain the structural integrity and reliability of the transmission system in compliance with mandatory NERC standards.

As we observed within the industry recently, utility systems are only as good as they are resilient. Our decision to connect this project to the 500 kV transmission system meets these goals, and provides the best mechanism to ensure that the project's power will be dispersed and used by customers throughout our service territory. We believe the decisions we're making around onshore engineering configurations will result in the best value for customers. As relates to our Jones-Act compliant wind turbine installation vessel, construction remains on track with delivery expected in late 2023. And we continue to expect it to be an invaluable resource to the growing U.S. offshore wind industry.

Turning to Slide 15, let me discuss how our project costs compares to the other U.S. offshore wind projects. A few observations. First, most of these unregulated, our merchants' projects remain in the permitting and approval process. For our project, I would note that it's the only state regulated offshore wind projects, we've made considerable progress on development to date, and we remain on track to complete construction late 2026.

Next, these offshore wind projects located up and down the East Coast, obviously, differ significantly in their timing, advantage, size and scope. For example, the announced capital cost and expected LCOE's for some projects include the cost for necessary onshore transmission upgrades and interconnections as our budget does, but some do not. And some outlines focus on the year-one PPA pricing for many of these unregulated or merchant projects, without reflecting the full cost and incorporating such factors as pricing escalation, which we incorporate.

Regardless, we show here a comparison based on publicly available information, including all such factors of the levelized cost of energy of those merchant projects to our own regulated project.

Turning to Slide 16, let me address customer rates in Virginia, inclusive of our offshore wind project. First, a reminder that between 2008 and 2012, our typical residential customer rate increased on average by less than 1% per year, which is much lower than the average annual inflation over that period of closer to 2%. Second, based on EIA data, our typical customer rate is 17% lower than the national average and 36% lower than other states, but like Virginia have joined RGGI. And third, going forward, we see typical residential rates increasing by a compound annual growth rate of around 2.1% through 2035, which is a comprehensive estimate and includes among other factors, the impact of the decarbonization investment programs, like our offshore wind project discussed today. If we move the starting point back to 2008, that rate of increase falls to 1.8%, which is lower than projected inflation for 2021.

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

With that, let me summarize our remarks on slide 17. Our safety performance year-to-date is tracking closely to our record-setting achievement from last year. We reported our 23rd consecutive quarterly result, the normalized for whether, meets or exceeds the midpoint of our guidance range. We narrowed the range of our 2021 earnings guidance and affirmed our existing long-term earnings and our dividend growth guidance. We're focused on executing on project construction and achieving regulatory outcomes that serve our customers well, and we're aggressively pursuing our vision to be the most sustainable regulated energy company in America.

Lastly, we look forward to seeing many of you next week in-person at the EBI financial conference.

With that, we're ready to take your questions.

Questions And Answers

Operator

(Question And Answer)

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

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning. So Bob and Jim, you have got this settlement which as you mentioned in the prepared, remarks does derisk even the second triennial review. I guess, I just want to touch a little bit on the level of confidence in your plan now. How does that sort of tie into the 6.5% EPS growth target that's been out there? And can we see some changes around the capital program as a result of the settlement, maybe when you report year-end results?

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

Yes. Thanks, Shahriar. When we set that 6.5% rate in July of last year, July of 2020, we were confident then. We were asked some of that and we said that there's no obviously one input we were asked a lot about this triennial at the time. There's no one input to setting a growth rate like that, it's a variety of inputs. And one of the things that we mentioned that the time was we assumed that we're going to have constructive regulatory outcomes and we've had those.

We had won in South Carolina and in North Carolina and in this Virginia triennial. All of that is supportive of that 6.5% growth rate. So, we were confident at the time we announced it, we remain confident. We think we've executed well on regulatory outcomes and this most recent triennial settlement is a good example of that.

Now as the capital will update capital on the fourth quarter call as we mentioned in our prepared remarks. So, the bottom line is what we remain as confident and 6.5% as we did when we announced it.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. And then, just lastly, on Coastal wind. It's a huge data dump. So appreciate that incremental color you provided. The $87 LCOE capital costs are higher. So obviously, you're seeing some cost pressures despite being below the projections and still within the range, right? Living the initial cost, correct me, if I'm wrong, was $8 billion. Can you touch on sort of the customer bill impact here, as costs are higher just isolating this project and it seems that the input cost pressures are kind of widespread. So, how do you sort of think about mitigating factors assuming these costs headwinds have some persistency?

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

Yeah. So, the cost you are right. The capital cost number is that we estimated earlier now that we've done all of the competitive bidding processes, and moved from conceptual to firm contracts has gone up some. But as we mentioned the production expectation that capacity factor out of this has also gone up as we've got more data, which means that the customer bill impact is the same.

As we said, be an $80 to $90 per megawatt-hour range, and we're squarely within that $87. So you can't focus just on the capital input here on a project like this. You also have to focus on how much electricity is generating, since it's going to be generating more than we had previously assumed. That's what lands that customer impact, right where we've been talking about in the $80 to $90 range.

Q - Charles Fishman {BIO 4772353 <GO>}

Okay, great. Terrific. I think that sort of touches in a few days.

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

Thanks Charles.

Operator

Thank you. Our next question comes from David Peters with Wolfe Research.

Q - David Peters {BIO 20551535 <GO>}

Hi. Good morning, guys.

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

Good morning, David.

Q - David Peters {BIO 20551535 <GO>}

First question I have is just on the recent election outcomes in Virginia, obviously, a lot of focus there nationally and given that I have a republican governor and I think the general assembly flip too. Wondering if you could maybe just provide some perspective on what do you think may or may not change going forward particularly with respect to energy policy in the state?

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

Yes. Thanks, David. In the last -- if you look back over the last 15 years or so in Virginia, I think the party in power in the governor's mansion is changed twice. In the Virginia House of delegates, it's changed twice. In the state Senate, it's changed several times. The Senate wasn't up for election this time, it was the governor and house of delegates.

What's remained consistent throughout that period is that our company has maintained constructive relationships with members of both parties, and we don't see any reason that would change. And the reason is that what has remained also consistent over that period and even before is that bipartisan commitment to economic growth, and jobs, and the economy in Virginia.

And if you look at what governor-elect Youngkin to ran on, not surprisingly given his extensive business background. He ran on a platform of increasing jobs and economic growth, and we obviously, support that we're going to do everything we can to help him achieve the objectives of growing Virginia's economy. We do that by providing reliable electricity, by keeping energy prices affordable prices affordable, we've done that over the years. That was our reliability and affordability were recognized by the SEC staff and the recent triennial review. So we have a track record there.

So what I would expect is that Virginia will continue that bipartisan commitment to jobs and economic development. As witnessed in the announcement, we've talked about in our prepared remarks, the Siemens-Gamesa offshore wind blade finishing factory that was the result of bipartisan work. Both parties deserve credit for that kind of job creation in Virginia. We would expect that that's going to continue going forward.

Q - David Peters {BIO 20551535 <GO>}

Great. Second question is switching gears a little bit, just kind of what's being proposed in Washington to this potential reconciliation bill. Wondering, Jim, maybe if you could comment on how meaningful something like a direct tile option would be for potentially loosening or lessening future equity needs given the mini renewable projects that you guys have here kind of on the come?

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

Yeah, David, it's a good question. A lot of commentary on that topic so far this earning season. I've been listening to some of that. And I agree with certainly one thing that's come up a lot, that it's super hard to speculate on moving target pending and draft legislation to hasn't landed yet. It's funny a couple quarters ago on this call, we were all speculating as the impacts of the straight up corporate rate increase -- corporate tax rate increase. So, how things have changed.

But, if you thought, hard to say, exactly what's going to be in the final version. But it does seem to us that something is going to pass. So, we'll see here next month or two. We imagine it will include the clean energy tax incentives, and the direct pay feature you're talking about. So that kind of thing an extension of the tax credits and the refundable basis, it's pretty clear that's going to be valuable and will benefit probably those our customers and shareholders.

We expect incentives are going to reduce the cost of renewables to our customers could accelerate everything we're doing in our clean energy transition, and probably provide some pretty nice cash flow features to fund additional capital investment. So it's all seems pretty good, details to come.

Now in the same package, is the minimum tax. So, not too disturbing for us, we're already a cash taxpayer not everybody is. But that's going to be based on GAAP earnings. It doesn't start till '23 is that current proposal. So, it's still early. How exactly that's going to work. There's a lot of detail to come. But even that part, we expect as part of this overall package, we think is all pretty manageable within our existing financial profile and potential trajectory. So, we'll give more clarity over time maybe next quarter, we can be talking about facts instead of speculation. But it all looks like it's manageable as a package.

Q - David Peters {BIO 20551535 <GO>}

Appreciate that detail. Thank you, guys.

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

Thank you.

Operator

Thank you. Our next question comes from Paul Zimbardo with Bank of America.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Hi. Good morning.

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

Hi, Paul.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Good morning. Nice sort of updates overall. I want to follow-up on Charles' offshore wind question is -- how should we think about the earning potential and also credit consideration from the $2 billion increase in the estimated cost?

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

Yes. Paul, let me talk to that. So as we mentioned a couple times, we're going to provide a pretty comprehensive update on our fourth quarter call on all those details. The -- we're going to do a one-year roll forward of our capital plan and we'll go through everything that's related to that in detail like we did last year or early this year.

So the increase in the capital cost is one part of the LCOE. The increase in the capital costs and offshore wind. So a couple of things. Keep in mind that spread over six years, so we do on year roll forward, it's going to include that 2026 year previous, version with your '25. So, that'll be included.

But keep in mind, there are some other gives and takes a lot of moving parts and plans. For example, we announced our IRP in September, that we were undertaking a postponement for further evaluation of a couple things, like some CTE's in Virginia and pumped storage project. So that's not in the current version of the near term plan. So, a lot of gives and takes, some puts and takes. We're going to go through all that on fourth quarter call. But for the avoidance of doubt, we expect all those updates are going to be supportive of EPS and dividend growth guidance. But you need to look at it holistically and not just based on the impact of the offshore wind project alone.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay. Great, that's clear. Important update. And then I know you commented on Questar pipe in prepared remarks, but you could elaborate a little bit on the confidence in the transaction closing given some uncertainty you mentioned, and confirming the counterparty could not proactively pay the termination fee to exit. Thank you.

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

Yeah, sure. And let me answer that a little bit higher level, just for everyone's benefit, if they're not following maybe as closely. So we mentioned on last call, very robust participation if often we ran we feel very good about the announcement we made in October to sell that asset to Southwest Gas Holdings. All cash transactions almost $2 billion and it is on track. We expect that to close this quarter subject only to HSR clearance.

So yeah, there's a lot of back and forth, right in the press, we get that but we don't see any in fact, in our transaction. Our agreement is intentionally on both sides, it's airtight. Southwest gas has fully committed financing. It's not dependent on completing equity issuance or anything like that. There are no conditions other than HSR and there's no kind of provision where they could be terminated early. So, we feel really good about that, pretty straightforward so we look forward to closing later this quarter.

Q - Paul Zimbardo {BIO 18277958 <GO>}

Okay. Thank you. Very clear. Looking forward to EI.

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

Thanks, Paul.

Operator

Thank you. Our next question comes 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.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Just want to follow-up with the offshore wind a little bit more here, if I could. Just want to see how do you see customer bill impacts through the completion of these initial offshore wind days. And just thinking, what would be the bill impact under the 80 LCOE scenario? I think you might have touched on there with tax credit.

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

Yes. Obviously, that would improve the customer bill impact associated with the project as you correctly identified. If there's a tax benefit gets passed on to customers we're still sorting through that. But again, based on the inputs that we've defined here, we're just staying right in that $80 to $90 range. So, we get the lower end better for customers. And obviously, we'll have to see how that plays out.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Thanks for that. And then just understanding there's a cost focus with the offshore win here. Could you outline how the economic benefits in supplier agreements you outlined have evolved since this project was first announced?

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

Yeah, I think that they've evolved to be pretty consistent with what we expected when the project was first announced. So, we had a pretty good idea of what will be involved in terms of construction and construction onshore for the electric transmission. There may be some additional benefits probably with onshore electrical, because that's going to be given what we had to do to route this and to make sure we're connecting to the 500 kv that's part of -- what's driving the overall capital cost being greater.

So bigger investment there, more job creation there. But I think the bottom line is this is going to be good for the Hampton Roads economy, good for the Virginia economy. And I think that Siemens-Gamesa announcement is really important. Because it starts the process here in Virginia, a state that is very well positioned given its location on the East Coast, given its port and the access to the port unobstructed by bridges and the deepwater port to be a real hub of offshore wind economic activity. We certainly support that, we supported that and working with Siemens-Gamesa to put that blade factory here, so the more the better.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Maybe just one last quick one, if I could. Could you speak a bit more to the RNG and hydrogen pilots how they progressed over the past quarter?

A - Diane Leopold {BIO 16365511 <GO>}

Hi. Good morning, Jeremy. This is Diane Leopold. I'll take that one. So RNG our program I think is far beyond a pilot now and we're up and running. We have one project that's already in service. So, obviously, starting very small, but we have five projects that are under construction now to avoid should be entering service in the next couple of months, and four more that are expected to be under construction by year-end. This is a cross growth both our swine and our dairy projects. All projects are going well on time on budget. And we're expecting to keep up that rough phase next year.

So that's on the RNG side. On hydrogen, that certainly is at the pilot phase. Our UT pilot, which was at a training facility in Salt Lake City is just about complete. And the test focused on residential and use appliances, leaked survey equipment, nitrous oxide emissions, the results of those tests confirm that 5% hydrogen blend would not adversely affect the distribution system.

All appliances operated safely, there weren't a lot of changes too, in the system when the hydrogen was added. So we're still doing a few additional tests. We did increase hydrogen blend up to 10% and still did not see any significant impacts from that testing. But we want to keep doing some more testing on final results that -- with that.

So, on next steps, we've been looking at several isolated regions on a system to do a live test and started the initial design phase. We're meeting with the regulators on our test results and on our plan to test. And will be meeting with them over the coming months. So that we can launch an expanded pilot probably in early 2023. And then finally, as Bob mentioned on North Carolina, we're going to start a similar initial project in North Carolina subject to commission approval of our settlement.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful on the hydrogen projects side. Thank you so much. I'm looking forward to seeing the team at EI.

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

Jeremy, thanks a lot. See you out there. See you down there.

Operator

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