Q1 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

Other Participants

- Jeremy Tonet, J.P. Morgan
- Shahriar Pourreza, Guggenheim Securities
- Steve Fleishman, Wolfe Research

Presentation

Operator

Welcome to the Dominion Energy First 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.

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; Steven 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. During the first quarter, we delivered financial results consistent with our guidance range and made meaningful progress on regulated investment programs that decarbonize and add resiliency to our systems. We'll cover those topics in more detail, but let me begin with safety performance and then address the status of the business review.

Our employee OSHA injury recordable rate for the first quarter was 0.21, a significant improvement relative to historical performance, including record-setting results in 2020 and 2021. We have several months left in 2023 to demonstrate our ability to drive injuries toward the only acceptable outcome, which is zero. I thank my colleagues for this remarkably strong start to the year.

Now I'd like to address the business review. Our guiding commitments and priorities are unchanged and replicated identically on Slide 3. We continue to receive valuable feedback from investors, which has affirmed our focus on these principles. We'll continue to be deliberate in making ourselves available for input from the company's current and prospective capital providers.

The review timeline shown on Slide 4 is also unchanged. We plan to host an Investor Day in the third quarter, during which we'll provide an updated strategic and financial outlook based on the results of the business review, which is still underway. We're working expeditiously but conscientiously in recognition of the vital importance of achieving an optimal result.

I'm pleased with the progress we're making towards delivering a compelling repositioning of our company to create maximum long-term value for shareholders, employees, customers, and other stakeholders. We have great people and great assets, and I'm as excited as ever for the future of our company.

Turning now to several noteworthy developments in Virginia, our largest service area. In November, I discussed the need to ensure that near-term economic and customer bill pressures didn't preclude the full realization of the benefits of a long-term resiliency and decarbonization capital investment opportunity before us. And in February, I discussed the need for a durable regulatory construct that provides for a competitive and fair return on utility investments to attract low-cost capital and support of our customer-focused programs.

New Virginia law enacted in April and effective July 1, comprehensively addresses both of those needs. It provides significant bill relief for our customers and supports the long-term stability of our utility. With nearly unanimous bipartisan support, the legislation provides the certainty we need to fund and execute critical energy investments in support of the Commonwealth's robust electric demand growth, long-term energy security and reliability, leading decarbonization goals and impressive economic growth.

Highlights of the law are shown on Slide 5. First, it provides meaningful rate relief for customers. Beginning July 1, it reduces the monthly bill for a typical residential customer by nearly $7 through the combination of certain existing riders that represent approximately $350 million of annual revenue. And it allows for the Commission to approve the securitization of deferred fuel costs, which could provide up to $7 a month in additional near-term savings.

If approved, fuel securitization would reduce the standalone fuel charge on customers' monthly bills by allowing the company to spread fuel costs over a multi-year period. Taken together, these savings, if approved, would equate to a 10% reduction to the current typical residential customer bill and position us to be around 21% below the national average.

Second, the law simplifies the rate-making process around our base business, which now represents about 1/3 of DEV's total rate base. Specifically, the law reinstates base rate reviews on a biennial schedule as compared to the current triennial cadence, improving the timeliness of operating expense and investment recovery.

It's worth noting here, no change to the use of a forward-looking mechanism for purposes of establishing base rate revenues as part of the now biennial reviews. And it retains a modified customer sharing mechanism for base rate earnings that allows both customers and shareholders to benefit from positive financial drivers like improved cost efficiency.

Finally, the law prescribes certain regulatory parameters for use in rate setting for the next few years. It establishes an authorized ROE of 9.7%, up from 9.35% currently, for purposes of the 2023 biennial review, which will determine base rates and rider returns through the next biennial period. It directs DEV to undertake reasonable efforts to maintain a common equity ratio of 52.1% through 2024, and it preserves the use of the rider recovery construct.

As a reminder, riders are filed and trued up annually in single-issue proceedings that utilize forward-looking test periods and allow for timely recovery of construction work in progress. The law complements precedent energy legislation, including the Virginia Clean Economy Act of 2020, the Grid Transformation and Security Act of 2018, and the Reregulation Act of 2007 to create a regulated utility framework that has delivered exemplary reliability and resiliency, as well as exceptional customer value as evidenced by customer rates that are significantly below national and regional averages as shown on Slide 6.

I believe this broadly supported bipartisan legislation strikes an appropriate balance between customer benefit, regulatory oversight, and the critical need to position the company to compete for capital to support the significant investment required in Virginia for decades to come. In the words of the States House of Delegates leadership, this resolution gives Dominion Energy Virginia the certainty and stability to make investments needed to ensure stable, reliable service long into the future.

That stability and certainty is especially critical now as we ramp into the very substantial and growing multi-decade utility investment required to address resiliency and decarbonization public policy goals, plus recently updated independent electric load projections that reflect the very robust demand growth we're observing in real-time across our system.

I'm referring to PJM's 2023 forecast that is shown on Slide 7, projects peak summer load growth in the DOM Zone of approximately 5% per year for the next 10 years. To put that into perspective, the resulting peak load projected for 2033 has increased from 25.8 gigawatts as of the 2022 PJM estimate to 35.8 gigawatts as of this year's estimate, an increase of nearly 40%. DEV weather normal sales growth over the last 12 months was 6.1%. For full year 2023, we expect the growth rate to moderate somewhat to around 5%. So this isn't a hypothetical growth. It's demand we're seeing and investing to serve every day.

On Monday, we filed an updated Integrated Resource Plan with the Virginia Commission that outlines a variety of paths to satisfy these growing service obligations. The plan calls for an acceleration of and long-term increase in our distribution, transmission and generation investment. We look forward to engaging with all stakeholders in the planning process, and will provide a refreshed long-term capital investment plan as part of our third quarter Investor Day.

This unique intersection of industry-leading demand growth and strong policy support for resiliency, decarbonization, affordability and economic growth, combined with the durability of the Virginia regulatory construct, represents an unprecedented opportunity for our company, our customers and our shareholders. It will drive growth for many years to come, require prudent capital allocation, and rely on a healthy financial foundation, which is one of the reasons we've repeatedly highlighted balance sheet improvement as a key priority of the business review.

With that, I'll turn it over to, Steven, to address the financial matters before I provide additional business updates.

Steven D. Ridge {BIO 20475546 <GO>}

Thank you, Bob, and good morning. Our first quarter 2023 operating earnings as shown on Slide 8, were $0.99 per share, which included $0.10 of -- from worse than normal weather in our utility service areas. I'll note that this was one of the warmest first quarters on record for our electric utility service areas.

Positive factors as compared to last year were normal course regulated growth, higher sales, and higher Millstone margins. Other factors in addition to weather include higher interest expense, lower DEV margins for certain utility customer contracts with market-based rates, the absence of solar investment tax credits, and O&M timing.

Normalized for the negative impact of weather, our results would have been $1.09 per share above the midpoint of our weather normal guidance range by $0.04 as a result of a combination of several small drivers, including Millstone margins, depreciation, and taxes.

First quarter GAAP results reflect a net income of $1.17 per share, which includes the positive non-cash mark-to-market impact of economic hedging activities and unrealized gains in the value of our nuclear decommissioning trust funds. The summary of all adjustments between operating and reported results is included in Schedule 2 of the earnings release kit.

Moving now to guidance on Slide 9. Given the pending business review, we are not providing full year 2023 earnings guidance. For the second quarter of 2023, we expect operating earnings to be between $0.58 and $0.68 per share. Last year's second quarter operating earnings were $0.77 and included $0.01 hurt from worse than normal weather. The second quarter 2023 guidance midpoint of $0.63 per share, represents a decline of $0.14 as compared to last year, but is in line with our expectations since the beginning of the year.

Let me spend a minute on the key drivers for the quarter as compared to last year. Positive drivers include higher sales, lower Millstone planned outage impacts, normal weather, and modest O&M timing. Other drivers are primarily, and as previously highlighted, higher interest rates, lower DEV margins for certain utility customer contracts with market-based rates, and the lack of solar ITCs.

Turning now to credit. For the avoidance of doubt, there have been no changes to our business review commitments and priorities, including with regard to credit. As we've discussed, despite meaningful qualitative improvement over the last several years, our credit metrics need strengthening.

This was highlighted by S&P, who recently revised its outlook from stable to negative for the Dominion family of issuers. Recall that the outlook designation typically signifies a 1/3 probability of change in rating over the next 12 to 24 months. I'd note that S&P maintained its standalone credit profile for VEPCO at A and maintained Dominion's business risk profile as excellent, but suggested that countermeasures were likely needed to strengthen the company's future credit metrics.

As we've said before, we desire to emerge from the review with the ability over time to consistently meet and exceed our downgrade thresholds even during temporary periods of cost or regulatory pressure. As part of the review, we're analyzing the most efficient sources of capital to improve our balance sheet and fund our robust capital investments while seeking to minimize any amount of external equity financing need. No change on either of these two points from prior investor communications.

Turning to Slide 10 and briefly on O&M management. We know it's our responsibility to constantly look for ways to optimize the efficiency of our operations without losing sight on the absolute necessity of meeting high customer service standards. Based on the most recent data published by FERC last month, we've updated our electric O&M management relative to peers.

As you can see, we have a track record of operating efficiently for our customers and shareholders, which is clearly reflected, as Bob described on Slide 6, in our competitive rates as compared to national and regional averages. We've driven down costs through improved processes, innovative use of technology, and other best practice initiatives.

As part of the review, we are evaluating what we can additionally do on costs within the context of the significant operational and cost efficiency we achieved over the years.

Before turning it back over to Bob, let me echo his enthusiasm for the future of our company. I, too, am encouraged by the progress of the review and look forward to sharing the results during our Investor Meeting later this year.

I'll now turn the call back over to Bob.

Robert M. Blue {BIO 16067114 <GO>}

Thanks, Steven. I'll now turn to other business updates and the execution of our growth program.

Turning to offshore wind on Slide 11. The project remains on track and on budget. We continue to work closely with the Bureau of Ocean Energy Management and other stakeholders to support the project's timeline. The Draft EIS received late last year was thorough and contained no surprises. Public hearings have already taken place and we continue to work collaboratively with BOEM and all of the cooperating agencies.

We expect the EIS Record of Decision later this year. We've advanced engineering and design work, which has allowed us to release major equipment for fabrication. And we've made progress on procurement and other pre-construction activities for the onshore scope of work.

Consistent with prior guidance, project costs, excluding contingency, are about 90% fixed, further de-risking the project and its budget. Project to-date, we've invested approximately $1.5 billion, which we expect to grow to $3.3 billion by year end.

In our most recent regulatory filing, we updated our expected LCOE to the low end of the $80 to $90 per megawatt range to account for PTC value based on the Inflation Reduction Act. In March, legislation was enacted that authorizes DEV to establish an offshore wind affiliate subject to Commission approval and for the purpose of securing non-controlling equity financing partner in our offshore wind project, we intend to evaluate this option as part of the business review.

Our Jones Act-compliant turbine installation vessel is currently 70% complete. No change to our expect -- expectation of the completion well in advance of the need to support the current Coastal Virginia Offshore Wind Construction schedule and timely completion by the end of 2026.

On data centers, we're advancing a series of infrastructure upgrade projects that will enable incremental increases in power for data center customers in Eastern Loudoun County. The first three projects are ahead of schedule and will be completed by the end of this month. A second tranche of projects are on schedule to be completed by the end of 2023. Additionally, we recently received SCC approval for a new 500 kV transmission line, with an expected end service date of late 2025. This submission included around $700 million of capital investment.

Turning to Slide 13, I'm very pleased that the SCC in April approved our most recent clean energy filing, which included nearly 800 megawatts of solar and energy storage capacity, our sixth consecutive such approval. These projects will bring jobs and economic opportunity to our communities, and they will deliver more than $250 million in fuel savings for our customers during their first 10 years in operation. Our next clean energy filing will take place later this year.

Next, we're advancing our electric grid transformation plans to create a more resilient grid, improve reliability, and offer faster recovery after major storms. We filed Phase 3 of our grid transformation plan in March, seeking approval for the continuation of existing and new projects through 2026.

Our customers have already observed the benefits from prior investments as we've seen fewer outages and less significant damage on impacted facilities during major storms. The filing represented over $1 billion of rider-eligible investment. We expect an order from the SCC by the end of the third quarter of 2023.

Turning to South Carolina. On March 31, we filed a natural gas general rate case in South Carolina in accordance with its 2020 RSA settlement agreement with the South Carolina Office of Regulatory Staff. We asked in the case for an ROE of 10.38% and a revenue requirement increase of $19 million, which represents around a 6% increase to a typical residential customer bill. We expect new rates based on a typical procedural schedule to be effective in October.

On April 25, the Commission approved our stipulation in the electric fuel proceeding. The stipulation was prepared through the joint efforts of DESC, the South Carolina Office of Regulatory Staff, and the South Carolina Energy Users Committee. The stipulation supports an increase of just under 4% for an average residential customer bill. We now expect to recover all previous under-collections during the next fuel year. I'd note that this is the second electric fuel adjustment settlement in the past six months. Another example of the improved regulatory and stakeholder relationships that will benefit our customers in the state.

Lastly, at our Gas Distribution business. The Utah system delivered 7 of the top 20 throughput days in history, including the 2 highest-ever during a record-setting winter. Also in Utah, we've launched the next phase of our hydrogen blending pilot, and we've achieved up to 5% blending levels in Delta, serving about 1,800 customers. On RNG, we have 6 RNG projects currently injecting gas, with 15 projects under various stages of development.

With that, let me summarize our remarks on Slide 14. Our safety performance this quarter was outstanding, but more work to do to drive injuries to zero. We delivered financial results that were within our guidance range and above the midpoint of our guidance range on a weather normal basis. We continue to execute on our decarbonization and resiliency investment programs to meet our customers' needs, while creating jobs and spurring new business growth.

Our offshore wind project continues to move forward on schedule and on budget. And the top-to-bottom business review is proceeding with pace and purpose. I'm focused on ensuring that Dominion Energy is best positioned to create significant long-term value for our shareholders.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. At this time, we will open the floor for questions. We'll take our first question from Shar Pourreza with Guggenheim Partners.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning, guys.

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

Good morning, Shar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning. Maybe just, Bob, if we could start with a kind of a sequencing question regarding the Investor Day as it kind of draws closer. Should we be expecting kind of a turnkey Investor Day reset or could it still be contingent on potential ongoing sale processes? And the origin of the question is that, the wind stake sales seems to be taking a while right now. You have that option now. So just trying to get a feel for what level of closure you're targeting for the rollout?

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

Yes. Shar, we're targeting as we have said from the beginning, being able to give a very good sense of the long-term for our company. So no change from what we expected when we started or when we most recently updated.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. Perfect. And then, Steven, you mentioned in the prepared that you continue to look at cost efficiencies, albeit within the context of all the work you've done to-date. I guess, how should we think about the opportunities here? Any color on scale or timing as we look ahead to the review and beyond?

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

Yes. Thanks, Shar. I think on the third quarter call of 2022 when we announced the business review, we did make some commentary on our focus on continuing our track record of being a very efficient operator. And I think what we said at the time, which I think was well put by, Jim Chapman, was that while we believe there's opportunity and we're constantly focused in looking at that, we don't view it in the -- through a lens of a gamechanger amount of incremental savings to what we've consistently accomplished.

So as we're working through the business review, we continue to expect to find incremental efficiencies, but we've been driving a lot of those efficiencies -- inefficiencies out of the business for a number of years as reflected in our O&M efficiency metrics in our rates.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Perfect. I think that -- just one last one, I guess, just on the SCC. I guess, what are your kind of expectations for lawmakers, I guess, to fill the two vacant seats at this point. Sounds like there's been little progress in Richmond. I guess, one of the pathways forward here? Thanks, guys.

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

Yes. Shar, I think it's important to start off by noting that the Commission is functioning effectively, as evidenced by orders just within the last few weeks, that I mentioned in our opening remarks on our clean energy 3 filing, 800 megawatts of solar and storage, and on the transmission line, that's important for us to be able to serve data center customers in Northern Virginia. So the Commission is functioning well in its current configuration.

I can tell you that the process and the Constitution of Virginia is that when there are vacancies, the General Assembly can elect judges to fill -- Commissioners to fill those vacancies. If they're not in session, the Governor could make an appointment for a term that would last until 30 days after the start of the next regular session. So that's the process.

But I think it's important if you sort of step back and think about the regulatory construct in Virginia. If you look just at where we sit in Virginia, we've got low rates, we've got strong reliability. We've got a clear mandate from policymakers for energy security within an energy transition. And as our IRP indicates, we've got very strong load growth. So we're sitting in a very good spot moving forward in the Virginia regulatory process.

So the Commission is functioning now. There's a process for adding two new Commissioners, but sort of in the big picture. We're very well positioned in Virginia for strong regulatory outcomes in the future.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Perfect. Thank you, guys. That's all I had. Have a great weekend. See you.

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

Thank you, Shar.

Operator

And we'll take our next question from Steve Fleishman with Wolfe Research.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes. Hi. Good morning. Thank you.

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

Good morning, Steve.

Q - Steve Fleishman {BIO 1512318 <GO>}

So just -- good morning, Bob. So just on the framing of the Investor Day, the -- a lot of the balance sheet fix at least seems like it could come from asset sales and the like, and markets kind of keep moving around and the like. So just -- well, as we go into the Investor Day, should we assume that asset sales, if you're going to do any, are actually kind of announced by then, or that this process would kind of kick off by then? Yes. Thanks.

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

Hey, Steve. This is Steve. I'll take a shot at that as well. And I think as we think about the Investor Day, the goal is to have isolated as many variables of the review as possible at the time that we address the market with the repositioning of the company for the long-term. And obviously, given the business review is underway, it's a little bit difficult to provide sort of more specific guidance than that. But we are well down the path on the review. As Bob mentioned, we're pleased with the progress that we're making, and we look to use the Investor Day to provide a refreshed strategic and financial outlook that will cover earnings and credit and financing and capital investment. And I think based on the progress we've seen to-date, we will be well-positioned to do that.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Makes sense. And just on the performance provision in the ROE in Virginia, can you just talk to kind of, is there any clear barometer for how they're supposed to judge performance upside or downside?

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

I think there'll need to be some work done within the Commission on how that will work. It's -- there was a similar provision in the law, really starting back in 2007. And so we see it as an opportunity to demonstrate our excellent performance when we're in front of the Commission. But I think it's a little early to establish exactly how that will play out.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then lastly, just on the data centers. Is there any better clarity on who's really supposed to be servicing this data center load and planning for it? Like is that your obligation as part of PJM and the Commission? Or because they have choice, is it -- is it not? Could you just give us some sense on how to think about that aspect of the load growth? Yes.

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

We have an obligation to serve customers in Virginia. It's our obligation. And we build generation, transmission, and distribution as necessary to serve that load. So that's the way that it has worked. That's the way it's going to keep working in the future. So we've got investments to make as you see from the IRP.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yes. I mean, even the ones that maybe, if they do have onsite generation, they're typically connecting to you as well and using Dominion, at least, for wires and backup and the like, is that correct?

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

Well, absolutely. Yes, that -- and these are large loads, 24/7, they need a grid.

Q - Steve Fleishman {BIO 1512318 <GO>}

Great. Okay. Thank you.

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

Thanks, Steve.

Operator

And we'll take our next question from Jeremy Tonet with J.P. Morgan.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi. Good morning.

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

Good morning.

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

Good morning, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Just wanted to touch on the IRP scenarios a bit and just see, what factors are, I guess, in play between the different scenarios. Just wondering if you would note any notable highlights and resource mix considerations across these scenarios and how that would impact?

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

Sure, Jeremy. As you know, we laid out in the plan five different scenarios. Some of them required by the Commission from decisions in earlier proceedings. We have plans that, as they should comply with the Virginia Clean Economy Act. Others, as I noted, required by the

Commission that don't necessarily comply with the Clean Economy Act, but the Commission asked for those scenarios as well.

Across all of them, what we look for is the appropriate balance between investing to serve our customers reliably and the cost of that service, and compliance with all the rules and regulations that govern us, including the Clean Economy Act.

This is -- the IRP is a snapshot in time. It's what when we look out 15 and then in -- and with certain parameters 25 years, what we think our demand will be as projected by PJM. And then the investments that we need to make in order to serve that load. This changes as you know, over time. When we have further proceedings, it will be adjusted, I'm sure.

But we, as of the time of this filing, think that -- believe that this document lays out a pretty clear roadmap for different ways that we'd be able to serve what is very robust demand growth coming over the course of the next decade and a half or more.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful. Thank you for that. And a small point, just wanted to pivot for Millstone, just wondering if there's any updated thoughts that you could provide there, given, I guess, changes in the market?

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

Yes, as we've said in prior calls, Jeremy, we think Millstone is an incredibly valuable asset to New England, both for reliability and decarbonization purposes. Our team operates that plant extraordinarily well. And as we think about the future of Millstone, we just see that it's very well positioned.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. I'll leave it there. Thanks.

Operator

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