Q3 2017 Earnings Call

Company Participants

- Diane Leopold, Executive Vice President, President, Chief Executive Officer of Gas Infrastructure
- Mark F. McGettrick, Executive Vice President and Chief Financial Officer
- Paul Koonce, Executive Vice President, President, and Chief Executive Officer, Power Generation
- Thomas F. Farrell, Chairman, President and Chief Executive Officer
- Tom Hamlin, Vice President of Investor Relations and Financial Planning

Other Participants

- Angie Storozynski, Analyst, Macquarie
- Christopher Turner, Analyst, JPMorgan
- Jeremy Tonet, Analyst, JPMorgan
- Michael Weinstein, Analyst, Credit Suisse
- Paul Griffin, Analyst, Keybanc
- Paul Patterson, Analyst, Glenrock Associates
- Praful Mehta, Analyst, Citigroup
- Stephen Byrd, Analyst, Morgan Stanley

Presentation

Operator

Good morning, and welcome to the Dominion Energy and Dominion Energy Midstream Partners Third Quarter Earnings Conference Call. At this time, each of your 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 as to the procedure to follow if you would like to ask a question.

I would now like to turn the call over to Tom Hamlin, Vice President of Investor Relations and Financial Planning, for the Safe Harbor Statement. Sir, please begin.

Tom Hamlin {BIO 1506669 <GO>}

Good morning, and welcome to the third quarter 2017 earnings conference call for Dominion Energy and Dominion Energy Midstream Partners.

During this call, we will refer to certain schedules included in this morning's earnings releases and pages from our earnings release kit. Schedules in the earnings release kit are intended to answer the more detailed questions pertaining to operating statistics and accounting. Investor Relations will be available after the call for any clarification of these schedules. If you've not done so, I encourage you to visit the Investor Relations page on our website, register for email alerts, and view our third quarter earnings documents. Our website addresses are dominionenergy.com and dominionenergymidstream.com. In addition to the earnings release kit, we have included a slide presentation on our website that will follow this morning's discussion.

And now the usual cautionary language. The earnings releases and other matters that will be discussed on the call today may contain forward-looking statements and estimates that are subject to various risks and uncertainties. Please refer to our SEC filings, including our most recent annual reports on Form 10-K and our quarterly reports on Form 10-Q for a discussion of factors that may cause results to differ from management's projections, forecasts, estimates, and expectations. Also, on this call, we will discuss some measure of our company's performance that differ from those recognized by GAAP. Reconciliation of our non-GAAP measures to the most directly comparable GAAP financial measures we are able to calculate and report are contained in the earnings release kit and Dominion Energy Midstream's press release.

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

I will now turn the call over to Mark McGettrick.

Mark F. McGettrick {BIO 2066297 <GO>}

Good morning. Dominion Energy reported operating earnings of $1.04 per share for the third quarter of 2017. It was in the middle of our guidance range. Positive factors versus guidance for the quarter were lower interest expenses, income taxes, and operating expenses. Negative drivers include lower merchant power margins and continued mild weather. In fact, negative earnings impact of mild weather across our electric and gas operations during the first three quarters of the year was $0.12 per share.

GAAP earnings were $1.03 per share for the third quarter. The principal difference between GAAP and operating earnings for the quarter were charges related to our integration of Questar. A reconciliation of operating earnings to reported earnings can be found on Schedule II of the earnings release kit.

Moving to results by operating segment. Power Delivery produced EBITDA of $441 million for the third quarter, which was in the middle of its guidance strategy. The impact of slightly mild weather was offset by lower operating expenses. EBITDA at Power Generation was $565 million for the third quarter, which was below the middle of its guidance range. Lower PJM merchant margins were the principal negative driver, along with slightly mild weather. Partially offsetting these factors were lower operating and maintenance expenses. Gas Infrastructure produced EBITDA of $471 million for the third quarter, which was near the high end of its guidance range, primarily due to lower operating expenses. Overall, we are very pleased with results from all of our operating segments.

For the third quarter of 2017, Dominion Energy Midstream Partners produced adjusted EBITDA of $76.2 million, which was nearly 3 times the level produced in the third quarter of 2016. Distributable cash flow was $45.8 million, 90% higher than the level of last year's third quarter. The acquisition of Questar Pipeline in December of last year was the principal driver of the increase.

On October 24th, Dominion Energy Midstream Board of Directors declared a distribution of $0.3025 per common unit payable on November 15th. This distribution represents a 5% increase over last quarter's payment and is consistent with our 22% per year distribution growth rate plan. The coverage ratio remains extremely strong at 1.28 times.

Moving to treasury activities at Dominion Energy. Cash flow from operating activities was $3.7 billion through the third quarter. We have 5.5 billion of credit facilities. And taking into account cash short-term investments and commercial paper outstanding, we ended the quarter with available liquidity of $2.5 billion. For the status of our 2017 financings, please see slide 7. And for statements of cash flow and liquidity, please see pages 14 and 25 of the earnings release kit.

Earlier this month, the Partners in the Atlantic Coast Pipeline closed on a construction financing facility designed to fund roughly half of the cost to construct the pipeline. The first funding of $570 million took place last week to cover a portion of the cost incurred to-date. As to hedging, you can find our hedge positions on page 27 of the earnings release kit. We have hedged 98% of our expected 2017 production at Millstone and have started hedging 2018 production, principally for the first quarter. We plan to limit our hedging of 2018 production until we see the outcome of legislation in Connecticut.

Now to earnings guidance at Dominion Energy. Operating earnings for the fourth quarter of 2017 are expected to be between $0.80 and $1 per share compared to operating earnings of $0.99 per share for the fourth quarter of 2016. Positive factors compared to last year's fourth quarter are earnings from our growth projects and the benefits of recently announced agreement between Dominion Products and Services and HomeServe USA. Negative factors for the fourth quarter compared to last year include a refueling outage at Millstone, lower import revenues from Cove Point, lower investment tax credits from solar projects, and higher PJM electric capacity expenses.

Dominion Energy's operating earnings guidance for the full year of 2017 remains $3.40 to $3.90 per share. We remain confident that our operating earnings for 2018 will increase by at least 10% from $3.65 per share midpoint of this year's earnings guidance range, driven primarily by earnings from our Cove Point export facility, which will be in service later this year. We also reiterate our expectations of a 6% to 8% EPS growth rate from 2017 to 2020, an EPS growth of at least 5% per year thereafter.

So let me summarize my financial review. Third quarter operating earnings were $1.04 per share, banging in the middle of our guidance range, despite continued mild weather. Fourth quarter operating earnings guidance is $0.80 to $1 per share. In 2018, our operating earnings or expected to be at least 10% above the midpoint of our 2017 operating earnings guidance range.

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

Thomas F. Farrell {BIO 1509384 <GO>}

Good morning. Strong operational and safety performance continued at Dominion. All of our business units either met or exceeded their safety goals through the first nine months of the year. I'm pleased that our employees have set an all-time low OSHA Recordable Rate of 0.66 last year and are on track to improve on that record this year.

Our nuclear fleet continues to operate well. The net capacity factor of our six units through the end of the third quarter was over 96%. Weather-normalized electric sales for the first three quarters of the year were up 1.7% over the same period last year, led by growth in sales to data centers and residential customers. Year-to-date, total new customer connects were in line with our expectations, as strong growth in commercial connections had offset slightly lower-than-expected growth in residential new connects. Through the third quarter, we had connected 11 new data centers compared to seven for the first nine months of last year.

Also, during the quarter, our Gas Infrastructure group executed an amendment to an existing Marcellus farm-out agreement, locking in the remaining value under the agreement and securing payments totaling $130 million in 2017 and 2018. You will recall that in 2015, when we began discussing our farm-out program, we anticipated generating between $450 million and $500 million in earnings from farm-out transactions from 2015 through 2020. We are halfway through that timeline. And despite less-than-ideal commodity market conditions, we have already achieved nearly three quarters of our objective.

Last week, the Connecticut General Assembly approved legislation that will allow our Millstone nuclear plant the opportunity to compete with other non-emitting generating resources and a state-sponsored solicitation for zero carbon electricity. On behalf of the 1,500 women and men working at Millstone Power Station, Dominion Energy, thanks the General Assembly for giving Millstone this opportunity. It is grateful to the Malloy administration for its work for negotiating the current form of the legislation. It provides a path forward to retain 1,500 well-paying jobs and Millstone's substantial environmental, energy, and economic benefits to Connecticut.

Now, for an update on our growth plans. Construction of the 1,588 megawatt Greensville County combined-cycle power station continues on time and on budget. As of September 30, the 1.3 billion project was 60% complete. The air-cooled condenser is over 80% complete. All pipe rack modules have been set, and pipe welding continues at a steady rate. Greensville is on schedule to achieve first fire in the second quarter of next year and is expected to achieve commercial operations in late 2018. We have a number of solar projects under development and continue to see demand for renewables from our customers. Year-to-date, six solar facilities totaling approximately 169 megawatts have achieved commercial operation. For all remaining 2017 projects, power deliveries have been secured and the projects are on schedule for completion this quarter. In total, we have announced 457 megawatts that will go into service this year and expect to add another 200 megawatts by the end of next year, increasing our gross operating portfolio from 1,660 megawatts to over 1,800 megawatts, of which 700 will be in Virginia and North Carolina.

Earlier this month, we announced we'll add solar generation to serve a new data center Facebook plans to build in Central Virginia. Pending State Corporation Commission approval, this need will be met with a new rate option, Schedule RS, which will allow large energy users to meet their needs through the addition of renewable energy resources. We are currently evaluating the potential for pump storage project in the coalfield region of Virginia. A preliminary permit application has been filed with FERC, identifying a potential project site in Caswell County, Virginia. We've also contracted with Virginia Tech to study the feasibility of using an abandoned coal mine in Wise County to construct a pump storage facility. The General Assembly has enacted legislations stating the construction of one or more new pump storage electric generating facilities in Southwest Virginia, is in the public interest, with costs recoverable through our rate rider.

In July, we announced that we had signed an agreement with Orsted, formerly DONG Energy of Denmark, a global leader in offshore wind development to build two turbines off the coast of Virginia Beach. The two companies are now refining agreements for engineering, procurement, and construction. Dominion Energy will remain the sole owner of the project, which is targeted for completion in 2020. We plan to seek wider recovery for the project during the first half of next year.

We have a number of electric transmission projects at various stages of regulatory approval and construction. Through the end of the third quarter, $419 million of assets have been placed into service. We plan to invest $800 million in our electric transmission business this year and every year thereafter, for at least the next decade. Progress on our growth plan for Gas Infrastructure continues as well. Our Cove Point liquefaction project is now 97% complete and remains on time and on budget. Construction is essentially complete, all processes have been turned over for site commissioning. And we have entered the final phase of start-up. We have completed the initial operating run on our (inaudible) steam turbine generators, Frame 7EA combustion turbines, and numerous motors, pumps, and compressors that are part of the liquefaction process. FERC has approved the introduction of all hydrocarbons necessary to generate LNG. The operation's formal training is complete. We are fully staffed with trained and qualified operators. We will begin generating LNG next month and conclude commissioning in December and expect to be in-service by the end of the year.

We are continuing to work toward the commencement of construction on the Atlantic Coast Pipeline and the related Supply Header project. On October 13, FERC issued a certificate of public convenience and necessity, and we filed our acceptance of the certificate the following week. The project has achieved several additional permitting milestones over the last few weeks, including the final biological opinion from the US Fish and Wildlife Service, approval of the Virginia Outdoor Foundations, and approval from the Virginia Department of Game and Inland Fisheries. ACP and Supply Header essentially completed the design and engineering, executed the construction contracts, and completed 90% of material procurement. We expect to commence construction late this year and to complete both the Atlantic Coast Pipeline and the Supply Header in the second half of 2019. We've also made progress on nine Gas Infrastructure growth projects, representing over $1 billion of investment. Three of these projects have been completed this year, and we expect two more to be completed by year-end. In addition to these incremental projects, we plan to invest $325 million to $350 million per year in our three gas utilities as part of our ongoing pipeline replacement programs. These costs are recoverable through rate rider programs in all three jurisdictions.

And in September, we announced a long-term investment program to modernize our Dominion Energy transmissions pipeline storage infrastructure. These investments will deliver operating reliability, security, safety, and environmental benefits and are expected to total about $250 million per year. To support this investment program, we plan to file a rate case in the first half of next year, the first for this pipeline in over 20 years, in which we will request updated rates and establish a tracker for recovery of the modernization investments.

Finally, earlier this month, Dominion Energy's Board of Directors declared a dividend of $0.77 per share for the fourth quarter of this year, an increase of 10% above the dividend paid in the fourth quarter of last year. The increase reflects the Board's confidence in Dominion Energy's execution of its growth plan and the enhanced cash flows made possible by our master limited partnerships. Our plan is to share these benefits with our shareholders, by growing our dividend at a 10% rate through at least 2020.

So to summarize, our businesses delivered strong operating and safety performance in the third quarter. Construction of the Greensville County project is on time and on budget. Construction of the Cove Point liquefaction project is essentially complete. And commissioning is well underway to be in service late this year, on time and on budget. We received the FERC certificate for Atlantic Coast Pipeline and Supply Header project. And we'll commence construction soon. And we expect earnings growth of at least 10% in 2018, driven by completion of the Cove Point Liquefaction Project and 6% to 8% growth from 2017 to 2020. We further expect earnings per share growth of at least 5% per year thereafter, supported by a diverse set of growth programs. Because of our unique MLP structure, our superior cash flows will also allow a dividend growth rate at Dominion Energy of 10% per year through at least 2020.

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

Operator

Thank you. At this time, we will open the floor for questions. (Operator Instructions) Our first question comes from Stephen Byrd of Morgan Stanley.

Stephen Byrd {BIO 15172739 <GO>}

Hi, good morning.

Thomas F. Farrell {BIO 1509384 <GO>}

Good morning, Steve.

Stephen Byrd {BIO 15172739 <GO>}

I wanted to follow up on the progress in Connecticut. It's very good to see the legislative progress. I was really -- and I guess, the budget that's available for renewables (inaudible) was reduced under the budget that the Legislature has established. Can you speak to the implications, if there? Do you believe the Governor is likely to support this lower budget for renewables? How does that potentially impact the ability to you to get the needed dollars here to support the plan?

Thomas F. Farrell {BIO 1509384 <GO>}

Steven, first, we're not going to comment any further on what's going on in Connecticut. The Governor has the project and the Millstone legislation. And until we've gotten through that process, we're just going to remain -- we'll see when what happens. We will have further comments after that has taken its course.

Stephen Byrd {BIO 15172739 <GO>}

Yeah. Very much understood. And then just shifting over to the new $250 million a year of modernization, we can maybe just speak a little bit further to the approval process. Just the timeline you mentioned when you be filing. But could you help us just understand how this might play out procedurally?

Diane Leopold {BIO 16365511 <GO>}

Okay. Hi, this is Diane Leopold. So, well, we're looking to file probably towards the middle of next year. And a typical process with FERC, we would expect to hear back in the course of anywhere in six to 12-month time-frame with the initial feedback from them. And we will begin to negotiate with the customers during that time-frame. In addition to the actual base rate, the rates for the base, we are filing for a modernization program. And that will be going on simultaneously with the base rate.

Stephen Byrd {BIO 15172739 <GO>}

Understood. And so that customer negotiation process will essentially occur in tandem with the FERC process. Is that fair to say?

Diane Leopold {BIO 16365511 <GO>}

Yes.

Stephen Byrd {BIO 15172739 <GO>}

Okay. That's all I had. Thank you very much.

Thomas F. Farrell {BIO 1509384 <GO>}

Thanks, Steven.

Operator

Thank you. Our next question comes from Angie Storozynski from Macquarie.

Angie Storozynski {BIO 15115714 <GO>}

Thank you. So first about the 2017 guidance. Did I hear right that you said that you expect to be at least at the midpoint, yet the weather has been a pretty meaningful drag year-to-date. So what's the offset here to get to the midpoint of the guidance range?

Thomas F. Farrell {BIO 1509384 <GO>}

Angie, I think, what we said in the script, this is more what we said. We expect to be at least 10% off the midpoint of the range for 2018.

Angie Storozynski {BIO 15115714 <GO>}

Okay. And I think about where in within that '17 EPS guidance range you would end up?

Thomas F. Farrell {BIO 1509384 <GO>}

Well, what we showed in terms of the guidance on our slide is a range of $0.80 to $1. And if you take that, coupled with what our actual earnings were for the first three quarters, I would put you about at a 360 million range. I would say that if we can see that, we've made up $0.07 of $0.12 worth of weather headwind that we have projected. And if we can get a little help from the weather the rest of this year, our operating expenses maybe we'll make up more. But right now, we've guided to about 360 million on the midpoint of the fourth quarter range.

Angie Storozynski {BIO 15115714 <GO>}

Okay. Very good. Secondly, can you comment -- any updated thoughts on the impact of the proposed tax reform on Dominion, especially given the more clarity on the deductibility of interest expense?

Mark F. McGettrick {BIO 2066297 <GO>}

Angie, this is Mark. We want to see the House still come out. We've been saying since first year. We think right now, we should assume we are debt-neutral. But if the interest deductibility is handled appropriately, we can certainly be a net positive on that, depending what the actual tax rate would be for corporations at the end of the day. But there are so many moving parts. We would really like to hold off until we see the House still, which I think is scheduled to come out November 1st. And then we will be able to talk more about that.

Angie Storozynski {BIO 15115714 <GO>}

Very good. And my last question on Cove Point and DM. I understand that you don't need any drop-downs into the MLP in order to get to the 22% growth in distribution. But the stock has been very strong at DM, and asset is -- I mean, Unica's [ph] starting operation probably within weeks.

You have in the past done opportunistic drop-downs. Would you consider it as well this time?

Thomas F. Farrell {BIO 1509384 <GO>}

We will consider an early drop if DM continues to perform well and the Unica [ph] performs well, which we fully expect. So we will take advantage of the market conditions out there. We have only given the reference that we don't need a drop and, actually, we need a very small drop until late 2018. But again, if all conditions continue to be good, we can drop it anytime after Cove Point comes online.

Angie Storozynski {BIO 15115714 <GO>}

Yeah. Okay. Thank you. Thanks.

Operator

Thank you. Our next question comes from Michael Weinstein from Credit Suisse.

Michael Weinstein {BIO 19894768 <GO>}

Hi, guys.

Thomas F. Farrell {BIO 1509384 <GO>}

Good morning.

Michael Weinstein {BIO 19894768 <GO>}

Good morning. How much of a surprise is the Connecticut legislation to you? Like, how -- what do you think the chances of success are getting it signed by the Governor, especially since (inaudible) was involved in the process of negotiating in final form.

Thomas F. Farrell {BIO 1509384 <GO>}

Well, there's two parts to that question. The first part of how surprised are we. We weren't surprised. We've been working on it for two years. We have been deeply involved in it for that period of time. And as far as how the Governor's going to react to it, we are going to make no further comments on what goes on in Connecticut until we get on the other side of that process.

Michael Weinstein {BIO 19894768 <GO>}

What kind of -- what would you be looking for in terms of trying length of contracts there? And what kind of factors would you be looking to see advance before you decide how long a contractor wants you (inaudible)?

Thomas F. Farrell {BIO 1509384 <GO>}

We are just going to have to hold off on giving any further information what the future of Millstone Power Station is. And we'll play through into this action until we get through this legislative process.

Michael Weinstein {BIO 19894768 <GO>}

Fair enough. All right. Thank you very much.

Thomas F. Farrell {BIO 1509384 <GO>}

Thank you.

Operator

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

Praful Mehta {BIO 19410175 <GO>}

Thanks so much. Hi, guys.

Thomas F. Farrell {BIO 1509384 <GO>}

Good morning.

Praful Mehta {BIO 19410175 <GO>}

Good morning. I thought your growth story laid out through 2020 was pretty clear in terms of all of these projects. I just wanted to understand the 5% that you've talked about post 2020, and you said balanced mix. Could you just give some color on what are the factors driving the post-2020 growth? Any big projects you're considering? Or is there M&A involved in that as well?

Thomas F. Farrell {BIO 1509384 <GO>}

There is no M&A involved in that, and there aren't any big projects. I think if you looked at the presentations we've made through these fall conferences, we lay out a more programmatic method of achieving that growth post 2020 in all aspects -- all parts of the business. There's a lot of slides available on our website. I think they can take you through all that. Mark, you want to add in anything?

Mark F. McGettrick {BIO 2066297 <GO>}

Yeah, Praful, we purposely wanted to get investors refocused on the core strength of Dominion's many businesses. And so, we have two great, large projects, obviously, moving along with ACP and Cove Point. But post 2020, I think if you look at the presentations we've made and conferences, you'll see very strong organic growth in all of our business lines, which we think strongly support at least 5% growth going forward. And I'll just encourage you go and take a look at that.

Praful Mehta {BIO 19410175 <GO>}

Understood. Thanks, guys. Will do.

Thomas F. Farrell {BIO 1509384 <GO>}

Thank you.

Praful Mehta {BIO 19410175 <GO>}

Okay. Sorry, just a second follow-up question on -- I won't get into the Millstone side of the Connecticut. But just on the DOE legislation, do you think there is any impact of that on the process? Or how are you looking at the DOE's support for baseload? Do you think anything comes off that at all?

Thomas F. Farrell {BIO 1509384 <GO>}

Are you talking about the DOE letter to FERC initiating the rule-making?

Praful Mehta {BIO 19410175 <GO>}

Yeah. That's right.

Thomas F. Farrell {BIO 1509384 <GO>}

It's going to be very interesting to see but -- what happens. If we sell, we have three, four commissioners and two more coming. So I don't think we really have an idea. I've read some comments but at least one doesn't think we should -- as she had put it (inaudible) should be putting their finger on the scales fuel sources. But they've reacted quickly. I don't want to predict how that's going to come out. But it's certainly -- Connecticut certainly hasn't been willing to depend on it.

Praful Mehta {BIO 19410175 <GO>}

Understood. Thanks, guys.

Thomas F. Farrell {BIO 1509384 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Christopher Turner of JPMorgan.

Christopher Turner {BIO 17669645 <GO>}

Good morning. Back in September, in one of your slide decks, you laid out a CapEx plan of 3.7 billion or 4.2 billion per year. I wanted to confirm that, that applies to the 2018 to 2020 period and get a little bit of a better sense on timing of that CapEx, I guess, excluding Atlantic Coast. I think it's probably a fair assumption to say that the Power Delivery and Gas Infrastructure parts of that are pretty visible and pretty stable for the most part and that the Power generation would be the lumpier part of it. Is that fair? And can you give us more detail on timing?

Mark F. McGettrick {BIO 2066297 <GO>}

Yeah. Chris, it's Mark. I'm not sure that's exactly the figure. I think on the Power Gen side, for the next three years, they have a pretty clear plan of what they're going to do between solar -- the license extension work for the two -- for the nuclear plants in Virginia. And I would -- if I had had a model right now, because we've always more exposure on this. But if I had a model, well, I would just not model it evenly over the three years, be pretty consistent, I think, and would be pretty consistent by business line. We also have highlighted a project in the pump storage side that we'll also be expending CapEx on in a period of time, as well into the next decade in potentially offshore wind, certainly a smaller project with two turbines that we've highlighted, that we've gone through the approval process. And we've highlighted some dollar figures around that. So we've given quite a bit of disclosure, but we'll need to give a little more granularity, I think, of five business lines as we move into '18, '19 and '20.

Christopher Turner {BIO 17669645 <GO>}

Okay. That's helpful. And then, I guess, shifting to the balance sheet side of it. If we use that range of CapEx or maybe a midpoint as one part of the equation, add in your 100 million dividend growth through the end of this decade, and drop-down financing as well, at what point do you get comfortable with your balance sheet as having enough excess capacity to buy back shares?

Mark F. McGettrick {BIO 2066297 <GO>}

Well, I think it will depend on the size of drops we make into Dominion Midstream from Cove Point. But we've made a commitment to the agencies and investors and bondholders that we know we have too much leverage at the Holdco. We've done it by design. And we're going to use the DM drop-down structure to de-lever the Holdco between now and the end of the decade down into 30% to 40% of the family of Dominion debt. And I think we can do that comfortably with drop-downs into DM for the period with growth (inaudible) DM has the potential to buy back shares if that's the best use of those proceeds. We could well buy back shares. We could also just invest in future growth that may come up that we identified already. So again, I think we have lot of flexibility. And we feel real comfortable about P&L to execute on both sides between now and 2020.

Christopher Turner {BIO 17669645 <GO>}

Okay. Great. Thanks, Mark.

Operator

Thank you. Our next question comes from Paul Griffin from Keybanc.

Paul Griffin {BIO 16863121 <GO>}

Good morning.

Thomas F. Farrell {BIO 1509384 <GO>}

Good morning.

Paul Griffin {BIO 16863121 <GO>}

Tom, you indicated you were more than three quarters of the way in the farm-outs. Is there upside to that ultimate number?

Mark F. McGettrick {BIO 2066297 <GO>}

I wouldn't think so. I think we do expect to land on that 450 million to 500 million. And I think more will be more timing of when the farm-outs come in. But I wouldn't -- I'd love to say yes, but I don't think that would be reasonable at this point, unless you see a very dramatic increase in commodity prices.

Paul Griffin {BIO 16863121 <GO>}

And you said, you've hedged into 1Q of '18 at Millstone. Can you tell us how much you've hedged?

Mark F. McGettrick {BIO 2066297 <GO>}

We haven't disclosed how much we've hedged. But we're working hard on hedging the first quarter. We will go into the year very highly hedged again based on our expectation of the timing of the Connecticut auction. But because it certainly won't be -- we don't believe in the first quarter of next year, we'd like to go ahead and start hedging in after some time the first quarter. Also, we will not be disclosing hedge prices at Millstone, because we will in competitive auction for some load and most probably certainly hope. And so, we historically have put hedge price out. But going forward, for competitive reasons, we will not put hedge price out.

Paul Griffin {BIO 16863121 <GO>}

Thank you for that. And what do you expect your solar tax credits to be for the full year?

Mark F. McGettrick {BIO 2066297 <GO>}

Our solar tax credit is going to be about half what they were last year, about $0.26 a share.

Paul Griffin {BIO 16863121 <GO>}

I thought we had a $0.31 pick-up this quarter. Is there a timing issue there?

Mark F. McGettrick {BIO 2066297 <GO>}

Those actually (inaudible) around. But I think 26 if we feel real good about for month-end -- for year-end. If you recall, remind everybody, now we have been back to down half this year. But on a going forward basis, but you should think about a $0.10 range, plus or minus for ITCs going forward. So where we're kind of out of the ITC business, except for some unusual projects that might come up at Virginia and North Carolina.

Paul Griffin {BIO 16863121 <GO>}

And do you have a sense of the capital at the pump storage? Or is it too early for that?

Paul Koonce {BIO 3892592 <GO>}

Paul, this is Paul Koonce. It's really too early for that. I think we've said publicly could be up to $2 billion. But it really is a site-specific number, and we're just really not there yet.

Paul Griffin {BIO 16863121 <GO>}

Yes. Understood. Thank you very much.

Thomas F. Farrell {BIO 1509384 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Jeremy Tonet from JPMorgan.

Jeremy Tonet {BIO 15946844 <GO>}

Good morning.

Thomas F. Farrell {BIO 1509384 <GO>}

Good morning.

Jeremy Tonet {BIO 15946844 <GO>}

I just want to follow up on some of the projects that you've laid out there, in particular Atlantic Coast Pipe. Congrats on getting the FERC certificate there. I was just wondering if you could provide a bit more color on the state-level side as far as getting the permits and how you see that process progressing. It seems like there's been some noise out there. So want to see any thoughts that you could share.

Thomas F. Farrell {BIO 1509384 <GO>}

I will give a general answer, and Diane can fill in any specific questions. Really, there is -- we need permits in West Virginia and North Carolina and Virginia. We expect all those by the middle part of December as we were going through the process. It's a very typical process. Lots of questions come from the regulators. We're providing answers that makes them ask more questions, and we provide more answers. But we're coming to the end of that process. And we expect all those permits by the middle part of December and be underway.

Diane, anything to add to that?

Diane Leopold {BIO 16365511 <GO>}

No, that's right.

Thomas F. Farrell {BIO 1509384 <GO>}

Okay.

Jeremy Tonet {BIO 15946844 <GO>}

Great. Thanks. And just thinking about the assets that's at DM right now, I was wondering if you could provide any updates as far as how the existing growth projects are progressing. I think there are some small ones there. And any thoughts for the MLP kind of taking on more organic growth initiatives at that level, going forward?

Mark F. McGettrick {BIO 2066297 <GO>}

Jerry, this is Mark. The growth projects at DM right now are mainly focused on internal gas transmission and are the same as we've highlighted when we actually IPO'ed. They've been executed very well. We're going to bring the third one this year -- at the end of this year. We will spend CapEx at about over $100 million on it, fully contracted. We look for a really good future growth of the Carolina business. We also look for very good future growth of the Questar pipeline for this calendar year. Most of the growth on Questar that's been executed is really based on synergies of the merger. And we've been able to execute that at a very high level. And actually, we'll be able to produce a higher level for the Questar pipe than we anticipate early in the year for DM. So again, our goal over time is to get more assets into DM that can grow organically. But quite honestly, for the next three years, that will be dropped [ph] by the Cove Point drop-down.

Jeremy Tonet {BIO 15946844 <GO>}

That makes sense. Turning to Cove, a bit more here. It seems like there is a bit of open capacity, if I have my numbers right, with regards to how much contracted out and what the full capacity of the facility could be. And just wondering how you think about the extra capacity. If everything hits kind of nameplate or exceeds would you look to contract that out? How do you think about the value there and the state of the LNG market? And how might that play into the MLP drop-down economics?

Mark F. McGettrick {BIO 2066297 <GO>}

Good question. But the way that -- our shippers get to take up whatever excess capacity there is.

Jeremy Tonet {BIO 15946844 <GO>}

Great. That's helpful. Thank you.

Mark F. McGettrick {BIO 2066297 <GO>}

Thank you. I'm talking about our existing shippers, obviously.

Operator

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

Paul Patterson {BIO 1821718 <GO>}

Good morning. How are you?

Thomas F. Farrell {BIO 1509384 <GO>}

Hey, Paul.

Paul Patterson {BIO 1821718 <GO>}

It's been sometime since I dealt with the pipeline rate case. Could you guys give us a little bit of feeling about what the ROE that you guys are earning in DETI and what you might be asking for in terms of the ROE and what have you?

Diane Leopold {BIO 16365511 <GO>}

Hi, this is Diane Leopold. You can really look to the last filed rate cases that are out there for any kind of guidance on that. We're not going to talk about the actual ROE that we earn right now. But we are very comfortable that we've been investing in the system and now is the right time to be going in for a rate case.

Paul Patterson {BIO 1821718 <GO>}

Okay. What's the actual asset value that we're talking about -- the rate base, I guess, that were that we're talking about?

Diane Leopold {BIO 16365511 <GO>}

It's about 2 billion.

Paul Patterson {BIO 1821718 <GO>}

Okay. And you're not going to give us right now a sense as to what you guys are earning or -- we'll just have to wait till the filing, I guess. Is that right?

Diane Leopold {BIO 16365511 <GO>}

That's correct.

Paul Patterson {BIO 1821718 <GO>}

Okay. And then the Dominion Products and Services agreement with HomeServe, could you give us a sense as to just elaborate a little bit on that in terms of what's the earnings impact associated with that? And what's actually going on?

Mark F. McGettrick {BIO 2066297 <GO>}

Hey, Paul, this is Mark. This structure with HomeServe, very similar to other utilities that you'll be familiar with. They have partnered with Duke; they've partnered with Exterran; they've partnered with AAP; they've partnered with First Energy. And the structure essentially is that you jointly market to customers that -- using a joint marketing of Dominion Energy and HomeServe. And so it's a pretty common structure. The way they work for us is over time, starting in the fourth quarter of this year, the existing business, which only contributes for us about $0.01 or $0.02 a year what's been a very stable, good growth business for us, but yet is a small level. We will start transitioning that product and service customer base to HomeServe for them to service grow from there. That will take some time to do. And from then on, we will get a commission-based fee as they grow their business going forward. They are a major player in this market. And so, they were very interested in acquiring our customer base there for products and services. And it was a good deal for us.

But in terms of their earnings component, I'm going to hedge a little bit on that only because it hasn't closed yet. And there will be some movement year-to-year from this year to the next year based on the closing in consents. But it is in our guidance for the fourth quarter. And we'll be able to talk more about that because we'll have closed the transaction by the next call.

Paul Patterson {BIO 1821718 <GO>}

Okay. So it's transactional-related and it's probably pretty much just a fourth quarter event. Can you give us the numbers?

Mark F. McGettrick {BIO 2066297 <GO>}

No, it will be more than just a fourth quarter event.

Paul Patterson {BIO 1821718 <GO>}

Okay. So it's an ongoing event.

Mark F. McGettrick {BIO 2066297 <GO>}

That's right.

Paul Patterson {BIO 1821718 <GO>}

Okay. But you're not going to tell us the full amount. But it's significant enough for you to call it out for the fourth quarter. Is that the right way to think about it?

Mark F. McGettrick {BIO 2066297 <GO>}

Yeah, I think that's the right way to think about it. I mean, so we just -- we announced it publicly. But we wanted to make sure everybody knew it's in our guidance. But it won't be just a fourth quarter event. It will be a multi-year event and (inaudible) commissions.

Paul Patterson {BIO 1821718 <GO>}

Okay. Thanks so much, guys.

Thomas F. Farrell {BIO 1509384 <GO>}

Thank you.

Operator

Thank you. This concludes this morning's conference Call. You may now disconnect your line. And enjoy your day. Have a great day.