Seeking Alpha

Transcripts | **Utilities**

Dominion Energy, Inc. (D) CEO, Thomas Farrell on Q3 2019 Results - Earnings Call Transcript

Nov. 1, 2019 2:59 PM ET2 comments | 3 Likes

by: SA Transcripts

Q3: 11-01-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $1.18 beats by $0.04 | Revenue of $4.27B (23.70% Y/Y) misses by $-242.11M

Earning Call Audio

Subscribers Only

00:00 -54:39

Dominion Energy, Inc. (NYSE:D) Q3 2019 Earnings Conference Call November 1, 2019 10:00 AM ET

Company Participants

Steven Ridge - VP, Investor Relations

James Chapman - EVP, CFO

Thomas Farrell - President and CEO

Diane Leopold - Co-Chief Operating Officer

Robert Blue - Co-Chief Operating Officer

Paul Koonce - CEO, Power Generation Group

Conference Call Participants

Shahriar Pourreza - Guggenheim Partners

Steve Fleishman - Wolfe Research

Julien Dumoulin-Smith - Bank of America Merrill Lynch

Greg Gordon - Evercore

Christopher Turnure - JPMorgan

Michael Weinstein - Credit Suisse

Operator

Good morning and welcome to the Dominion Energy Third Quarter Earnings Conference Call. At this time, each of your lines is in a listen-only mode. At the conclusion of today's presentation, we will open the floor for questions. [Operator Instructions] I would now like to turn the call over to Steven Ridge, Vice President, Investor Relations.

Steven Ridge

Good morning and welcome. I encourage you to visit our Investor Relations website to view the earnings release kit, a presentation that accompanies this morning's prepared remarks and additional quarterly disclosures. The Investor Relations team will be available after today's call to answer any questions regarding this quarter's results.

Earnings materials including our prepared remarks 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.

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 are able to calculate are contained in the earnings release kit.

Joining today's call are Tom Farrell, Chairman, President, and Chief Executive Officer; Jim Chapman, Executive Vice President, Chief Financial Officer and Treasurer as well as other members of the executive management team.

I will now turn the call over to Jim.

James Chapman

Thanks Steve and good morning. Before I walk through the quarterly results which were above the mid-point of our guidance range, I wanted to highlight Dominion Energy’s key investment themes, all of which were consistent with the messaging from our Investor Day in March.

At the highest level, we delivered exceptional value to our customers, our communities, our employees, and our shareholders.

We do this by providing affordable, reliable, and sustainable energy to our customers. Approximately, two-thirds of our operating income comes from our state regulated utility operations whose customers center around five key states.

Our demand for utility-centered FERC transmission and storage customers account for most of the rest of our operating income.

Together, these regulated and regulated-like customers comprise approximately 95% of our total operating income. From 2019 through 2023, we plan to invest $26 billion in growth capital programs that will modernize, strengthen, and improve the sustainability of our systems to the benefit of these customers.

Further, we do this by engaging with communities in which we live and work by being responsible stewards of the environment, and by focusing relentlessly on the safety of our nearly 20,000 employees. Tom will touch on these three topics more extensively in his remarks.

Finally, we do this by delivering financial results that are consistently within our guidance for earnings and dividend growth. As an example, this quarter’s results represent the 15th consecutive quarter of delivering weather-normalized operating earnings per share that are at or above the midpoint of our quarterly guidance range and also the 15th consecutive quarter of being in or above the range without weather normalizing. And today, we are also reaffirming our annual and long-term growth guidance.

Turning now to quarterly results on Slide 4, today we reported third quarter 2019 operating earnings of $1.18 per share compared to our guidance range of $1.00 to $1.20 per share. Strong performance across our segments was aided by better-than-normal weather, which increased utility earnings by about $0.05 per share.

Adjusted for normal weather, operating earnings for the quarter were $1.13 per share, which is also above the midpoint of our guidance range.

GAAP earnings for the quarter were $1.17 per share, a reconciliation of operating earnings to reported earnings can be found on Schedule 2 of the earnings release kit. On Slide 5, we've summarized several milestones achieved since our last call. First Millstone began to sell electricity under the Zero Carbon Power Contract with Connecticut Utilities on October 1.

Under the 10-year contract, Millstone will sell 9 million megawatt hours of electricity per year, representing 55% of the plant’s output at a fixed price for $49.99 per megawatt hour. This contract, the financial impact of which is incorporated into our existing guidance recognizes the tremendous value of Millstone’s environmental and other attributes for the state and the region.

For the plant output not covered by the contract, we will continue to employ a prudent hedging strategy. Note that the contract does not cover capacity as the entire plant is expected to continue to be compensated via the existing regional capacity program. We’re pleased with this agreement as it ensures the ongoing financial viability of the plant, and we wish to thank the Governor's office, DEEP, PURA, and the electric utilities who work in a collaborative and thoughtful fashion to safeguard the state's environment, economy, employment, and energy security.

Next, we continue to achieve constructive results across our various and normal course state-level regulatory proceedings. In North Carolina, we reached a nearly complete settlement with commission staff for our electric operations in the state with interim rates based on a 9.75% ROE to be effective this month.

In Utah, our gas distribution business has filed its first post-merger base rate proceeding, which we expect will conclude early next year. Finally, we expect resolution of our Virginia ROE proceeding later this month.

The updated ROE will impact in the near-term, approximately $4 billion of rate base currently earning rider returns of 9.2% plus adders of up to 1%.

We estimate that every 50 basis point change in ROE would impact near-term rider earnings by between $0.01 and $0.02 per share per year.

Next, we expect to complete the transition to our new operating segment by the end of this year. As a reminder, and as shown on Slide 6, we are reorganizing the way we manage and report our operating segments to more closely align with their customer and regulatory profile.

During our fourth quarter earnings call early next year, we expect to provide our 2019 full-year results and 2020 guidance in conformity with these updated segments. As discussed previously, we believe that this new reporting structure will make our company more accessible and will highlight the premium nature of each of our businesses.

Turning to Slide 7. On October 21, we announced that as part of our previously communicated intention to establish a permanent capital structure for the Cove Point facility, we reached an agreement with a financial investor affiliated with Brookfield to participate in an equity recapitalization of that asset.

This transaction, the financial impacts of which are already included in our existing earnings, earnings growth guidance accomplishes several key objectives, including: highlighting the intrinsic value created through Dominion’s five-year development efforts with an implied enterprise value of nearly $8.25 billion, compared to a construction cost at the time of liquefaction completion of just over $4 billion redeploying capital from the low-growth annuity type area into a robust regulated growth capital program, preserving full operational control of the facility with no impact on existing customer contracts or employees, and reducing Dominion's annual common equity financing needs in the coming years from the levels described at our March Investor Day.

Immediately upon close, expected later this year, we will use 100% of the proceeds to retire parent-level debt. This transaction, which attractively addresses the equity portion of the facility's long-term capital structure is step one of two, as we intend to finalize long-term debt related to the asset in the near future.

Moving quickly to credit, during 2018 we took major steps to improve our balance sheet while also reducing our business risk profile. We expect that our full-year 2019 credit metrics will be supportive of our existing credit ratings with debt coverage ratios normalize for merger related charges in the mid-teens.

Moving out to operating earnings guidance on Slide 8. As usual, our operating earnings guidance ranges assume normal weather variations from which could cause results to be towards the top or the bottom of these ranges. For the fourth quarter, we're initiating guidance of $1.10 to $1.25 per share. Positive factors as compared to last year include the absence of the Millstone refueling outage, growth from regulated investment across electric and gas utility programs, contribution from the Southeast Energy Group, commitment of the Millstone Zero Carbon Contract, net capacity expense improvement and the impact of O&M initiatives.

Negative factors as compared to last year include the impact of 2018 asset sale, share issuances, and return to normal weather. This fourth quarter guidance implies a narrowing of our 2019 full-year guidance range to $4.15 to $4.30 per share with no change to the midpoint of our original guidance.

Before I turn it over to Tom, let me summarize it today, we reported our 15th consecutive quarter of weather normalized operating EPS at or above the midpoint of our guidance range. We're confirming the midpoint and narrowing our guidance range for 2019 full-year operating EPS and we are reiterating our long-term EPS growth expectation of approximately 5% next year, and 5% plus thereafter.

I'll now turn the call over to Tom.

Thomas Farrell

Thank you, Jim and good morning. First, a reminder that safety is our first core value. I'm pleased to report that our year-to-date safety performance is consistent with the record setting results we have achieved in the last few years.

We're focused on continuing that trend over the last two months of 2019. Turning to Slide 9, I will now address the topics Jim mentioned in his remarks. First three weeks ago, we released our latest sustainability and corporate responsibility report. It's our most comprehensive report to-date and it delivers on the company's commitment to complete transparency. it embraces ESG disclosure best practices, and it includes information on corporate governance and stakeholder engagement, social and workforce metrics and industries that match the standards of the Global reporting initiative and the Sustainability Accounting Standards Board as well as the United Nations Sustainable Development Goals.

Key highlights in the report include Dominion has reduced carbon dioxide emissions by 52% since 2005. We've also prevented more than 250,000 metric tons of methane entering the atmosphere from our gas infrastructure assets in the past decade, which is the equivalent of planting more than 100 million trees. The company has raised its diverse hiring rate from 27% to 42% from 2013 to 2018 and one in every five new hires is a veteran. In 2018, Dominion contributed nearly $35 million social betterment and employees volunteered more than 126,000 hours in community service.

In August, we announced plans for the largest electric school bus initiative in the nation. This innovative effort aims to replace 100% of the approximately 13,000 diesel powered school buses in our Virginia Electric Utility Service territory by 2030, which will be the equivalent in emission reductions of removing 65,000 cars from the road.

The vehicle to grid technology allows the bus batteries to store and then release energy out of the grid during periods of high demand when the buses are not in use. Finally, last week, we announced that we are expanding our 50:50 partnership with Smithfield Foods become the largest renewable natural gas supplier in the nation.

In total, we are doubling our combined investment over the next 10 years to $0.5 billion which will allow us to capture RNG thatreduces greenhouse gas emissions that are equivalent to taking 500,000 cars off the road or planting 40 million new trees.

We are one of the most sustainable and innovative energy companies in the United States and we believe that our customers and shareholders will benefit from our efforts. Turning to Slide 10, we have several important initiatives underway in Virginia. First, Offshore Wind, last month we received key approvals from the Bureau of Ocean Energy Management BOEM regarding the design, fabrication and installation of our 12-megawatt pilot project, which is under construction and scheduled to enter service late next year.

The knowledge and experience we obtained from the permitting construction and operations pilot will be invaluable as we embark on our programs to develop 2.6 gigawatts of utility scale offshore wind in support of Governor Northam’s recent Executive Order Number 43. That order provided clear direction to policymakers and agencies regarding the State's sustainable energy future as well as a challenge to Dominion Energy to accelerate the life lock timeline with more renewables on our system, the challenge we embrace.

Our intention is to bring the project which is located 27 miles off the Coast of Virginia Beach online in three phases of 880 megawatts each. The three phases will enter service in 2024, 2025 and 2026 and taken together will be the largest offshore wind installation in the United States.

Projects will be developed and owned by Dominion Energy, Virginia with regulated cost recovery subject to approval by the Virginia State Corporation Commission. Our current five-year capital plan provided at our Investor Day identifies $1.1 billion for offshore wind inclusive of $300 million for the pilot. Preliminary cost estimates which we will work hard to reduce in the interest of customer savings. Total and additional $7 billion, we anticipate capital expenditures to ramp-up in the latter part of our current five-year plan with the most significant investment to take place in 2024 through 2026.

We look forward to working closely with policymakers, regulators and other stakeholders to establish Virginia as the center of the United States offshore wind industry. Efforts presently underway include Ocean Survey work and the development of the Construction and Operations Plan, which is targeted for submittal to BOEM late next year.

We will make additional details available as we continue to make progress. Offshore wind is just one of the many investment programs that we continue to execute on for the benefit of our customers and in accordance with the Grid Transformation and Security Act. Four weeks ago, we filed for a second phase of Grid Transmission investments to complement the cyber and physical security telecommunication investments already approved by the SEC this past January.

This second phase which calls for over $500 million of capital investment through 2021, will enhance service to customers through implementation of new technologies, and a series of new programs developed with input from stakeholders and customers over the past several months, as well as a thorough third-party cost benefit analysis.

That analysis concluded that the planned investments will deliver significant benefit to all customers across a wide range of areas, while also driving down -- driving reductions in greenhouse gas emissions, increasing economic growth in the Commonwealth, and providing savings to electric vehicle owners.

This phase includes the installation of nearly one million smart meters, as well as a new customer information platform which allows customers to digitally manage their energy use. Our prudency determination is expected in about six months with recovery determinations thereafter.

Overall, we expect our grid transformation investment programs to total nearly $3 billion over a 10-year period. Finally, two weeks ago, we announced an agreement with the Commonwealth of Virginia that combined with previously announced contracts will produce enough renewable power to make roughly 45% of the state government’s annual energy use, which is the largest state renewable energy procurement in the country.

To accomplish this, Dominion will own approximately 345 megawatts of new solar facilities and sell the output to the state under the long-term Power Purchase Agreement. The balance of the megawatts will come from a third-party owned wind farm.

With these projects, we are nearly halfway fulfilling the commitment we made to Governor Northam to have 3,000 megawatts of solar and wind resources in service or under development in Virginia by 2022.

Turning to Slide 11, we have provided a brief summary of capital investment related to the GTSA. As you can see, we are taking significant steps in successfully implementing programs that have been identified by state policymakers as crucial for our state. Over the last several months, the SEC has approved approximately $1.6 billion of capital investment with an additional $800 million filed in pending approval.

During the third quarter, the Commission approved rider recovery for nearly $300 million of our Rider E request which was related to environmental upgrades in certain generating units. Since the last statewide election that took place two years ago, Virginia's policymakers have supported on a bipartisan basis, common statutory legislation that puts the Commonwealth firmly on a sustainable and modernized path to continue delivery of low carbon affordable and resilient power.

Notable examples include the Grid Transformation and Security Act in 2018 and comprehensive coal ash and world broadband solutions in 2019. As we execute on these policy priorities, we remain vigilant of customer fuel impacts. We intend to keep rates reasonable and competitive in the future, just as they are today.

Turning to Slide 12, we continue to see very strong customer growth across our gas distribution franchise. Pending under our rider investment programs, including pipeline replacement is tracking in line with the five-year approximately $2 billion CapEx plan highlighted at our investor day.

Last week, we received approval from Utah Public Service Commission to proceed with our investment in a regulated reliability driven LNG peaking facility. And in West Virginia, regulators recently approved a plan that will allow us to double our annual investment in replacing infrastructure at 2023.

In South Carolina, our integration efforts and focus on operational excellence continued to proceed successfully. In early September, as Hurricane Dorian swept up the East Coast, nearly 300,000 of our South Carolina electric customers as well as over 170,000 of our

North Carolina and Virginia customers experienced service disruptions.

Our crews worked around the clock in hazardous conditions to quickly and safely restore power. In fact, in all three states, including South Carolina, where nearly 40% of our customers lost power, service was restored in less than three days. As part of our commitment to relief efforts across Virginia, North and South Carolina, we also donated $250,000 to the American Red Cross to support the purchase supplies, food as well as shelter for those in need.

Turning next to the Atlantic Coast pipeline on Slide 13. Consistent with our expectations, the United States Supreme Court granted our appeal of the Fourth Circuit Karl decision which relates to ACP's crossing underneath the Appalachian Trail.

We expect that the Supreme Court will schedule arguments to occur late winter or early spring of next year with a final decision no later than June 2020. We're confident in our legal position and believe that the Fourth Circuit's ruling will be overturned.

Our focus remains on the Supreme Court appeal, but all other options remain available. Let me also address two other points. Regarding the project's biological opinion, I will reiterate our commentary from last order that there is nothing in the court's opinion on the four species that we expect would prevent a biological opinion from being reissued during this winter's tree felling window.

However, even if the timing of the BO reissues prevents us from taking full advantage of the window, including through the end of the first half of next year, we do not expect the existing project cost estimate to $7.3 billion to $7.8 billion to change. This cost range which we provided early this year, incorporated a variety of potential permit resolution and construction recommencement timelines, including a successful at AT Supreme Court appeal.

We continue to expect project construction to be completed by the end of 2021 with full commissioning to conclude in early 2022. This past Tuesday, the Fourth Circuit have heard arguments regarding an appeal of our Buckingham compressor station, minor source air permit, we remain confident that the extraordinary protections undertaken at the site has adapted to address – and as adapted to address community input more than satisfy both the process and steps required by applicable law. Department provides with the most stringent controls for any compressor station in the United States.

We have demonstrated emissions measured added beyond the station fence line will meet the highest public health standards is applied to even the most sensitive populations and environments.

We expect the court to issue a ruling within the next three months. We expect the project will be able to deliver significant volumes to customers under our current timeline, even if this permit needs more time to be resolved. I'll also note that since the last quarterly call, we have continued to advance discussions with Atlantic Coast pipeline customers regarding the equitable resolution of project cost increases.

We expect to reach an agreement in principle by the end of this year, and we are confident that the result will satisfactory balance customer rates with project returns. Our customers demand for this critical and common sense energy infrastructure is unwavering.

Turning to Slide 14, early last month, we announced several leadership changes to better reflect the new financial and operating reporting structure that will take effect later this year. Bob Blue currently CEO of Power Delivery Group will assume responsibility for Dominion Energy Virginia and Dominion Energy Contracted Generation. Diane Leopold, currently CEO of the Gas Infrastructure group will assume responsibility for Dominion Energy South Carolina, Gas transmission and storage and gas distribution.

In addition, Bob and Diane will each assume the title of Co-Chief Operating Officer. Carter Reid, currently Chief Administrative and Compliance Officer will become the Chief of Staff for Dominion Energy and President of Dominion Energy Services. Bob, Diane, Carter and Jim Chapman, the Chief Financial Officer and Treasurer will continue to report directly to me.

These leaders are exceptionally well qualified to play important roles in the execution of our long-term strategy and I congratulate them. I also want to thank Paul Koonce who will retire in the coming months for his many years of dedicated service to our company.

His contributions will be missed. And we wish him all the very best in his future endeavors. With that, I will summarize today's release as follows. We are on track to achieve full-year safety results that are consistent with record setting performance of recent years, we continue to take industry leading innovative steps to demonstrate our leadership on environmental, social and governance matters.

We achieved weather normalized operating earnings, exceeded the midpoint of our guidance range for the 15th consecutive quarter. We're narrowing our full-year 2019 operating earnings per share guidance and affirming our original midpoint. We're reiterating our long-term EPS growth expectations of approximately 5% next year and 5% plus thereafter, and we're making significant progress across our capital investment programs to the benefit of our customers. We will now be happy to answer your questions.

Question-and-Answer Session

Operator

Thank you. At this time, we will open the floor for questions. [Operator Instructions] We'll take our first question and that is from Shahriar Pourreza with Guggenheim Partners. Please go ahead.

Shahriar Pourreza

Hey, good morning guys.

Thomas Farrell

Good morning.

Shahriar Pourreza

So, Tom, you obviously highlighted a couple of questions here. You obviously highlighted the huge opportunity you said you guys have with offshore wind right? And we know the development cycle could be kind of long, we've seen it with vineyard. I'm curious if you could talk a little bit around how you're thinking about contingencies around permitting, construction in contract terms, and then as the projects start to go through construction, maybe just a little bit on financing.

I mean, should we think about the first tranche of the projects, self-funding future projects with the cash flows they are generating. So maybe how we should think about sort of the financing of what could be a very large capital outlay?

Thomas Farrell

Thanks. I'll start and then I'll turn it over to Paul Koonce who has spent an enormous amount of time working on this development, and Jim Chapman can answer any further questions on the financing. I would mention we are expecting rider recovery and we will seek rider approval for all three phases.

We've been working on this project for six years. We bought the right lease option, the lease rights in a 2013 auction that was run by BOEM. And ever since that time, we've been working with a variety of stakeholders to make sure we had the right plan and we had the right folks to help us do the pilot.

We got approval from the State Corporation Commission, it's been through BOEM, we have the permits for BOEM. One of the things to keep in mind that differentiates us from the New England situation is we own the entire lease for the entire coastal region of Virginia, and ot is 26 miles offshore. It is not in fishing grounds and it is not visible from the shore. So, it's very significant differentiating aspects of what's going on here in Virginia and what you've seen happen in New England, but from the macro level, and I'll turn it over to Paul to answer the balance of your question.

Paul Koonce

Thanks, Tom. Shahriar, good morning. As Tom mentioned, we've been at this for quite some time. We expect, as Tom mentioned in his prepared remarks, to file the construction and operating permit about this time next year. We've got ample time to get the BOEM permit in place in order to meet the first phase construction. We will be starting the work now, the ocean mapping, the geotech work, the environmental studies, and that will take place over the course of 2020. And having, as Tom mentioned, having just gone through it on the CVOW project, well that was a research area permit and this is a commercial and operating permit. The process is identical, that we know the stakeholders, we know the process and we feel really pretty good about it. I'll ask Jim to comment on financing.

James Chapman

Yes, two things, Shah, one is as Tom mentioned in his prepared remarks in our existing plan that we walked through in some detail back in March, we highlighted $1.1 billion of spending in offshore wind in our plan from 2019 to 2023. So, obviously recent announcements are much larger dollars than that. The vast majority of the increase is going to come in those years of completion 2024, 2025, 2026.

So the majority of the spending to come in our current planning horizon is already in our plans that we walked through, and the rest we will update over time as time comes closer, but given what Tom and Paul just described, this is all in a regulatory construct to be financed at Vepco. It's certainly achievable, but the details will come in the next period.

Shahriar Pourreza

Got it, that’s helpful. Just around VRP, the retirement plan, is there any status, and then I know your past comments is it's supportive of your growth, maybe just a little bit of a sense on how that program is going, how it's shaping the O&M profile, and sort of bigger picture is VRP offshore wind, the rate plans you have in Virginia, is there a point in time when you can change the way we guide to grow, i.e. moving from five plus more of a range especially as we're trying to model what the incremental accretion is from offshore wind, because it just seems like between Cove Point, your plan is becoming much more visible. So, is there a point in time when you can start to layer in more of a definitive growth range versus five plus?

Paul Koonce

Shah, you have linked quite a few things into one question there, good job. Look the offshore wind, what that does to our guidance, I mean, it's beyond our five-year planning horizon.

So, the spending and any associated earnings as I just walked through the $1.1 billion including the pilot, I mean that’s in our plan, it’s in our earnings guidance. There are no changes for now on that front. On the VRP, you are right, that is kind of done and dusted earlier this year. We talked about that as being a savings of, call it, $0.05 to $0.06 this year maybe double that on a full run rate next year and diminishing over time as it's given back to customers.

So that -- we talked about that as being available savings to offset unforeseen headwinds, and that's still the case. But as an update this year, as you know, the vast majority of our business, 95% of our business is not commodity exposed in any way, the 5% that's not regulated, regulated like it is.

And within that 5% of our operating earnings, there's a couple things. One is obviously the gas commodity environment is weak, and our business is largely immune to that. We have a little bit of exposure, mostly around our single remaining processing plant, which is in West Virginia, and that's a little bit of a headwind as those businesses go from like very small to even smaller this year.

So that is a little bit of headwind, well materially though, this farm-out program that has been very successful as you know, Shar, this is monetizing acreage and mineral resources, blow our storage field. We announced that program in early 2015. And we give guidance to the end of the decade of $450 million to $500 million of pre-tax earnings. And we've been taking along that kind of like clockwork, we’re 75% through that, that guidance. But given the pricing, given the commodity environment and the pricing that's available to us today, we're choosing not to transact on a farm-out this year.

And we're going to, we're going to hold that acreage, net value for farm-out transactions in future periods when there's an improvement in the commodity pricing environment. So what that means is obviously we just reiterated our guidance in the midpoint. So that means we've overcome any unforeseen headwind previously unforeseen related to our decision, not to transact on a farm-out this year. So that is basically the VRP savings which we're using it pretty much as we described, we would. VRP savings and other initiatives to overcome that decision. So no change to our guidance, those are the parts.

Shahriar Pourreza

Perfect, guys, thank you so much.

Paul Koonce

Thank you.

Operator

Thank you. We will take our next question from Steve Fleishman with Wolfe Research. Please go ahead.

Steve Fleishman

Yes, hi, good morning.

Thomas Farrell

Good morning.

Steve Fleishman

Hey Tom. So your offshore wind is obviously different from really any other so far that it's going to be done, plan to be done in the regulated business. How do you know that that structure of it will be approved or could there be people that want to try to bid for it, et cetera. Could you talk about that?

Thomas Farrell

Sure. Well, we're the only one that owns the offshore lease. We own 100% of the offshore lease, we pay for it in the auction, nobody else can build a wind farm off of Virginia. Governor Northam if you I guess couple of months ago now called for the construction of this wind farm because it's his intention to help Virginia developed into the center of the offshore wind industry along the East Coast and that's a challenge that we embrace.

And he specifically said that he recognized that there may be some who want to push back on that, whether it was necessary required or a good thing for Virginia that he was going to work very hard to ensure that public policy and regulatory supports in place to carry out this plan. And it was only after those statements that we went ahead with our announcements, the full deployment. Although we had been working obviously because we filed for the PJM interconnection agreement.

So there's obviously a process in front of us, we are highly confident that it will be carried out to fruition. There is a lot of public support from this for this project, including from political leaders on both sides of the political fence, both Democrats and Republicans want to see this thing happen.

So we have, obviously there are long way to go on it, but we have high confidence level in it going forward. It'll be the only offshore wind farm in Federal Waters. It will not be visible from the shoreline. So you don't have any of these visual impacts of concern people. Environmental community is very supportive of the project going forward. The economic development people In Tidewater, Virginia are very supportive of this going forward. So, obviously, we don't have any guarantees of that Steve but we have a very high confidence level in the outcome.

Steve Fleishman

Okay, great. Thank you.

Thomas Farrell

Thank you.

Operator

Thank you. We will take our next question from Julien Dumoulin-Smith with Bank of America. Please go ahead.

Julien Dumoulin-Smith

Hey, good morning, team.

Thomas Farrell

Good morning.

Julien Dumoulin-Smith

And congratulations to all those receiving promotions here, another number. But perhaps just to pile on this offshore wind question, and perhaps the compliment that you talk about finding ways to mitigate costs to consumers, can you talk a little bit more precisely about the game plan first for qualifying on the tax credit front, just given the longevity of the plan, but if you're starting today, in theory, you should qualify the sum of it and then and then separately, when you come out with some more definitive plans and filings except maybe following the last question here to actually pursue this at the SEC level?

Thomas Farrell

Well, let me just give you a macro answer, Julien. And the folks who got the promotions are in the room, they heard your congratulations. On a macro base and I'll turn over to Paul Koonce.

We are very concerned here about customer rates. It's something we focused on all the time. And because our goal is to ensure that our customer rate stays very competitive, well below national averages below the regional averages, they are now and we intend for them to stay that way including with the construction of this wind farm.

So we will be working very hard with the fabricators, developers, installers. We will be the operators to ensure that we get the cost down as low as we can as we go ahead, which will be important for everybody involved helping us with the project. So with that, I'll turn it over to Paul.

Paul Koonce

Thanks, Tom. Good morning, Julien. Again, just to follow up on Tom's comments about costs, I think that's one of the key reasons why we broke the project up in three phases, so that we could continue to let the supply chain mature, let the costs continue to come down, so that the impact rates are minimized.

Just in terms of ITC, and safe harboring, of course as you know in order to qualify for ITC, a treatment for an offshore wind farm you have to begin in construction this year. We're looking at that, we don't have anything to comment about that, but we're aware of that timing. There may be some things that we can do to safe harbor certain of those costs. So we're before more to come on that in 2020.

In terms of plans and filings we're not as Tom said, we're going to file for the BOEM application this time next year. We're not prepared to say exactly when we're going to file for the SEC application. But I can tell you that we will be conducting many public meetings over the course of 2020.

As we make the environmental assessment, obviously, marine lives, plant and birds, we will be doing ocean mapping and will be doing geotech analysis or sub-service analysis. So you will begin to see all that sort of play out in 2020. And I think that will be a good way to sort of pace when we might expect to make an SEC filing.

Julien Dumoulin-Smith

Got it. But just to clarify the last question too, how much of this is in the five-year window as you see it, perhaps Phase 1 if you will?

Thomas Farrell

Julien, as mentioned, we've got $1.1 billion in total in our five-year plan as we walk through in March and for now that's the number.

Julien Dumoulin-Smith

That $7 million is added to that?

Thomas Farrell

That’s right, everything else comes in 2024, 2025, 2026.

Julien Dumoulin-Smith

Okay, all right. Fair enough, excellent and then just to clarify the prior one on 40, the order does

that change the criteria that the SEC is going to be applying in that process?

Paul Koonce

Julien, this is Paul. The GTSA finds that offshore wind is in the public interest. Now the SEC

process is well known whether they and how they conduct a market test anytime, we build generation for the benefit of our ratepayers, there's a certain process that we follow and that's the process we know well and we'll just step to that when that time comes.

Julien Dumoulin-Smith

Thanks for the patience guys.

Thomas Farrell

Thank you.

Operator

Thank you. We will take our next question from Greg Gordon with Evercore. Please go ahead.

Greg Gordon

Thanks guys. Shah’s question was like the question from back to school, one question but in 27 parks right? On ACP, when I first read the release, I felt like it was kind of my first reaction was, this is kind of negative. It looks like there could be slippage in the biological permit, but now that I'm hearing your commentary on it, I feel less. I guess we should feel less concerned because you feel like even if the, even if the permit comes in, after the turn of the year, you've scrubbed your construction costs forecasts and you still feel like you can move the schedule around and comment on budget?

Thomas Farrell

Thanks, Greg. I'll turn it over to Diane Leopold, who spends a lot of her life working on the Atlantic Coast pipeline. Diane?

Diane Leopold

Yes, when we looked at it, I think you haven't exactly right. When we gave guidance earlier this year, we looked at a lot of different scenarios and a lot of different contingencies to try to capture a variety of outcomes, including going to the Supreme Court, including when we would restart construction. And so just given looking at the different segments of the pipeline, we feel comfortable with that, we are well within what we've incorporated for both cost and schedule at this point.

Greg Gordon

Can you give us some sense of why the permit may have slipped a few more months? Is it just that they're being extra careful to make sure that they comply with all the nuances of the remand and don't get another stay or is there something else going on?

Thomas Farrell

Greg, I don't think we're trying to imply that we think the permit is slipped. What we're trying to say is, even if it does, work still on the schedule and cost.

Greg Gordon

Okay, great. My last question…

Thomas Farrell

I think it’s going to slip.

Greg Gordon

Okay, sorry. I'm sorry if I misconstrue that. The last part of my question, you talked to negotiations with the offtakers on the pipe who are mainly utilities. This is a demand driven pipe, they need the gas, which is why you're building it. It's not a supply push situation.

I think investors are concerned that with the cost overruns, this winds up being a pipe that doesn't earn its cost of capital. But you seem to be positioning it in such a way that you should be able to potentially share the burden of those unexpected cost increases with the utilities who are taking the capacity.

So can you talk through like how much of that you are, you think you'll be able to share given the unforeseen delays in the pipe and what type of return we should expect on the pipe, if you're successful?

Diane Leopold

Yes, this is Diane Leopold again, I won't get into the actual expected project returns, I will tell you, as Tom said, in the actual script, the customers very much need this pipeline for regional security, for their own customers needs. This is clearly a demand driven pipeline. And we are in very constructive negotiations with the customer for fair rates to their customers as well as fair returns for us and more comfortable with the returns that we'll get for the pipeline.

Greg Gordon

Okay, thank you very much.

Thomas Farrell

Thank you, Greg.

Operator

Thank you. We will take our next question from Christopher Turnure with JPMorgan. Please go ahead.

Christopher Turnure

Good morning, guys.

Thomas Farrell

Good morning.

Christopher Turnure

Tom, I think you spent a lot of time in your prepared remarks on the political environment in Virginia. And kind of how you guys are thinking about that in the legislation from last year, but could you give us an update to both the South Carolina and North Carolina or pardon me, South Carolina, Virginia regulatory environments right now and political environments, and also just the latest on your South Carolina regulatory strategy for next year?

Thomas Farrell

Sure. We announced the South Carolina the SCANA merger, I guess late in, I guess it was 2017. And then spent the year 2018 going through the process and it was a relatively hot political climate in South Carolina over because the SCANA and Santee Cooper's cancellation of the expansion of the summer business plans.

We went through that whole process very transparently, answered all the questions, went to all the meetings. And then, as we closed the transaction, we said to policymakers that our intention was to stay out of the headlines through our blocking and tackling provide reliable service, both gas and electric at reasonable and much reduced electric rates and just be part of the community.

That was our goal. And that's exactly what's happened in the State of South Carolina. Things are very moving along very well there, progressing well. We're out of the headlines except when we do things in the communities we serve, including the extraordinarily prompt restoration of the loss of electricity for 40% of our customers got all their lights back in three days. All that helps, the community understand their new neighbor.

We will be filing a rate case next year, we are under earning in South Carolina, it's well known to everybody and we're formulating and completing that regulatory strategy now but we will be filing in IT May.

James Chapman

We can file before May 1.

Thomas Farrell

Before May 1 of 2020. Now I'm sorry, in North Carolina. We have a rate case file in North

Carolina, we have settled all but one or two, we consider them to be relatively small issues got agreed on 9.75% ROE, very constructive regulatory environment and economic development environment in North Carolina.

Christopher Turnure

And in Virginia, if the legislature stays Republican, would that change some of the plans that you've been talking about today, or kind of shift your capital spending at all in different direction?

Thomas Farrell

No, we have a long history of working with whatever parties in the majority in whatever the two houses, Democratic Governors, Republican Governors, Democratic leaders and Republican leaders, so not to expect any changes to our plan.

Christopher Turnure

Okay, and then my second question is just on equity needs going forward. I think you partially addressed this in your prepared remarks. But will the sale of existing stake in Cove Point mean that you will not need any equity, internal or external for the next several years?

James Chapman

Yes, going back to our, it’s Jim. Going back to our guidance from our analyst day back in March, we had shown a projection through 2021 that had equity component to support our regulated capital spending of $300 million of DRIP as on and $300 million to $500 million per year of ATM. So all the number of programs. With the Cove financing, we are using 100% of those proceeds by year-end $2 billion to pay down parent level debt as I mentioned, but we will effectively offset the ATM portion of that prior guidance in 2020 and 2021.

So taking to midpoint of that $300 million to $500 million, is $400 million, so that goes to zero. But the DRIP, the DRIP is always on. So that will be the only remaining program that's active for equity in those years.

Christopher Turnure

Okay, that's clear. Thank you.

James Chapman

Thank you.

Operator

Thank you. We will take our next question from Michael Weinstein with Credit Suisse. Please go ahead.

Michael Weinstein

Hi, guys.

Thomas Farrell

Good morning.

Michael Weinstein

On Cove Point -- good morning. Is there any interest in selling an additional stake in Cove Point at this point or is just now you're now at the minimum desired level of ownership?

James Chapman

Thank you for that question. There's no interest in our desired outcome.

Michael Weinstein

Okay. And in the discussions with the ACP customers, I just wanted to be clear that the talks are over the cost increases above the I think $6.25 billion that's currently in the agreement embedded in current agreements?

Diane Leopold

Yes, I won't disclose anything in the contract, but it's basically negotiating cost increases up to the current anticipated level.

Michael Weinstein

And is there anything you can say about what those contracts obligate each party at, on the face of it at this point before negotiations?

Diane Leopold

No, no, we don't want to disclose that thing.

Michael Weinstein

Okay, and just one last question I had is about the renewable tariff, I think you know had some major C&I customers in Virginia looking for alternative suppliers and have you guys has Virginia -- has the Virginia utility received permission to have its own renewable tariff at this point, so they can compete against these renewable suppliers?

Thomas Farrell

I will ask Bob Blue to answer that question.

Robert Blue

And Michael, it's Bob. We have pending an application for a 100% renewable energy tariff, as you know in Virginia law, our customers can seek service from a competitive service provider unless utility has 100% renewable tariff we filed for one earlier this year.

But hearing on that in November, the State Corporation Commission staff filed their testimony yesterday and did not raise significant objections to our proposal and the one that we have filed is modeled closely on one that was approved not earlier by the Commission. So we feel very good about where that will go.

Michael Weinstein

Okay, great. Thank you.

Thomas Farrell

Thank you.

Operator

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