

## Dominion Resources Inc. (D) Earnings Report: Q3 2015 Conference Call Transcript

The following Dominion Resources Inc. conference call took place on November 2, 2015, 10:00 AM ET. This is a transcript of that earnings call:

### Company Participants

- Tom Hamlin; Dominion Resources Inc.; Vice President of Investor Relations and Financial Planning for the Safe Harbor statement
- Mark McGettrick; Dominion Resources Inc.; CFO
- Tom Farrell; Dominion Resources Inc.; CEO
- Paul Koonce; Dominion Resources Inc.; President and CEO- Energy Infrastructure Group
- Dave Christian; Dominion Resources Inc.; Executive Vice President and CEO- Dominion Generation Group

### Other Participants

- Dan Eggers; Credit Suisse; Analyst
- Michael Weinstein; UBS; Analyst
- Steve Fleishman; Wolfe Research; Analyst
- Pallavi Mehta; Citigroup; Analyst
- Brian Chin; BofA Merrill Lynch; Analyst
- Stephen Byrd; Morgan Stanley; Analyst
- Paul Patterson; Glenrock Associates; Analyst

### MANAGEMENT DISCUSSION SECTION

#### Operator:

Welcome to the Dominion Resources and the Dominion Midstream Partners third-quarter earnings conference call.

(Operator Instructions)

I'd now like to turn the conference call over to Mr. Tom Hamlin, Vice President of Investor Relations and Financial Planning for the Safe Harbor statement. Sir, you may begin.

**Tom Hamlin** (Vice President of Investor Relations and Financial Planning for the Safe Harbor statement):

Good morning. Welcome to the third-quarter earnings conference call for Dominion Resources and Dominion Midstream Partners. During this call we will refer to certain schedules included in this morning's earnings releases and pages from our earning 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 have not done so, I encourage you to visit our Investor Relations page on our website, register for email alert and view our third-quarter earnings documents. Our website addresses are [Dom.com](http://Dom.com) and [DomMidstream.com](http://DomMidstream.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 for the usual cautionary language.

The earnings release 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 the most recent Annual Reports on Form -K and our Quarterly Reports on Form -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 the 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 we are able to calculate and report are contained in the earnings release kit and Dominion 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 third quarter and Dominion's earnings guidance for the fourth quarter and full-year. Tom will review our operating and regulatory activity and review the progress we've made on our growth plans.

I will now turn the call over to Mark McGettrick.

**Mark McGettrick (CFO):**

Good morning. Dominion Resources reported operating earnings of \$. per share for the third quarter of which was in the middle of our guidance range of \$. to \$. per share. Lower operating expenses and higher margins from merchant generator plants accounted for the slightly better than expected performance. GAAP earnings were \$. per share for the third quarter.

The principal differences between GAAP and operating earnings were out of the period tax-related items for our electric operations. A reconciliation of operating earnings to reported earnings can be found on Schedule of the earnings release kit.

Moving to results by operating segment, at Dominion Virginia Power, EBITDA for the third quarter was \$ million which was just below just below were the guidance range. Kilowatt hour sales were modestly below expectations. Excluding weather, year-to-date sales growth was about % which is consistent with our expectations for the year. A delay in commission approval of our strategic undergrounding program also impacted EBITDA for the quarter.

Dominion Generation produced EBITDA of \$ million in the third quarter, which was in the upper half of its guidance range. Lower operating expenses and higher merchant generation margins were contributing factors to the strong results. Third-quarter EBITDA for Dominion Energy was \$ million, which was near the top of its guidance range. Positive drivers for lowering operating expenses and higher gas distribution margins.

On a consolidated basis, interest expenses were in line with our expectations while income taxes were in the upper end of our guidance range.

Overall, we are pleased with the performance of each of our operating segments.

For the third quarter of , Dominion Midstream Partners produced adjusted EBITDA of \$. million and distributable cash flow of \$. million, all consistent with management's expectations. On October , Dominion Midstream's Board of Directors declared a distribution of \$. per unit payable on November to

unitholders of record on November . This distribution represents a % increase over the last quarter's payment and is consistent with our plan to achieve % of the annual distribution growth for LP units.

In September, Dominion Midstream acquired a .% interest in the Iroquois pipeline for the issuance of . million limited partnership units to National

(technical difficulty)

(technical difficulty -- please stand by)

Grid in New Jersey resources. The transaction will be accretive to DM's distributable cash flows and enable it to meet its targeted % distribution growth rate for without having to access the capital markets to fund an additional draw.

On September the Meetings Board authorized the company to invest up to \$ million over a -month period to purchase LP units of Dominion Midstream Partners in the open market. As of last week, the Company had acquired a little over , units at a cost of about \$ . million.

As we have now passed the one year anniversary of the IPO we expect to file a registration statement with the FTC later today. However, as noted, this filing does not relate to any planned issuances prior to .

Moving to cash flow and treasury activities at Dominion, funds from operations were \$ . billion for the first nine months of the year. Commercial paper and letters of credit outstanding at the end of the quarter were \$ . billion. We have \$ . billion credit facilities and taking into account cash and short-term investments ended the quarter with liquidity of \$ billion.

For statements of cash flow and liquidity, please see pages and of the earnings release kit. In the financing area, we announced in September that, based on our current claims, we will not need to access to capital markets for new common equity throughout the remainder of the decade.

We did access the debt market in September with a \$ million -year-note offering on Dominion. The plan to come to market with another issue for Dominion gas holdings of \$ million to \$ million later this year.

We are also pleased that Fitch Investor Services recently reaffirmed the tradings with Dominion and its subsidiaries in the report issued last [June].

Looking ahead to the fourth quarter, Dominion's operating earnings guidance is \$ . to \$ . per share compared to operating earnings of \$ . per share for the fourth quarter of . Positive earnings drivers for the quarter compared to last year are higher revenues from our [both] projects, lower capacity payments to non-utility generators and higher merchant generating margins.

Negative drivers for the quarter are lower farm out revenues and share dilution.

Dominion's operating earnings guidance for the year remains \$ . to \$ . per share. As to hedging you can find our hedge positions on page of the earnings release kit. As of mid-October we have hedged % of our expected production at Millstone and % of our expected production.

So, let me summarize my financial review. Operating earnings were \$ . per share for the third quarter of which was in the middle of our guidance range. Operating results for Dominion Midstream Partners were in line with management's expectations and, finally, Dominion's operating earnings guidance for the fourth quarter of is \$ . to \$ . per share and our operating earnings guidance for the full year remains \$ . to \$ . per share.

I will now turn the call over to Tom Farrell.

**Tom Farrell (CEO):**

Good morning. Strong operational and safety performance continued in the third quarter. Year-to-date OSHA reportables for each business unit are ahead of or are consistent with their respective targets for the year.

Our nuclear fleet continues to operate well. The [next passing] factor of our six units was .% the first nine months of the year. Our power generation group also performed well with record net generation during the third quarter.

In early October the citizens of South Carolina, home to our Dominion Carolina gas subsidiary, were victims of unprecedented flooding. Fortunately the operations of Dominion Carolina gas were not significantly impacted by the flooding. There were no safety incidents, no service interruptions, and no significant damage to our facilities. Working with local officials Dominion has been able to assist in the recovery providing , bottles of safe drinking water as well as first aid kits, hot meals, food, and other essential supplies. The Company also assisted in aerial transportation for damage assessment in response and made additional contributions to the Red Cross disaster relief.

Now for an update on the biennial review. Hearings on the Virginia state Corporation Commission's review of Virginia powers earnings for and were held in September. A final order is expected late this month.

You will recall that neither our base rates nor the allowed rate of return are subject to change in this proceeding. The biennial review process will resume in , covering earnings for the calendar years and .

Now for an update on our growth plans. Construction of the megawatt combined cycle facility in Brunswick County was about % complete to the third quarter. There are approximately , workers on site. All major equipment has been installed and first fire of the initial combustion turbine is targeted for later this month. Facility is on time and on budget with an expected mid- commercial operation date.

The hearing on our request for CPCN and [rate riders] with the proposed megawatt Greensville County project is expected for January . Major contracts for this project have been executed, including the combustion turbine supply agreement with MH Power Systems and the EPC agreement with Fluor . This three on one combined lifecycle facility is expected to achieve commercial operation in December . It will provide approximately \$ billion of customer benefits over its life.

We continued our merchant contracted renewable acquisition efforts with the September acquisition of a % interest in the megawatt [three feeder solar] project in Utah, scheduled for operations next year. The acquisition brings our contracted solar quality to megawatts exceeding the megawatt target we had announced earlier in the year.

On September , Dominion signed an agreement for the sale of % interest in megawatts of this portfolio to Sun Edison for approximately \$ million. We plan to monetize the remaining two thirds' interest after the ITC holding period when economically advantageous.

Our solar strategy is transitioning from the merchant business is to our regulated business in Virginia where we plan to invest \$ million this decade to construct megawatts of utility scale projects in the state. Based on RFPs conducted in August, the Company selected three projects totaling megawatts and submitted an application to the State Corporation Commission for CPCN and rate rider on October . If approved, these solar sites would be in service by late .

Also during the quarter we were awarded a -year energy sales agreement by the United States Navy to supply the Norfolk Naval Station. The Navy has the option to extend the agreement for an additional

years. The energy will be generated by a megawatt solar facility located in North Carolina, which we agreed to acquire from a solar developer on September .

We have a number of electric transmission projects at various stages of regulatory approval and construction. During the third quarter, \$ million of transmission assets were placed into service, bringing the year to date total to \$ million. We estimate another \$ million was placed in service in the fourth quarter for a full-year total of \$ million. Electric transmission's capital growth budget for growth projects including NERC, [Bartep], maintenance as well as security-related investments will average over \$ million per year for at least the remainder of the decade.

Progress on our growth plan for Dominion Energy continues as well. We closed on the first farm out of our Utica acreage in September with a transaction covering approximately , acres. We still have over , acres in the Utica formation, available (technical difficulty) transactions. Interest in the Utica continues to be strong.

We are continuing to work toward the commencement of construction on the Atlantic Coast Pipeline and the related supply header project. We made the formal FERC filing for these projects in September. On Friday we made the supplemental filing to address specific routing solutions for the avoidance of threatened and endangered species.

The Company is committed to constructing a project that is environmentally sound. Surveying is now over % complete and engineering is about % complete.

We awarded the small diameter pipe contracts to American Cast Iron Pipe in August. Construction bids were received in May and we expect to execute contracts by the end of the year. The bid plans to begin construction on both projects in the fourth quarter of next year and begin operations in November .

With last week's announcement that Duke Energy has agreed to acquire Piedmont Natural Gas we have received several questions as to how the combination of two of the partners in the Atlantic Coast Pipeline will impact the project. Dominion will remain the operator and there will be no changes in the management or operation of the project.

As provided for our existing agreement, upon closing of the transaction the ownership structure will be recalibrated with Dominion retaining its leading ownership percentage. Assuming the stubborn AGL transaction also occurred, the ownership interest will be Dominion, %; Duke, %; and Southern, %.

Now, an update on our Cove Point Liquefaction project. Overall, it is approximately % complete and there are about , workers on site. Engineering is % complete and approximately % of the engineering equipment has been procured as of the end of the third quarter. All for construction projects have been approved by FERC. Also the main power gen and heat exchangers was delivered by barge to the site last week.

The project continues to be on time and on budget for late in-service date. In addition to the Atlantic Coast Pipeline and supply header we have energy growth projects underway with \$. billion of investments to move more than billion cubic feet per day for customers by the end of . The Edgemore project in South Carolina and the Western Access project in Ohio are under construction and proceeding on time and on budget.

Since our last call, we received FERC approval for three pipeline expansion projects and receive the environmental assessment for a fourth. We have four other projects filed at FERC and one project in Charleston, South Carolina we expect to file very shortly. This quarter we also announced two new demand-driven projects to serve LDC and power generation customers.

There has been a fair amount of press and investor attention recently regarding the large number of gas infrastructure projects that are under development particularly in the Northeast, and how much of this new capacity may be underutilized because the low gas price environment does not support enough production to fill these pipes. The vast majority of these new projects was supported by contracts with producers, whose finance are under stress due to low commodity prices, leading some to be concerned with the long-term financial viability of the projects.

I want to highlight the significant difference of the maintenance infrastructure growth projects from those others. With the exception of a couple of smaller producer outlet projects that are well underway to completion, all of Dominion's major expansion projects are secured with firm commitments from consumers of natural gas, not the producers. These demand-driven projects include Cove Point export, the Atlantic Coast Pipeline, the supply header project, the new market project, CPB and Key in Maryland, Edgemore in South Carolina and several others. All are [sounds-creditworthy] counterparties that are meeting customer demand or fueling electric power production.

So to summarize, our businesses delivered strong operating and safety performance and the third quarter. The Brunswick County construction project is proceeding on time and on budget. We continue to work toward FERC approval for the Atlantic Coast pipeline and the supply header project. And construction to Cove Point Liquefaction project is continuing on time and on budget. Thank you and we are ready to take your questions.

QUESTIONS & ANSWERS

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**Operator:**

(Operator Instructions)

Dan Eggers, Credit Suisse.

**Dan Eggers** (Analyst - Credit Suisse):

Good morning, guys. Tom, it's been a pretty tough quarter -- quarters for the MLP space probably and the gas infrastructure assets. Are you guys seeing opportunities of things coming up for sale that looked interesting -- interesting enough for you to go out and issue so more capital to get deals done? Or are you more content to sit on what you have for the time being and stay out of equity markets?

**Tom Farrell** (CEO):

It certainly been a tough quarter -- really like four months for the sector although I think objectively that Dominion Midstream Partners has done relatively well compared to some of the rest of the sectors. I think that's largely due to the long drop-down schedule we have from organic growth projects. We have looked for things like the Carolina gas transmission and the Iroquois assets. We were able to place the LP units directly with the sellers.

That's the kind of thing we're looking for. We have plenty of project. We recognize the volatility of the markets right now and we are inclined to just focus on our own projects.

**Dan Eggers** (Analyst - Credit Suisse):

And I guess in that spirit we are seeing some big pretty big M&A transactions quarter. Can you remind us on how you guys think about M&A and how you prioritize it against the internal growth opportunities you see?

**Tom Farrell (CEO):**

I think we've been fairly consistent for quite a long time -- I hope we have -- with saying we don't talk about M&A at all; in case somebody decides there's a slightly different nuance in the way we say we don't talk about it. So we try not to talk about it. With the exception -- we have said since we created Dominion Midstream Partners that we would be looking for assets to contribute to the MLP and we are.

But like I said we have -- anything that we look at there we are going to judge against our own projects and what issuing LP units however compared to just organically growing. We like what we have.

**Dan Eggers (Analyst - Credit Suisse):**

Okay. Got it. And I guess just last on the solar, you are able to get the deal put together this quarter. What are you thinking about doing with the rest of the megawatts that haven't been committed to the [Senatus] and is there appetite in the market to monetize that next chunk?

**Unidentified Company Representative:**

Hey Dan, this is [Morris]. We are real happy with the sell down arrangement that we have with Con-Ed. If you are aware, we can't monetize a portion of those until after the sunset of the ITC period. So you shouldn't look for us to be back in the market anytime soon for that.

We have -- those transactions took us through the end of , so we do have some projects that will be developed next year. We'll see what the market there suggests at that point in terms of those projects but again don't look for us to access the market for the additional sell-down for a good while.

**Dan Eggers (Analyst - Credit Suisse):**

Okay. Thank you, guys.

Operator

Michael Weinstein, UBS.

**Michael Weinstein (Analyst - UBS):**

Hi, guys. A quick question -- one, have you guys talked at all about the benefits that you expect to have from capacity performance at PJM?

**Mark McGettrick (CFO):**

Michael, no -- this is Mark. We haven't talked about that. We've had a lot of questions about it. I guess the way I would summarize that is that we were very happy with the outcome of those auctions and expect to be a beneficiary.

**Michael Weinstein (Analyst - UBS):**

Okay. And with the growth of solar estimates at some of your peers including Southern and Con Ed, I'm just wondering if you guys plan on increasing your targets yourselves at some point?

**Mark McGettrick (CFO):**

In terms of incremental new solar?

**Michael Weinstein (Analyst - UBS):**

Yes.

**Mark McGettrick** (CFO):

Well, we have a pretty good line of sight through the % ITC window through next year. I guess the only caveat I'd give you on that is we expect some projects in to become available due to some distress with yieldco's that have a time commitment to build. They need some assistance in financing those. We will very selectively look at that as we go out, and we will definitely look at Virginia projects for us to build in Virginia to support our future needs in terms of compliance.

So again, merchantwise, I'd say very selective but our focus will really be in the Virginia service territory.

**Michael Weinstein** (Analyst - UBS):

And one question about dividends. How are you thinking about dividend growth going forward, considering the buybacks of DM shares and I guess looking forward the spinoff of the GP of the MLP looks a little less interesting these days than it used to.

**Mark McGettrick** (CFO):

We've never talked about doing anything with our GP to answer a statement rather than a question. We see no reason to change our distribution growth rate which is % which we think is best in class at the MLP. And we said in February that it's our anticipation, subject to Board approval, to increase our dividend at Dominion about % a year through the balance of the decade.

**Michael Weinstein** (Analyst - UBS):

Right. And one last question, about cost savings if you could just make a comment on that going forward at the utility and also the merchant generation company and then that's it.

**Tom Farrell** (CEO):

Michael, on the cost side you should think about our operating budgets growing at about a rate with the CPI . As we go out the only major fluctuations would be the timing of Millstone outages where one year you might have two, the next year you might have three. But we're focused on CPI type growth [and going in].

Michael Weinstein

Okay. Thanks a lot.

**Operator:**

Steve Fleishman, Wolfe Research.

**Steve Fleishman** (Analyst - Wolfe Research):

Good morning. Just wanted to confirm that your long-term growth rates that you've highlighted, earnings dividends -- those are all still good?

**Mark McGettrick** (CFO):

Yes.

**Steve Fleishman** (Analyst - Wolfe Research):

Okay. And then on the issues with all the things we've heard in terms of lower oil prices, gas prices, liquids prices maybe slowing production, etc. -- if you look at not just your new projects but also the existing fleet of assets, could you maybe just characterize your exposure, if anything? I assume pretty small but just is there anything that we should worry about in terms of numbers over the next year or two due to these issues?

**Mark McGettrick** (CFO):

I'm going to let Paul answer that question but I'd also take you back to the script where Tom differentiated our projects versus a lot of others that are in the marketplace almost all of ours are demand pull projects with regulated utilities or counterparties and so we feel real good about that, but let me have Paul give some more color.

**Paul Koonce** (President and CEO - Energy Infrastructure Group):

Good morning, Steve. The Outlook project that we have announced and put into service are really works of existing assets so there really is no credit exposure to speak of for those projects. And we've been very focused on our growth projects and I think if you kind of check around the market, you will see that our credit requirements are probably about as strict as anybody's and I think that's reflective of our projects. So I don't see anything really that should concern you.

**Steve Fleishman** (Analyst - Wolfe Research):

Okay. Great. Thank you very much.

**Operator:**

Pallavi Mehta, Citigroup .

**Pallavi Mehta** (Analyst - Citigroup):

Hi, guys. A quick question on the merchant side. With all the retirements happening in New York, New England, how do you see that impacting your fleet of gas assets in New York and New England?

**Tom Farrell** (CEO):

We only have two gas assets -- the last one in New England, in Manchester and one CJM outside of Philadelphia, Fairless. We do see pressure particularly on capacity ultimately on energy in NEPOOL with some recent announcements. I think the New York announcement this morning will also put pressure on Northeast prices, particularly on capacity as we go out.

Since the infrastructure there on gas is not going to be able to significantly expand gas, at least for the next many years, I think continued shutdown on [either side] in Northeast will support both higher energy and capacity.

**Pallavi Mehta** (Analyst - Citigroup):

Thank you. In terms of taxes you talked about ITT expiration post- and moving away from solar -- much in solar and to more utility scale. I just wanted to understand from a tax perspective both book and cash taxes, how do you expect the ITC expiration post to impact your book and cash taxes?

**Tom Farrell** (CEO):

I think it's going to depend on, one, what ITC is available. Right now, it's just % and on the projects we'll be focused on they will be regulated projects. So they will flow through regulated rates for riders to

customers in Virginia, so that benefit will flow through back to them.

**Pallavi Mehta** (Analyst - Citigroup):

Thank you, guys.

**Operator:**

Brian Chin, BofA Merrill Lynch.

**Brian Chin** (Analyst - BofA Merrill Lynch):

Good morning. If we can go to the farm outs and you mentioned that there's about , acres left -- I guess spring boarding a little bit more specifically off Steve's earlier question, given where gas prices are at right now and commodity prices overall, are you seeing a change in the marketplace out there with regards to farm out interest? And can you just comment on the updated industry outlook for farm out here?

**Paul Koonce** (President and CEO- Energy Infrastructure Group):

Brian, this is Paul Koonce. It's interesting; there is certainly a lot of stress among the producer community but there is also real interest in giving a secure acreage position in this basin and what our acreage offers is, really, a lot of acreage that's blocked up that's contiguous, and, because this production is held by production there is no time limit on when the lease will expire.

So from that standpoint there continues to be a lot of real interest especially when you look at some of these Utica initial production rates. So we've seen real strong interest and have seen no let up.

**Brian Chin** (Analyst - BofA Merrill Lynch):

Excellent. And then one last question. Historically you guys have not done analyst days in consecutive years. You've generally only done it every other year or so. Generally this year, it seems to me at least that you guys have just been executing on what you talked about on the analyst day earlier this year. Should we go under the assumption that you guys won't need to do an analyst day for next year or do you think one might be merited, given just the change in the commodity price environment?

**Mark McGettrick** (CFO):

Brian, this is Mark. I think we'll have to evaluate that as we get closer and give guidance for next year. We have a lot of significant change to talk about in February this year. I think the analyst day will be driven by how much the plan changes long term, if at all. And if it stays pretty much on course with what we have we probably will wait another year for an analyst day but again, we'll talk about that on the first-quarter call based on what [been sold] at that time.

**Brian Chin** (Analyst - BofA Merrill Lynch):

Appreciated. Thanks, you guys.

**Operator:**

Stephen Byrd, Morgan Stanley .

**Stephen Byrd** (Analyst - Morgan Stanley):

Hi, good morning. I wanted to touch on the solar procurement process in Virginia given some of the recent regulatory activity in the state. At a high level can you talk about how you think about procuring

solar on the utility side within Virginia?

**Mark McGettrick** (CFO):

Well, first I think you are probably referring to the order I guess last week or the week before on the Remington solar project. You need to distinguish between that project and the project, for example, that we just filed. The project we filed -- I guess we filed Remington in January or February.

We had done a lot of work around RFPs and market conditions and solar in the region when we filed that and believe that we adequately demonstrated that. We went through a much more rigorous -- I shouldn't say more rigorous -- different process over the summer for these new projects, which we think are more than compliant with what it was the Commission was looking for in the Remington project.

So we do RFPs, custom market, look at what we get back in return and then we'll file them. The projects are going to be required to meet the Clean Power Plan and they are -- the General Assembly said in its bill that was passed earlier this year that they believe these are in the public interest.

So we'll work our way through this process with the Commission probably because they are going to get built. And I think they will like the ones we just filed.

**Stephen Byrd** (Analyst - Morgan Stanley):

Understood. Thanks And shifting over to (technical difficulty) -- shifting over to nuclear, I wanted to just at a high level get your thoughts on the O&M environment for nuclear. Any trends that you are seeing there just as we think into the future? I know your nuclear operation is very different from some of these smaller units that are retiring.

But I'm just curious. Any trends you see in terms of nuclear operations costs requirements going forward -- things of that nature?

**Mark McGettrick** (CFO):

Let me just give a high-level response to that and then I'll turn it over to Dave Christian. I assume you are referring of course to the announcement today about (technical difficulty) (inaudible) Fitzpatrick, and we've seen other single merchant power plant nuclear plants under stress from other companies.

We had this happen here. We had this happen with Kewaunee. When I say here, I mean at Dominion.

I guess it's now been three years ago. It was a very, very difficult decision for us to make. We tried very, very hard to keep that unit operating but we just couldn't see with the way the market structures were set up at Millstone in particular that we could make it work without being a drain on the balance of our nuclear fleet.

It wasn't a happy day to announce that closing. So everybody is in a different environment. We all have different [plain] economics but it's a structural issue -- I think more macro than micro -- at least it was for us. Dave, anything particular on O&M and nuclear?

**Dave Christian** (Executive Vice President and CEO- Dominion Generation Group):

I think Mark characterized it pretty well. We've kind of cast expected O&M growth at CPI but we are also trying to work to a culture of continuous improvement. We are always scrutinizing cost.

We happen to be blessed with some very low-cost units and some very large units so Millstone, in particular, the largest unit in New England -- dual unit site. It doesn't have a lot of the same characteristics at Pilgrim and [BY] and Kewaunee.

**Stephen Byrd** (Analyst - Morgan Stanley):

Understood. Thank you very much.

**Operator:**

Paul Patterson, Glenrock Associates.

**Paul Patterson** (Analyst - Glenrock Associates):

Good morning. Just -- can you elaborate a little bit on the merchant performance that drove earnings this quarter?

**Mark McGettrick** (CFO):

We had higher gas prices than -- versus last year and I'm assuming you are referring to quarter by quarter or --

**Paul Patterson** (Analyst - Glenrock Associates):

Yes, just quarter by quarter.

**Mark McGettrick** (CFO):

So we had higher hedge prices than we had in the quarter last year. We also had additional one at all of our units at Manchester and at Fairless. So it really was a price and volume issue for us.

**Paul Patterson** (Analyst - Glenrock Associates):

Okay. And then with respect to the hedging at Millstone, I didn't see any information or any hedging information for . Any thoughts about that? What we're looking at in terms of the hedging for Millstone?

**Mark McGettrick** (CFO):

Yes, Paul. A couple of years ago, come changed our view on hedging based on forward curves really being depressed; and as you know at Millstone what moves that market is winter weather. So as you saw from the hedge tables to a today we have had Stout most of production -- it went from % to %. And as we go into any calendar year we've always and will continue to hedge Millstone out between % and % going into the calendar year. So we are right on schedule for .

For -- we have not hedged as of yet. We'll see what winter curves look like as you go through but as we sit here at this time next year we will be in a very similar hedge position for at Millstone than we have had historically. We're just a little bit more opportunistic about it than we have been in the past.

**Paul Patterson** (Analyst - Glenrock Associates):

Okay. Great. And then just on the -- just a follow-up on the farm out question, you guys are pro-still pretty comfortable it sounds like with the to , through pretax opportunities there -- is that still the case?

**Mark McGettrick** (CFO):

I still feel very good about it.

**Paul Patterson** (Analyst - Glenrock Associates):

Okay. Great. Thanks so much.

**Operator:**

Speakers, at this time I would like to turn the conference call back over to you for closing comments.

**Mark McGettrick (CFO):**

Thank you. Our next call will be at the first of the year.

**Operator:**

Thank you, this does conclude this morning's teleconference. You may disconnect your lines

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