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Duke Energy, Dominion likely began to consider abandoning Atlantic Coast Pipeline last year

Duke Energy CEO Lynn Good said in November her company was preparing for "a wide range of outcomes" on the now-abandoned Atlantic Coast Pipeline.

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There are indications that Duke Energy Corp. (NYSE: DUK) and Dominion Energy Inc. (NYSE: D) have been preparing for the possibility of abandoning the Atlantic Coast Pipeline since at least late last year.

In a U.S. Securities and Exchange Commission filing this week, Duke asserts that a $2.5 billion forward stock sale it priced in November eliminates the need to shore up its balance sheet after the project was canceled.

That $2.5 billion neatly covers the $2 billion to $2.5 billion charge Duke said in the same filing it would take against earnings for canceling the pipeline.

When CEO Lynn Good announced the sale last November, she said, “This additional equity allows us to absorb a wide range of outcomes associated with ACP while also offering greater financial flexibility to the company.”

Primary drivers

Asked this week if “wide range of outcomes” included the possibility of canceling the pipeline, spokeswoman Tammie McGee did not answer directly.

“The wide range of outcomes included many variables, such as state and federal permits that had been vacated, the reissuance of the Biological Opinion and Incidental Take statement (part of an environmental permit), the Supreme Court ruling, and other impending litigation against ACP permitting agencies,” she replied. “The primary drivers for the project’s termination was the vacating of the Nationwide 12 permit in the recent Montana decision and Dominion selling its gas transmission business.”

It turns out, however, that Dominion first started to consider selling that business — which was building ACP — not long before Duke announced the stock sale.

In a conference call after cancellation of the pipeline was announced, Dominion CEO Tom Farrell told analysts, “In the second half of last year, we began considering the long-term role of our best-in-class storage and transmission assets within the Dominion family.”

While he said the eventual buyer, Berkshire Hathaway Inc., did not step up until early 2020, it is clear that Dominion was shopping its transmission business.

'Litigious, uncertain and costly'

And in the conference call, Farrell made no bones about why Dominion was looking to sell the business.

“To state the obvious, permitting for investment in gas transmission and storage has become increasingly litigious, uncertain and costly,” he said. “This trend, though deeply concerning for our country's economic growth and energy security, is a new reality which threatens the pace at which we intended to grow these assets."

Court and regulatory challenges had, by late last year, driven up the estimated costs of the 600-mile pipeline to $8 billion from an initial estimate of about $5 billion in 2014. The Montana decision, which involved the Kesytone XL Pipeline, threatened to drive costs up further. And while that federal court ruling did not hit until April, it is clear that Dominion was already at least eyeing the exits for its division that was building the pipeline by November, when Duke priced its stock sale.

Dominion announced the $9.7 billion agreement to sell its transmission and storage assets to Berkshire — $4 billion in cash and $5.7 billion in debt assumption — on the same day it and Duke announced they were bailing on the Atlantic Coast Pipeline.