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PRESENTATION

Operator

Good morning, everyone, and welcome to the MYR Group First Quarter 2022 Earnings Results Conference Call. Today's conference is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference over to David Gutierrez of Dresner Corporate Services. Please go ahead, David.

David E. Gutierrez ***Dresner Corporate Services, Inc. - Head of PR Practice and SVP***

Thank you, and good morning, everyone. I'd like to welcome you to the MYR Group conference call to discuss the company's first quarter results for 2022, which were reported yesterday. Joining us on today's call are Rick Swartz, President and Chief Executive Officer; Betty Johnson, Senior Vice President and Chief Financial Officer; Tod Cooper, Senior Vice President and Chief Operating Officer of MYR Group's Transmission and Distribution segment; and Jeff Waneka, Senior Vice President and Chief Operating Officer of MYR Group's Commercial and Industrial segment.

If you did not receive yesterday's press release, please contact Dresner Corporate Services at (312) 726-3600, and we will send you a copy or go to the MYR Group website, where a copy is available under the Investor Relations tab. Also, a replay of today's call will be available until Thursday, May 5, 2022, at 11:00 a.m. Mountain Time. Please call (855) 859-2056 or 404-537-3406 and enter conference ID 9940838.

Before we begin, I want to remind you that this discussion may contain forward-looking statements. Any such statements are based upon information available to MYR Group's management as of this date, and MYR Group assumes no obligation to update any such forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. Accordingly, these statements are no guarantee of future performance. These risks and uncertainties are discussed in the company's annual report on Form 10-K for the year ended December 31, 2021, the company's quarterly report on Form 10-Q for the first quarter of 2022, and in yesterday's press release.

Certain non-GAAP financial information will be discussed on the call today. A reconciliation of these non-GAAP measures to the most comparable GAAP measures is set forth in yesterday's press release.

With that, let me turn the call over to Rick Swartz.

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Thanks, David. Good morning, everyone. Welcome to our first quarter 2022 conference call to discuss financial and operational results. I will begin by providing a summary of our first quarter results, and then will turn the call over to Betty Johnson, our Chief Financial Officer, for a more detailed financial review. Following Betty's overview, Tod Cooper and Jeff Waneka, Chief Operating Officers for our T&D and C&I segments, will provide a summary of our segment performance and discuss some of MYR Group's opportunities going forward. I will conclude today's call with some closing remarks and open the call up for your questions.

The first quarter of 2022 was another good quarter for MYR Group. Strong execution, coupled with top line momentum and mitigation efforts focused on the adverse effects of inflation and supply disruptions, contributed to our ongoing success. We are also proud of our ability to execute projects for our clients while maintaining focus on the safety and wellness of our employees. We entered 2022 with positive momentum in a complex environment, fueled by our 2021 record revenue and healthy backlog at the end of 2021.

Our first quarter results included net income of $20.7 million, along with increases in revenues and gross profit as compared to the same period of 2021. Our backlog at the end of the first quarter was $2.4 billion, reflecting our ongoing resilience and strong customer relationships.

Each year, we survey executives of our utility clients and use the data to supplement our business strategy and planning. For the second year in a row, clean energy emerged as the most impactful trend influencing the strategic direction of their business. Our survey participants are actively participating in the clean energy transformation and predict increased spend on clean energy projects and supporting infrastructure. Their responses also reflect a focus on electrification, labor solutions and resiliency strategies. We continually strive to understand the needs of our clients and align our capabilities and strengths to better serve them.

Our T&D segment responded to a diverse set of opportunities, including distribution, transmission and clean energy projects. Our C&I segment entered the year with a solid backlog and steady bidding opportunities in their core markets, including health care, clean energy, transportation and data centers. Our collaborative approach to project delivery, coupled with capable and committed team members, allows us to be a sturdy yet flexible partner for our clients.

Now Betty will provide details on our first quarter of 2022 financial results.

Betty R. Johnson ***MYR Group Inc. - Senior VP & CFO***

Thank you, Rick, and good morning, everyone. On today's call, I will be reviewing our quarter-over-quarter results for the first quarter of 2022 as compared to the first quarter of 2021. Our first quarter 2022 revenues were $636.6 million, representing an increase of $44.1 million or 7.4% compared to the same period last year. Our first quarter T&D revenues were $364.9 million, an increase of 15.9% compared to the same period last year. The breakdown of T&D revenues was $221.6 million for transmission and $143.3 million for distribution.

The T&D segment revenues increased primarily due to an increase in revenues on distribution projects, including the incremental distribution revenues from the Powerline Plus Companies and an increase in revenue from transmission projects. Approximately 50% of our first quarter T&D revenues related to work performed under master services agreements. C&I revenues were $271.8 million, a decrease of 2.1% compared to the same period last year. C&I segment revenues decreased primarily due to a reduction in revenue in certain geographical areas.

Our gross margin was 12.6% for the first quarter of 2022 compared to 13% for the same period last year. The slight decrease in gross margin was due to cost increases associated with supply chain disruptions and the impacts from the COVID-19 pandemic, some of which also caused labor and material inefficiencies on certain projects as well as inclement weather experienced on certain projects. These margin decreases were partially offset by favorable job closeouts and net favorable change order adjustments on certain projects.

First quarter 2022 SG&A expenses were $53.6 million, an increase of $4 million compared to the same period last year. The increase was primarily due to the acquisition of Powerline Plus Companies. First quarter 2022 amortization of intangible assets was $2.8 million, an increase of $2.2 million compared to the same period last year. The increase was primarily due to amortization related to certain intangibles acquired with the Powerline Plus Companies.

Effective income tax rate for the first quarter of 2022 represents 15.4% of pretax income compared to 26.2% for the first quarter of 2021. The effective tax rate for the first quarter of 2022 decreased primarily due to a favorable impact from stock compensation excess tax benefits and the reduction of the impact of the global intangible low tax income.

First quarter 2022 net income was $20.7 million or $1.21 per diluted share compared to $19.9 million or $1.17 per diluted share for the same period last year. Total backlog as of March 31, 2022, was $2.4 billion, 46.4% higher than a year ago, with record highs in both our T&D and C&I segments. Total backlog as of March 31, 2022, included backlog related to our large Timberland Solar Project announced on April 14, 2022. Total backlog as of March 31, 2022, consisted of approximately $1.1 billion for our T&D segment and approximately $1.3 billion for our C&I segment.

Moving to liquidity and our balance sheet. We had approximately $217.3 million of working capital, $49.7 million of funded debt and $317.5 million in borrowing availability under our credit facility of March 31, 2022. Our funded debt-to-EBITDA leverage ratio has continued to stay strong at 0.3x leverage as of March 31, 2022. We believe that our credit facility, strong balance sheet and future cash flow from operations will enable us to meet our working capital needs, equipment investments and our growth strategies.

I'll now turn the call over to Tod Cooper, who will provide an overview of our Transmission and Distribution segment.

Tod M. Cooper ***MYR Group Inc. - Senior VP & COO of Transmission and Distribution***

Thanks, Betty, and good morning, everyone. Our continued focus on execution in all areas of our T&D segment, including distribution, transmission and clean energy projects resulted in a solid first quarter. The strength and expansion of our market presence led to a record backlog for the segment as we continue to focus our efforts on priorities such as aging infrastructure, system hardening, reliability and clean energy projects that are helping clients meet decarbonization goals.

Rick mentioned earlier our strategic insight survey. The survey indicated that greater than half of the participants' question plan to spend more than 1/4 of their T&D budgets on infrastructure to support clean energy. An example of this can be found at MYR Energy Services, or MYRE, which has negotiated multiple EPC projects related to clean energy as well as MYRE Solar Group's recently announced award of the Timberland Solar Project for Con Edison Clean Energy Businesses, Inc.

In early January, we acquired the Powerline Plus Companies in Ontario, Canada. We're continuing to integrate the company into our operations and are focusing on cultural alignment while supporting growth in their business. They bring strong market presence in Toronto and the surrounding areas, which we will work to build upon in the years to come.

Our subsidiaries are very busy across the U.S. Our Eastern region continues to be active in all markets with lump sum, unit price and several master service agreements, focusing on transmission and distribution work. Most noticeably, the L.E. Myers Company continues a long-held relationship with the Tennessee Valley Authority by being awarded a 5-year contract that will extend this relationship beyond 30 years.

Our Western region is leveraging customer relationships and capitalizing on expansion opportunities. Sturgeon Electric California recently expanded services into a new region for Southern California Edison, and High Country Line Construction was recently awarded a transmission project for a new client, South Texas Electric Co-op. In Alaska, Sturgeon was recently awarded a transmission project in Seward with other opportunities to expand its presence in this market.

We continue to monitor global economic pressures that may affect the solar and transmission markets. While our work in these markets has been minimally impacted by such pressures to date, sourcing material going forward could become increasingly difficult, and the impacts of rising commodity and resource costs may impact certain projects.

We are also monitoring the current investigation by the Department of Commerce related to the application of tariff on solar panels coming from certain countries in Southeast Asia. These tariffs, if imposed, could impact supply to certain projects in the U.S. We are in close collaboration with customers and suppliers to help us navigate all of these market challenges.

We are also starting to engage in discussions with customers around the newly passed Federal Infrastructure Investment and Jobs Act. We know the effect to our industry will take time to realize. However, we may see industry investments begin within the next few years. This includes keeping our eye on the funding earmarked for transportation specifically related to electric vehicle charging infrastructure. The bill also includes funding for energy and power with the purpose of expanding transmission lines to allow for clean energy growth and support for grid hardening.

In summary, the first quarter of 2022 was strong, and as a trusted partner in the T&D industry, we're looking forward to working with all of our clients to navigate around the challenges while maintaining a laser focus on safety and project execution.

I will now turn the call over to Jeff Waneka, who will provide an outlook of our Commercial and Industrial segment.

Jeffrey J. Waneka ***MYR Group Inc. - Senior VP and COO of Commercial & Industrial***

Thanks, Tod, and good morning, everyone. Our C&I segment continues to perform well amidst a wide range of continually changing economic conditions. Through increased collaboration with our vendors and clients, we are working hard to mitigate the various supply chain and inflationary issues facing the construction industry. We are fortunate to have established strong relationships that are promoting early and proactive communication to resolve these complex issues. And to date, we've seen minimal impact to our overall performance.

We entered 2022 with a record backlog in C&I and, in the first quarter, added meaningful projects to our book of business. In prior quarters, we have stated that our core markets of transportation, health care, data centers, clean energy, warehousing and water treatment are remaining resilient. And now our first quarter awards include projects in other desirable markets, such as pharmaceutical and food and beverage. Demand for our services remains strong in most of our district offices, allowing for discrete -- discretion in pursuit selection.

We are pleased to see the Dodge Momentum Index rebound in the first quarter. The overall momentum index was 17% higher in March of 2022 when compared to March of 2021. The institutional component was up 23% over the year, while the commercial component was 14% higher. The American Institute of Architects, Architecture Billings Index also reported notable increases, stating that the spike in the overall index could reflect firm's desire to beat the interest rate hikes that are expected over the coming months. The first quarter's increase in both indexes suggests that the construction sector continues to weather the storm as owners seek to push their projects forward.

Clean energy projects continue to drive much of the conversation in electrical construction especially related to the Infrastructure Investment and Jobs Act. The Edison Electric Institute, or EEI, recently announced the formation of the National Electric Highway Coalition, which formed to build a coast-to-coast, fast-charging network for electric vehicles along major U.S. travel corridors. EEI said it expects the number of battery-powered EVs to grow from roughly 2 million last year to at least 20 million in -- by the end of the decade. Therefore, the number of public fast-charging stations, around 10,000 in the U.S. currently, will also have to expand by the end of the decade. Private funding to support the boom in electric vehicles is currently underway as car dealerships and transit centers grapple with the need to modify service and sales centers across the country.

In addition to electric vehicles being a hot topic in the clean energy movement, solar projects continue to be additive to our C&I portfolio. We added new solar projects to our backlog and believe future solar projects will represent a large part of our future growth. We are also pleased that many of the large civil projects we are tracking continue to advance toward procurement.

As Denver International Airport has grown into the third busiest airport in the world, our subsidiary company, Sturgeon Electric's backlog and opportunity for future work have advanced at an equally rapid pace. Several projects to upgrade facilities and expand runways are tracking toward award in 2022. As the public resumes its appetite for travel, we believe that transit-oriented projects will continue to populate our pipeline.

To conclude, we are proud of how our employees are responding to the unique challenges facing the industry. They continue providing the proactive and customer-focused communication that will help MYR Group maintain a leading position in the markets we serve. Thanks, everyone, for your time today. I will now turn the call back to Rick, who will provide us with some closing comments.

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Thank you for those updates, Betty, Tod and Jeff. Our first quarter performance demonstrates the stability of our core markets, the strength of our operations and the depth of our client relationships. We will continue to focus on the clean energy transformation, electrification and grid modernization. We take pride in the role MYR Group and our subsidiaries play in building efficient and resilient infrastructure across the U.S. and Canada.

Our clients are faced with navigating a dynamic and challenging market. We strive to be a reliable partner for project delivery with extensive expertise and highly skilled team members to maintain our position as a leader in the industry. This fortifies our foundation to grow our business and provide our clients and prospects with a strong yet nimble partner.

I would like to extend a thank you to our employees and shareholders for their continued support of MYR Group, and I look forward to connecting in the year ahead. Operator, we are now ready to open the call up for comments and questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Sean Eastman with KeyBanc Capital Markets.

Alexander David Dwyer ***KeyBanc Capital Markets Inc., Research Division - Associate***

This is Alex on for Sean today. So this year, it seems like we have so many large projects kind of all contributing at once, like we have Marcy in New Scotland, that will be a full year. We have this new East Coast transmission project, the Con Ed solar award ramping up and in the CSI EPC solar award in California. So is there any update you can provide on project start timing if these projects are all staffed and ready to go? And just generally, any risk on being delayed due to permitting or supply chain or tariff issues?

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Okay. You've got a lot in that question. So I'll start answering it, then you'll have to remind me which ones I didn't -- which parts I didn't answer. So I would say as far as the tariffs, we're in constant contact with our clients. We discuss it all the time, work with them to come up with solutions. Right now, if I looked at that, it's probably -- and when we look at our backlog, there may be $40 million worth of work in our backlog or so that's affected by that, that may get pushed out to the right. So regarding tariffs, that's probably as much as we see that way.

When it comes to permitting, the CSI project, that one is still trying to get the final permitting. That one could get pushed out a little ways, but there's projects that right now are backfilling where that would take when we anticipated that starting in the second half of this year. We've got some projects that should backfill that right now.

And then when we look at other material headwinds, that kind of stuff out there, I think it's just a constant fight we're having. And I think our team is doing a great job to address alternative suppliers, different ways to build a project and figure out how to keep the projects moving, but those are headwinds we're facing.

Is there any part of your question I missed?

Alexander David Dwyer ***KeyBanc Capital Markets Inc., Research Division - Associate***

No, no, that was a good answer. I really appreciate it. I guess my second question, just kind of shifting over to the C&I segment and on the margins. Like can you quantify the impacts from supply chain and labor and material inefficiencies, like just trying to get a sense of like where these margins should be running in a more normalized operating environment?

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Well, I think in a normalized environment, we've kind of said T&D should be on that upper end. We did have normalized weather this quarter. So when you look at where the T&D margins were, we had normalized weather, where over the past 2 years, we really had exceptional weather, and we've identified that. And then you look at the supply chain, and I'll start and let Tod add. When I look at that side, it's really small issues. It's nothing big. It's ones that we can't work around, but it has that daily impact to you where you're trying to

-- might be missing a couple of components or you're working to get those components and you're working through it. So it's just a constant thing we got to be aware of. Our people do a very good job of managing it. But again, it's a minor impact. Tod, do you got anything to add, or Betty?

Betty R. Johnson ***MYR Group Inc. - Senior VP & CFO***

If you don't mind, I'll just add on T&D before we move to C&I. It's the margins, keeping in mind this is the first quarter, we now have amortization of intangibles for Powerline Plus. And if you just took Powerline Plus amortization out, you'll see in our statements that that's in that $2.2 million increase year-over-year, which is mainly Powerline that's going to run in, as we finalize our valuations, $2.2 million to $2.5 million per quarter for the balance of this year and then come down starting in '23. So that impact is -- we would have been at a comparable actually even higher than last year's margins in T&D without the noncash amortization of the Powerline.

But then moving to C&I as you're asking about the C&I margins, we talk about the C&I margins being in the 4% to 6% range. And Rick and Jeff have talked about this year in anticipation of that being in the low end as in the 4%-ish overall for the year of 2022, with it being softer in this first half as it relates to working through some of those final jobs that are lower margin jobs but then the supply chain concerns and timing. I guess with that, Jeff or Rick.

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Yes, I'll add a little bit on the C&I side. I would say the impacts of material really haven't been on our side. They've been minor to date on our side, but you're seeing some components of some of the subcontractors or other, I guess, team members on a larger construction site, whether it's mechanical or the building contractor, having some delays on steel or other material that really affects the flow of a project. And with that, it's minor in what it causes us, but those are those little micro things that add up over time and it affects your margins a little bit. And we really see this material shortage and some of the difficulties with getting material continuing through this year.

I don't see a solution coming anytime soon, and I think we forecasted that early talking about it last year. So we see that continuing through this year and hopefully getting better as we finish the year and enter next year. But again, we have a good backlog. Our people are doing a good job managing it at all levels and very positive about the market out there both on our T&D and C&I side.

Operator

All right. Then your next question comes from the line of Justin Hauke with Robert W. Baird.

Justin P. Hauke ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate***

I just wanted to -- I guess maybe one more question on the supply chain. Just because the way that you guys talked about it in the 10-Q was different for the T&D segment and the C&I segment, does the T&D commentary on the margins, it was more -- it sounded more general macro. In C&I, you said it's causing labor and material inefficiencies on certain projects. So I guess I was just curious to better understand. Is there something specific on the C&I -- and maybe it's maybe some solar job, I don't know, but something where that's bleeding into project inefficiencies. Maybe just any comment on that.

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Okay. On the T&D, we kind of control our own destiny. And when I say that, we're working with the utility, they supply a big portion of the material we do. A lot of our clients have done a very good job of having a strong backlog to date of material. So there is some inefficiency there when it comes to that supply but minor. I would say on our C&I segment, it's one of those materials, a bigger component for us on our C&I side. So it is -- we furnished more material than we would on our T&D side.

But again, we're working as a component of building a building or a facility. So there's other -- there's general contractors, other trades out there. If they have material disruptions at all, we've got to work with them to work around their issues in order to keep the construction going.

And those are those minor, micro things that by them -- one, by themselves isn't that big a deal, but then they add up a little. And that's why we said we'll be operating on the lower end of our margins through this year on the C&I side. That's really what it amounts to. But I think the work we've got and the way we're mitigating any exposure we have on material is our team is doing a very good job of it.

Justin P. Hauke ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate***

Okay. No, that's helpful. I get it. So it's just a component of the way that you're purchasing more of the materials versus T&D. So that makes sense. I guess the only -- the other question I had was just on that, now the Timberland project which I guess, is going to be in the T&D segment. And I think you said it's already in backlog. So maybe just to confirm that. But the prior solar job, the $100 million plus one that's in the C&I segment, just because that one had a really compressed construction window here in '22. And I guess I just wanted to see if that started on time in 1Q. And should we assume that, that ramps here pretty materially over the next couple of quarters?

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Okay. The Timberland is in the backlog, and it was in first quarter backlog. So the announcement didn't come out until April, but I was working with the client on when we could announce it. So there were some things we had to do on that side in order to announce it, but it was in our first quarter backlog. On the C&I project, you're talking about the one we announced last year that said it would have second half exposure to it.

Justin P. Hauke ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate***

That's right.

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Yes. And that's the one I talked about earlier that it's still going through final permitting right now. So we anticipate that project now starting the first part of next year. So it would start in the first quarter. But as I said, we've got other backlog that's come in that will kind of fill what was going to take place this year in the second half.

Operator

And your next question comes from the line of Noelle Dilts with Stifel.

Noelle Christine Dilts ***Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst***

I just wanted to go back to, Rick, your comment on the $40 million of solar work in backlog that's being impacted by delays. I think my first question there is what percentage does that represent of your solar work in backlog? And second, when you look at this work pushing to the right, are your customers sort of just waiting until they have clarity on what the initial determination is in August? Or are they pushing into 2023?

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Okay. We've never disclosed what our solar backlog is by itself. It's a component of our business on both sides, a lot of the lines we do on our T&D side are associated with it. So we've never done it. It's not 40% of our business, but it's a growing percentage of our business. So it's one of those overall. We like the business. We've been in it a long time, and we're going to continue to grow it out.

When I look at that $40 million that we talked about, it's really waiting to see what happens with that August hearing, and then we'll know more on those projects right now. They're still slated to be built. It's that side of the customer going to make their decision on those panels and whether they go to an alternate supplier or what they do come that August time frame, so very, very small part of our backlog that's associated with any -- that's going to be held up by any tariffs at this point. All the other projects that we have in our backlog have the panels secured and, in a lot of cases, are already here and stored.

Noelle Christine Dilts ***Stifel, Nicolaus & Company, Incorporated, Research Division - VP & Analyst***

Right. Okay. And then just on the labor front, hoping if you could expand a little bit on what you're seeing in T&D around just kind of widen and supporting folks. I guess we're hearing that, that market is tighter than it has been in quite a while. So if you could maybe expand a little bit on your ability to attract labor and what you're seeing from a wage perspective?

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Tod?

Tod M. Cooper ***MYR Group Inc. - Senior VP & COO of Transmission and Distribution***

Yes, I'll start with that, Rick. It is tight. I think everyone is aware of that. Our benefit, one, is being a nationwide contractor where we can move our resources from an area that may be less in demand right now. So we're utilizing that. As I've mentioned before, we focus a lot on recruiting and take part in a lot of the apprenticeship training programs as well as have our own internal program. And we're constantly developing people. We've increased the size of our recruiting staff alone over the last year tremendously.

So it's a challenge that, that we see every day, and we work hard at it, but it is out there, and it's not going to get easier going forward. I'll say that. But right now, we've met the demands of our clients and finished every job that we started. So we're going to keep going in that direction, just doing the best we can.

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

And the only thing I would add to that is, Noelle, we talked in the past, we bid everything on a regional basis. So we've got 60-some offices across the U.S. and Canada, and those people are very well connected to the projects out there and our clients, and they understand what projects are coming next. So they know which ones we want to chase and which ones fit us best. And they're able to put in, I would say, the proper amounts to attract and retain people.

So those are always conversations we have as we're bidding upcoming work. It's what's it going to take to attract people for that project. And with that, the majority of our backlog really burns off in 12 months. And it's that constant rebuilding of that backlog. So with that, we're able to take that insight and build -- and bid those projects to allow for what it's going to take to recruit and retain people.

Operator

And your next question comes from the line of Brian Russo with Sidoti.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Just the year-over-year increase in the T&D revenue, what was the Powerline contribution to that?

Betty R. Johnson ***MYR Group Inc. - Senior VP & CFO***

Yes. We talked about Powerline being an USD 80 million annual business, USD 80 million. And so it was just shy of that 1 quarter of that run rate with the first quarter being a typical slower cycle for them because of the weather and other events, including some a little bit of COVID up in Canada, but you can use that as a typical -- fairly typical run rate because otherwise, we don't really disclose our separate individual business unit revenues, but I think that's fair to use.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Okay. Great. And I recall without you actually issuing a press release, you discussed $150 million transmission project on the last conference call, located on the Eastern Coast or the eastern part of the U.S. Is that included in this first quarter backlog?

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Yes.

Tod M. Cooper ***MYR Group Inc. - Senior VP & COO of Transmission and Distribution***

Yes, it is.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Okay. Good. And you mentioned mitigation efforts in collaboration with your customers to offset some of these supply -- industry-wide supply chain issues. I mean can you specifically kind of elaborate on what these mitigation efforts are to preserve the C&I margins to the 4% to 6% versus the 3.7% you reported in the first quarter?

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Sure. Some of the -- I mean, I'll start and Jeff, you can add some of the mitigation stuff we do is we're working with suppliers and vendors to procure material very early and get it there and maybe store it in advance of a project even taking off. We're working with alternate suppliers to make sure we have that backup and that plan in case somebody can't deliver, especially with the shipping crisis and everything else that's out there, so finding that alternate suppliers. Jeff, anything else you want to add to that?

Jeffrey J. Waneka ***MYR Group Inc. - Senior VP and COO of Commercial & Industrial***

Well, Rick, there also are change orders. I mean if jobs get delayed, we are working with our contractors to try to mitigate or recover for extended general conditions or things where schedules push out. It is, however, difficult to get everything we want in those because there's pain that everybody and the team is facing and -- but we are recovering a lot of our costs through change orders as well.

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

But on the material front, I would say we've doubled kind of our staff when I look at the people that are on logistics, trying to make sure those projects are going to continue in that materials there. And it's something we've done a very good job of and reacted early, and this goes back to when COVID started. So it's not something that we're just implementing now. I would say it's up and running, and it's helped us maintain our margins where they're at, just a lot of headwinds that continue. And I think we all turn the news on every day, and we're amazed that there's new headwinds out there. But along with that, we've got to be creative and figure ways to build our projects as efficiently as we can. And I'm proud of our team for what they've done.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Okay. And then just on the DOC investigation. You commented on the current projects that you're working on, specifically the one in California. But are you sensing that developers are delaying projects in the pipeline until we get clarity on the DOC investigation and the development of solar may get pushed into 2023 versus gaining momentum this year?

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

When I look at that right now, that hearing is set for August, it's not that many months away. When you look at projects now, I mean our backlog is very strong for 2022. If you really receive a solar project right now, it would probably be starting in 2023 anyway. So I really don't see that holding up. We're continuing working with our clients on both sides on even the ones that are -- some of them that may be waiting for this hearing because they were going to procure their material through one of those alternate Asian suppliers.

I would say they're anxiously waiting, but they're doing all the budgeting. They're moving ahead. They're looking at everything, and I think the awards will be timely and not really held up because that process takes a little while to get that budgeting in place and that final pricing in place, and we continue to work with them.

Brian J. Russo ***Sidoti & Company, LLC - Research Analyst***

Okay. And then just real quickly and lastly, the operating cash flow, obviously, working capital headwinds for the year-over-year decrease, I was wondering, Betty, if you could just maybe comment on how you see that playing out through the remainder of the year.

Betty R. Johnson ***MYR Group Inc. - Senior VP & CFO***

I'd say first of all, the $7 million positive free cash flow that we've had this year in this first quarter, our typical low free cash flow is in the first quarter because of the incentive payments that gets paid out in Q1. Otherwise, we just -- we still see free cash flow being close to the -- to our -- whatever our net income is as well as with -- even with the higher level of capital expenditures that we expect depending on that higher end and those mid-50s that we've been running with various different areas of the business that are growing.

So expected there, knowing that there's -- with volume growth, there's increase in working capital and my typical qualifier that it often all depends on timing sometimes of awards of the billings on various different contracts. But overall, we see it still be a strong free cash flow.

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

Brian, one thing I want to clarify is I think you said the solar project in California was pushed out. I just want to make sure that was for permitting, not for tariff reasons.

Operator

(Operator Instructions) Your next question comes from the line of Jon Braatz with Kansas City Capital.

Jonathan Paul Braatz ***Kansas City Capital Associates - Partner & Research Analyst***

Most of my questions regarding the solar have been answered, but Betty, just a question on the tax rate. You had a little bit of a benefit there, a lower tax rate in the first quarter and some of it related to the GILTI. How do you see that going forward? Do you still see a little bit of a benefit on the tax rate in the latter part of the year?

Betty R. Johnson ***MYR Group Inc. - Senior VP & CFO***

Most of that is all focused on this first quarter, both the stock and the GILTI when it compares to the prior year. That would get back to a more normalized rate. I'll be using our 2021 average of those annual rates to look at for -- going forward for '22.

Operator

(Operator Instructions) All right. I am showing no further questions at this time. I would now like to turn the conference back to Rick Swartz.

Richard S. Swartz ***MYR Group Inc. - President, CEO & Director***

To conclude, on behalf of Betty, Tod, Jeff and myself, I sincerely thank you for joining us on the call today. I don't have anything further, and we look forward to working with you going forward and speaking with you again on our next conference call. Until then, stay safe.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day. You may all disconnect.
