Alliant Energy Corporation (NASDAQ:LNT) Q4 2017 Earnings Conference Call February 23, 2018 10:00 AM ET

Executives

Susan Gille - IR

Patricia Kampling - Chairman, President and CEO

Robert Durian - Vice President, CFO and Treasurer

Analysts

Nicholas Campanella - Bank of America Merrill Lynch

Andrew Levy - Avon Capital

Gregg Orrill - UBS

Operator

Please standby. Thank you for holding, ladies and gentlemen, and welcome to the Alliant Energy's Year End 2017 Earnings Conference Call. At this time, all lines are in a listen-only mode. Today's conference is being recorded. I would now like to turn the call over to your host, Susan Gille, Manager of Investor Relations at Alliant Energy. Please go ahead.

Susan Gille

Good morning. I would like to thank all of you on the call and the webcast for joining us today. We appreciate your participation. With me here today are Pat Kampling, Chairman and Chief Executive Officer; Robert Durian, Senior Vice President, CFO and Treasurer; and John Larsen President, as well as other members of the senior management team. Following prepared remarks by Pat and Robert, we will have time to take questions from the investment community.

We issued a news release last night announcing Alliant Energy's Year End and Fourth Quarter Financial Results and affirmed the consolidated 2018 earnings guidance issued in November 2017. The press release, as well as supplemental slides that will be referenced during today's call, are available on the investor page of our website at www.alliantenergy.com.

Before we begin, I need to remind you the remarks we make on this call and our answers to your questions include forward-looking statements. These forward-looking statements are subject to risks that could cause actual results to be materially different. Those risks include, among others, matters discussed in Alliant Energy's press release issued last night and in our filings with the Securities and Exchange Commission.

We disclaim any obligation to update these forward-looking statements. In addition, this presentation contains non-GAAP financial measures. The reconciliation between the non-GAAP and GAAP measures are provided in our investor presentation, which are available on our website at www.alliantenergy.com.

At this time, I'll turn the call over to Pat.

Patricia Kampling

Good morning and thank you for joining us. 2017 was another excellent year for our company and I'm happy to share our financial results with you today. On slide two, you'll notice that our non-GAAP temperature normalized earnings of a $1.99 per share, a 6% higher than 2016's comparable number.

Also, I'm reaffirming our 2018 earnings guidance midpoint of $2.11 per share and our long-term earnings growth guidance of 5% to 7%. Our forecasted long-term growth guidance through 2021 is supported by our capital expenditure plans, modest sales growth, constructive regulatory outcomes and assumes normal temperatures and was also re-based of the 2017 non-GAAP temperature normalized earnings of $1.99 per share. This was the fifth year in a row that we achieved at least 5% to 7% earnings per share growth and increased our dividend by at least 6%.

Our robust capital plan during this time has helped us transition our generation fleet to and that achieve significant reductions in SOx, NOx, mercury and carbon, this made our grid stronger and more resilient. We began the transition of our generation fleet almost a decade ago with the retirements of our smaller, less efficient fossil fuel generating stations and the start of our utility owned wind additions.

In 2017, we achieved some major milestones including a commercial operation of a 700 megawatt highly efficient natural gas-fired generating facility in Marshalltown Iowa. The start of construction of a similar unit at our West Riverside Energy Center in Beloit, Wisconsin and the announcement of our plant 1,200 megawatt wind addition.

In 2016, the Iowa utility board approved the first 500 megawatts of our 1,000 megawatt plant wind additions. In 2017, we initiated an advanced rate making principal docket for the second 500 megawatt. We expect a ruling on our quest for the second 500 megawatts in the coming weeks. Construction will soon begin at our Upland Prairie Wind Farm and we are making progress and acquiring additional wind sites to serve our Iowa customers.

Of the 1,000 megawatts we plan to build, our current forecast assumes 300 megawatts will be in service in 2019 and the remaining 700 megawatts will be placed in service in 2020. For our Wisconsin customers, we signed agreements with our neighboring utilities to purchase wind energies Forward Wind Energy Center. Customers and Investors should both benefit as we transfer this wind farm to an existing purchase power agreement to utility owned.

This purchase has already been approved by the FERC and we anticipate closing the acquisition in the spring after receiving PSCW approval. This purchase is included in the capital expenditure plan we released in November, which calls for a total of 200 megawatt of additional wind investment for WPL.

We continue to analyze options to construct additional wind for Wisconsin customers. Our goal is to make the regulatory filing in the first half of 2018, we would expect approval by the end of the year. Our plan to add up to 1200 megawatts of new wind generation will more than double renewable energy for our customers. We forecast that approximately 30% of Alliant Energy's rated electric capacity will be from renewable sources by 2024. We've taken major steps in the transformation on a historic past into a future with many new possibilities.

We are closing Ash Pond at our coal plants and are starting turning those sites into beautiful ring gardens for productive pollinator habitats by incorporating native grasses and flowers. The largest sites have been designed to have solar panels installed on them in the future, and several of our retired coal plants have now been demolished so that the land can be restored and redeveloped for those communities.

One very exciting project in Wisconsin involves the BlackRock generating station. Beloit College has recently purchased it and is repurposing the decommissioned century-old coal plant into a state-of-the-art student center called the powerhouse. There will be a showcase of sustainable design and is illustration of the transformation from the early 20th century into the digital age.

As you are aware, we'll make decisions regarding the transition of our fuel sources, customer cost is always top of mind. We have seen the energy landscape change across the country where more cost renewables and cheaper and abundant natural gas had made some of the industries decades old traditional sources of energy uncompetitive. We find ourselves in that circumstance with the Duane Arnold nuclear plant in Iowa.

The purchase power agreement from DAEC expires at the end of 2025 and it appears that there will be more competitive options for our customers. So last month Nextera announced on their earnings call that they believed it is unlikely that we will extend the current DAEC PPA. We are currently analyzing our capacity and energy needs post 2025, we'll look for the most competitive options to serve our customers.

Before I turn the call over to Robert, I would like to mention that we have the privilege of serving customers in states that have proven track records of constructive regulation and support of legislation. As our industry revolves, the policies that govern the way we do business must also change. Iowa and Wisconsin are very focused on helping customers save money, while providing more opportunities for business growth and job-creation. We will continue to be proactive in our states to help shape energy policy, and advocate on behalf of our customers.

In closing, I'm excited about our achievements in 2017. We'll focus on the following goals for our company in 2018, complete our large construction projects on time and at or below budget in a very safe manner, continue our generation fuel transition with additional power supply retirements and development of our wind generation and the West Riverside Energy Center, deliver on 5% to 7% earnings growth guidance and a 60% to 70% common dividend payout target. We will continue to manage the company to strike the balance between capital investment, operational and financial discipline and cost impact to customers.

Thank you for your interest in Alliant Energy, and I'll now turn the call over to Robert.

Robert Durian

Good morning, everyone. Yesterday, we announced 2017 GAAP earnings of $1.99 per share, which include the impacts of the recent Tax Reform Legislation. Tax Reform resulted in $0.08 per share of non-recurring earnings due to re-measuring deferred tax associated with our non-utility operations and changes in valuation allowances for tax credit carry forwards.

Our 2017 results also included $0.02 per share non-recurring charge for the write-down of regulatory assets as a result of the settlement of IPL's retail electric rate review. Excluding these two non-recurring impacts and the $0.06 per share negative impact from the normal temperatures in 2017, our non-GAAP normal temperatures normalized earnings were $1.99 per share, which were in line with our expectation.

Please see the earnings walks provided on slides three, four and five of our supplemental slides for more details.

Excluding the impacts of milder temperatures in 2017 and the impacts related to leap year in 2016, we saw a slightly positive sales growth in our service territories year-over-year. We continue to see sales growth from industrial customers, offset by lower usage by residential customers, largely due to energy efficiency effort. The recently enacted Tax Reform Legislation provides a unique and historic opportunity for the company to provide material benefits to customers in both the short and long run.

We are working with our regulators on plans which provide our customers with near-term benefits from tax reform, while maintaining strong balance sheet. This will ensure our company continues to have access to capital at reasonable rates thereby reducing cost for our customers. We recently submitted proposals to our state regulators in Iowa and Wisconsin, which include a variety of options for customer benefits including customer billing credits, accelerated asset amortizations, deferral or avoidance of future rate cases and funding for future investments important to our customers.

We have provided a summary of our proposals on slide six. Consistent with the rest of our industry, tax reform is expected to lower our cash flows from operations due to lower customer bills. As a result of the lower cash flows from operations, we expect to issue a mix of additional debt and equity in the future that allows us to maintain the capital structures authorized for IPL and WPL in their most recent rate review.

The timing of these future financings will be dependent on future regulatory decisions on Tax Reform benefit. Our equity over the next couple of years will continue to be driven by our utilities robust capital expenditure plans including the wind expansion program and the construction of the West Riverside generating facility. We do not anticipate any changes to the 2018 financing plan we shared last November, which included up to $200 million of new common equity and additional long-term debt at IPL and Alliant Energy Finance.

We've also updated our estimated future tax payments as a result of Tax Reform. Alliant Energy now does not expect to make any significant federal income tax payments through 2024 with additional tax payment reductions after 2024 due to wind investments included in our plan.

These estimates are based on current federal net operating losses and credit carry forward position, as well as future amounts of accelerated depreciation expected to be taken on federal income tax returns over the next few years.

Turning to this year's earnings guidance, our 2018 consolidated earnings guidance of $2.04 to $2.18 per share remains unchanged. The earnings guidance by reporting company and our walk between 2017 adjusted EPS and 2018 EPS guidance is on slide seven. Slide eight has been provided to assist you in modeling the effective tax rates for IPL, WPL and AEC, including the impacts of Tax Reform and the tax benefit riders for 2017 and 2018. We currently estimate a consolidated effective tax rate of 12% for 2018.

Also note that our 2018 earnings guidance assumes ATC Investment earnings and an ROE of 10.2% effective once FERC issues its decision on the second MISO ROE complaint, which is currently expected sometime during the first half of 2018.

Lastly, we've included our regulatory targets of note for 2018 on slide nine. These current and planned regulatory filings are important components of our 2018 operational and financial result. In summary, our employees delivered solid financial and operational results for our customers and share owners in 2017.

Key items of note include, the Marshalltown Generating Station completed on time and under budget and approved settlement in the IPL retail electric rate review, significant progress with the expansion of wind generation and cost controls for the benefit of our customers, while we delivered on our earnings commitment to share owners.

We are looking forward to the opportunities ahead of us in 2018 and believe it will be another successful year for our customers, our share owners and our employees. We very much appreciate your continued support of our company and look forward to meeting with many of you next week at the upcoming conference. As always, we will make our Investor Relations materials used at the conference and supplemental materials available on our website.

At this time, I'll turn the call back over to the operator to facilitate the question-and-answer session.

Question-and-Answer Session

Operator

Thank you, Mr. Durian. At this time the company will open up the call to questions from members of the investment community. Alliant Energy's management will take as many questions as they can within the one hour timeframe for this morning's call. [Operator Instructions]

And we'll take our first question from Nick Campanella from Bank of America Merrill Lynch. Please go ahead.

Nicholas Campanella

Hey, good morning. Congrats on a successful year.

Patricia Kampling

Good morning, Nick. How are you?

Nicholas Campanella

Good. How are you? I was just curious on your comments for additional equity. Could there be any changes to your consolidated cap structure, I think there was a targeted 40% to 45% ratio discussed on the 3Q call. So is there any changes to that?

Robert Durian

No, we're going to stay with that plan.

Nicholas Campanella

Got it. And I understand the dockets are ongoing, but is there kind of a base case number that we should be thinking about for '18 or '19 as things change there?

Patricia Kampling

You're talking about sort of rate review, I'm sorry, we don't understand your question.

Nicholas Campanella

I'm sorry. The tax reform dockets that are ongoing in your jurisdictions, and I know that the cash flow impacts will be dependent on how those cases play out, but is there kind of a base case on how to think about the equity number?

Robert Durian

Yeah, from an equity prospective, we're obviously sharing with you what we're doing in 2018 with no plan changes at this point. We were going to continue to evaluate what the regulatory decisions are. At this point, we're expecting a decision from both of the two major jurisdictions probably sometime in the second quarter following that, as well as any additional information we learn about our capital expenditure plan through the decision we're waiting for the wind plan. We'll probably have some information I would guess in a month or two to give you some more clarity as to what our equity needs look like beyond that at that frame.

Nicholas Campanella

Got it. Thanks so much. See you next week.

Patricia Kampling

Bye Nick.

Operator

[Operator Instructions] And we'll take our next question from Andy Levy with Avon Capital Please go ahead.

Andrew Levy

How are you doing?

Patricia Kampling

Hi, Andy. How are you?

Robert Durian

Good morning.

Andrew Levy

I'm doing fine, thank you very much. The equity, when you will update us on that? I missed that.

Robert Durian

Probably sometime later this year, Andy. We obviously need some additional information regarding what the regulators are going to decide on the Tax Reform benefits from the timing and method which they are going to go back to the customers. And then also, we want to have more clarity on the capital expenditure plan which we're hoping to get here in the next few weeks regarding the second 500 megawatts of the wind in Iowa.

Patricia Kampling

But, Andy, we don't expect any changes for 2018 financing plan. This will be post 2018.

Andrew Levy

Right. And obviously we're in effective growth rate longer term as well?

Robert Durian

That is correct. Yeah, right now as we disclosed on slide six of the supplemental slides, we see some I would say modestly accretive impact of Tax Reform on our earnings, but not enough for us to change the 5% to 7% through 2021. And that's largely centered around, we do like most utilities we're going to see some additional rate base growth, but we also see some additional equity needs and therefore they offset each other.

Andrew Levy

Got it. And then the other question is, I noticed there was about a month ago, you guys changed your bylaws, could you just go over the thinking on that?

Patricia Kampling

Sure. What we did, Andy, was we redeemed our posion pill. We've been receiving some criticism on our governance scores over the last couple of years, because we still had a poison pill out there that was not approved by share owners and of course is not in favor. So that's what we did. We just redeemed the poison pill, just to get in line with other S&P 500 companies. We were an outlier on that one.

Andrew Levy

Okay. That was my question. Thank you very much.

Operator

[Operator Instructions] And we'll take our next question from Gregg Orrill from UBS. Please go ahead.

Gregg Orrill

Yes. Thank you.

Patricia Kampling

Good morning, Greg.

Gregg Orrill

Good morning. Two questions. One, what is it that you're looking to learn that would modify your CapEx plan with regard to Iowa wind decision? And then what is the process that you're looking at in Wisconsin to transfer the wind into the utility?

Patricia Kampling

Sure, so two questions. First, we just want to get the official RPU docket approved. So our CapEx plan assumes that will be approved, so that's our assumption. We'll expect to know, we believe in a couple of weeks. So we don't believe there is going to be any changes, we just want to make sure that's final before we communicate more on the financing plan post 2018. And the docket in Wisconsin for the - wind farm is actually in process. And we should expect approval of that in a couple of weeks. Bob, you want to add something?

Robert Durian

No.

Patricia Kampling

Did that answer your question?

Patricia Kampling

Yeah, I think it did, yep, appreciate it.

Patricia Kampling

Okay, okay.

Operator

Ms. Gille, there are no further questions at this time.

Susan Gille

With no more questions, this concludes our call. A replay will be available through March 2, 2018 at 888-203-1112 for US and Canada or 719-457-0820 for international. Callers should reference conference ID 4175543 and PIN 9578. In addition, an archive of the conference call and a script of the prepared remarks made on the call will be available on the Investor Section of our company's website later today. We all thank you for your continued support of Alliant Energy and feel free to contact me with any follow-up questions.

Operator

This concludes today's presentation. We thank you for your participation, you may now disconnect.