

# **Sempra (SRE) Q1 2024 Earnings Call Transcript**

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**Body**

Sempra (SRE)

Q1 2024 Earnings Conference Call

May 07, 2024 12:00 PM ET

Company Participants

Glen Donovan - Vice President, Investor Relations

Jeff Martin - Chairman & Chief Executive Officer

Karen Sedgwick - Executive Vice President & Chief Financial Officer

Allen Nye - Chief Executive Officer, Oncor

Justin Bird - Executive Vice President & Chief Executive Officer, Sempra Infrastructure

Conference Call Participants

Shar Pourreza - Guggenheim Partners

Jeremy Tonet - JPMorgan Securities

Durgesh Chopra - Evercore ISI

Carly Davenport - Goldman Sachs

Steve Fleishman - Wolfe

Anthony Crowdell - Mizuho

Craig Shere - Tuohy Brothers

Presentation

Operator

Good day, and welcome to Sempra's First Quarter Earnings Call. Today's conference is being recorded.

At this time, I'd like to turn it over to Glen Donovan. Please go ahead.

Glen Donovan

Good morning and welcome to Sempra's first quarter 2024 earnings call. The live webcast of this teleconference and slide presentation are available on our website under our Events and Presentations section.

We have several members of our management team with us today, including Jeff Martin, Chairman and Chief Executive Officer; Karen Sedgwick, Executive Vice President and Chief Financial Officer; Trevor Mihalik, Executive Vice President and Group President, Sempra California; Justin Bird, Executive Vice President and Chief Executive Officer of Sempra Infrastructure; Allen Nye, Chief Executive Officer of Oncor; Peter Wall, Senior Vice President, Controller and Chief Accounting Officer and other members of our senior management team.

Before starting, I'd like to remind everyone that we'll be discussing forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected in any forward-looking statement we make today. The factors that could cause our actual results to differ materially are discussed in the company's most recent 10-K filed and 10-Q filled with the SEC.

Earnings per common share amounts in our presentation are shown on a diluted basis and we'll be discussing certain non-GAAP financial measures. Please refer to the presentation slides that accompany this call for reconciliation to GAAP measures. We also encourage you to review our 10-Q for the quarter ended March 31, 2024.

I'd also like to mention that forward-looking statements contained in this presentation speak only of today May 7, 2024 and it's important to note that the company does not assume any obligation to update or revise any of these forward-looking statements in the future.

With that, please turn to slide 4 and let me hand the call over to Jeff.

Jeff Martin

Thank you, Gle,n and thank you all for joining us today. We're pleased to report our first quarter financial results. It's a great start to the year and sets us up well to provide strong financial performance for 2024.

In addition to the strength of our financial performance, the market backdrop for energy infrastructure continues to be very constructive. We're seeing strong macroeconomic fundamentals supporting US energy demand with the economy continuing to grow at a steady pace with manufacturing production gains, easing of supply chain constraints and continued job creation.

We previously discussed the view that our industry is experiencing a super cycle of growth and believe Sempra's strategy and portfolio are well-positioned to benefit from current trends. In addition to the long-term demand from reshoring and electrification of transportation, artificial intelligence and data centers are driving new growth in digital infrastructure with demand estimates tripling from 2.5% of total US electric consumption to 7.5% by 2030.

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Growth in Texas is also particularly remarkable with ERCOT recently raising its forecasted peak demand by the end of the decade to over 150 gigawatts. Of note, that's 65 gigawatts higher than the all-time record in the state. Against the backdrop of strong industry fundamentals, Sempra offers several competitive advantages.

First in California we're at the forefront of the energy transition, serving 25 million consumers in the country's largest economy and one of the largest manufacturing bases in the US. And through our general rate cases, we're expecting to make new investments that support electrification and decarbonization while also improving affordability, safety and reliability.

Turning to Texas, we're seeing diverse industrial, C&I and residential growth, which is creating jobs, increasing electricity demand and requiring significant investments to modernize and expand the electricity grid. With economic expansion, the safety and resilience of the grid becomes even more critical, and in part, that's why Oncor's recently filed system resiliency plan is both timely and important. Al will speak to this in greater detail later in today's presentation.

And finally, at Sempra Infrastructure, we're supporting global demand for energy security are in the midst of a second wave of LNG developments expected to support over 700 million tonnes per annum of demand by 2050. Our dual coast LNG strategy is contributing to this push with approximately 16 million tons per annum of new export capacity currently under construction, which would more than double our existing LNG operating footprint.

The key takeaway is we're excited about the opportunities ahead and Sempra Infrastructure looks to provide cleaner and more reliable sources of energy to its customers while charting a course for attractive built-in growth through the end of the decade.

It's also important to note that Sempra Infrastructure's growth forecasts are based solely on projects that have reached FID and are under construction and doesn't yet include expected upside from a series of other projects still in development.

Turning now to our financial results. We reported first quarter 2024 adjusted EPS of $1.34. In addition, we're pleased to also affirm our full year 2024 adjusted EPS guidance range of $4.60 to $4.90 and 2025 EPS guidance of $4.90 to $5.25. As a reminder, when you look at our adjusted EPS guidance range from 2023 to 2025, it reflects approximately 7% annual growth, which is consistent with our long-term EPS growth expectations of 6% to 8%.

Please turn to the next slide where I'll turn the call over to Karen to provide several business updates.

Karen Sedgwick

Thank you, Jeff. We've previously said that 2024 will be an important year of execution at each of our growth platforms, and I'm excited to provide an update on our progress.

At Sempra, California, we continue to see constructive regulatory outcomes. In March, the CPUC issued a proposed decision supporting the updated return on equity that was implemented this year as part of the CCM trigger.

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The commission agreed that current cost of capital mechanism operated as designed, and the recently established returns on equity at SDG&E of 10.65% and at SoCalGas of 10.5% should remain in place through 2025 unless market conditions result in a trigger.

Importantly, this improves regulatory certainty by affirming the protection that the CCM provides to customers and shareholders. And the key takeaway is that this is another constructive data point for California's regulatory framework.

Another example of this is rate reform. Improving affordability for all of our utility customers is a top priority and I'm pleased to share that a proposed decision was issued at the CPUC in March to implement a fixed charge for residential electric customers.

As currently proposed, this will reduce volumetric rates, support a more fair rate structure, and help California meet its clean energy goals. A final decision is expected in the second quarter of 2024, and the fixed charge would then be expected to begin in the fourth quarter of 2025.

During the quarter, we also made a joint filing with the other California utilities to develop projects that successfully demonstrate blending hydrogen into the natural gas system.

These projects will begin blending at up to 5% on isolated sections of the natural gas system and incrementally increase the hydrogen concentration based on safety and technical feasibility.

Hydrogen blending has been demonstrated safely and reliably around the world for decades. And we look forward to working with our partners to support new and improved ways to expand decarbonization efforts here in the state.

Turning to the GRC, we expect a proposed decision in the second quarter and a final decision this year. Once the final decision is obtained it will be retroactive to the beginning of the year. As a reminder, after we receive a final decision, we will have a clear regulatory pathway for execution on our utility-focused capital plan through 2027.

Lastly, Cal ISO updated SDG&E that it was not selected to move forward on the Imperial Valley transmission line and substation. It's important to note that we were financially disciplined in how we developed our bid and we look forward to supporting the project's successful development as well as building the other transmission projects that were directly awarded to SDG&E by Cal ISO.

Turning to Texas, we continue to see significant growth across Oncor's service territory. Just last month, ERCOT issued an updated transmission planning report, forecasting approximately 40% higher load in 2030 than in last year's report.

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And yesterday, Oncor made its inaugural SRP filing, which includes approximately $3 billion of capital investments. In addition to SRP, the 2023 legislative session was particularly constructive for the state's utilities.

We're already seeing the positive impacts at Oncor in terms of the planning and execution that support the state's priorities and improve the timing of the company's returns on capital.

Moving to Sempra Infrastructure. We're very excited about the opportunity to help deliver cleaner energy to our customers and partners. Recently, we declared a positive FID at our Cimarron Wind Expansion project. This project demonstrates our ability to generate attractive returns while utilizing existing company-owned transmission capacity to serve the California market and targeting O&M efficiencies based on locational advantages.

Additionally, we're making great progress at ECA LNG Phase 1 and Port Arthur LNG Phase 1. ECA is roughly 80% complete and remains on target to start commercial operations in the summer of 2025. Port Arthur also remains on schedule with significant ongoing construction activity including excellent progress around soil stabilization, new foundations, and the commencement of concrete pouring and structural steel work.

Turning to our marketing efforts. The LNG market is long-term by nature and while the DOE pause has received a lot of press, we remain confident in our ability to deliver projects that offer long-term, secure, and cleaner energy to customers.

Sempra Infrastructure benefits from experienced project development teams that continue to make progress on critical work streams including permitting, engineering, and commercial negotiations.

Moreover, the referenced pause does not impact our confidence in the overall competitive positioning of our development projects and we're strategically utilizing this time to steadily advance our opportunities.

Also of note, even if you only take into consideration projects that have reached FID, Sempra Infrastructure has incredible built-in growth. With 16 million tonnes per annum of LNG export facilities, associated infrastructure, and a new wind project under construction, we're improving visibility to attractive earnings growth through the end of our planning period in 2028.

And that's all, before taking into account our development project pipeline, which Jeff referenced earlier and offers notable upside. We can now turn to the next slide, where Allen will discuss ERCOT's new planning processes.

Allen Nye

Thank you, Karen. As we have been discussing for several quarters now, Texas continues to experience strong demand growth. Oncor now serves close to 13 million customers and has now surpassed over four million meters. ERCOT is adapting to this growth, with a recently announced new planning process, to account for higher expected electricity needs in the future.

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In April, ERCOT announced that peak load is expected to reach 152 gigawatts in 2030, nearly double the record set last year of 85 gigawatts. This load growth is coming from a wide range of industries across the state, including new and expanded C&I, electrification of oil and gas operations, data centers, manufacturing and residential.

To put this growth in context, the change from 2023 to 2030 would be like adding load greater than the size of the entire California power market. Currently, we anticipate that approximately 40% of the new load, will come from Oncor service territory. So from our perspective, as one of the premier builders of T&D infrastructure in America, we are excited about the opportunity to continue to scale our investments in electric infrastructure.

Since 2018, Oncor has constructed approximately 13,000 miles of transmission and distribution lines, approximately six miles per day. We have an active planning process underway and are confident in our ability to secure the materials and labor, necessary to serve our customers in the ERCOT market.

Please turn to the next slide. Given the growth in the state, resiliency is more critical than ever. In 2023, the Texas legislature passed House Bill 2555, which allows electric utilities to file system resiliency plans, proposing capital and operational expenditures to improve overall grid resiliency.

We made our first filing yesterday, for approximately $3 billion of new capital expenditures and just over $500 million of operating expenditures, to be made over a period of three years. This investment would address overhead and underground system resiliency and modernization, flexible and self-healing distribution system, vegetation management, wildfire mitigation and cyber and physical security.

To provide some additional color, the majority of our proposed spend is in the modernization and hardening of the older parts of our distribution system, by adding lightning protection, stronger class poles and cross arms and addressing capacity constrained parts of the grid, during extreme temperatures. Furthermore, we are proposing significant technology and infrastructure investments that will help enable, the automated reconfiguration of our system when extreme storms hit, quickly restoring service to customers on undamaged segments by intelligently rerouting power.

I would also like to highlight, that we have invested in wildfire mitigation for many years including, effectively partnering with industry leaders like SDG&E and the Texas A&M Forest Service.

Now, thanks to HB 2555, Oncor has an additional opportunity to further accelerate our wildfire mitigation strategies across our service territory. We estimate that approximately $900 million of the total proposed spend including both CapEx and OpEx will focus on expanding our wildfire mitigation tools and implementing our grid modernization and hardening measures in wildfire-prone areas.

Procedurally, the SRP statute provides 180 days for the PUCT to review the filing, and we anticipate having a decision by the end of the year. The SRP program with approximately $3 billion of capital expenditures if approved would be incremental to Oncor's $24.2 billion of planned CapEx announced earlier this year for the five year period 2024 to 2028.

We believe our proposed SRP creates an opportunity to fundamentally improve customer reliability and overall customer service during and after extreme weather events while also helping to mitigate other risks.

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I will now turn the call back to Karen to walk through Sempra's financial update.

Karen Sedgwick

Thanks, Allen. Earlier today, Sempra reported first quarter 2024 GAAP earnings of $801 million or $1.26 per share. This compares to first quarter 2023 GAAP earnings of $969 million or $1.53 per share. On an adjusted basis, first quarter 2024 earnings were $854 million or $1.34 per share. This compares to our first quarter 2023 earnings of $922 million or $1.46 per share.

Please turn to the next slide. Variances in the first quarter 2024 adjusted earnings compared to the same period last year can be summarized as follows at Sempra California, we had $24 million primarily from higher net interest expense and lower income tax benefits and $12 million of lower CPUC base operating margin, net of operating expenses, offset by higher authorized cost of capital.

As a reminder, because our GRC is still pending, our CPUC revenues in first quarter 2024 are still based on 2023 authorized levels. This is important because any true-up later this year will be retroactively applied to January 1 when the final decision is approved.

Turning to Sempra Texas. We had $56 million of higher equity earnings attributable to rate updates, increased embedded capital, and consumption, partially offset by higher interest and operating expenses.

At Sempra Infrastructure, we had $13 million of lower transportation revenues and higher O&M, partially offset by higher power results, and $27 million of lower asset and supply optimization, partially offset by lower net interest expense due to capitalized interest, lower taxes and other.

As a note, beginning this year, the waterfall numbers are presented after non-controlling interest to improve comparability. At Sempra Parent, the $48 million quarter-over-quarter change is primarily due to higher taxes from the interim period application of an annual forecasted consolidated effective tax rate, which is expected to turn around over the course of the year.

Please turn to next slide. Before we close out our prepared remarks, I want to outline Sempra's value proposition as we execute our corporate strategy. At Sempra, our management team is committed to challenging the status quo in all aspects of our business operations. We offer exposure to growth in some of North America's largest economic markets. Our position as a leader in the infrastructure development in these markets translates into a record $48 billion capital campaign through 2028. In addition, we make energy infrastructure investments that target attractive mid-teens returns on equity and we understand that disciplined capital allocation is central to our success.

And we understand the importance of returning capital to our owners and expect to continue growing our dividend. Of note, we've successfully grown our dividend at a rate of roughly 7% annually over the last 10 years. This is particularly noteworthy given the expected strength of our future earnings growth.

To conclude, the role of our industry is becoming increasingly important to society and at Sempra we're excited about the prospects ahead of us. Sempra is competitively positioned to capitalize on opportunities and we'll continue to invest in our people, prudently manage risks, efficiently finance our businesses and be good stewards of the capital entrusted to us.

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We thank you for joining us and I'd now like to open the line for your questions.

Question-and-Answer Session

Operator

Thank you. This concludes the prepared remarks. We will now open the line to take your questions. [Operator Instructions] And our first question will come from Shar Pourreza from Guggenheim Partners. Your line is open.

Shar Pourreza

Hi, guys.

Jeff Martin

Good morning, Shar.

Shar Pourreza

Good morning, Jeff. Maybe just starting off on the kind of the incremental upsides that's starting to build versus the 4Q plan including at SIP and the SRP in Texas. I guess does the existing financing plan have room to support the spend in 2025 through 2027? And would you look to maybe utilize some SIP balance sheet capacity to offset potential equity needs from incremental CapEx that we could see coming?

Jeff Martin

Yes, I appreciate the question. And I think we're in good shape on our balance sheet. I'll remind everyone Shar that we have a track record of efficiently financing our growth and that's been a big part of our success as you know since 2018. In fact over the last five years we've been successful at growing our adjusted EPS at roughly a 10% annual growth rate. Our current plan as you know contemplates we'll make about $48 million of investments through 2028. We certainly think there's opportunities to continue to grow that plan. But I would also mention that well in advance of announcing our capital plan Shar, we got our equity needs out of the way last fall. So the key takeaway is we're in great shape with no need for additional equity. We have great visibility to our future growth and I think you indicated a couple of levers that we have to pull. And we have a plan in place that should allow us to officially finance our growth.

Shar Pourreza

Perfect. So you're comfortable with the balance sheet and if there's incremental CapEx coming? That's helpful Jeff.

Jeff Martin

Yes, we are.

Shar Pourreza

Perfect. And then just given the cost of capital affirmation in California, I guess how are you planning maybe to recognize the impacts of the CCM? Is there a customer reinvestment plan? And would you kind of plan to provide an update on the California Utilities earnings after the PD? Thanks.

Jeff Martin

Yes. I think there's going to be an opportunity as we get through our rate case. You'll recall that we're expecting to have our proposed decision later this quarter and a final decision at the end of the year. And those are the type of issues that we would reconcile on the then next earnings call which could be as early as Q3 to make sure we provide real clear visibility to the impact of the rate case on our forward earnings.

Shar Pourreza

Fantastic. Thank you, Jeff. Much appreciate to the color you gave. Thank you, Jeff.

Jeff Martin

Thank you, Shar.

Operator

Thank you. Our next question will come from Jeremy Tonet from JPMorgan Securities. Your line is now open.

Jeremy Tonet

Hi. Good morning.

Jeff Martin

Hi, Jeremy.

Jeremy Tonet

Hi. Turning to Texas, I was just wondering if you could frame this latest ERCOT load growth outlook against the last capital plan raised by Oncor. Is that level of system investment contemplated consistent with this load growth? Or is there even more, I guess, upside down the pike here? And if so, what time frame do you think that could make it into the plan?

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Jeff Martin

Well, it's certainly a great question. Obviously, ERCOT just released their latest information in the last couple of weeks. Allen noted this in his prepared remarks, but it's pretty amazing that you could take the peak demand load in America's largest economic environment, which is California, and the expectation is in Texas that load could grow that much between now and 2030.

The key thing that Allen has mentioned before, too, is ERCOT is right in the middle of this growth story, right? So as you think about growth opportunities, we think that between 40% and 50% of that would fall to his service territory. And there's no question that this will be evaluated in the fall as Allen and his team put their plan together.

Jeremy Tonet

Got it. That's very helpful there. And then digging again on the SRP a little bit more, I was just wondering if you could kind of bracket what this work will accomplish over the next three years relative to overall resiliency needs you see in the system.

Jeff Martin

Yes, let me make a couple of kind of contextual comments, and I'll turn it over to Allen. Just yesterday, they made their inaugural filing. You know from our materials, it's $3 billion over three years. And one of the things that we're interested in at Sempra, very much like all the investments that we make across our different growth platforms, this plan is intended to harden our system to withstand extreme weather conditions, reduce restoration outage times and improve overall reliability.

I would also note, Jeremy, that the requested capital is incremental to Oncor's existing capital plan. But Allen, what might be helpful, and I think this will go to the heart of this question is, can we just take a step back, talk about your overall $24 billion capital plan? Why the SRP piece is so important? And maybe I'll return to kind of the value proposition to your regulator.

Allen Nye

Yes, sure, Jeff. And thanks for the question, Jeremy. Going back to Jeff's point to our original -- our current five-year capital plan is presently at $24.2 billion. And that breaks down generally into about $5.1 billion for distribution expansion, about $13.5 billion for transmission expansion, $4.2 billion for maintenance, and about $1.4 billion for technology. And again, as I've said before, that demonstrates about 70% of our capital plan is growth. 97% of our capital plan or more is recoverable through our trackers, and that provides us right now with a very, we think, solid industry-leading rate base CAGR of around 11%.

Now obviously, that's before the SRP and whatever the commission ultimately rules on our SRP. We're very excited about the plan we filed. I think our team has done a great job in preparing a very strong plan that will have, I think, significant benefits for our customers. And if I can, I can break it down a little more into what we filed.

Our SRP is generally broken down into six major categories. The first one being overhead and underground resiliency and modernization. That includes things like new and repaired poles, cross arms, lightning protection, increased capacity for high demand days, rehab or replacement of underground conductor. And so in that first category, that's around $1.830 billion in the first category.

Our second category is continued optimization of Distribution Automation. And what we're talking about there is expansion of our Distribution Automation program through new ties, increased capacity and the addition of intelligence switches. And we have about $510 million in that bucket.

The third category is expanded Vegetation Management or VM. We're going to do that primarily on a bunch of lateral circuits. And we're going to leverage remote sensing capabilities such as satellite and LiDAR to better direct our VM program moving forward through this program. We have about $285 million allotted to expand to VM in this plan.

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Fourth category is enhancing our Cyber Risk Management. That means all things cyber risk-related mitigation as well as enhancement in security related to Oncor's digital backbone. And we have about $525 million allocated to that category. Excuse me.

Fifth, improved Physical Security, like all utilities around the country we're facing additional intrusions and risk to our physical assets. And so we have about $80 million allocated in our plan to things such as video and event correlation systems, to assist law enforcement as well as just general asset protective measures to try and better protect our assets and equipment. And we have about $80 million in that category.

Finally, we have about $900 million total in the plan, but about $182 million specifically related to Wildfire Mitigation Measures. And that would include things like strengthening and protection of assets in higher-risk wildfire zones, safe device deployment, advanced wildfire risk modeling, overhead and underground resiliency measures and again increased distribution automation in higher wildfire risk areas.

And I would say just lastly on that last piece, that's a continuation of wildfire risk mitigation and prevention that we've had going on for a number of years. But with this additional $900-or-so million that we have allocated to this category in this plan, we think we can make some real headway on that issue as well as the other ones I described.

Jeremy Tonet

Hey Allen, if you would maybe as a follow-up going to kind of the heart of Jeremy's question. I don't want to get in front of your regulator, but could you just kind of define the value proposition that you think that the plan will deliver?

Allen Nye

Well, sure, Jeff and I think you said it very well. And I've said on prior calls, I view this and I think we view this as a historic opportunity to really directly take action on our system to the benefit of our customers in the ERCOT market.

Jeremy Tonet

Right.

Allen Nye

And I think each one of these categories would provide very specific benefits from resiliency to avoidance and prevention of wildfires to better reliability all things that will benefit our customers very directly.

Jeff Martin

Thank you.

Jeremy Tonet

Sorry, that's a very helpful. Thank you for all the details.

Allen Nye

You're welcome.

Jeff Martin

Thank you, Jeremy.

Operator

Thank you. Our next question will come from Durgesh Chopra from Evercore ISI. Your line is open.

Durgesh Chopra

Hey, team good afternoon or good morning.

Jeff Martin

Hi, Durgesh.

Durgesh Chopra

Hey, Jeff. Thanks for getting the time. Maybe just can you just show your thoughts on the pause on the FDA permit and how do you see that progressing?

Jeff Martin

Yeah. Thank you for asking me that question Durgesh. I think, I would start by saying that two things come to mind. First is we believe the permitting pause is temporary and that permits will be issued in the future. I mean many of you followed the comments that were made at the CERAWeek. I think Secretary Granholm has repeatedly now said that she anticipates this issue will be in the rearview mirror at some point early next year.

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Secondly, I would also remind folks that it only really impacts Port Arthur Phase 2. We already have existing Department of Energy non-FDA permits for Cameron Phase 1, which is in operations, ECA Phase 1 and Port Arthur Phase 1, both of which are in construction as well as Cameron Phase 2, ECA Phase 2 and Vista Pacifico. So this is really something that really impacts directly Port Arthur Phase 2 and we expect to work through that early next year. I would note that Justin's team continues to work diligently to advance Port Arthur Phase 2, which we continue to believe has tremendous commercial value.

But I also thought it might be helpful if I return to what we think are probably the most important points around our LNG strategy. We have quality LNG development projects, which obviously include the expansion of Port Arthur. They are geographically advantaged. There's no other developer out there that has the opportunity to directly access Asia and also dispatch into the Atlantic through the Gulf.

The next two in the queue have the advantage of being brownfield sites. That's another economic advantage for us at Port Arthur Phase 2 as well as Cameron expansion. And we're advancing these projects in a disciplined manner for the benefit of our shareholders. I would also note that they are effectively upside to our current $48 billion capital plan and they are also upside to our long-term growth rate.

Durgesh Chopra

Thanks Jeff. I appreciate all that color. And I think you did answer my question, I was just going to ask you. If there is a time line that we should follow as you think about FID whether it's Port Arthur Phase 2 or the Cameron expansion.

Jeff Martin

Sure. I would mention two things. One is we have guided our expect FID for Cameron expansion to the first half of 2025. We have not yet set an FID expectation for Port Arthur Phase 2. But I can assure you that Justin's team continues to make steady progress. I mean as you go quarter-over-quarter, we are continuing to make progress in commercially developing both of those projects and I think the momentum inside of our company continues to build on their overall success.

Durgesh Chopra

Thank you again. Excellent quarter guys. Thanks so much again.

Jeff Martin

Thank you so much.

Operator

Thank you. And our next question will come from Carly Davenport from Goldman Sachs. Your line is now open.

Carly Davenport

Hi. Thanks so much for taking the questions today.

Jeff Martin

Hi, Carly.

Carly Davenport

Hi, Jeff. How are you? I wanted to just go back to the SRP filing. Really appreciate all the detail there so far. Just wanted to get a sense of how we should think about the timing and the cadence of that spend assuming that the plan goes into effect in the 2025 time frame. And then can you just remind us how procedurally you expect this to play out between now and year-end?

Jeff Martin

Yes. Let me start with the procedural point and then I'll pass it on to Allen to talk about how he expects that capital to go forward. Obviously, they've made the filing yesterday which was contemplated in the legislative bill that passed last year. The commission has a statutory 180 days to review and approve the filing. So, I think for now, we're expecting that to be in hand in the fourth quarter. And then in terms of that rolling out suspend over three years. And maybe Allen, you can talk about it on a going-forward basis, how you think that capital would lay in, obviously subject to the commission's approval and the final number.

Allen Nye

Yes, you bet, Jeff. Pretty simply, it's basically 2025 through 2027 for those outlays and it's slightly backloaded.

Carly Davenport

Got it, great. Thank you so much for that. And then to follow up just on, you've talked a lot about these robust load growth opportunities in Texas supporting infrastructure investment. Just could you talk a little bit about, if there's any sort of supply chain or other constraints that you're running into in terms of executing on that T&D build out at Oncor?

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Jeff Martin

Yes. I said something about this in my prepared remarks. We continue to see some supply chain constraints in some areas, but in general we're seeing obviously load growth across all of our markets and there's been some relaxation of the supply chain issue. I think Oncor in particular and both Justin and I serve on their Board of Directors have done a really good job of going into the marketplace to secure the appropriate contractors and hard goods. But Allen perhaps you could talk about the work that the team has done. And over what period of time do you feel like you've got what you need locked in?

Allen Nye

Sure. Yes. Carly, it's a great question. Again, as Jeff said, we at Oncor and our operations and our supply chain people had been working to get in position to be able to execute on this plan for quite a while now. And we've done a number of things, including diversifying our supply chain, adding additional suppliers five and six years ago that have put us in a position now to while there certainly are issues out there with supply chain, we feel extremely confident in the first two years. I've said it to my Board. I think we have the first two years effectively in the box with what we need from both an equipment perspective and from a vendor perspective. And we've made very significant progress on the outer three years as well. And what we're doing now is filling in the gaps and waiting to assign things out like engineering studies those aren't completed yet for the outer years because we wouldn't assign them out until we know exactly what we're facing. But we've managed I believe to work through supply chain issues very effectively and we feel very good about where we are right now.

Jeff Martin

And then Carly, the only other thing I would add to Allen's comments is think about his base capital plan which is just over $24 billion is really organized around growth. And specifically, it is weighted toward transmission. So roughly 60% of that spend is transmission. And I think that's why this SRP filing is so important. It really creates a second leg of growth specifically around building in redundancy and resiliency in the system which is equally important to the state of Texas.

Carly Davenport

Understood. Thanks, so much for that color. Appreciate it.

Jeff Martin

Thank you.

Operator

And our next question will come from Steve Fleishman from Wolfe. Your line is open.

Jeff Martin

Hi Steve.

Steve Fleishman

Hi good afternoon. Just one question. Just I think Conoco might have said they have interest in selling down a stake in Port Arthur. I did not see it myself, so I'd just be curious, what you're hearing from them.

Jeff Martin

Yes, I'll make a couple of comments here. One is, Steve, Conoco is a very important strategic partner for us at Port Arthur. I would note that we've got a lot of respect for their management team and certainly have great relationships across both companies and I think a strong alignment of interest and this is the key point around both Phase 1 and Phase 2. So, whether they elect to put new capital into Phase 2 is an open matter. I'd certainly refer that to their management team.

But just remember in the first phase they took roughly half of the offtake or 5 million tonnes per annum. They own 30% of the project well equity and they are also the gas manager for the first phase.

The second phase is important context I believe on Conoco because the second phase will be taking gas supply Steve from the Permian Basin which has significant strategic considerations for a variety of commercial parties and that's particularly true for ConocoPhillips.

So, I would just note that this is an area we're working closely with a variety of counterparties who want to collaborate with us on the success of Phase 2. And based on the conversations we're currently having we continue to be very excited about moving forward with that project.

Steve Fleishman

Okay, great. I'll leave it there. Thank you very much.

Jeff Martin

Thank you, Steve.

Operator

Thank you. And our next question will come from Anthony Crowdell from Mizuho. Your line is open.

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Anthony Crowdell

Good afternoon team.

Jeff Martin

Hi Anthony.

Anthony Crowdell

If I could I guess jump on Carly's question. I guess hers is more specific maybe supply chain to the regulated utility. If I think about the Infrastructure business particularly with Port Arthur 2 and Cameron Phase 2, any big changes or estimates you're seeing in the E&C contracts that maybe Bechtel is looking into?

Jeff Martin

Yes. What might be helpful here Anthony is -- Justin if you just take us through maybe a little bit of a construction update as well as what you're doing to secure some long lead time items on some of the products you're near-term focused and that might be helpful for his question.

Justin Bird

Yes. Hi Anthony and thank you, Jeff. Yes. So, let me start with construction and then I'll go to the heart of your question. So, we're seeing solid progress on construction at both ECA Phase 1 and Port Arthur Phase 1. I've had opportunities to visit both sites recently.

Jeff and I were at ECA just two weeks ago observing construction. And I was at Port Arthur recently for the one-year commemorative groundbreaking. Both projects remain on track. We're not seeing the supply chain issues.

At ECA Phase 1, we remain on track for COD in the summer of 2025. We're now more than 80% complete. Construction is going across all areas of the project. We have about 4,000 people deployed on-site and have over 15 million hours worked with no lost-time incidents.

Bechtel at Port Arthur Phase 1 construction activities are progressing well. As Karen mentioned in her remarks, we're focused on the foundation stage construction, soil stabilization piling, concrete pouring, and it's exciting to see we recently commenced structural steel.

In terms of our development projects, we remain excited about these projects. We're continuing to see strong market interest and do expect these projects to advance. In terms of construction contracts or progress at Port Arthur Phase 2, while we're awaiting our DOE non-FDA export permit, we're continuing to work with Bechtel on an EPC agreement that can optimize efficiencies with the Phase 1 construction schedule. We're also continuing marketing efforts for off-take and equity. On Cameron Phase 2, we're currently working with the Cameron partners to optimize cost through value engineering. And as Jeff mentioned, we're also exploring the procurement or reservation of long lead time and critical path equipment.

Cameron Phase 2 is a comparatively low emission project and it's a brownfield asset sourcing low-cost gas. So we think this is really important. And as Jeff had previously mentioned, we're advancing that with a view toward taking FID in the first half of 2025.

I guess as a takeaway, I talk about the reverse Field of Dreams model, when they come and when we achieve the right returns we'll build it. Along these lines, we'll only move forward with our projects when we have the right cost and risk structure and long-term contracted cash flows that support our corporate strategy, our targeted mid-teen equity returns and create value for our shareholders.

Jeff Martin

Anthony, I'd also mention to the heart of your question, the Bechtel relationship's a strategic relationship for us. They're very, very helpful kind of the best in the business in the Gulf. And that's why Justin commented on the importance of not demobilizing Phase 1 and going right into a continuous build into Phase 2 at Port Arthur.

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I would also note that his team has master purchase agreements with all the key vendors in place. And there's a lot of focus on making sure we're sourcing the key equipment and particularly planning in advance to long lead time items. So that all goes into the box of how we manage risk to make sure that we're delivering projects that create the right risk reward for our owners.

Anthony Crowdell

And then if I get one follow-up and I know it's a very small part of SIP. It's the Cimarron Wind. The company has been very successful at recycling capital and sold a renewable portfolio several years ago. Very opportunistic there. And now the company is – should we think of more winds coming on or more renewable coming on to rebuilding a renewable portfolio with SIP? And I'll leave it there.

Jeff Martin

Yes let me provide a little bit of context for that because we're excited about that project. Let me start Anthony with the fact that we rolled out our new corporate strategy back in 2018. And really at the heart of that strategy was a more narrow focus on two things, the first of which was building leadership and scale advantages in large economic markets; and number two, more narrowly invested in the energy value chain around T&D type of infrastructure, investments like Cimarron, where we can produce highly recurring cash flows. So when you turn that corporate strategy back to Mexico, we built a leadership position there, going back to the 1990s.

It's a market with over 130 million consumers. When I became CEO in 2018, Anthony it was the 15th largest economy in the world. Today the IMF has it ranked as the number 12 economy in the world. And PricewaterhouseCoopers now forecasts it will be number seven in the world by 2040.

It's also our largest trading partner with an energy network that's highly integrated with the United States. And that really plays to our strategy along the border and particularly the wind projects that you're referencing is located right along the US border is an expansion of a very large ESJ WIM complex that we already own. It's integrated electrically with a high-voltage system and does serve California and it's being built using SI's operating cash flows from Mexico. So I think the key point here is and we've referenced it several times in our prepared remarks, there is a very strong built-in growth story at SI based upon projects that have already taken FID and the opportunity with this land position we have adjacent to California is to efficiently and cost effectively build some additional solar and wind to serve the California market, which is integrated with Mexico and fill in and continue to improve on that recurring cash flow growth story that Justin has been talking about.

Anthony Crowdell

Great. Thanks for taking my question.

Jeff Martin

Appreciate it.

Operator

Thank you. And we have time for one more question. And our next question will come from Craig Shere from Tuohy Brothers. Your line is now open.

Craig Shere

Hi. Thanks for fitting me in. I'd like to dovetail a little on Anthony's first question about labor and the LNG markets and kind of feed that into a broader question for Justin. In the last two, three months, we've seen some peer projects announce potential delays, unskilled labor issues. For the same reasons, you've announced increasing demand in your domestic utility networks and T&D networks from data centers to AI, but also coal-to-gas fuel switching and other. We've kind of seen a stabilization, and rebound in the LNG markets with some sense that this digestion period everybody was looking for in the second half maybe soft and short or not exist at all. And in this context of the last two, three months kind of change, I'm wondering if you're seeing any change in body language and a desire to kind of seize the day on prospective off-takers?

Justin Bird

Yeah, thanks for the question, Craig. I think you talked a little bit about supply chain, about labor, but let me go to the heart of your question at the end there. So I think the LNG pause I would say, I think there was some time to react to that in the marketplace. You saw some people step back maybe with a little less desperation than they maybe had as part of the war in Ukraine. But I will say, and I think we've said it multiple times on this call, we are still seeing a robust commercial interest in our projects, our projects, our expansion opportunities. We've been a strong partner. So we're seeing robust interest. And I'd say currently, we have teams around the world actively engaged in commercial discussions for long-term contracted volumes.

Jeff Martin

I would also add, Craig, I appreciate your question. If it's all about seize the day, I'm betting on Justin's team. We're very excited about the progress we're making on the LNG front and look forward to providing updates in the future.

Craig Shere

Great. Thank you.

Operator

Thank you. And that concludes today's question-and-answer session. At this time, I'd like to turn the conference back to Jeff Martin for any additional closing remarks.

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Jeff Martin

Let me just start by thanking everyone for joining us today. I know there were competing calls this morning, so we appreciate everyone making the time to join us. As Karen mentioned, we certainly believe we have a compelling value proposition with a strong growth and income story.

Our management team is committed to the long-term success of Sempra, and we believe there's an incredible opportunity for us to continue innovating and finding new and better ways to serve customers while also delivering strong financial returns to our owners.

If there are any follow-up items, please reach out to our IR team with your questions, and we look forward to seeing you in California at AGA on May 20 and 21. This concludes our call.

Operator

Thank you for your participation. You may now disconnect.

**Load-Date:** May 7, 2024

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