

# **Sempra (SRE) Q2 2024 Earnings Call Transcript**

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**Body**

Sempra (SRE)

Q2 2024 Earnings Conference Call

August 6, 2024, 12:00 pm ET

Company Participants

Glen Donovan - SVP, Finance

Jeff Martin - Chairman & CEO

Karen Sedgwick - EVP & CFO

Trevor Mihalik - EVP & Group President, Sempra California

Justin Bird - EVP & CEO, Sempra Infrastructure

Allen Nye - CEO, Oncor

Peter Wall - SVP, Controller & CAO

Conference Call Participants

Shar Pourreza - Guggenheim Partners

Durgesh Chopra - Evercore ISI

Julien Dumoulin-Smith - Jefferies

Carly Davenport - Goldman Sachs

Presentation

Operator

Good day, and welcome to Sempra's Second 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 second quarter 2024 earnings call. A 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 and 10-Q filed 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 June 30, 2024.

I'd also like to mention that forward-looking statements contained in this presentation speak only of today August 6, 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, Glen, and thank you all for joining us today.

As we close out the first half of the year, we continue our focus on safety and operational excellence and we're pleased with the strength of our financial performance. This actually sets us up well in the second half of the year while also supporting our confidence in a projected long-term EPS growth rate of 6% to 8%. And more importantly, we think there's a lot to be excited about.

At Sempra California, we continue to play a critical role in helping the state achieve its safety, reliability and decarbonization goals. That's why we continue to make important investments to improve safety, modernize the grid, and better support the delivery of cleaner forms of energy.

We also look forward to advancing our general rate cases here in the state and anticipate a proposed decision later this summer with a final decision expected before the end of the year. The outcome of the GRC is expected to help our utilities better meet the state's public policy goals, advance reliability and community safety, and improve visibility to our plan of execution through 2027.

At Sempra Texas, Oncor continues to see remarkable growth, and it's coming from a wide range of industries, including manufacturing, technology, and digital infrastructure. Annual premise growth, as one example, continues to trend around 2%, which is almost double the national average. Allen will walk through how electricity demand is impacting the Texas grid and also driving the need for new capital investments all across Oncor service territory.

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Against that backdrop, you recall that Oncor is currently executing on a record five-year capital plan of roughly $24 billion, with a pending regulatory filing to improve system resiliency by investing incremental capital of up to $3 billion from 2025 through 2027. With the remarkable growth in Oncor service territory, we continue to expect to see higher levels of capital spending in the future, and this will be a key consideration in our financial planning process this fall.

Finally, Sempra Infrastructure remains focused on advancing critical infrastructure investments that support the energy transition and enhanced energy security, and we continue to see progress across several key development initiatives.

Moving to our financial results for the quarter, earlier this morning, we reported adjusted EPS of $0.89 and year-to-date adjusted EPS of $2.24. As a reminder, these results do not reflect the impact of a final California GRC decision, which we expect before year-end with rates retroactively applied to January 1. From my perspective, we've had a great start to the first half of the year. As a result, we're affirming both our full year 2024 adjusted EPS guidance range and our 2025 EPS guidance range.

Please turn to the next slide. As a reminder, we view our corporate strategy as an opportunity to assert a competitive advantage in energy markets, and there are three key elements to our plan of execution. First, we've positioned our portfolio in some of the most attractive economic markets in North America. California and Texas, for example, give our utilities great exposure to increasing demand for new infrastructure investments, while Sempra Infrastructure benefits from strong tailwinds around the restoring of industry to North America and global demand for improved energy security associated with the export of liquefied natural gas from the United States.

Second, we focused our investment strategy in a more narrow part of the energy value chain, namely transmission and distribution investments. By doing so, we aim to improve the quality and recurring nature of our earnings and cash flows while reducing exposure to risk and price volatility. We believe this provides an improved risk reward profile for our owners.

And finally, we aggressively compete capital inside our company across all three growth platforms to help ensure we're delivering the best overall returns to our owners. At the end of the day, being good stewards of capital is a top priority and has allowed us to continue delivering attractive risk adjusted returns. As an example, we've been successful in delivering a 10% adjusted EPS compound annual growth rate since 2018.

Next, I'll turn the call over to Allen to walk through the improving growth story that continues to unfold in Texas. Please turn to the next slide.

Allen Nye

Thank you, Jeff.

I'd like to start by saying that growth continues at a rapid pace all across the state of Texas, and especially in the Oncor service territory. In the second quarter alone, we built, rebuilt or upgraded approximately 1,050 miles of T&D lines, increased our premise count by approximately 20,000, and received approximately 100 new transmission POI requests, which has increased our active interconnection requests in our queue by 13% year-over-year.

It's also important to note that we continue to make progress on the five-year capital plan that was announced earlier this year of approximately $24 billion. As Jeff mentioned, this does not include the capital expenditures that may be approved as part of our system resiliency plan, or SRP. We filed our first SRP with the PUCT in May of this year.

Turning to our operating environment. Texas like the nation as a whole is seeing an increase in the frequency and intensity of severe weather events. The number of extreme storms, including ice, intense heat, and extremely high winds have shown us that we must be even more focused on reliability, resiliency, and response. That's why our SRP identifies seven measures with detailed programs and activities for each measure to address the wide range of resiliency events we're seeing across our service territory, including extreme weather, the risk of wildfires, physical security threats, and cybersecurity threats.

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Along with the hardening of our system to prevent outages, our proposed initiatives include a substantial opportunity to expand distribution automation to the legacy portions of our system. We call this our flexible and self-healing distribution grid measure. Today, newer facilities on our system have this technology, which allows us to automatically redistribute load to undamaged parts of our grid during extreme weather or other events, significantly reducing or in some cases eliminating lengthy outages for many of our customers.

We recently provided some examples to the PUCT of how this technology helped hundreds of our customers avoid what could have been daylong outages from the severe storms we experienced in May. Among other areas, our SRP also proposes retrofitting older portions of our system with this technology.

Additionally, we have proposed expanding our vegetation management programs by approximately $90 million per year, including further use of remote sensing and other new technologies to better target fast growing vegetation. This expansion is expected to more than double our distribution vegetation management efforts.

These investments, together with the SRP measures that specifically target wildfire risk, will also accelerate our work to help comprehensively address wildfire mitigation. These efforts will continue to build on our collaborations with the Texas A&M Forest Service and our counterparts at San Diego Gas & Electric, both of whom are globally recognized as subject matter experts with significant experience in wildfire mitigation and response.

It's also noteworthy that our SRP filing is not the only action we're taking to improve our resiliency and preparation for extreme weather events. Over a 21-day period in the months of May and June, tornadoes touched down in the Temple, Killeen area, a storm with straight line winds measuring as high as 95 miles per hour passed through the DFW Metroplex, and additional storms impacted our East Texas region.

I want to thank the 12,000 Oncor employees, contractors and off system personnel who worked around the clock restoring service to our customers as soon as safely possible. Recently, we also sent 500 mutual assistance workers to the Gulf Coast to assist in the recovery from Hurricane Beryl. These storms have shown that our industry must continue to improve our plans for prevention, response and communication so that we are meeting and exceeding our customers' expectations for the safe and reliable delivery of electricity, and I can assure you that it's a top priority for our team.

At Oncor, we are dedicated to being a safe and reliable operator and helping ensure a resilient grid, which is even more critical given the amount of growth we're seeing in Texas.

Please turn to the next slide. Interconnection requests from large C&I customers and the additional transmission expansion needed to bring power to these high demand customers are the primary drivers of the growth in our capital plan. Under our current capital plan, Oncor's rate base is anticipated to grow at an average annual rate of 11% from 2023 through 2028.

To help meet the scale of these new investments, we've taken important steps to diversify our supplier base, enter into multi-year agreements, ordered various critical inventory in advance, and have begun procuring necessary equipment with significant investments in warehousing and lay down yards to support the timely rollout of our capital investments.

We also see opportunities for significant future growth in our service territory. As announced earlier this year, ERCOT projects peak load in 2030 to be 152 gigawatts nearly double the current record of 85.5 gigawatts set in August 2023. Based on our current share of ERCOT load and our internal projections, we expect approximately 40% of that future load to be served by Oncor. Included in ERCOT's load growth projections are the continued electrification efforts in the Permian Basin.

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In response to House Bill 5066 passed in the 2023 legislative session to address this growth, ERCOT filed a plan with the PUCT in late July that identifies new transmission investments of $13 billion to $15 billion by 2038. Given the scope of our operations in the region, we expect to build a significant portion of the projects that are ultimately approved in the Permian plan.

As Jeff noted, there is a likelihood of higher capital spending in the future and we continue to review our forecast for future capital expenditures and expect to provide an update on the Q4 earnings call after our SRP filing is finalized by the PUCT and our analysis is complete and reviewed by Oncor's Board.

I would conclude by saying that we are all really excited about the opportunity set in Texas and will remain relentless in our efforts to provide reliable, affordable electric service to our customers while maintaining a sharp focus on the safety of everyone who works on our system.

Please turn to the next slide where Karen will walk through Sempra California's business update.

Karen Sedgwick

Thank you, Allen.

Sempra California is strategically positioned the largest economy in the U.S. and benefits from constructive regulation that supports investment opportunities to decarbonize and improve the safety and resiliency of the grid, forward-looking rate cases, cost of capital adjustment mechanism and an established wildfire fund that backstops the financial strength of the state's utilities.

At SoCalGas, we're participating in several decarbonization initiatives that support California's statewide goals. Recently ARCHES of which SoCalGas is a partner became the country's first hydrogen hub to sign with the DOE to secure its funding. ARCHES forecasts California will need 17 million tonnes per year of hydrogen to help meet the state's 2045 climate goals. These cleaner molecules are expected to play a pivotal role in helping Los Angeles, one of the nation's largest manufacturing hubs lower its emissions and heavy-duty transportation and other hard-to-electrify sectors. That's why SoCalGas has proposed Angeles Link will form a key component in California's regional hydrogen hub.

Turning to SDG&E. Community safety continues to be our number one priority. Over the last two decades, we've made significant investments in wildfire mitigation and hardened 100% of the transmission lines in our Tier 3 high fire-threat districts. We've proactively taken steps to further strengthen our predictive tools, training and resources by making significant upgrades to SDG&E's wildfire and climate resiliency center. I recently had a chance to visit the state-of-the-art facility, and it's impressive. I invite you to come and see the facility if you can.

Substantial innovative features of the facility include AI-enabled solutions, high-resolution cameras, enhanced drone data and line conductor fault detection. This facility is one of the most technologically advanced of its kind anywhere in America, and played a central role in helping to ensure SDG&E is prepared for and actively mitigating risks related to its operating environment. This is all part of a larger effort at SDG&E to meet the state's public policy goals while building out a climate-resilient energy grid.

Now moving to our regulatory updates of California Utilities. In June, SDG&E delivered a notice of termination to FERC of its fifth transmission owner formula rate mechanism or TO5 and is preparing its TO6 filing. We expect SDG&E to make a submission in the fourth quarter with an effective date in 2025. In our filing, we anticipate updating our formulaic rate and making a constructive case for competitive ROE, reflecting today's market conditions.

Lastly, on the California GRC, we expect to propose decision later this summer and a final decision by year-end. As a reminder, the final decision will be retroactive to the beginning of this year.

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Please turn to the next slide. Sempra Infrastructure's long-term strategy is focused on capitalizing on the growing demand for cleaner and more secure energy. Wood Mackenzie estimates that global LNG demand will grow nearly 70% and reach more than 700 million tonnes per year by 2050. Our development pipeline is making significant strides to help meet those needs.

At ECA LNG Phase 1, we are roughly 85% complete. However, our contractor has experienced labor retention and productivity issues in recent months. As a result, our commercial operations date will be delayed until the spring of 2026. We are actively engaged with our contractor to advance the project, and we'll see increased capital expenditures for the project in the form of additional carrying costs and lower estimated commissioning revenues, which are based on forward price curves. Despite the delay of potential changes in capital, we still expect to maintain strong integrated financial returns, consistent with our original forecast at the time that we took FID in 2020. This is the result of a combination of factors, including optimization opportunities, stronger LNG demand over the long-term and inflation protection within the SPAs.

Moving to Port Arthur LNG, we're making steady progress on Phase I. And we remain on budget and schedule. We recently received FERC authorization for 24/7 construction, which is expected to improve the overall efficiency of the construction activities. At Cameron Phase 2, we continue to work with our partners to enhance cost efficiency through value engineering.

Finally, we've begun construction on Cimarron Wind, the 320-megawatt project and expect to reach commercial operations in the first half of 2026. Our experience in Mexico demonstrates our ability to work well with both regulators and legislators, and we look forward to supporting their increasing energy needs as industrial reshoring continues to drive economic expansion.

Please turn to the next slide for an update on progress at Port Arthur Phase 2. We're very excited about some of the recent developments at Port Arthur LNG Phase 2. Earlier this summer, we executed an HoA with Aramco for 5 million tonnes per annum of off-take capacity and 25% interest in the project level equity.

Last month, we also executed a fixed price contract with Bechtel. This contract provides an opportunity to continue our partnership with a world-class EPC firm while also benefiting from continuous construction. In combination with the common facilities that are being constructed as part of Phase I, we expect to generate robust investment returns on the overall Port Arthur Energy Hub. We are working with all stakeholders to advance this project, which has received all material permits with the exception of the DOE non-FTA export permit that is pending approval. However, we do not anticipate the DOE pause will impact our development time line. As a reminder, Phase 2 at Port Arthur and all other projects that have not reached FID represent upside to our existing capital plan.

Please turn to the next slide where I'll walk through Sempra's financials. Earlier this morning, Sempra reported second quarter 2024 GAAP earnings of $713 million or $1.12 per share. This compares to second quarter 2023 GAAP earnings of $603 million or $0.95 per share. On an adjusted basis, second quarter 2024 earnings were $567 million or $0.89 per share. This compares to our second quarter 2023 earnings of $594 million or $0.94 per share.

The key takeaway is that we're pleased with our financial results. For the first six months of the year, we're trending above our financial forecasts and are well-positioned to deliver another strong year of financial performance.

Please turn to the next slide. Variances in the second quarter 2024 adjusted earnings compared to the same period last year can be summarized as follows: At Sempra California, we had $26 million primarily from higher CPUC base operating margin, net of operating expenses, including higher authorized cost of capital. This was more than offset by $49 million, primarily from lower income tax benefits, lower regulatory awards and higher net interest expense.

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

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Turning to Sempra Texas, we had $42 million of higher equity earnings attributable to rate updates, increased invested capital and consumption, partially offset by higher interest and operating expenses.

At Sempra Infrastructure, we had $48 million of lower equity earnings and revenues in the transportation business, including the cumulative impact of new tariffs in Mexico in the prior year and $8 million of higher income tax expense, higher O&M and lower revenues, partially offset by lower net interest expense.

At Sempra Parent, the $10 million net change is primarily due to lower taxes from the interim period application of an annual forecasted consolidated effective tax rate, partially offset by higher net interest expense.

Please turn to the next slide. To wrap up our prepared remarks, I want to reiterate a couple of the key points that help drive the overall success of our corporate strategy. As energy needs to grow and evolve in North America, our unwavering commitment to safety and operational excellence support our delivery of safer, more reliable, and resilient energy and our position as a leader in some of North America's largest economic markets, offers investors visibility to our future growth as we look to invest higher levels of capital in critical new energy infrastructure through the end of the decade and beyond.

To conclude, this is an exciting time for our company, and we look forward to continuing to deliver strong financial and operational results. 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'll now open the line to your questions. [Operator Instructions].

And our first question will come from Shar Pourreza from Guggenheim Partners. Your line is open.

Jeff Martin

Good morning, Shar.

Shar Pourreza

Good morning, Jeff. How are you doing?

Jeff Martin

I'm doing great. Thank you.

Shar Pourreza

Excellent. So just, Jeff, on the ECA COD delays, I know you'll be looking at sort of firming up the 2025 guidance, later from a timing perspective. But I guess, how are you thinking about offsets as we roll forward into next year? Can you kind of mitigate the project delay? Or should we assume some level of timing drag? I know obviously, you reiterated guidance today, but there's also a perception that the 2025 guide is somewhat conservative. So just how do we think about the moving pieces? Thanks.

Jeff Martin

Yes. Thank you, Shar, for asking that question. I'll start by talking about the change in schedule and I'll move to the 2025 guidance. I would start by saying that we're disappointed in the change of schedule at ECA as has been our practice. When we work with our contractors, we expect our projects to be built on time and on budget. That is the standard at Sempra. And in this case, that standard has not been met, but I'm confident that Justin and his team will get it corrected.

Here's what's important going to the heart of your question. We target mid-teen equity returns across the portfolio at Sempra Infrastructure. And as we've updated our forecast, we continue to believe that ECA remains in line with those original targets. We've made financial commitments, as you know, to our owners in the form of published EPS guidance ranges for both 2024 and 2025, and we've been confident in reconfirming those ranges this morning.

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I would note that we have plenty of opportunities to both grow and reduce costs where it makes sense, and we'll continue to work hard to exceed people's expectations regarding the performance of our business. I'd also like to turn this over to Karen to talk a little bit about 2025, if you could, Karen.

Karen Sedgwick

Sure. As Jeff mentioned, we have a diverse portfolio with many levers to meet our guidance. So with the scheduled change at ECA, we're taking several steps to ensure we deliver on our financial commitment. SI this includes asset optimization, such as utilizing our available pipeline capacity, in addition to driving some operational efficiencies in the business.

We continue to see significant growth across our utility platforms. For example, Allen's business updates on today's call points to incremental opportunities at Sempra Texas that we expect to benefit us next year and across our planning period. And then across the enterprise, we're always focused on creating efficiencies and increasing productivity, so we'll continue this process and look forward to refreshing our plan later this fall and provide updates on our fourth quarter call.

Shar Pourreza

Okay. Perfect. And then just on the GRC outcome, I mean, CPUC has been a bit slower kind of acting on things recently with various kind of proceedings, I guess, how are you thinking about a timely outcome in 2024 on the GRC? And if kind of like a final vote is delayed, let's say, into the latter part of the year or even 2025. How do we sort of think about the cadence of that financial update you just brought up for 2025. So do you need to wait for an order in the PD? Or is the PD sufficient enough to firm up 2025? Thanks.

Jeff Martin

Yes, I'll give you a couple of thoughts on this is, obviously, the California Public Utility Commission has had a very busy docket, particularly over the last 12 months. So we understand kind of the timing of our rate case has been delayed into this year. What I would make a couple of points on Shar is that we put together, what I think is a very strong GRC filing for both San Diego Gas Electric and SoCalGas. And the reason we have some level of confidence is both of those filings are strongly in line with the state's key priorities, which you'll recall is around safety and specifically community safety, reliability and clean energy.

I would also note as a reminder that last fall, we reached a settlement on roughly one-third of the rate cases for each of those businesses with a subset of interveners, and we look forward to receiving proposed decision later this summer with a final decision expected before the end of the year. So I think we still have very high confidence that the rate case we voted out this year. And I would remind our listening audience that our rates would be retroactively effective to January 1 of 2024.

And then to the larger point, I will conclude by saying, we have a very strong track record of working with our regulators and stakeholders to get to good outcomes. I think we're comfortable that we'll be able to give a strong update in terms of our forward guidance including our capital plan on our Q4 call. And hopefully, we'll be able to give more visibility on our Q3 call to potential changes in our capital plan.

Shar Pourreza

Okay. That's actually perfect. Jeff. Thank you so much. Appreciate the additional color. See you soon.

Jeff Martin

Thank you for joining our call, Shar.

Operator

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

Jeff Martin

Good morning, Durgesh.

Durgesh Chopra

Hey, good morning, Jeff. Thanks for taking my question. Hey just picking up on the ECA discussion. I think the initial estimates of costs were around $2.5 billion and you mentioned some construction delays, obviously. Just how does that number sort of the overall project cost tracking versus $2.5 billion, if you could share any color there?

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Jeff Martin

Sure. I'll provide some returns on the changes in capital. And maybe it might be helpful, Justin, if we just provide a little bit more color around the schedule at ECA for our listening audience.

The first thing I've mentioned, Durgesh is, as a result of the schedule change, we're expecting that the estimated increase in capital for Sempra's net share to be about $300 million. Karen referenced this earlier, but we still expect to maintain our targeted levered returns in the mid-teens for the overall integrated project. And as you know, that certainly includes continuing to optimize our transportation position. You'll recall, too, that with the change in schedule, it provides us opportunities to continue to manage that transportation position. For those of you who are hearing about our transportation, recall that we've got positions that connect us to the producing regions both in Texas and New Mexico and allow us to serve what has increasingly been a constrained market in the western part of the United States, including Baja California, where we've seen natural gas demand increase by over 30% in the last 10 years.

One other thing that's benefited us at the project, Durgesh is we have certain inflation protections in our SPAs and that's also been helpful in helping us meet our expected original returns. So I think the key takeaway from my perspective is, we're in a good position to continue to manage that project. Deliberate consistent with the new expectations in the spring of 2026 and also meet our targeted financial returns.

Durgesh Chopra

That's great helpful. Thank you.

Jeff Martin

Yes. And I'll let Justin go and speak to some of the additional color on the change in schedule.

Justin Bird

Hi Durgesh, first, let me say, like, Jeff, I'm disappointed with the schedule change at ECA. I will also say, given our ongoing efforts, I am confident that, one, will reach commercial operations in the spring of 2026; and two, will meet our return expectations at ECA.

Let me give you just a little bit of color on where we are. The project is roughly 85% complete. Steel construction has been completed; piping is in full swing, 65% complete. We pulled roughly 87 miles of cable and 95% of the main equipment has been received on site and nearly 80% of that equipment has been delivered.

The critical issue has been that during our peak in the work cycle, given some of the craft labor constraints in Baja, our contractor was unable to retain and secure the necessary labor resources to meet the schedule, and this loss of labor has created a change in schedule. Big picture, I still view this as an opportunity to showcase our ability to work constructively with our partners and contractors to safely deliver a quality project in the spring of 2026 with strong returns over the long-term.

Jeff Martin

Thank you, Justin.

Durgesh Chopra

Thank you, both. That is very clear. Just shifting gears over to Texas. Good to see that you have a settlement in the system resiliency plan. I'm just wondering, if there is any backlash, whether it's from the PUC or other stakeholders given sort of just what we've seen in media in response to the hurricane. Just any thoughts there? Just thinking about risks to your potential settlement here.

Jeff Martin

Yes. I would just make a couple of comments here. Number one, I think the timing of this agreement in principle, which is an all-party settlement. It's very, very good. I think as we think about our industry, generally, Durgesh, we're continuing to see extreme weather conditions, and it's highlighting the importance not just in Texas but California and other jurisdictions have continued to invest in resiliency.

At our company, we've got over a 100-year history of dealing with these types of events. And I think we're pleased by Oncor's recent storm response. If you followed Oncor back in May, they went through some very severe weather and did a great job of restoring their system. So I think the opportunity for us is to marry up the commitment to operational excellence and storm response that Oncor has built a reputation on with this forward-looking SRP program.

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And the good news is, as it's been crafted as a settlement in principle, those dollars will start to flow in Q4 of this year and allows us to get after continuing to harden that system. So I think it's the right outcome at the right time for the customers of Oncor.

Durgesh Chopra

Perfect. Thank you for taking my questions.

Jeff Martin

No worries. Thank you, Durgesh.

Operator

Thank you. And our next question will come from Julien Dumoulin-Smith from Jefferies. Your line is open.

Jeff Martin

Hey Julien, we want to welcome you back.

Julien Dumoulin-Smith

Hey, thank you so much, Jeff team, it's a pleasure to chat with you guys. So you guys continue to make great progress across the Board, including here in Texas. So to that end, right, with this SRP, let me, if I can ask to sort of elaborate a little bit, how do you think about the SRP in light of what's happened with Beryl and perhaps any expansion plans around mobile gen or otherwise, right? So it an ever-evolving landscape here, the needs are evolving. Obviously, this was contemplated in the last legislative session. Any comments about how to move from here on expanding the SRP and/or expectations on the legislative session next year ahead that could come ahead.

Jeff Martin

Yes. Let me do a couple of things. Let me start with my views on the SRP. I'll pass it to Allen to talk about some next steps procedural. But Julien, I'll start right up in front and say, I have been around the utility business for roughly 30 years, going back to 1992. And in my career, I've never seen an evolving growth story like we see in Texas. So we made a great investment, as you know, back in March of 2018, we were investing in what was at that time an 80% owner that had been bankrupt.

We thought there was an opportunity to deploy capital in a way that better serve customers. So I think we are investing in a management team and a growth story, and it certainly has played out very well. And I will tell you that story continues to evolve, and I'm more bullish today than I've been at any point on the capital opportunity in Texas.

Let's talk about this our PO quickly. You recall that the Oncor team filed that case back in May it outlined nearly $3 billion of capital investments. And you'll recall that, that's incremental to the record campaign that they're executing on right now, which comes in right around $24 billion. As we updated on the call, we're pleased that Oncor has been successful in reaching a preliminary settlement as an all-party settlement, and we view the settlement in principle constructively and hope to move to a final settlement in the coming weeks. I would want to have a note of caution here that we don't want to speak to the details of the settlement nor Julien, do you understand, we don't want to front run the commission's review.

But we feel very positive about it. I think it's a great sign for our ability to step forward and continue to help rate payers in Texas. And Allen, maybe it would be helpful for Julien, if you talked a little bit about kind of the procedural next steps.

Allen Nye

Yes, sure. Thanks, Jeff, and good morning, Julien. As Jeff said, we're really, really excited about announcing the settlement in principle of our SRP this morning. And I do want to thank the parties; in particular PUC staff for the willingness to work with us on getting to this outcome that we think is really going to provide some meaningful benefits to our customers.

But with regards to the next steps, now that we've announced that we filed with the PUC and informed the judge of our preliminary settlement. We're in the process of drafting a definitive settlement agreement plus supporting testimony. We're going to file that by August 16. And at that time, the details will be public, and we can talk more about it.

Next step would be to have the case remanded from State Office of Administrative Hearings back to the PUC and to try and get that scheduled for PUC consideration as soon as reasonably possible. And as Jeff said, I never like to get in front of the commission or assume anything. But assuming that we get approval, we think we'll be in a position to begin making the SRP-related investments and expenditures late in this year in 2024.

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I think importantly, we believe that this settlement will allow us to accomplish all of the benefits that we identified in our original filing. And given some of the challenges that our state has faced over the last few months, we think this is a really very positive development for both us and our customers.

Jeff Martin

The only other thing I would add, Julien, to the back part of your question is, later this week, I'll be meeting with the Governor of Louisiana in Louisiana and then on Friday, I'll be meeting with Governor Abbott. And part of the purpose of my business is to continue to reiterate Sempra's strong commitment to invest in the state of Texas.

And I think we might be the largest investor in the state today in addition to the $27 billion of spending we've circled at Oncor, we're putting into work $13 billion at Port Arthur Phase I and we're aggressively looking to put forward a similar project of scale for Port Arthur Phase 2. As you think about the legislative session for next year, my personal view, Julien, is that public policy in the state of Texas favors new investment around reliability and resilient infrastructure. And I would tell you that's right in Oncor's wheelhouse. So we'll continue to expect constructive regulatory and legislative outcomes in Texas. And I think you've seen that, Julien, over the last year or two, and we're committed to partnering with stakeholders to continue to achieve outcomes that directly support our customers in North Texas.

Julien Dumoulin-Smith

Excellent. Thank you guys so much for the details. And just quickly, on the SIP front, obviously, you saw the ECA developments here. Just to confirm here, that doesn't have any reads here or concerns for PA with respect to the on-time, on-budget conversation. And then subsequently to your prospects for PA Phase 2, as you think about like that continuous construction mantra that I think you've previously articulated here and expectation for cost.

Jeff Martin

Yes. There's actually two questions there. I think let me speak to the read through to Port Arthur first. And then Justin, I think it would be really helpful to talk about your excitement on Port Arthur Phase 2.

So really quickly, a short answer to your question is Port Arthur LNG Phase 1 is not impacted, Julien, you know this, it's a different market. It's a different craft labor pool, it's a fully wrapped EPC contract with what we think is the best EPC contractor in the business, which is Bechtel. So I think that's one of the things that we're not as concerned about. What we encountered in ECA was unique to the craft market in Baja California. We feel very good about Port Arthur Phase I. But Justin, I think it would be helpful to Julien if you don't mind walking through where you're at on Phase 2.

Justin Bird

Absolutely. Hi Julien, as Karen mentioned in her prepared remarks, we've had a number of exciting announcements recently. As you referenced, we executed a fixed price EPC agreement with Bechtel. Bechtel is doing incremental pre-FID work, and we're excited to move this project forward while targeting cost and construction efficiencies by have them roll uninterrupted from Phase 1 to Phase 2.

Secondly, we announced the execution of an HoA with Saudi Aramco for 25% of the project equity and 5 million tonnes per annum of off-take. This demonstrates the global demand for LNG out of Port Arthur and more broadly, the value of low-cost and secure U.S. LNG. I might add that commercial discussions are progressing very well and there is a reasonable likelihood that the remainder of our volume is under similar HoA-type agreements in the coming months.

And I hope we will have -- be in a position to provide continued positive progress on our third quarter call. From a permitting perspective, we've already received our FERC permit and FTA export, and we're now awaiting the non-FTA export permit which, again, we do not expect to impact our FID decision timing.

And as a reminder, with Sempra's planning convention, since Port Arthur 2 is not -- has not reached a positive FID, it is not included in our plan and represents significant new growth opportunities. Julien, we can't be more excited about what we're seeing at Port Arthur Phase 2.

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Julien Dumoulin-Smith

Great stuff, guys. We'll see you soon here.

Jeff Martin

Thank you, Julien.

Operator

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

Carly Davenport

Hey, thanks so much for taking the questions. I wanted to ask just on a couple of points on Texas. So I appreciate the updates on the growth outlook there. Wanted to ask on the $13 billion to $15 billion of transmission CapEx that you referenced that was proposed by ERCOT in the Permian. Could you help us think about how large of a share of that spend Oncor could help execute on as we think about that timeframe?

Jeff Martin

Thank you, Carly. I think it would be helpful, Allen, to answer that question directly and then go back. I think you've got some additional color on overall growth in the state, but maybe to tackle the Permian plan first and then talk about the broader opportunity.

Allen Nye

Yes, you bet. Thanks, Jeff, and thanks, Carly. So the Permian plan is presently being discussed in Austin, plan was issued, the PUC's published questions. The answer is due, I believe, on Friday. There may be more rounds of questions. I anticipate there'll be a workshop. And then the goal is to get something issued in the next couple of months, maybe September.

The only thing I can really tell you right now about what we would potentially be building out of that plant until the plan is finalized is when you look at the scope of our operations, and I often talk about, when I'm talking about overall growth on our system, what's happening in West Texas and our Stanton Loop and our Culberson Loop.

Given the scope of our operations in those areas, the amount of substations or end points that we own that could be utilized under a 1938 analysis that we would anticipate on really any plan coming out of this process that we would be a heavy participant in that $13 billion to $15 billion depending on where it comes out. That's probably the best I can do on specifics on the Permian today. Jeff, you want to talk about growth overall.

Just going back, and I know some of this is already out there is in our earnings release. And -- but I generally report on kind of the same categories every quarter, and I'm going to try and break it down into four categories this time. And Jeff has already mentioned, we've talked about our very strong premise growth that continues 20,000 new in the second quarter, still seeing about 2% annually about twice national average.

The second category of transmission points of interconnection, new requests for the quarter, we had 80 -- I'm sorry, 98 new. That's up about 7% over the same quarter last year. Total requests are up 13%, and then we always break those down into generation and LC&I, generation is up 7.5%. The retail or the LC&I is up 22%. And as I mentioned last time, and I've got a little update here, about 25% of that total, which is 341 requests right now, our large load customers that -- for us, that's over 100 megawatts individually. That group presently represents approximately 80 gigawatts of potential load, of which about 74% or 59 gigawatts would come from potential data centers, but the rest of it is fairly diverse from the type of customers. So incredibly strong growth transmission POI on the LC&I or large customer perspective.

I mentioned West Texas earlier strong growth continues there, Far West, Texas, weather zone. Peak is up 9.3% over the 2023 peak already this year. Culberson and Stanton, our two loops, transmission loops that we serve, the Permian and Delaware Basins. Culberson is up 15.5% over the 2023 peak. Stanton is up 1.3% over the 2023 peak so far this year.

And then the fourth category, I mentioned in my opening remarks, but I think they're significant when you consider what we're facing and the opportunities that we're seeing on our system, the new ERCOT study, the load forecast coming out of HB 5066, indicating a peak demand of approximately 152 gigawatts by 2030, up from the 2011 gigawatts that they predicted through 2029.

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And as I've said before, we believe we anticipate, based on our analysis that around 40% of that load could be in our service territory. And then the Permian Basin study that we started with, as I said, $13 billion to $15 billion by 2038 given where our facilities are and how that analysis should work, we would expect to build a significant portion of whatever projects come out of that plan.

So obviously, all that comes with CapEx. Jeff's already indicated how we're going to approach that, probably giving an update in Q4. But I think the significant part of our CapEx, if you look at our $24.2 billion plan, over the next five, which, as I've said before, approximately 70% is growth and 97% or so is recoverable through our trackers.

That's all before the SRP, which we've announced for settlement and principal on today, which is approximately $3 billion, again, details to come in August 16 approximately. That's also before much of the investment that we would need to do in order to serve these large load customers that I just mentioned. That is before what we would get out of any Permian plan. And that is mostly before what we would need to spend to meet the revised ERCOT load forecast of 157 gigawatts by 2030.

So we'll continue to analyze that. We're going to work with our shareholders and our Board like we always do and provide that update on the Q4 call. But we are very, very excited about what we're seeing on our system. We think there's tremendous opportunities to invest throughout our system, and we're looking forward to trying to meet those needs.

Jeff Martin

Thank you, Allen. And Carly, the other point I mentioned, and Allen called this out is that roughly 80% of that capital program is serving growth. And that's important because it puts downward pressure on rate increases related to infrastructure investment.

And secondly, which is really almost unheard of in our industry, roughly 60% of that capital plan is associated with transmission. So just like in California, where we have the TAC, where transmission costs are socialized across all state consumers. The same thing takes place in Texas. So it's a robust capital plan is the plan that's expected to continue to increase. And the good news is, it's directly serving growth without a lot of pressure on affordability and really serving the needs of Texas consumers.

Carly Davenport

That's great. Thank you so much for all that context. Maybe just sticking in Texas for one follow-up. I guess how are you thinking about timing for going back in for another rate case. Just as you think about recent rate cases in Texas CapEx updates, moving pieces on insurance, a lot of things going on. So I'd just love to get your updated thoughts there.

Jeff Martin

Yes. There are some moving pieces. I'll see if Allen wants to add anything to this, one of them is, for example, increase in insurance related to wildfire towers, which I think is a common issue across the state. This is something we continue to evaluate. The good news is we've got the opportunity to either file for some of these selective cost increases on a one-off basis or come back in for a rate case. I think Allen's team hasn't made a definitive decision on that. But Allen, if you'd like to add anything, please. please go ahead.

Allen Nye

Yes. You bet, Jeff. Just briefly, we do -- we evaluate with our Board annually things like the topics you mentioned that might put pressures on us. But we are not required to come back in until the summer of 2027. We'll continue going through this process with our Board. And if things change, we'll make a decision. But right now, we don't have to -- we are not required to come back in until the summer of 2027.

Carly Davenport

Great. Thanks you so much for all the comments and color.

Jeff Martin

Thanks a lot, Carly for joining the call.

Operator

Thank you. And that is all the time we have for questions today. I would now like to turn the call over to Jeff Martin for closing remarks.

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Jeff Martin

Yes, I'd like to conclude, if I could, by recapping several highlights from today's call. Number one, I think it's important for our listing audience to know and understand that we're seeing increased opportunity for investment in Texas. I think Allen did a good job of outlining some of the growth drivers there. I also want to state, I think it's the leading growth story in our sector and we continue to be very bullish on our opportunities in Texas.

Number two, we're very pleased with our strong financial performance for the first half of the year. Karen mentioned this earlier, but we're trending ahead of our internal planning forecast. And number three, with Trevor's leadership and Scott Drury and Caroline Winn, we continue to feel quite positive about the opportunity we have in front of us with the general rate cases here in California because we're continuing to make investments, I think, that are strongly aligned with the public policy mandates of the state.

In combination, we have great confidence in our financial commitments and are reconfirming our guidance ranges for both 2024 and 2025 as well as our long-term growth rate of 6% to 8%. It continues to be an exciting time for our company. And if you have any questions or follow-ups from this call today, please reach out to our IR team.

I would also note that we look forward to seeing many of you at the upcoming Citi and UBS conferences in the next few weeks. And for those of you who are interested, we also invite you to reach out and schedule time to come visit SDG&E's new wildfire and climate resiliency facility. I think you'll find it to be time well spent and come away with a very strong sense of our company's commitment to safety and operational excellence. This concludes our call.

Operator

Thank you for your participation. You may now disconnect.

**Load-Date:** August 6, 2024

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