Alliant Energy Corporation (LNT) CEO John Larsen on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-06-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.94 beats by $0.02 | Revenue of $990.2M (6.63% Y/Y) misses by $-44.21M

Earning Call Audio

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Alliant Energy Corporation (NASDAQ:LNT) Q3 2019 Earnings Conference Call November 7, 2019 10:00 AM ET

Company Participants

Susan Gille - Investor Relations Manager

John Larsen - Chairman, President and Chief Executive Officer

Robert Durian - Senior Vice President and Chief Financial Officer

Conference Call Participants

Alex Morgan - Bank of America

Andrew Weisel - Scotia Howard Weil

Operator

Thank you for holding, ladies and gentlemen, and welcome to your Alliant Energy's Third Quarter 2019 Earnings Conference Call. [Operator Instructions].

I would now like to turn the call over to your host, Susan Gille, Investor Relations Manager at Alliant Energy.

Susan Gille

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

We issued a news release last night, announcing Alliant Energy's third quarter and year-to-date financial results, updated our 2019 earnings guidance range, and announced the 2020 earnings guidance and common dividend target. The earnings release also provided our annual capital expenditure plan through 2023. This release, as well as supplemental slides that are referenced during today's call are available on the investor page of our website at www.alliantenergy.com.

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

In addition, this presentation contains references to non-GAAP financial measures. The reconciliation between non-GAAP and GAAP measures are provided in the earnings release and our quarterly report on Form 10-Q, which is available on our website at www.alliantenergy.com.

At this point, I will turn the call over to John.

A - John Larsen

Thank you, Sue. Good morning, everyone, and thank you for joining us. I look forward to sharing highlights of our strong year-to-date financial and operational performance, along with sharing key elements of our plan to power what's next for our customers and communities. Robert will provide more details on our financial results, our financing plans, and our capital expenditure plan.

Last night in our earnings release, we increased our earnings guidance for 2019, based on the sales performance experienced so far this year, which has been largely driven by weather. Our updated guidance reflects a $0.06 per share increase from the previous midpoint. We are forecasting another year of 5% to 7% growth, our ninth year in a row, and a track record we intend to keep up. For 2020, we expect earnings between $2.34 and $2.48 per share. The midpoint of this range dollars, $2.41, is a 7% increase from our forecasted 2019 temperature-normalized earnings per share of $2.25.

Keeping with our plan to grow dividends commensurate with earnings growth, our Board of Directors has approved a 7% increase in our targeted annual common stock dividend to $1.52 per share. Later in this call, Robert will share more details about our financial results and guidance targets.

Last night, we also shared our five-year investment forecast, which totals $6.8 billion. Our investment plan reflects our continued journey to accelerate renewable energy, a path we've been on for more than a decade. Over the last year, we've been developing a clean energy blueprint. The first phase of this blueprint outlined several areas of investment, with a focus on putting renewable energy to work for our Wisconsin customers and communities. Improving economics, sustainability goals, and delivering on customer expectations are key drivers for our transition to renewable energy.

Last week, we announced a key element of our clean energy blueprint, the expansion of our Wisconsin solar generation by up to 1,000 MW by the end of 2023. We are taking advantage of the continued cost reductions for solar generation, along with the near-term opportunity to capture investment tax credits, which makes solar a cost-effective renewable energy choice for our customers.

When looking to transform our generation fleet, we thoughtfully balanced many factors that include reliability, customer rates, strengthening the communities we serve, and our talented employees who have served our customers with tremendous care and service for decades. These factors will guide us as we evaluate the path for future retirements of our Wisconsin coal facilities. More information will be shared over the course of the coming months, as we further outline these elements in our Wisconsin clean energy blueprint.

Our capital investment plan also reflects the planned investments in our electric and gas distribution systems, designed to ensure our customers continue to benefit from safe and affordable energy. We are planning for the future needs of our customers, and making investments in our communities to help drive economic development opportunities.

Our plans include developing a strong distribution network that enables additional local energy resources, and we plan to move more of our electric lines from overhead to underground, further strengthening the grid and helping to reduce impacts from severe weather events. And our plans are mindful of customer cost impacts. We expect to reduce the number of substations and add devices that use smart sensors to detect problems and improve our response, resulting in more efficient and safe operations.

Now, let me update you on our progress with some of our current strategic projects. In Iowa, we continue to see great progress on the significant wind investments we're making for our Iowa customers. Earlier this year, we placed 470 MW of wind into service, and we're making great progress with the remaining 530 MW of new wind. This will complete our planned 1,000 MW of new wind for our Iowa customers by the end of 2020. We are also nearing completion of our AMI meter deployment in Iowa, with all meters expected to be installed and operating by the end of this year.

For our Wisconsin customers, we're making progress constructing the 150 MW Kossuth wind farm. We expect to place this project in service by the end of 2020, and we're nearing completion of our West Riverside Energy Center, a 730 MW, highly efficient natural gas facility that will be an important complement to our renewable generation resources. We expect to continue our long track record of delivering projects on time and on budget.

The third quarter also saw strong operating performance from our existing gas generation, with year-to-date capacity factors exceeding 70% . Low natural gas prices and strong wind resources resulted in lower fuel costs for our customers. The financial and operational results we are communicating today would not be possible without the dedication of our employees, and the strong community partnerships we have developed. We're delivering on our purpose to serve customers and build strong communities.

Recently, the new Commerce Park in Beaver Dam, Wisconsin was certified by the state for economic development. Later this month, the Ames, Iowa Economic Development Commission will recognize Alliant Energy at the Economic Impact Awards, for our commitment to the Prairie View Industrial Center, and also the Alliant Energy Digital Manufacturing Lab, both located near Iowa State University. These achievements would not have been possible without the countless employees and community officials who contributed their time, energy and talents.

I'm excited about our accomplishments and look forward to achieving our goals for 2020. I'll summarize the key areas of focus. Continuing our solid track record of project execution, completing projects on time, on budget and in a very sustainable and safe manner; advancing affordable and clean energy through smart investments in renewables, high efficiency natural gas, and distribution networks; consistently delivering on 5% to 7% earnings growth guidance, and a 60% to 70% common dividend payout target; and, we will continue to manage the company to strike a balance between capital investment, operational and financial discipline, and cost impact to customers.

With Veterans Day only a few days away, I'd like to take a moment and pay tribute to all veterans, and the many proud veterans that work here at Alliant Energy. I also want to extend my thanks and appreciation to all the military families for everything they do while their loved ones are away from home.

I thank you for your interest in Alliant Energy. I will now turn the call over to Robert.

Robert Durian

Thanks, John. Good morning, everyone. Yesterday, we announced third quarter earnings of $0.94 per share, compared to non-GAAP earnings of $0.85 per share in the third quarter of 2018. Our higher earnings year over year were driven by higher revenue requirements due to an increasing rate base, and the timing of income tax expense. These higher earnings were partially offset by higher depreciation and financing expenses. We provided additional details on the earnings variance drivers for the quarter on Slides 2 and 3.

In the first nine months of this year, temperatures in our service territory have increased retail electric and gas margins by approximately $0.05 per share. In 2018, the year-to-date temperature impacts, net of reserves, for WPL's earnings sharing mechanism and additional performance pay expense were also a $0.05 per share increase in earnings.

As John mentioned, last night we issued our consolidated 2020 earnings guidance range of $2.34 to $2.48 per share. The key drivers of the 7% growth in EPS are related to investments in our core utility business, including WPL's West Riverside generating facility and IPL's wind expansion program. These investments were reflected in WPL's approved electric rates for 2020, and IPL's retail electric rate review settlement, which is subject to the Iowa Utilities Board final decision. Our guidance assumes IPL's new 2020 electric base rates will go into effect in the first quarter of next year.

The 2020 guidance range assumes a 1.5% growth in electric sales when compared to temperature-normalized sales for 2019 . We are forecasting most of this sales growth from commercial and industrial customers.

The details of our capital expenditure plan are shown on Slide 4. For your convenience, we provided a walk from the previous capital plan to our current capital plan on Slide 5. You will see on the capital plan walk, we have increased our forecasted investments in renewables, and decreased electric and gas distribution investments when comparing last year's plan to this year's plan. This is consistent with our objective to make the best investment decisions on behalf of our customers, with a constant focus on customer affordability.

Slide 6 has been provided to assist you in modeling the effective tax rates for our two utilities and our consolidated group. We estimate a consolidated effective tax rate of positive 10% for 2019, and negative 11% for 2020. The additional production tax credits from the new wind projects being placed in service, and the excess deferred taxes being returned to customers in 2020, are the primary drivers for the decrease in the effective tax rate. The production tax credits and excess deferred tax benefits will flow back to customers, resulting in lower electric margins next year. Thus, the decreases in the effective tax rate related to PTCs and excess deferred tax benefits are largely earnings neutral.

We remain very focused on controlling costs for our customers. We continue delivering the benefits from federal tax reform and lower fuel costs to our customers in both Wisconsin and Iowa. In Wisconsin, we will hold electric and gas base rates flat through 2020, by using fuel savings and excess deferred taxes from federal tax reform to offset the cost of utility investments, including the highly efficient West Riverside Energy Center, which will be placed in service in the coming months.

In Iowa, we will be flowing back tax benefits to customers as part of the 2020 test year retail electric rate review settlements. And, as we bring 530 MW of new wind projects into service next year for our Iowa customers, we expect production tax credits and lower fuel expenses to largely offset the impact of increases in renewables rate base. In addition, we have added new wind PPAs and amended the Duane Arnold PPA, which will begin saving our Iowa customers money in 2021.

Moving to our financing plans, which have been summarized on Slide 7. We have completed our 2019 long-term debt financings with the issuance of a $300 million green bond at IPL in September to finance wind generation projects in Iowa. We plan to issue the remaining approximately $200 million of new common equity under the 2019 equity forward agreements by year end.

As we look to next year, our 2020 financing plan includes issuing up to $250 million of new common equity, and up to $950 million of new long-term debt across our two utilities and Alliant Energy Finance. $650 million of long-term debt will be maturing next year, so a majority of the proceeds from the 2020 financing plan will be used to refinance existing debt.

The 2020 financing plan is driven by the robust capital expenditure plans for the utilities, the September 2020 DAC PPA termination payment, regulatory decisions on delivering tax reform benefits to our customers, and the settled IPL rate review, which would increase IPL's allowed common equity component of its capital structure by 200 basis points.

Lastly, we have included our regulatory initiatives as noted on Slide 8. Since last quarter, we filed settlement agreements in both the IPL retail electric and gas test year 2020 rate reviews. We expect the Iowa Utilities Board's decision on these settlements by year end.

We also filed a construction authority request with the Public Service Commission of Wisconsin to expand natural gas capacity by 20% in western Wisconsin. We expect a decision on that filing by the second quarter of 2020. Next year, in Wisconsin, we anticipate filing a Certificate of Public Convenience and Necessity for additional solar generation, and a retail electric and gas rate review for test years 2021 and 2022. These regulatory initiatives are important components of our operational and financial results.

We very much appreciate your continued support of our company, and look forward to meeting with many of you at the EEI Finance Conference next week. Later today, we expect to post on our website the EEI investor presentation, and a November 2019 fact book, which details the separate IPL and WPL updated capital expenditures through 2023, as well as provides updated rate base and construction work in progress forecasts.

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

Question-and-Answer Session

Operator

Thank you, Mr. Durian. At this time, the company will open the call to questions from members of the investment community. Alliant Energy's management will take as many questions as they can within the one-hour timeframe for this morning's call. [Operator Instructions] Our first question comes from Julien Dumoulin-Smith with Bank of America.

Alex Morgan

Hi, good afternoon. This is Alex Morgan dialing in for Julien. Thanks so much for taking my question. Good morning. I was hoping you might be able to give us a little bit more commentary around your dividend growth rate versus your EPS growth rate, and more or less kind of discuss your different trajectories there.

Robert Durian

Yes. As John indicated in his prepared remarks, we generally have grown dividends in line with our earnings growth, in that 5% to 7%, which you've seen that consistently over the last couple of years, including our projections for 2020, so no real differences between that. We currently have our dividend payout ratio on the bottom half of our 60% to 70% targeted range, but we're generally comfortable with that, as we're going through more of a heavy CapEx cycle right now.

Alex Morgan

Okay, thank you so much. My second and final question is just, if you have any more information about the equity issuance that we should be seeing in 2020? Whether that be potentially a block issuance, how we should be thinking about the ATM going forward and then beyond 2020, what we should more or less be thinking about when it comes to equity for the company?

Robert Durian

Yes, as we announced last night and this morning, we're planning on issuing up to $250 million of new common equity for 2020. To answer your question, beyond 2020 right now, we do not expect any material equity issuances. We do have a direct plan where individual sharers are allowed to reinvest their dividends, which generates roughly about $25 million a year in proceeds. We expect that to continue on beyond 2020, but that's the only equity we see in the foreseeable future.

Regarding the remaining $225 million for 2020, we have had success in the past issuing equity under ATM programs, when we've had smaller needs for equity. Last year, as many of you are aware, we did issue an equity forward for a larger equity issuance of $375 million. This amount, at $225 million really gives us a lot of flexibility to use either one of those types of programs in the future. I had also indicated that the timing of this will largely be dependent on our financing needs and the market conditions, so also a lot of flexibility there.

We have not yet determined what method to use, but see, like I said, a lot of flexibility in our opportunities going forward.

Alex Morgan

Okay, thank you so much. That's all from me. Have a great day.

Operator

Our next question comes from Shar [ph] with Guggenheim Partners.

Unidentified Analyst

Hey guys, how is it going? It's actually James for Shar. I just wanted to ask on the new Wisconsin solar, could you remind us what the recovery route for that would look like? Is it a rider, is it the base rate cases?

John Larsen

Yes, this is John. We would see that as being, as Robert noted in his remarks, we would be looking to file the first regulatory filing for that in the first part of 2020. That would be a CPCN, so that would be through the normal regulatory process and rate review event.

Unidentified Analyst

Okay, got it, yes. Just on the quarter, one of your peers saw some weaker industrial load. It looks like you guys were kind of flat, maybe the customer count was down a little. Are you seeing anything of concern? I know you've had C&I growth in your go-forward, but just any weakness you saw this quarter?

Robert Durian

James, we've seen somewhat lower temperature-normalized sales relative to last year. I think through the first nine months of the year, our temperature-normalized electric sales were about 0.7% lower than last year. This has largely been in our Iowa jurisdiction with our larger industrial customers, due to various operating and business issues with those individual customers, including experienced some pressure as a result of the agricultural economy challenges, because of the ongoing trade issues.

But we are very fortunate, we've got a very diversified mix of industrial customers, more agricultural-based in Iowa, and more manufacturing-based in Wisconsin, so nothing significant. I would note too that the lower sales that we have seen are from our industrial customers, so they have generally lower margins, so it's not been enough to have any material impact on our variance drivers for earnings.

The economies in the two states as a measure of unemployment are remaining strong, they are well below the national average, and we have seen some growth in our customer accounts. I think we've added about 5,000 electric customers relative to this time last year.

So, all in all, no concerns from us, but we're definitely watching some of the ongoing trade issues as it impacts our agricultural-based economies in the two states.

Unidentified Analyst

Got it. Thanks, guys.

Operator

[Operator Instructions] Our next question will come from Andrew Weisel with Scotiabank.

Andrew Weisel

Good morning, everyone. Congrats on the IPL settlement. I've got a couple of questions, I know it still has to be approved, but my first question is, I know you had a lot of intervenors on board, maybe 15 or so. Of the parties that didn't participate, what were some of the sticking points? Do you see those as potentially turning into a big deal?

John Larsen

Yes, Andrew. I'll maybe start out. We had many of the intervenors that did sign on, so we are very pleased with that. There are a number of parties that intervene just to be part of the process, so I would probably characterize it as, those that had most of the interest in the rate case were signed-on parties to our ultimate settlement. But again, there are some parties that are part of the rate proceeding, which is typical in any rate proceeding. I'll ask Robert if there's anything else you want to add on to that.

Robert Durian

No, I'd say the ones that did not sign on were just there to more learn about the process and for information purposes, not necessarily to influence the process.

John Larsen

Yes. Thanks for the question.

Andrew Weisel

Okay, so from what you can tell then, there are no debated points, anything around rate design, perhaps? Or, are they more fine-tuning issues, in your mind?

Robert Durian

Yes, just to be clear, as part of the settlement process, we really aligned around the revenue requirements. The rate design issues still are pending, and we had to go through a hearing process with the Electric Rate Review to discuss those issues. Those were not part of the settlement process, and will be decided by the Iowa Utilities Board when they make their final decision by the end of this year.

Andrew Weisel

Got it. Okay, that makes sense. And then similarly, I believe there's a lot of talk about the rider for renewables and you've got, as you mentioned, 1,000 MW in Iowa by the end of next year. Can you may be talk about your latest thinking about whether you might want to file again in 2021 or 2022? All assuming that the rider is in the final IUB decision, that is.

Robert Durian

We really see the renewable energy rider as a win from a perspective with that, so we think the chances of us having to file again next year are very remote at this point, assuming it gets approved by the Iowa Utilities Board. With that rider, and the fact that most of the rate-based additions we see in 2020 are with the wind projects we're putting into service in Iowa, we don't expect a need in 2020 to file another rate case.

Andrew Weisel

Okay, great. One last one on the CapEx walk. You showed the buckets there, I appreciated the reconciling, basically, the old forecast versus the new one. It looks like a good amount of spending was pushed from 2019 to 2020. Was there anything specific you can point to as far as an overall trend, or is that just a bunch of individual things that happened to all be moving in the same direction?

Robert Durian

I think it's more of the latter, Andrew. What we saw is in 2019, we have had some extreme weather conditions in our service territory. We had a very extreme cold spell in the first quarter of 2019. We've also had, I would say, wetter-than-normal conditions, and that created a few challenges for us when it comes to some of the wind farms that we're trying to put into service in 2020. Nothing significant. We're very confident that we're still going to get these wind projects in on time and at or below budget, but they have pushed out some of those wind projects, maybe a few months, and so you see a little bit of that spilling over into 2020. But no concerns from my perspective

Andrew Weisel

All right, thank you. That's very helpful.

Operator

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

Susan Gille

With no more questions, this concludes our call. A replay will be available through November 14, 2019 at 888-203-1112 for US and Canada, or 719-457-0820 for international. Callers should reference conference ID 4175543 and PIN 9578. In addition, an archive of the conference call and a script of the prepared remarks made on the call will be available on the investors section of our company's website later today.

We thank you for your continued support of Alliance Energy, and feel free to contact me with any follow-up questions.

Operator

Well, thank you. And that does concludes today's conference. We do thank you for your participation. Have a wonderful day.