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FirstEnergy Corp (FE) CEO Chuck Jones on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-04-19 Earnings Summary

Press Release *Slides*

EPS of $0.76 beats by $0.03 | Revenue of $2.96B (-3.30% Y/Y) beats by $48.09M

Earning Call Audio

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00:00 -52:25

FirstEnergy Corp (NYSE:FE) Q3 2019 Results Earnings Conference Call November 4, 2019 9:00 AM ET

Company Participants

Irene Prezelj - VP, IR

Chuck Jones - President and Chief Executive Officer

Steve Strah - Senior Vice President and Chief Financial Officer

Jason Lisowski - Vice President, Controller and Chief Accounting Officer

Eileen Mikkelsen - Vice President, Rates and Regulatory Affairs

Conference Call Participants

Shahriar Pourreza - Guggenheim Partners

Julien Dumoulin-Smith - Bank of America

Praful Mehta - Citigroup

Stephen Byrd - Morgan Stanley

Paul Patterson - Glenrock Associates

Michael Lapides - Goldman Sachs

Charles Fishman - Morningstar Research

Paul Fremont - Mizuho Securities

Andrew Weisel - Scotiabank

Sophie Karp - KeyBanc Capital Markets

Gregg Orrill - UBS

Operator

Greetings, and welcome to the FirstEnergy Corp Third Quarter 2019 Earning Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session fill follow the formal presentation. [Operator Instructions]. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Irene Prezelj, Vice President, Investor Relations for FirstEnergy Corp. Thank you, Ms. Prezelj. You may now begin.

Irene Prezelj

Thanks, Rob. Welcome to our third quarter earnings call. Today we will make various forward-looking statements regarding revenues, earnings, performance, strategies and prospects. These statements are based on current expectations and are subject to risks and uncertainties. Factors that could cause actual results to differ materially from those indicated by such statements can be found on the Investors section of our website under the earnings information link and in our SEC filings. We will also discuss certain non-

GAAP financial measures. Reconciliations between GAAP and non-GAAP financial measures can be found on the FirstEnergy Investor Relations website along with the presentation, which supports today's discussion.

Participants in today's call include Chuck Jones, President and Chief Executive Officer; Steve Strah, Senior Vice President and Chief Financial Officer; and several other executives in the room, who are available to participate in the Q&A session.

Now, I'll turn the call over to Chuck.

Chuck Jones

Thank you, Irene. And good morning, everyone. This morning, we announced strong results for the third quarter with GAAP earnings of $0.73 per share and operating earnings of $0.76 per share. Consistent with our nearly five year track record of delivering on our commitments to you, our third quarter operating earnings exceeded the midpoint of our guidance range. As a reminder, when we held our second quarter call, we were waiting for our final outcome related to our Ohio Distribution Modernization Rider. Because of this, the third quarter guidance we provided to you included a $0.06 benefit from the DMR. While the rider was ultimately removed from our Ohio rate plan, I'm pleased that we were able to offset its absence during the quarter through a combination of favorable weather compared to normal, the continued strong execution of our customer service oriented growth strategy and O&M discipline.

For the full year, we're narrowing our 2019 operating earnings guidance to $2.50 per share to $2.60 per share. This reflects our solid results year-to-date as well as the absence of the DMR in the second half. We're also providing 2020 operating earnings guidance of $2.40 per share to $2.60 per share and affirming our projection for 6% to 8% of compound annual operating earnings growth from 2018 through 2021.

I know you're anxious for us to communicate both our CAGR and equity plans beyond the 2018 to 2021 timeframe. We will provide this information as soon as it makes sense once we've completed our internal financial planning process. That should not be taken as any indication that either of these will ultimately be disappointing to the market. It's simply that

I am very protective of our five year track record of meeting or exceeding every commitment we have made and I need to get the detailed planning in place before getting ahead of that process.

Now, let's review our progress with our customer focused growth strategies at our utilities. In late August, each of our four Pennsylvania utilities filed new Long-Term Infrastructure Improvement Plans or LTIIPs for the 2020 through 2024 period. The filings outline our plans to invest $572 million over that timeframe to accelerate infrastructure improvements and enhance service reliability for more than 2 million customers in Pennsylvania. These investments build on earlier improvement plans and included targeted projects that are designed to reduce the frequency of electric service interruptions for customers and shorten the duration of outages when they do occur.

Major initiatives will include; replacing older infrastructure with new poles, overhead lines, underground cables, substation equipment, network valves and manholes, reconfiguring circuits to minimize customers impacted by service interruptions and installing more advanced smart devices that can detect and isolate problems to help quickly restore power to impacted customers. The work outlined in the LTIIP programs accelerates infrastructure repairs, improvements and replacements while also introducing new investments to enhance our distribution, infrastructure and service reliability. We expect to recover the costs associated with the LTIIP through the DSIC rider mechanism.

We look forward working with the Pennsylvania Public Utility Commission to have the plans approved by the end of the year, so work can begin in early 2020.

Before we move from Pennsylvania, on our last call, we mentioned that we were in discussions to transfer the responsibility for decommissioning Three Mile Island Unit 2 to a subsidiary of EnergySolutions, LLC. This would remove any future nuclear decommission obligations from FirstEnergy and further simplify our regulated focus. In October, we signed that agreement, which includes transferring the plant, property, nuclear decommissioning trust and plant license as well as the associated liabilities and responsibility for decommissioning. While the agreement is subject to regulatory approvals, we expect transfer to take place around the second half of 2020.

Turning to Ohio, we are beginning to implement our $516 million three-year Grid Modernization program, which was approved by the Public Utilities Commission in July. We're laying the groundwork to begin construction on these projects during the first quarter of next year. Our investments include the installation of 700,000 smart meters and related infrastructure, building an advanced distribution management system in our Ohio Edison Illuminating Company and Toledo Edison service areas, selling automated equipment on at least 200 distribution lines that can automatically isolate problems, prevent entire circuit outages and quickly restore electric service to customers, installing voltage regulating equipment on more than 200 circuits to provide energy efficiency benefits by optimizing voltage levels on the distribution grid.

In addition, we have committed to developing time varying rates that give customers the opportunity to reduce their monthly electric bill by using energy during off-peak periods. Together, these modernization projects are expected to help reduce the number and duration of power outages and allow our customers to make more informed decisions about their energy usage. As you'll recall, the Grid Mod order also fully resolved the impact of the Tax Cuts and Jobs Act and we began implementing those tax savings for customers on September 1.

Later this month, we expect to file plans with the PUCO to implement a decoupling mechanism in Ohio. As we discussed last quarter, decoupling breaks the link between utility revenue and the amount of electricity consumed by customers. This supports continued energy efficiency efforts while ensuring that our utilities have adequate resources to continue providing safe and reliable power to our customers. Our plan ensures that residential and commercial customers pay no more for base distribution service than was charged in 2018. After our filing the commission will have 60 days to review and approve the application.

Moving to our transmission business, last week we filed a plan with FERC to our move New Jersey transmission assets onto a forward-looking formula rate structure effective January 1, 2020. The JCP&L transmission assets are currently on stated rates based on a settlement approved by FERC in February of 2018. A rate moratorium that was part of that settlement will expire on December 31. Our forward-looking formula rate plan would support energizing the future investment needs in New Jersey including approximately $175 million in capital spending planned for 2020. We expect an initial response from FERC by the end of December.

Finally, in mid-October the bankruptcy court approved FES' plan of reorganization. FES has stated that it plans to emerge as an independent company with a new name by the end of this year.

Now, let's look ahead to next week, when we will see many of you at EEI. At the meeting, we forward-looking to sharing with you our new corporate responsibility report and strategic plan. These reports support our commitment to increased transparency and engagement with investors, customers and other stakeholders, while providing a platform to track our progress as we transition to a cleaner, smarter and more sustainable energy future. Corporate Responsibility Report is aligned with the five pillars of our mission statement. It includes extensive detail on our initiatives from reducing the environmental impact of our operations and upholding high standards for corporate governance, to advancing employee and public safety while building a diverse and inclusive workplace.

The report includes our initial steps to provide data in alignment with the global reporting initiative and the Sustainability Accounting Standards Board metrics as well as links to our policies. We plan to update the Corporate Responsibility Report annually including a data refresh next year in alignment with our 2019 annual report.

At EEI, we will also introduce our first public strategic plan using the foundation of our seven core values, the plan clearly articulates our vision for the next five years. It includes our approach to the rapid changes in our industry, fueled by involving customer expectations, emerging technologies and a lower-carbon economy. As we have continuously demonstrated over the past several years, FirstEnergy and our dedicated employees are prepared to meet any challenge as we work together to deliver energy for a brighter future.

Thank you for your time. We've made great progress this year and we remain focused on executing our strategies for a sustainable customer focused growth that will continue to build value for our investors, customers, communities, and employees.

Now, I'll turn it over to Steve for a review of the third quarter.

Steve Strah

Good morning. It's good to speak with you today. Before I begin, I will remind you that all reconciliations and other detailed information about the quarter are available on our website in the strategic and financial highlights document. Also, you will recall that because of the preferred shares issuance in January 2018, we have been presenting our operating results and projections on a fully diluted basis to ensure the best comparative view of our performance. As of August 1, all of the outstanding preferred shares were converted to common stock.

Now, let's review our results. Our third quarter GAAP earnings were $0.73 per share. Operating earnings were $0.76 per share. As Chuck mentioned, this was above the midpoint of our guidance. In the distribution business, earnings decreased compared to the third quarter of 2018, primarily as a result of more moderate weather compared to the very hot conditions last summer. Results for the third quarter of 2019 also reflect the absence of the DMR in Ohio as well as higher expenses and depreciation. These factors were slightly offset by a lower effective tax rate and lower net financing costs.

Distribution deliveries decreased slightly compared to the third quarter of 2018 both on a natural and weather-adjusted basis. Cooling degree days were 22% above normal for the third quarter, but 9% lower than the third quarter of 2018. Residential sales were down 2.2% on an actual basis compared to the third quarter of 2018, but slightly increased on a weather-adjusted basis. We continue to see a very slight increase in weather-adjusted residential sales over the last 12 months.

Third quarter sales in the commercial customer class decreased 3.8% on an actual basis and 2.9% when adjusted for weather compared to the third quarter of 2018. This change was driven largely by lower demand in the education sector, partially due to the implementation of energy efficiency measures as well as decreases in the food and beverage and real estate sectors. In our industrial class, third quarter load decreased 1% as continued growth in the shale gas sector was offset by lower usage from steel, automotive and chemical manufacturers, including the impact of the shutdown of the GM Lordstown plant earlier this year.

While we continue to watch these trends very closely, load for each customer segment remains in line with our forecast with bright spots including stable residential customer usage and modest growth in both residential and commercial customer accounts.

Looking at our transmission business, earnings increased primarily as a result of higher rate base at our formula rate companies related to the continued investments in the energizing the future program. And in our corporate segment, third quarter results reflect lower operating expenses in the absence of a third quarter 2018 contribution to the FirstEnergy foundation.

Before we open the call to your questions, we have a few other financial matters to discuss. First, it is our custom to providing estimate of the annual pension and OPEB mark-to-market adjustment which is a non-cash item along with third quarter results. Based on market conditions as of September 30, we estimate that adjustment to be in the range of $400 million to $1 billion. As always, the final adjustment will be determined by the discount rate and asset returns at the end of the year.

Our return on assets currently stand at a solid 17% plus for 2019. Looking ahead, if these results hold through the end of the year, we would be on track to decrease our 2022 funding requirements by approximately $140 million. In addition, while the lower interest rate environment resulted in a higher pension liability, our funded status has slightly improved to 78% from 77% at year end 2018.

Second, during the third quarter we successfully expanded our corporate term loans and now have a $1 billion one-year facility and a $750 million two-year facility. We will evaluate refinancing some or all of these amounts into the capital market sometime next year. Finally, we met with the rating agencies earlier this quarter to review our progress on our goals as a fully regulated company with an improved risk profile. We expect all three to provide normal course updates on our entities possibly as soon as EEI.

Thank you. We continue to be committed to executing our strategies and meeting our commitments to investors. Now let’s take your questions.

Question-and-Answer Session

Operator

Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is coming from the line of Shar Pourreza with Guggenheim Partners. Please proceed with your question.

Shahriar Pourreza

Just a quick question on the pension. So, with pension coming in better than expected, can you just maybe talk a little bit about how you think about the flexibility that could sort of provide if these results kind of hold i.e lowering future equity needs post '21. You've talked about pension as being one of those levers versus using that flexibility to deploy additional capital. So any thoughts on how we should think about the incremental flexibility that you could get?

Chuck Jones

I think the way you think about is Shar as what Steve said in his prepared remarks is that we don't have no required pension contribution through 2022, so -- and it's reduced our 2022 requirement by about $140 million. So between now and 2022, I don't think it has any direct impact on our business. It just has an impact on the funding requirement that we will ultimately see out there in the future.

Steve Strah

Shar, this is Steve. Just to put a little finer point on that. Our next required funding requirement is in 2022 and that looks to be $240 million.

Shahriar Pourreza

And just lastly on JCP&L and sort of the transmission opportunity there. As you guys look to roll to formula rates, can you just remind us if that makes deploying capital more attractive or you're sort of already had that full run rate there? So is there opportunities to deploy additional capital by going to formula rates?

Chuck Jones

I think formula rates obviously are our preferred mechanism. They provide the benefit of being very transparent to investors, very transparent to customers and regulators. I think they clearly result in a return of cash based -- both return on and return of capital investment in a more timely fashion to allow additional reinvestment back into future projects. So we talked about what we have planned for 2020 in JCP&L. But as we go forward, obviously, I think transmission formula rates are our preferred mechanism, and we will have now pretty much all of our company except for the former Allegheny transmission system on formula rates once FERC approves us.

Operator

The next question is from the line of Julien Dumoulin-Smith with Bank of America. Please proceed with your questions.

Julien Dumoulin-Smith

So I just wanted to follow-up a little bit on some of the more detailed assumptions embedded in the guidance, especially for '20. What are you thinking about with respect to the decoupling filing in Ohio? I suppose, how are you thinking about reflecting that in '20 to the extent to which it is already? I guess that that might be more of a risk reduction profile than the earnings impact, but I'd be curious. And then related to that, how do you think about '19 and the inclusion? I thought there was a potential for a true-up depending on the specific timing here. If you can elaborate?

Chuck Jones

Well, I'll answer the last part first. I don't think it's going to have any impact on 2019. We expect to file the decoupling rates and the commission has 60 days to approve them. So, they're likely won't approve them this year, I don't think. As far as how I look at it, I think it establishes a fixed cost for the base distribution costs in Ohio. Obviously, the DCR and the Grid Mod riders are on top of that. But by establishing the fixed base, it's going to accomplish what the legislature tried to do. It allows us to continue to promote energy efficiency with our customers so that they can get the benefit of that without impacting our base revenues.

I think you pointed out the risk piece of it. It fixes our base revenues and essentially it takes about one-third of our company and I think makes it somewhat recession-proof. So, I get a question a lot about where I'm worried about a future recession. It's 2 million customers in Ohio that this is going to help make sure that that doesn't impact us. And I think

Julien Dumoulin-Smith

Are you assuming it or it's unclear?

Chuck Jones

Assuming what?

Julien Dumoulin-Smith

The decoupling filing in '20.

Chuck Jones

Yes. It will be -- I'm -- we're assuming it will get approved in 2020. Yes.

Julien Dumoulin-Smith

And then related, if you can just clarify the last question just a little bit further. The funding requirement in '22 for pension is $240 million or is not? Sorry, I apologize about the back and forth, there. I just want to clarify that.

Steve Strah

It stands at $240 million right now based on our projections, Julien.

Julien Dumoulin-Smith

How do you think about -- or let me try to back up here and not be too granular. How do you think about the overall earnings growth trajectories enabled by that level of equity funding as you kind of rethink and rebase going forward? And I know I'm not -- hopefully, I'm not getting too far ahead of your more strategic thoughts here, but I'd be curious.

Chuck Jones

Julien, I'm not sure I even understood that question to be honest with you.

Julien Dumoulin-Smith

How do you think about rebasing on a going forward basis as you roll forward next year, given what seems like a better pension outlook?

Chuck Jones

I don't think it's going to affect our plans for growth in the future in any fashion, Julien. And as I said in my prepared remarks, I mean, we'll get to giving you the CAGR and our equity plans when I'm comfortable with it. To plan on a company like ours three to four years out, it's a challenging process and it involves 10 operating companies, including our transmission business, look at project by project, what they plan to execute out in 2022 and beyond. It involves a lot of analysis around things like market performance and interest rates and growth economy versus recession economy and we're doing all that right now and I learned a term in engineering school called swag. I've never been willing to apply that to what I give to you. And I'm very protective of this record that we've established of every time we've given a commitment to you in the last five years, including the commitment on a major restructuring initiative, we've hit it. And we're getting close, but it's just a complex process and as soon as we're done, we'll communicate what the future beyond 2021 looks like.

Operator

Our next question is from the line of Praful Mehta with Citigroup. Please proceed with your questions.

Praful Mehta

So, maybe just on the growth, if your guidance as we looked at 6% to 7% or 6% to 8% growth and you take the midpoint of that and imply what it means for 2021 and you compare it against midpoint of 2020, suggests a growth of about 5%, 5.5% between '20 and '21. So, I guess, just the slope of that growth, just wanted to check, is that just more of what it is between '20 and '21 but not an indication of long-term growth? Are you still comfortable with the 6% to 8% longer term from there? Just wanted to get any color on that would be helpful.

Chuck Jones

Well, I think I've said twice now. I'm not going to give you what we expect our CAGR to be beyond that. But I also said, I don't think you're going to be disappointed when we ultimately do give it.

Praful Mehta

I'll take that. Maybe moving to the credit side, you guys mentioned that you had constructive dialog with the rating agencies. Is there, in your view, going to be a lower threshold of what is required given the improved business risk profile? And also connected to that, how do you think about the whole co-leverage at this point? Is there a certain level that you're looking to maintain as a percentage of total debt?

Chuck Jones

Well, I'll let the rating agency speak for themselves. We do talk with them frequently and they are very aware of our plans. As far as whole co-leverage, I wish it wasn't what it is. But at the same point, as I've discussed in the past, we are comfortable that we can deploy about $3 billion of capital investment in our transmission and distribution system. That's what's driving the growth of this company and do it in a way where we will eventually grow into a stronger balance sheet. We could deploy back some of that cash towards maybe some of the holding company debt. But I just don't think that's the right thing to do for shareholders over the long-term. So we're going to continue to take our cash investment in growth, and then, as I said, we'll tell you what that's going to look like for the future coming up soon.

Praful Mehta

And just one final thing, on Slide 24 of your Factbook, you have the weather-adjusted distribution deliveries and the growth rates. It looks like most of the states are negative except West Virginia, which looks like meaningfully constructive and positive, especially on the industrial side. So maybe, if you can touch on what's driving the other states and what specifically in West Virginia supporting that growth?

Steve Strah

This is Steve Strah. In West Virginia, the growth is primarily driven by the shale gas industry. It continues to be very resilient and seems immune to any of the discussion that we've heard about with regard to recessions or the trade tariff issue. So, West Virginia is really driven by that. Overall, as we have talked in our past, we project load growth in general, however, to be flat to slightly positive. And that's really just our six-state territory and where we see the economy going. I would also remind you that within our business plan, we take a conservative approach to these projections, and we've proven over time to be very accurate in doing it.

Operator

Our next question comes from the line of Stephen Byrd with Morgan Stanley. Please proceed with your questions.

Stephen Byrd

I just wanted to follow up on the New Jersey filing that you put in. You mentioned, Chuck, in your prepared remarks, you expected a response from FERC by the end of the year. I'm just not that familiar with this process. Is this something that's fairly procedural and shouldn't be subject to link the review or are there sort of elements that could require more protracted deliberation?

Chuck Jones

I think it's a pretty simple case. I wouldn't see any reason that FERC couldn't act on it.

Stephen Byrd

Understood. And then just following up on Shar's question just in terms of the benefits there. I appreciate what you had said, Chuck, in terms of just contemporaneous return being able to redeploy more capital. Is there a greater potential for further spending in the state? Do you see -- and maybe away from this filing specifically, but just other objectives, longer-term projects or items that are sort of on your longer-term wish list that you might think about further after this filing?

Chuck Jones

Well, I think across our entire footprint, we have already identified about $20 billion worth of transmission projects that we believe need to be completed. So, it's just a matter of, as we look at how do we deploy nearly $3 billion of capital every year, there is a rack and stack process that we go through that prioritizes where that money is spent for the most effective benefit for customers. And if in the end, it means that we would spend more in New Jersey, we'll spend it in New Jersey, but we have formula rates in Pennsylvania and Ohio also. So, it's more how are the projects stack up that drive us where to spend. I don't think you should expect us to materially expend more capital than what we've committed to, which is around $3 billion a year.

Operator

Our next question is from the line of Paul Patterson with Glenrock Associates. Please proceed with your questions.

Paul Patterson

Just the FERC has put out a few orders in the last couple of months that seem to be oriented towards increasing competition or cost containment with respect to transmission projects sort of per quarter 1,000 sort of follow-up kind of stuff, I guess, is the best way to describe it. And as you know, there is also some procedural stuff going on with stakeholder process at PJM. And I was just wondering what your thoughts were about your perspective on these orders and these efforts?

Chuck Jones

Well, I think, PJM, in particular, has a very transparent process already that affects these supplemental projects. And since that's where we operate, I'll comment on that. Because it's transparent, it's caused some of the questioning that goes on. But I will tell you that the projects that we do in transmission today, about half of the money is spent on PJM RTEP projects already. So those are already projects that PJM are saying are needed for future reliability reasons. And the rest fall into the category of what I call good asset management practice. And I think for the regulator, whether that be FERC or even the state commissions, to try to get too involved in how we do asset management as a business would be a mistake, because we're the one ultimately responsible for making sure that this grid is reliable and resilient and able to perform for customers, not just today, but for the long-term and the projects that we're doing just fall into the typical asset management decisions you make when you're running a bulk electric -- a piece of the bulk electric system and a system that serves 6 million customers.

Paul Patterson

Okay. So generally speaking, you'll see these efforts bringing about any more competition into the space that you're currently expecting to invest in. Is that the right way to think about it?

Chuck Jones

Not as it relates to what we're doing at FirstEnergy. The average project size inside this $1.2 billion of transmission spend, the average project size for us outside of the RTEP projects is about a $1 million to $1.5 million. These are small projects. I can't believe anybody is going to really be interested in trying to bid them and I would point out they're competitive bid already, because we competitive bid -- if we're putting in a new circuit breaker, we competitive bid that with numerous suppliers. If we're using a contractor to do that work, we competitive bid that work. So these projects are already competitive bid. And I don't think you're going to see anybody else that has the buying power or the capability that we have to competitive bid them cheaper anyway.

Paul Patterson

Okay. And the other projects, you don't think are going to be subject to it either, the larger ones?

Chuck Jones

Some of them are already subject to that. But no, I don't see it changing significantly from the way we do business today.

Operator

The next question is from the line of Michael Lapides with Goldman Sachs. Please proceed with your questions.

Michael Lapides

I know a lot of people want to ask about 2029 guidance, but I'd actually like to focus on next year first. Your transmission guidance is actually implying a pretty low growth rate relative to the midpoint of your 2019 transmission guidance, right? Your 2019 range had about $0.85 as a midpoint, your current guidance for 2020 transmission, a couple of cents higher. Is there a significant slowdown in transmission growth if that's starting to kick in as law of big numbers starting the impact kind of the ability to grow at kind of within the range, the 6% to 8% range? I'm just curious how you're thinking about the growth at the transmission business over the next couple of years and especially into 2020 over '19?

Jason Lisowski

Yes, Michael, this is Jason Lisowski, Chief Accounting Officer. So you're right, in 2019, we did have a little bit of additional O&M in our stated rate at transmission companies. So that was about a penny, penny and a half of additional O&M. So that reduced the '19 from the original guidance. But as you look into 2020, you'll see in the Factbook on Page 56 that we are showing about $0.04 increase year-over-year and that's the natural transmission growth that Chuck and Steve were talking about. But we do have a little bit higher interest expense mostly at FE transmission that holding company there issuing some additional debt. So we have some additional interest there.

Michael Lapides

And then when you think about rate base growth in transmission, do you think rate base growth in the transmission business is a 6% to 8% level or is it even higher than that?

Chuck Jones

It's higher than that. I think in the 10% to 11% range.

Michael Lapides

And then one last thing for cash flow. Can you remind us going forward what if any cash payments do you have to make to the FES stayed effectively over the next couple of years? As part of the original settlement there, what's left?

Steve Strah

Michael, this is Steve Strah. We have a $225 million payment that's due to FES upon emergence. We will also at that time issue a tax note that will be due in 2022 for $628 million. That's our current plan and those are the commitments that have already been subject to being made public. So we're just going to continue to follow the agreement.

Michael Lapides

Got it. And can you walk me through how the cash flow in the accounting metrics for the tax note will work?

Jason Lisowski

Yes. Michael, this is Jason Lisowski again. So that's going to be issued as a note, and then once it's paid, that's when it will come through. So it's obviously non-cash until we actually pay it in 2022.

Operator

The next question is from the line of Charles Fishman with Morningstar Research. Please proceed with your questions.

Charles Fishman

Thank you. Just one question. Corporate other up about 10% '20 over '19. I see what the Factbook says. Missing in the Factbook is any general corporate expenses. So, I'm making the assumption that the downsizing with respect to FES is going -- or went to plan.

And then, any more color you can provide on those other two bullet points on the Factbook, the income tax rate going higher and looks like higher interest expense too? Thank you.

Jason Lisowski

Yes. Charles, this is Jason Lisowski again. So our corporate O&M expenses really predominantly get allocated out to the distribution and transmission. So only think really left at corporate is any tax planning initiatives that we have and the holding company interest. And so to your point on '19 to '20, we did have a little bit of a tax benefit, some discrete items as we got the tax return for '18 finalized in '19. We're not expecting those types of benefits to go forward. So you are seeing a little bit higher the tax rate and a hurt, if you will, '19 to '20, from the effective tax rate.

Charles Fishman

And what about interest expense? That was listed in the Factbook.

Jason Lisowski

Yes. So, the interest expense is just related to our holding company debt.

Charles Fishman

More debt, higher rates or?

Chuck Jones

No. It wouldn't be more debt. I mean, interest rates are fairly flat, if not going lower from the term loan. So, I'd have to actually go in and take a look to find out what's driving it.

Charles Fishman

Okay. But the important thing is we shouldn't expect that kind of acceleration going forward?

Chuck Jones

Not at all.

Operator

Your next question is from the line of Paul Fremont with Mizuho. Please proceed with your questions.

Paul Fremont

Thanks. If I look back to your second quarter disclosure, it looked as if you were expecting sort of the underfunded pension position to improve by roughly $500 million. Is the update today should we assume that, that $500 million improvement does not take place at least for at the end of this year?

Chuck Jones

I'm not sure what you're looking at in the second quarter disclosures, Paul, but...

Paul Fremont

I think, you go from 77% funded, this is Slide 59 of the second quarter Factbook, to 82% funded in 2019. And now it looks like, I think from your disclosure or from what you were saying on your slide, your improvement is not 82%, it's to 78%.

Steve Strah

So, Paul, it's Steve. So the $500 million voluntary pension contribution that we made in the first quarter is the driver. So we went from 77% at the end of '18 to 78% funded status, but the other piece of this is the pension liability increased by $1.5 billion. So we went from $9.1 billion at the end of '18 to about $10.6 billion at the end of September.

Paul Fremont

Right. So when you end the year, the underfunded pension should still be in the range of $2.1 billion at least based on where interest rates are today, right?

Steve Strah

If everything holds, the underfunded pension position will be around $2.3 billion. So, it will be up $200 million versus where we ended 2018.

Paul Fremont

Got it. Okay. And then on the transfer of the transmission, do you need New Jersey approval or is it purely FERC approval?

Eileen Mikkelsen

Good morning. This is Eileen Mikkelsen and I'm Vice President of Rates and Regulatory Affairs. And FERC is responsible for approving the JCP&L transmission transfer to a forward formula rate.

Paul Fremont

Okay. So there is no New Jersey approval involved?

Eileen Mikkelsen

New Jersey can certainly participate in the process, but not involved in the approval of the applications.

Paul Fremont

And then on the decoupling in Ohio, aside from rebasing, does decoupling give you any type of assumed percentage increase on a go-forward basis or is decoupling essentially just sort of a weather assumption?

Chuck Jones

I think it's fixing our base rates and what it does compared to anything else is dependent on what you think is going to happen with the economy, what you think is going to happen with weather, what you think is going with happen with energy efficiency, et cetera, et cetera. So what it really does is it locks in our fixed base revenues at 2018 levels and I don't know how to compare it to anything else. So that part is going to be a certainty and then the DMR and the Grid Mod is on top of that as we make the investments that we're making in the Ohio companies.

Paul Fremont

Okay. But aside from going back to 2018, we should not assume percentage increases on a go forward basis associated with that?

Chuck Jones

No. It's going to fix them until our next base distribution rate case in Ohio.

Operator

The next question is from the line of Andrew Weisel with Scotiabank. Please proceed with your questions.

Andrew Weisel

My first question is on rate cases. The Factbook now shows that you're continuously reviewing considerations for rate cases in New Jersey and West Virginia. That's a bit of a change in the wording. Are you intending to signal a change in the messaging and maybe any high level thoughts on when those next rate cases might come in those two states?

Chuck Jones

I wasn't intending to signal anything but I'll have Eileen update you on what we're looking at as far as future rate cases.

Eileen Mikkelsen

Thanks, Chuck. This is Eileen Mikkelsen and again really as it states in the Factbook, we are continuously reviewing the investments that we're making in our jurisdictions, the recovery associated with those investments and using that information to make our best judgments about when it's appropriate to file for future rate cases.

Andrew Weisel

Okay. So you're not suggesting that it might come sooner, given the change in wording. Is that fair?

Eileen Mikkelsen

I think the change in wording was really trying to be more precise about the process we use to make that evaluation.

Andrew Weisel

Good to hear. Then second, I'm hoping you could help me reconcile some of the guidance updates. Again, in the Factbook here, it looks like you -- on the transmission side, you increase your rate base forecast by around 2%, but the CapEx figures are unchanged. And then it's sort of the opposite on distribution where the CapEx numbers are now at the high-end of the prior ranges, yet the rate base forecasts have actually come down a little bit. Can you maybe just walk us through how to reconcile those two things that seem a little bit at odds?

Eileen Mikkelsen

This is Eileen Mikkelsen. We did an evaluation as we always do looking at rate base and particularly as it relates to West Virginia and Maryland, we refined our assumptions, our separation studies associated with accumulated deferred income taxes as well as the distribution versus transmission assets. So that's what you see is kind of that re-racking and stacking associated with that further refinement of that analysis.

Andrew Weisel

So, certain assets were switched basically from one rate base to a different rate base? Eileen Mikkelsen - FirstEnergy Corp. As well as certain balances associated with accumulated deferred income taxes, yes.

Operator

Our next question is from the line of Sophie Karp with KeyBanc Capital Markets. Please proceed with your questions.

Sophie Karp

Just one conceptually to ask you about how as the regulatory mechanisms evolve across a few of your jurisdictions, you're moving transmission in New Jersey to similar rates, there is decoupling in Ohio. If that makes may be capital allocation to these distribution utilities, do these jurisdictions are really more attractive versus transmission growth in the longer term?

Chuck Jones

Well, I think we're deploying capital where it's best fit to serve our customers better. And it right now out of average, call it $3 billion. About $1.2 billion of that is in transmission, $1.8 billion is in distribution. I don't think you're going to see that change a lot, but we clearly do prefer very transparent rate mechanisms. We mentioned on the call that we just filed another long-term infrastructure plan in Pennsylvania. The DCR and the Grid Mod in Ohio are very transparent riders. We have utilized the new rider in New Jersey for the first time starting last year and then we have transmission formula rates. And that $3 billion, a little over 60% of that is being deployed in these mechanisms that are very transparent and return cash back to the business quicker for reinvestment.

Sophie Karp

And on Maryland, real quick, smaller part of the overall picture, but what are your thoughts on -- are you going to participate in the potential multi-year rate filings there?

Eileen Mikkelsen

This is Eileen Mikkelsen. And we have been actively participating in those stakeholder discussions relative to the multi-year rate plan rules in Maryland. We expect those final rules to be issued beginning of 2020 and then we'll evaluate the application of those to our Maryland distribution utility at that time.

Operator

Thank you. Our next question is a follow-up from the line of Michael Lapides with Goldman Sachs.

Michael Lapides

Two questions. These are a little bit housekeeping, probably Steve-oriented. One, what's the tax rate for income statement purposes you're embedding in guidance for 2020 and how should we think about whether you're paying cash taxes? That's the first question. And then a follow-up, coming back on the Transmission thing, you're -- I'm looking at Slide 13, you're forecasting 11% rate base growth CAGR but you're forecasting EPS growth of, like not quite 5%. I'm just trying to true-up, is all of that just intermediate holding company leverage that's weighing on that growth or is there something else in there in 2020 I'm not thinking about?

Jason Lisowski

Yes. Michael, this is Jason. So on your first question, if you look at Slide 56 of the Factbook in the lower right-hand corner, we note what our assumed consolidated and business unit segment tax rates. So we're expecting in 2020 to be around 21% to 24%. I'll just also mentioned that Charles had a question on the corp other, the interest expense that's increasing, that's predominantly because of that FES note that $628 million that will be issued upon their emergence. So we're assuming that will be issued at the end of this year, so we'll have that interest cost next year. And then going back on the cash taxpayer, we right now do not expect to be a federal cash taxpayer through at least 2024.

Operator

Thank you. And we have a follow-up from the line of Gregg Orrill with UBS. Please proceed with your questions.

Gregg Orrill

In Ohio, where do you stand versus achieving the energy efficiency mandates from the legislation? And secondly, are there any additional details around the timing of the FES re-emergence process?

Chuck Jones

Eileen will take the first half and I'll take the second.

Eileen Mikkelsen

Thank you, Chuck. With respect to the energy efficiency standards, the Public Utilities Commission of Ohio recently released a report really suggesting that all the utilities in the state were very close to that target and in fact opened up a comment period to seek comments from folks relative to what happens when we achieve that House Bill 6 mandated 17.5% level.

Chuck Jones

And as far as the FES process goes, it's not our process at this point. The court approved the restructuring plan. Every aspect of it as it affects FirstEnergy has been clarified. But what they've said is they expect to get the nuclear licenses transferred yet this year and emerge yet this year.

Operator

Thank you. So thank you all. We'd had a greater quarter. Look forward to seeing you all next week at EEI. Take care.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.