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NiSource Inc. (NI) CEO Joe Hamrock on Q3 2019 Results - Earnings Call Transcript

Oct. 30, 2019 12:58 PM ET
by: SA Transcripts

Earning Call Audio

Subscribers Only

00:00 -57:14

NiSource Inc. (NYSE:NI) Q3 2019 Earnings Conference Call October 30, 2019 9:00 AM ET

Company Participants

Randy Hulen - Vice President of Investor Relations & Treasurer

Joe Hamrock - President & Chief Executive Officer

Donald Brown - Executive Vice President & Chief Financial Officer

Conference Call Participants

Julien Dumoulin-Smith - Bank of America

Shar Pourreza - Guggenheim Partners

Insoo Kim - Goldman Sachs

Steve Fleishman - Wolfe Research

Christopher Turnure - JPMorgan

Michael Weinstein - Credit Suisse

Greg Gordon - Evercore ISI

Andrew Levi - ExodusPoint

Charles Fishman - Morningstar Research

Operator

Ladies and gentlemen, thank you for standing by and welcome to the NiSource Third Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers presentation there will be a question-and-answer session [Operator Instructions].

I would now like to hand the conference over to your speaker today, Mr. Randy Hulen, Vice President of Investor Relations and Treasurer. Please go ahead, Sir.

Randy Hulen

Thanks, Skyler, and good morning, everyone and welcome to the NiSource third quarter 2019 investor call. Joining me today are Joe Hamrock, Chief Executive Officer; and Donald Brown, Chief Financial Officer. The purpose of this presentation is to review NiSource's financial performance for the third quarter of 2019 as well as provide an update on our operations, growth drivers and financing plans. Following our prepared remarks, we'll open the call to your questions. Slides for today's call are available on nisource.com.

Before turning the floor over to Joe and Donald, just a quick reminder, some of the statements made during this presentation will be forward-looking. These statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. Information concerning such risks and uncertainties is included in the MD&A and Risk Factors sections of our periodic SEC filings.

Additionally, some of the statements made on this recording relate to non-GAAP measures. For additional information on the most directly comparable GAAP measure and a reconciliation of these measures, please refer to the supplemental slides and segment information, including our full financial schedules available at nisource.com.

With all that out of the way, I'd like to turn the call over to Joe.

Joe Hamrock

Thanks, Randy. Good morning, everyone, and thank you for joining us. Our NiSource teams continue their relentless focus on our core commitments of safety and customer satisfaction and our long-term utility modernization programs that enhance safety and reliability while driving our financial results.

We've also made significant progress on our electric generation strategy in Indiana with the approval of the Rosewater wind project and the filing of a second joint venture wind project Indiana Crossroads. Our execution through the third quarter has positioned NiSource to meet our financial commitments for 2019 and today we're initiating guidance for 2020.

There's much to cover, so let's turn to Slide 3 which summarizes our key accomplishments through the third quarter and early fourth quarter. Consistent with our long-term growth commitments, we expect to deliver non-GAAP net operating earnings per share in the range of $1.36 to $1.40 and to make capital investments of $1.7 billion to $1.8 billion in 2020.

As we've stated before, we expect to grow our non-GAAP earnings per share and dividend by 5% to 7% annually and to make capital investments of $1.7 billion to $2 billion each year through 2022. Our third quarter 2019 non-GAAP net operating earnings were $0.00 per share versus $0.10 in 2018.

Donald will address the drivers for the quarter in a few minutes but I will emphasize that NiSource remains well positioned to deliver net operating earnings per share within our $1.27 to $1.33 guidance range for 2019. We expect to complete $1.7 billion to $1.8 billion in capital investments in 2019, slightly above our initial forecast for the year.

We're making solid progress on our foundational commitment to safety including accelerated implementation of a Safety Management System or SMS. Our SMS is aligned with the framework, developed for pipeline operators by the American Petroleum Institute. SMS is a comprehensive approach to managing safety, emphasizing continual assessment and improvement in identifying and mitigating potential operational risks proactively.

As part of our SMS work, enhanced risk management processes have been introduced at each of our Gas Distribution companies. Our SMS team has completed its first set of risk asset analysis which will help inform our maintenance priorities and investment decisions. The team has also introduced a Corrective Action Program or CAP, which offers a simple way for our employees and contractors to report safety concerns and provides a systematic process to review, prioritize, address and track progress to reduce risk. This program is available across our gas business in support and corporate functions.

In addition to SMS implementation, safety enhancements to our low-pressure Gas Distribution systems remain a priority. Teams have installed more than 1000 automatic shutoff devices across the NiSource footprint this year, including completing all installation of these devices in Massachusetts and Virginia. These automatic shutoff devices operate like circuit breakers to provide an additional level of control and protection. When the device senses an operating pressure that is too high or too low, it is designed to immediately shut down natural gas to the system, regardless of the cause. Our teams have also located and mapped all of our nearly 2,100 low-pressure regulator station control or sensing lines. We use this information to add new details into our electronic mapping systems.

Earlier this month, we named Chuck Shafer to the newly created position of Chief Safety Officer. Reporting directly to me, Chuck is accountable for driving our long-term multiyear outlook and roadmap to reduce risk, providing an independent view and source of safety expertise and risk analysis across all NiSource companies. He is leading a centralized safety function to provide structured oversight and expertise in assuring rigorous emphasis on safety.

Our electric generation strategy continues to advance in Indiana. We've issued our second request for proposals for replacement capacity. The RFP is consistent with our 2018 integrated resource plan, which calls for the retirement of nearly 80% of our remaining coal-fired generation by 2023 and all coal generation to be retired by 2028 to be replaced by lower-cost cleaner options.

The Indiana Utility Regulatory Commission has approved the joint venture agreement for our Rosewater wind project and we recently filed a CPCN application for a second joint venture wind project, Indiana Crossroads. The hearing in our electric base rate case concluded in August and we expect an IURC order in the fourth quarter with new rates effective in January 2020.

Turning now to Massachusetts. The National Transportation Safety Board or NTSB, last week issued a final report in its investigation of our September 2018 event in the Merrimack Valley. Last month, the NTSB also closed two open urgent safety recommendations issued last year. The NTSB had made four such recommendations to NiSource in November 2018 and has now deemed our responses to these urgent recommendations as acceptable.

With the NTSB investigation now complete, the Massachusetts Department of Public Utilities announced its own investigations of the incident in our emergency preparedness and response. In mid-August, we completed our restoration efforts in the Merrimack Valley. This restoration included the replacement of all customer equipment impacted by the event and fulfilled our commitment to have that work completed by September 15. We also repaired outdoor areas affected by our fall 2018 construction work, including residential lawns, irrigation systems, walkways, driveways and state roads throughout the impacted communities.

A dedicated team remains in place, providing support to impacted customers, assisting with claims processing and providing repair support on appliances and heating equipment. As announced in September, we launched a verification process which involves inspections of gas service lines abandoned as part of the fall 2018 recovery work in Greater Lawrence. These verifications as required by the Massachusetts Department of Public Utilities are confirming that the service lines were abandoned, consistent with legal requirements and in compliance with our procedures and protocols.

As we find any service line abandonments that didn't meet those requirements, we are correcting the situation immediately. We completed the initial set of 700 verifications by the required deadline of October 18. The second set of approximately 2,200 verifications is well underway and expected to be complete by November 15.

And as announced late yesterday, we are planning to verify the remaining approximately 2,000 service lines by year-end. These verifications are being done on abandoned service lines which are not connected to an active gas system and therefore will not disrupt gas service to our customers. We know that recent events in the Merrimack Valley have led many to lose trust in Columbia Gas of Massachusetts and the customers in the affected communities are worried about whether they're safe in their own homes.

We take responsibility for that loss in security. And as part of our comprehensive efforts to rebuild confidence and trust, we brought in an experienced safety leader who knows Massachusetts. Earlier this month, we named Nick Stavropoulos as Chief Safety Advisor at Columbia Gas of Massachusetts, reporting directly to me. Nick has led several of the country's largest gas companies, including PG&E, National Grid and KeySpan and has the judgment experience and relentless safety focus to help us through these challenging times.

Now, I'd like to turn the call over to Donald, who will discuss our financial performance in more detail. Donald?

Donald Brown

Thanks, Joe, and good morning everyone. Looking at our third quarter results from slide 4, we had a non-GAAP net operating loss of about $2 million or $0.00 per share compared to net operating earnings of about $35 million or $0.10 per share for the same period in 2018. The biggest drivers of our third quarter non-GAAP financial performance compared to a year ago were higher net revenues, due to the impact of our long-term infrastructure modernization investment, which were offset by increased safety-related spending and higher financing costs. Our 2019 year-to-date net operating earnings are in line with our plans, which puts us on track to achieving our 2019 guidance of $1.27 to $1.33 per share.

Before turning to our liquidity and financing plan, I'd like to address Greater Lawrence incident expenses. Our total estimate, which is detailed on slide 9 has remained unchanged from our Q2 earnings release.

Going forward with the restoration work complete and the service line verification work nearing completion, we continue to not expect any significant future adjustments to the estimate. However, as a reminder this estimate excludes any amounts we may incur for potential fines and penalties.

Also as we previously stated, we expect to recover a substantial portion of our Greater Lawrence incident costs through the $800 million of casualty insurance coverage and $300 million of property insurance in place at the time of the event. We started submitting claims in December 2018 and have collected casualty insurance recoveries of $670 million through September 30th and expect to collect the remaining $130 million for early next year.

We also have filed proof of loss with our property insurer for the full cost of the $255 million to $260 million capital investment that we made in replacing the 45 miles of pipe following the event. As the insurance recovery process moves forward, we'll continue to provide quarterly updates on our progress.

Now turning to slide 5. I'd like to briefly touch on our debt and credit profile. Following the August issuance of $750 million of 10-year notes at 2.95% interest, our total debt level as of September 30th was about $9.5 billion, of which about $7.7 billion was long-term debt.

The weighted average maturity of our long-term debt was approximately 17 years and weighted average interest rate was approximately 4.4%. At the end of the third quarter, we maintained net available liquidity of about $1.4 billion, consisting of cash and available capacity under our credit facility and our accounts receivable securitization program. Our credit ratings from all three major rating agencies are investment grade and we're committed to maintaining our current investment grade ratings.

I'd now like to turn to slide 6, which covers our financing plan for our long-term growth investments. Our current plan is approximately $500 million of long-term debt in 2020 and continue to include annual equity in the range of $200 million to $300 million from our at-the-market or ATM equity issuance program, as well as $35 million to $60 million from our Employee Stock Purchase and other programs. Our ATM continues to be consistent with our approach to provide balanced predictable financing for our ongoing infrastructure investments.

The primary change to our financing plan is that we now expect a block equity issuance in the range of $500 million to $700 million in 2020. This change is driven by the need to permanently finance the Greater Lawrence event, which excluding the capital investment is estimated to cost approximately $1.4 billion. This total cost estimate is offset by casualty insurance recoveries that are expected to total $800 million and that leaves approximately $600 million to be financed.

We evaluated several different approaches to this incremental financing needs and determined that the best option to maintain our credit profile and to achieve our 5% to 7% annual non-GAAP EPS growth commitment is to pursue a common equity issuance in 2020.

In our analysis, we believe common equity is less costly than hybrid security alternatives therefore we are no longer planning to issue any hybrid securities such as preferred equity in 2019 or 2020. As Joe mentioned earlier in the call we expect to deliver non-GAAP net operating earnings per share in the range of $1.36 to $1.40 in 2020, which includes the impact of this updated financing plan. This is consistent with our long-term forecast to grow our net operating earnings per share and dividends by 5% to 7% annually through 2022 and we expect to make $1.7 billion to $2 billion at annual capital investments each year from 2020 through 2022.

Now I'll turn the call back to Joe for a few infrastructure investment and regulatory highlights.

Joe Hamrock

Thank you, Donald. Now let's turn to some specific highlights for the third quarter and early fourth quarter of 2019 from our gas operations on slide 7. In Maryland our base rate case request remains pending before the Maryland Public Service Commission. Filed in May, the request supports continued replacement of aging pipelines and adoption of pipeline safety upgrades.

If approved as filed the request would increase annual revenues by approximately $3.7 million including $1.2 million of current infrastructure tracker revenue. A commission order is expected by the end of 2019 with rates in effect in January 2020.

In Ohio, the Public Utilities Commission in August approved its first annual adjustment to our Capital Expenditure Program rider. The CEP rider, which was first approved by the PUCO in 2018, allows us to recover capital investments and related deferred expenses that are not recovered through our infrastructure modernization tracker. The approved adjustment allows us to begin recovery of approximately $122 million in capital invested in 2018. New rates became effective in September.

In Indiana, our latest tracker update request in our long-term gas infrastructure modernization program remains pending. The request covers $12.4 million in incremental capital investments made between July 2018 and April 2019. An Indiana Utility Regulatory Commission order is expected in the fourth quarter of 2019 with rates effective November 2019.

I would also note that we filed a notice to terminate our current program in anticipation of filing a new plan application by year end. Also in Indiana, the IURC last month approved our PHMSA compliance plan, covering approximately $230 million of capital expected to be invested between 2019 and 2023.

In Kentucky, we filed our annual rider update application in our accelerated main replacement program, covering approximately $40 million in planned capital investment. Included in that filing is a request to recover capital that will be spent on our low-pressure systems safety enhancement work.

Now let's turn to our Electric Operations on slide 8. In August, the IURC approved the joint venture and ownership agreement for Rosewater, one of three wind projects that NIPSCO announced in February 2019. The IURC in June approved Power Purchase Agreement applications for the other two projects Jordan Creek and Roaming Bison.

And earlier this month, NIPSCO filed an application with the IURC for a fourth wind project, Indiana Crossroads, a joint venture with EDP Renewables North America LLC, which will have an aggregate nameplate capacity of 302 megawatts. It is expected to be in operation in the fourth quarter of 2021.

As I mentioned earlier, NIPSCO on October 1 announced the opening of its second request for proposals to consider potential resources to meet the future electric needs of its customers. Consistent with the 2018 Integrated Resource Plan, we will consider all sources in the RFP process, which closes November 20.

Our goal is to transition to the most economical, cleanest electric supply mix available while maintaining reliability, diversity and flexibility for technology and market changes. The hearing concluded in August in our electric base rate case, which remains pending before the IURC. Prior to the hearing, we filed two partial settlement agreements in the case.

The April settlement addresses our revenue requirement, federal tax reform and depreciation schedules related to the early retirement of our coal-fired generation plant called for in our 2018 IRP. If approved as filed, the partial settlement is earnings neutral and allows for a return on equity of 9.9%.

In May, we reached a settlement with the industrial group, which resolves many issues related to implementing a new service structure for industrial customers. An IURC order is anticipated in the fourth quarter of 2019 with new rates effective in January 2020.

We continue to execute on our seven-year electric infrastructure modernization program, which includes enhancements to our electric transmission and distribution system designed to further improve system safety and reliability.

The IURC approved TDSIC program represents approximately $1.2 billion of electric infrastructure investment expected to be made through 2022. Our latest tracker update request covering $131.1 million in incremental capital investments made from December 2018 through June 2019 remains pending before the IURC. An order is expected in the fourth quarter 2019 with rates effective in January 2020.

Before revisiting our key takeaways for the quarter, I'd like to highlight a couple of milestones. In September, NiSource was named to the Dow Jones Sustainability North America Index for the sixth consecutive year. We were one of three U.S. multi-utility companies on the list, and it reflects advancements we continue to make on our sustainability strategy, which includes aggressive greenhouse gas reductions and executing against more than $30 billion of long-term infrastructure investments.

Customers and investors alike expect our companies to deliver energy safely, reliably and in an environmentally responsible and sustainable way. We continue to focus on delivering on all of these dimensions. And if you haven't seen it, I encourage you to read our 2018 climate report, which we published on nisource.com in August.

The report incorporates recommendations from the Task Force on Climate-Related Financial Disclosures or TCFD to disclose governance, strategy, risk management, and metrics around climate-related risks and opportunities. We've taken an industry-leading approach to addressing climate change by developing plans that result in a project in 90% reduction of our greenhouse gas emissions by 2030, including a projected 50% reduction in methane emissions from natural gas distribution mains and service lines by 2025.

Before we turn to the Q&A portion of the call, I'll share and reiterate a few key takeaways. Consistent with our long-term growth commitment in 2020 we expect to deliver non-GAAP net operating earnings per share in the range of $1.36 to $1.40 and to make capital investments of $1.7 billion to $1.8 billion.

NiSource remains well positioned to deliver net operating earnings per share within our $1.27 to $1.33 guidance range for 2019. We expect to complete $1.7 billion to $1.8 billion in capital investments in 2019, slightly above our initial forecast for the year. Our long-term investment-driven growth plan is intact and resilient. Inclusive of the adjustments made to our financing plans, we continue to expect to grow both net operating earnings per share and our dividend by 5% to 7% annually through 2022. And we expect to maintain our current investment-grade credit ratings.

Safety remains the foundation for all that we do and we're advancing that commitment with our accelerated SMS implementation across our seven-state footprint. Through SMS, we're increasing our rigor to identify risks and taking action to keep our employees, contractors, customers and communities safe. And we continue to execute on safety enhancements to our low-pressure system. Our electric generation strategy is advancing with three wind projects approved and the fourth one proposed and the second RFP with three wind projects approved and the fourth one proposed and the second RFP issued to identify additional sources to replace our coal capacity. Our electric base rate case is on track with partial settlements in place and the hearing on contested issues complete and an IURC order expected this quarter.

Significant milestones have been achieved in our recovery from the Merrimack Valley event with the NTSB issuing its final report, and the second phase of the restoration completed. We continue to work to rebuild confidence and trust in the community. We're working diligently to assure the quality of last fall's construction work and we brought in an experience gas safety leader, who knows Massachusetts.

Thank you all for participating today and for your ongoing interest in and support of NiSource. We're now ready to take your questions. Skyler?

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Julien Dumoulin-Smith with Bank of America. Your line is now open.

Julien Dumoulin-Smith

Hey, good morning to you.

Joe Hamrock

Good morning, Julien.

Donald Brown

Good morning.

Julien Dumoulin-Smith

Hey, howdy. So perhaps just to kick things off. Just on the capital front. I know you guys have been talking a good bit about gas safety over the year prospectively continue to talk about it. We'd be curious how you think about this CapEx of $1.7 billion to $1.8 billion relative to that kind of longer-term trend through 2022. How do you think the cadence is? How do you think even that guidance through the 2022 period meshes with the potential further spend or effort on gas safety holistically?

Donald Brown

Thanks, Julien and good morning. We look at that our long-term guidance on capital both the $1.7 billion to $2 billion that we've got there. There's a lot of focus on the gas side. We certainly haven't seen significant changes on the investments, because of the SMS approach. We're still early in that process. And I think it won't necessarily change that guidance level, but will change the components of the investments we make in each state there.

When you look at the increase to $2 billion over the next couple of years we've got a couple of significant projects. One in Ohio that's really a looping project in Central Ohio where we've had some significant growth which runs through a tracker program. So that's the real increase that you'll see over the next couple of years in our guidance.

Julien Dumoulin-Smith

Got it. And then perhaps, if I can ask you with respect to the incremental equity financing in 2020, how do you think about perhaps some of the puts and takes against reaffirming the longer-term 5% to 7% EPS CAGR? I understand there's a range for reason. I understand that this is a discrete item against the longer-term outlook. But I would be curious, if you perceive other items here whether in 2020 or onwards that might otherwise mitigate the dilutive impact of the incremental equity here.

- Donald Brown

Yes. When we look at the long-term, certainly the plan for next year, but also as we build out the long-term plan that our infrastructure investments and as you see on one of the charts in there there's a significant portion of our investments that are going into trackers. And so we're getting pretty quick returns back on those investments and that really does support the $500 million to $700 million of equity that we've outlined for next year. So we're confident in our ability to meet those commitments and think that we've got certainly levers on the infrastructure program, but our overall operating plan with continued investment in safety and the gas business.

Julien Dumoulin-Smith

Got it. I'll leave it there. Thank you, guys.

Donald Brown

Thanks, Julien.

Operator

Our next question comes from Shar Pourreza with Guggenheim Partners. Your line is now open.

Shar Pourreza

Hey, good morning, guys.

Joe Hamrock

Good morning, Shar.

Shar Pourreza

Good morning. Can you just real quick -- sticking with Massachusetts, can you just touch on sort of the second gas leak we saw with the restoration project? Is there, sort of, any status or updates? I think the formal investigations have started? And is -- the moratorium that's on non-emergency work do you see any long-term impact in that?

Joe Hamrock

Yes, thanks Shar. That's an important topic to update on. So as we have noted that gas leak did not result in any damage to property or any significant consequences, but it has indeed struck some erosion of confidence and trust and concerns in the community and across the state. So the moratorium as it relates to that is we agree with and we are aligned with the DPU a part of our comprehensive efforts to restore confidence and restore trust. That leak as you know relating to work that was done last year on the rebuild.

So we've taken a hard look at the rebuild itself and we are continuing to verify the service lines that were abandoned throughout that not in any way related to the leak in September. But our efforts there are comprehensive and focused on restoring trust and confidence.

The moratorium itself does two things. It helps to marshal resources for the service line investigations, but also gives us an opportunity to work with the DPU to build assurance of safe operations across the state. We're confident and optimistic that as we work through the remaining phases of the service line abandonment verification and begin to work with the DPU on the audit that we expect to be implemented that we will be on a path to rebuild that trust and confidence and that the moratorium would ultimately be lifted. We don't have a date for that right now, but that's certainly our goal.

In terms of long-term impact, we are factoring in some impacts into our 2020 guidance, but on a fairly moderate basis. We expect the suspension of our modernization work the GSEP work to have an impact in 2020. That's inside the guidance. It's a relatively modest impact on CMA and offset to a degree with capital allocation in other states. So it's something we're navigating through and adjusting to as we go through these steps with the DPU. Yes that's exactly it.

Shar Pourreza

And then just around the rate case. Can we just get a sense on timing? Are you still assuming first quarter? It doesn't seem like, sort of, this moratorium or -- is going to impact the timing. So I guess are you still expecting to file a GRC in the first quarter?

Joe Hamrock

No. We haven't set a date for filing. I think what we've said consistently is we'd look at that early next year we'd start to take a look at that. We have a number of steps we need to work through including the investigations with the DPU. They announced as we noted on the call earlier two investigations. One into the incident last year and the other into the response to the incident. And so working through those will be an important part of the overall process with the DPU as we contemplate future rate case activity.

Shar Pourreza

Got it. And then just lastly on a follow-up on the SMS question from the prior caller. You guys are -- it's preliminary. You're very early in the process. Do you have a sense maybe on the cost of O&M and how that profile can shape as we look to model that on a go-forward basis as you get further into the SMS program?

Donald Brown

Yes. I mean, we've certainly seen some higher cost this year and part of that is really the startup as we look at our process and procedures and roll that out across seven states. I'd say going forward we'll see -- it's a lower increases in the gas segment. We're certainly -- expect that the gas segment will grow 1% to 2% over the next year or so. But the real change comes in our process and procedures and the rigor that we apply to those practices versus increased costs that would drive our overall O&M for the gas segment.

Shar Pourreza

Got it. Okay. I will pass this. Thanks guys.

Donald Brown

Thanks, Shar.

Operator

[Operator Instructions] Our next question comes from Insoo Kim with Goldman Sachs. Your line is now open.

Insoo Kim

Thank you. In regards to the equity issuance, any thoughts or comment you could give on potential timing of that as we head into 2020? Are you potentially thinking about maybe doing a forward in the fourth quarter this year for 2020? And then related to that what weighted average share count should we assume when you're providing the 2020 EPS guidance?

Donald Brown

So, we've got some flexibility on the timing of that equity. We need it by the end of next year to make sure that we hit our rating agency credit targets. So, we haven't determined or decided the timing or how we'll do that including looking at forwards.

But we are -- as you would expect those are all the things that we're looking at and trying to determine what makes the most sense. But we've got some flexibility and certainly don't need it until the end of next year to meet our targets. Randy you have the--?

Randy Hulen

Yes, I think as far as the weighted average share count for this year, it's largely going to be about where the share count is today because we've done most of the activities under a forward that that closes in December of this year that won't really add to the share count on a weighted average basis.

Insoo Kim

So, just to clarify that the $500 million to $700 million that you're assuming at some point in 2020 that's not necessarily embedded in the share count when you're giving the $1.36 to $1.40?

Donald Brown

It will be embedded for next year's guidance, absolutely.

Insoo Kim

Okay. So, that's part of that. And I guess if I'm assuming the midpoint then if I'm spreading that across the year that would probably be relatively a safe assumption of how you're getting to the midpoint?

Donald Brown

You can certainly take that approach.

Insoo Kim

Got it. Just away from that in Indiana with the 300 megawatt Indiana Crossroads wind farm. I assume that was part of the last round of RFPs and kind of separate from the October filing that you guys just made where you're filing for a lot more solar wind and/or storage. Was that the JV in the partial ownership of Indiana Crossroads part of your growth base growth plan into 2021?

And then when it comes to the current round of RFPs, does that satisfy the -- would that satisfy the capacity that -- and the energy necessary for the 2023 timeframe for the coal reductions?

Joe Hamrock

Let me take the last piece first. It's part of the overall solution for the 2023 capacity replacement. The Crossroads filing that we just made mirrors the model that we pioneered earlier with the Rosewater project. The Rosewater was 100 megawatts, Indiana Crossroads is 300 megawatts. As you know Rosewater approved by the IURC, pending at FERC, and we do have private letter ruling support from the IRS.

So, we think we have got a good model in place to follow with the Crossroads project and it is consistent to your first question with the RFP from last year. It follows from that it's not related to the new RFP.

Most of this is beyond the current CapEx guidance. So, most of what we're talking about with these projects falls beyond 2022. So, our new RFP that's out now we would expect to have into our forecast and planning early next year which should put us in a position sometime next year to extend the guidance beyond 2022.

And at that time, we'll be in a much better position to lay out how these projects and any that come out of the current RFP set up for CapEx beyond 2022 and our overall gross guidance beyond 2022.

Insoo Kim

Understood. Thank you very much.

Joe Hamrock

Thank you.

Operator

And our next question comes from Steve Fleishman with Wolfe Research. Your line is now open.

Steve Fleishman

Yes, hi. Thank you. Just wanted to clarify -- hey guys -- the additional equity in the 2020 guidance that -- you're not just assuming it goes in at the end of the year 2020, that's it's kind of average through the year or something like that?

Donald Brown

Let me clarify. We have not determined the timing of that equity. But what I would say is we don't need it until the end of the year. So, it certainly gives us some flexibility to do it during the year or at the end of the year.

Steve Fleishman

Okay. And in the guidance range -- maybe to ask a different way, in the guidance range for 2020, it's not going to really move it much if you do it earlier than right at year end? Is that fair?

Donald Brown

That's fair.

Steve Fleishman

Okay. And then just in terms of the decision. Because back a few months ago you've been reviewing things like preferreds and hybrids and could you maybe just give a little more clarity on why you decided to do -- this is all equity just to be overly conservative or how did you come to that conclusion?

Donald Brown

Just looking at our current stock price, our expectations of what that cost of equity is and issuance costs versus what we're seeing for preferred -- both the preferred equity and the subordinated debt. And since you don't get the 100% credit from the agencies for those subordinated notes the overall cost to us appears to been lower to issue the equity.

Steve Fleishman

Okay. And then on the property insurance decision, is there any way to gauge when you might get a decision from the insurers on that?

Donald Brown

It's still early. So we filed in July with the property insurer. The NTSB report came out in late September. And so we really just started at the process with the insurer that now they have access to the pipe and the report that they can do their due diligence on the claim. And so at this point we don't have any recovery in our plan, but certainly going to go through the process to seek to recover all that we filed for.

Steve Fleishman

Do you have recovery though in Massachusetts in your plan?

Donald Brown

Recovery? What do you mean? In terms of….

Steve Fleishman

Like all the way some kind of a rate recovery for that, if not property recover rate recovery? Or are you just assuming no recovery?

Donald Brown

So from an insurance standpoint, we would wait for the insurance process to fully finish before requesting any type of recovery on the investments we made last year and early this year in Merrimack Valley. So that timing will matter there on how we seek to recover that through customers.

Steve Fleishman

Okay. Great. Thank you.

Donald Brown

Thanks, Steve.

Joe Hamrock

Thank you.

Operator

Our next question comes from Christopher Turnure with JPMorgan. Your line is now open.

Christopher Turnure

Good morning Joe and Don. Most of my questions have been answered, but I wanted to just go back to 2020 drivers. I think you mentioned that O&M would only go up by 1% or 2% in the gas segment. But are there any other kind of major drivers there besides what you've already talked about with potential Massachusetts rate release, interest expense reduction or cost cuts elsewhere? Can you guys hear me?

Donald Brown

I'm sorry. I was muted. So, yes, I do expect that the gas segment will be up slightly year-over-year from an O&M standpoint. But between the corporate segment and the electric segment that will offset an overall O&M should be about flat.

Christopher Turnure

Okay. And then any other kind of major rate relief or other drivers that we might be missing there?

Donald Brown

Well, we're going through that planning now to determine which rate cases if any we would file for next year. As you expect, we're typically in a couple every year across our seven states, but we haven't publicly announced if and when we would file the next rate cases.

Christopher Turnure

Okay. That's all I had. Thanks guys.

Donald Brown

Yeah.

Joe Hamrock

Thanks, Chris.

Operator

Our next question comes from Michael Weinstein with Credit Suisse. Your line is now open.

Michael Weinstein

Hi, guys.

Donald Brown

Good morning, Michael.

Joe Hamrock

Good morning, Michael.

Michael Weinstein

Hey, good morning. On the 5% to 7% growth rate going forward at this point with the extra equity that's out there, are we -- are you expecting to -- that that's going to be the permanent trajectory of $1.30 from 2019 based on that going forward? In other words, there won't be any catch up to the original pre-Lawrence guidance going forward as a result of the additional equity. Would that be fair to say?

Donald Brown

Yeah. I'd really say it's 5% to 7% of off this year's 2019 guidance.

Michael Weinstein

Right, right. So it doesn't -- there's no acceleration coming out of -- from pension asset recovery or faster than expected insurance recoveries or any of that going forward?

Donald Brown

No, not that we're guiding to at this point.

Michael Weinstein

Okay, great. All right. That's all I have. Thank you.

Donald Brown

Yeah. Thank you.

Operator

Our next question comes from Greg Gordon with Evercore ISI. Your line is now open.

Greg Gordon

You know what guys, you guys have answered all my questions. Thank you. Have a good day.

Donald Brown

Thank you. See you soon.

Operator

Our next question comes from Andrew Levi with ExodusPoint. Your line is now open.

Andrew Levi

Hey, guys. How are you?

Donald Brown

Good morning, Andy.

Joe Hamrock

Good morning.

Andrew Levi

Hey, just a few questions. Just on Mass. What percent of your total earnings come from Mass?

Donald Brown

It's about 8% to 9%.

Andrew Levi

8% to 9%, okay. And your CapEx is about $100 million to -- $80 million to $140 million out of your $1.7 billion CapEx budget?

Donald Brown

It's in that range.

Andrew Levi

Okay. So it's really a small piece of your total business and obviously you've taken quite a ding there as far you're -- what you had to put out. But as you stated that seems to be kind of done now. So it seems there's a -- do you guys feel there's an overemphasis on the financial impact going forward not what it was on this part of your -- this segment of your total business, which I guess the rest is 75% tracked? Your earnings are fairly predictable.

Donald Brown

No, I think it is a very good point financially Andy. It is a smaller portion of our business from an earnings standpoint and so it does have less of an impact going forward. But I also understand the concerns and questions that investors and other stakeholders have on that business and how that impacts overall NiSource. But yes it is a smaller portion of our earnings and our capital going forward and that does allow us because we're in six other states to have some flexibility to meet our earnings and growth commitment.

Andrew Levi

And as far as the timing of the equity issuance which is again not that big of an issuance, is that going to happen this year? Or will it not be issued until next year?

Donald Brown

No, we will not do it this year. Certainly with the insurance recoveries coming in faster than expected, we're confident that we'll meet our credit targets for 2019 and so it's definitely a 2020 issuance.

Andrew Levi

Okay. That's helpful. And then the last thing is for Joe. If you kind of look at where the stock is trading whether it's on 2020 guidance or 2021 or 2022 consensus earnings or whether they are a $0.01 higher or lower whatever. They're fairly ballpark I think. The stock trades from anywhere between an 8% to 50% discount to the regulated electric group. Could you kind of just address that and what your thoughts are that they're relative to where you've traded in the past and how as the CEO you plan to fix that?

Joe Hamrock

Yes, thanks, Andy. I think that some of that goes to your earlier question. The core value of the business is intact resilient. We laid out a lot of the investment and regulatory profile even on this call for this year and looking ahead to next year with our guidance. So if you kind of follow the long trajectory here and add to that the work we're doing with our risk analytics and SMS, we see the same if not an enhanced pipeline of the infrastructure investment activities through the foreseeable future then supplement that with the work we're doing to position generation investments in our generation portfolio repositioning work. I'd say we're in a strong, if not a stronger position than we were a year ago set aside Massachusetts and the impact of the Greater Lawrence incident, which as we've talked about today much of the cost of that is now well defined and well accounted for in our plan. So I think it really becomes that core execution strategy and that core execution story that we've always had with a much enhanced level of rigor and risk analytics driving that as we go forward.

Andrew Levi

Okay. Thank you for that. And then just a clarification on the equity timing. So even if -- you're not going to even do a forward this year right? It won't be issued until sometime next year. Is that correct? Or you're just saying as far as when you will actually reflect it?

Joe Hamrock

Exactly. I think we've got some flexibility to do a forward this year. We haven't determined if we will or not, but certainly have flexibility to push equity needs to the end of next year if that's what makes the most sense.

Andrew Levi

Okay. Perfect. Thank you.

Joe Hamrock

Thank you.

Operator

[Operator Instructions] Our next question comes from Charles Fishman with Morningstar Research. Your line is now open.

Charles Fishman

Charles Fishman

Thank you. Donald, can I impose on you to repeat a comment you made? I don't think I understood it. You were talking about the sizing of the block equity issuance next year $500 million or $700 million. And I thought you said, I suspect I got this wrong the logic of it was directed towards Merrimack Valley, $1.4 billion of cost. You're assuming $800 million of recovery of insurance, which left $600 million. That's what was driving the sizing of the block equity issuance did I get that right?

Donald Brown

That's exactly right. Yes, we need to finance that difference long-term and to meet our credit rating targets we need to issue equity for that difference.

Charles Fishman

Okay. And obviously, there's a lot of other costs associated with SMS and other things you're doing outside of Massachusetts that was maybe in part driven by the events in Merrimack Valley, correct?

Donald Brown

I'd say it was accelerated. That's the mass work where we really started about nine months before Merrimack Valley event in September. But we certainly accelerated that activity post the event to make sure that we started to implement those processes and procedures across all seven states.

Charles Fishman

Okay. And then the $100 million increase in CapEx this year, was that SMS just general gas, general -- electric work or all of the above?

Donald Brown

I'd say it's not SMS. I'd say the big change that we had in this past year, was the low-pressure system work, that we started in 2019 to install the devices across all seven states.

Charles Fishman

Charles Fishman

This was just an acceleration of that.

Donald Brown

That's right.

Charles Fishman

Okay.

Donald Brown

So that's a big portion of the change, but I'd say, it's kind of across the seven states including electric. That $100 million increase.

Charles Fishman

Okay. Last question, slide 11, I think it's consistent with the slides in the past, where you show what the -- recovery timing of your CapEx. There's a big drop down between 2019, 2020 and then going forward as far as the percentage that you have to go for a -- just a general rate case. Was that driven by Ohio? Or what drove that drop that ledge right there?

Donald Brown

Going forward into 2020 and 2021, it really is Ohio, with the CEP tracker that we have now that most of the capital or all of the capital expense in Ohio is going through the tracker program as well as just increases in Indiana and some other states.

Charles Fishman

And then, you said that -- I assume then it was this change in Ohio that really drove this big transmission project there that you got coming up?

Donald Brown

That's right. That's right.

Charles Fishman

Okay.

Donald Brown

I think -- to think about is, as you look at the difference between 2018, 2019 and going forward is the investment we made, in Greater Lawrence. Yeah until the $255 million to $260 million is reflected in those two numbers and so you've got that switch of significant rate case investment that we wouldn't have going forward.

Charles Fishman

Okay. That's all I have. Thank you very much.

Donald Brown

Yeah.

Operator

And at this time, I'm showing no further questions. I'd like to turn the call back over to Joe Hamrock, CEO for any closing remarks.

Joe Hamrock

Thank you, Skyler. And thank you all for your engagement today and for your thoughtful and insightful questions. We look forward to seeing many of you at the upcoming EEI Conference.

And until then please make it a safe day. And I appreciate your continued support and engagement. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.