The Williams Companies, Inc. (WMB) CEO Alan Armstrong on Q3 2019 Results - Earnings Call Transcript

Oct. 31, 2019 4:14 PM ET12 comments | 4 Likes
by: SA Transcripts

Q3: 10-30-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.26 beats by $0.01 | Revenue of $2B (-13.20% Y/Y) misses by $-43.67M

Earning Call Audio

Subscribers Only

0:00:00 -1:04:21

The Williams Companies, Inc. (NYSE:WMB) Q3 2019 Earnings Conference Call October 31, 2019 9:30 AM ET

Company Participants

Brett Krieg - Head of IR

Alan Armstrong - President and CEO

Micheal Dunn - COO

John Chandler - CFO

Lane Wilson - General Counsel

Chad Zamarin - SVP, Corporate Strategic Development

Conference Call Participants

Colton Bean - Tudor Pickering Holt & Company

Gabe Moreen - Mizuho

Spiro Dounis - Credit Suisse

Jean Ann Salisbury - Bernstein

Jeremy Tonet - JPMorgan

Alex Kania - Wolfe Research

Praneeth Satish - Wells Fargo

Craig Shere - Tuohy Brothers

Shneur Gershuni - UBS

Derek Walker - Bank of America Securities

Operator

Good day everyone and welcome to the Williams Companies Third Quarter 2019 Earnings Conference Call. Today's conference is being recorded.

At this time for opening remarks and introductions, I would like to turn the call over to Mr. Brett Krieg, Head of Investor Relations. Please go ahead, sir.

Brett Krieg

Thanks Britney. Good morning and thank you for your interest in the Williams Companies. Yesterday afternoon we released our earnings press release and the presentation that our President and CEO, Alan Armstrong will speak to momentarily. Joining us today is our Chief Operating Officer, Micheal Dunn; our CFO, John Chandler, our General Counsel, Lane Wilson; and our Senior Vice President of Corporate Strategic Development, Chad Zamarin.

In our presentation materials, you will find an important disclaimer related to forward-looking statements. This disclaimer is important and integral to all of our remarks and you should review it. Also included in our presentation materials are non-GAAP measures that we reconcile to Generally Accepted Accounting Principles. And these reconciliation schedules appear at the back of today's presentation materials.

And so with that, I'll turn it over to Alan Armstrong.

Alan Armstrong

Great, thanks Brett. And good morning to everyone and thank you for joining us.

And as we discuss our third quarter financial performance and we also will hit on the key investor focus areas of the day as we usually do. So let's move right into the presentation and take a look at our third quarter results.

On Slide 2, we provided clear view of our year-over-year financial performance and as you can see, we continue to enjoy steady growth in our key measures despite the asset sales that we continue to execute on and in fact I'm very pleased to say that our third quarter records for our fee-based revenues, our adjusted EBITDA and of course these were driven by record operated gathering volumes which exceeded 13 Bcf per day in the period and as well record contracted capacity on a regulated gas pipeline and these combined overwhelm the small amount of remaining NGL-margin exposure that was certainly low and in fact about as low as I can remember that we've seen in terms of margin contribution from the quarter.

So really nice to see our strategy of focusing on fee-based revenues and growing that are, coming through at a time where we had a low cycle on commodities but again, we powered through that with the growth in fee-based revenues.

So, taking it from the top and see here our cash flow from operations, which increased 15% for the quarter and 16% year-to-date and this continues to outpace our CapEx and as you can see on a year-to-date basis our CFFO has exceeded our CapEx by over $630 million.

On the next line, we show 7% and 8% year-to-date growth for adjusted EBITDA and I'll have more to say about adjusted EBITDA performance in the next couple of slides and then as you can see, we posted continued growth in adjusted earnings per share of 8% for the third quarter and 23% year-to-date even stronger than our adjusted EBITDA increases.

And on DCF, we were up about 8% and 16% year to date with growth in the per share calculation and continued strong dividend coverage ratio of 1.79 which continues to exceed both our 2018 coverage ratio as well as our guidance for 2019.

And you can see our ending leverage metric for the quarter was 4.47 demonstrating that we are on target with the four or five guidance that we have for the year-end. So overall, nice improvement in our various earnings and cash flow metrics despite the impact of almost $2 billion in asset sales affecting the comparison and much lower commodity price environment that we had in 2018.

So now let's move on to Slide 3 to discuss the main business drivers of our year-over-year adjusted EBITDA growth. Here on Slide 3 where we compare 3Q '19 to 3Q '18. The adjusted EBITDA increased about 7% or almost 10% if you adjust for the bigger transactions that affect the year-over-year comparison.

On the left side of the slide, you can see in gray that we have unfavorable $47 million comparability adjustment which includes removing the adjusted EBITDA from the various asset sale transactions completed during the last 12 months and then netting out the $13 million favorable item reflecting the addition of the incremental 38% UEOM ownership interest.

And so that's the additional interest that were not consolidating in the Utica East Ohio Midstream business. And so normalizing for those items, you see adjusted EBITDA growing $112 million or almost 10% on this comparison.

So now moving over to look at the financial performance of our continuing business, similar to the first two quarters of this year. Atlantic Gulf led with a 28% increase in adjusted EBITDA driven by topline Transco revenue growth from new expansion projects, of course the Atlantic Sunrise and Gulf Connector were two that were powerful in this comparison and additionally our third quarter 2019 Transco results reflect about $44 million of adjustments related to the settlement were breached in our Transco rate case and of course this recorded through both revenue and other income and expenses. I know there's a lot of questions on that. We look forward to being able to shed more light on that at our upcoming Analyst Day but I will have a little more to say here as we hit slide 5.

Lastly, we did see a temporary drop in our Deepwater volumes associated with tropical storms and producers maintenance activities but Deepwater production is back to normal for most producers now in the fourth quarter and in fact growing in the Gulf East due to new production from Hudak to Northwood ramp up that continues.

So we continue to be very impressed with the activity in the deal flow around our assets in the deepwater and that's another item that of course will spend quite a bit of time at our upcoming Analyst Day on.

Next up, looking at the Northeast G&P area. We see a 17% increase in year-over-year adjusted EBITDA driven by an increase of about 1.3 Bcf a day were 17% higher gathering volumes and higher gathering fees associated with expansion projects.

Volume increases were led by the Susquehanna Supply Hub and the Bradford areas which grew about 850 million cubic feet per day and we also saw double-digit growth rate in all of our other operated Northeast franchises. So overall, our operated assets in the Northeast continue to see very strong growth in volumes across the board.

And finally in the West, we saw about a 16% decline driven by about a $29 million decrease in revenues for our Barnett gathering business. This decrease was associated with the end of some minimum volume commitments in that area and a related step down in deferred revenue amortization.

So that was a one-time step down that was associated with some cash that we had received earlier and that cash was being amortized according to the revenues that we were receiving and so once that MVC step down, it kind of compounded that step down.

The Barnett MVC expired at the end of June '19. And so once that did happen the revenue recognition rate of the fixed payments, we have previously recorded began to be based on actual volumes rather than MVC levels. So this was an expected step down and Barnett revenue recognition for this area and we have been forecasting it but we also saw a $32 million of lower NGL margins in the West as unit margins in the Rockies were down by almost 50%.

Partially offsetting these impacts was a strong growth in the Haynesville, the Eagle Ford and the Rocky Mountain Midstream franchise and the DJ Basin and in fact adjusted for the four Corners area in 2018, our West gathering volumes actually increased by about 2% on this comparison.

And finally, I want to mention our Conway frac and storage business which continues to see strong year-over-year fee revenue growth on the back of the NGL productions in the surrounding areas like the DJ and the Bakken.

So next, let's take a quick look at the adjusted EBITDA growth year-to-date and so now on Slide 4, we show the year-to-date comparison, adjusted EBITDA increased about 8% or about 12% if you adjust for the bigger transactions that affect the year-over-year comparison, pretty similar story year-to-date as you heard. For the third quarter so I won't drag you back through that.

On year-to-date drivers, we see Atlantic Gulf up 24% and the Northeast up about 19% driven by the same factors as we discussed. The West is down about 8% reflecting much lower NGL margins and again the step down in the Barnett revenue that we just discussed and the effects of severe winter weather this year on our Wyoming volumes during the first quarter of '19.

As with the third quarter comparison, our full year West results actually reflect strong growth in the Haynesville, Eagle Ford and the Rocky Mountain Midstream franchise in the DJ as well as our Conway storage and frac business.

So, very happy with the growth we've continue to show in the Atlantic Gulf and Northeast this year and the stability of our volumes in the West and strong revenue growth all leading to an 8% growth in adjusted EBITDA even considering the significant asset sales and low NGL margins and the one-time step down in the Barnett revenue recognition. So overall, operationally really strong performance overcoming a lot of those other structural issues.

As you look over the sequential comparison to the second quarter of 2019 here on Slide 5, I'd point out that overall gathering volumes increased sequentially just over 0.5 Bcf a day to now over 13 Bcf per day for the first time and this was led by a 5% second quarter to third quarter increase in the Northeast and with somewhat negatively impacted by the Deepwater production outages that we previously discussed but the biggest driver 2Q to 3Q in the Atlantic Gulf was a favorable impact of reaching settlement terms with shippers on Transco.

With respect to the lower West results, the one-time step down in Barnett revenue recognition amortization and the MVC expiration drove the decrease from the second quarter and the one-time Barnett step down overshadows what was actually about 4% improvement in gathering volume sequentially in the West.

In fact, our West gathering volume trend continues to hold up well in a very tough commodity price environment and now that we're past the revenue recognition transitions and the MVC expiration, the steady nature of our West operations will become increasingly more visible. The operational cash flows are holding up in the West and the CapEx requirements are coming down, generating significant free cash flow from our West assets.

So overall, we're pleased with our operational performance in the third quarter and it's very encouraging to see the kind of volume growth we continue to generate in the Northeast and the West G&P businesses and in fact is the first time that I can recall our fee-based business growth being able to overwhelm such a substantial decline in commodity prices showing that our move towards a more sustainable and predictable cash flow is now really paying off for our long-term investors.

Now I'm going to move on to Slide 6 and take a look real quickly here at the key investor focus areas. First, on financial guidance. We are reaffirming our current financial guidance for 2019. It's definitely been a challenging commodity price environment for natural gas and NGLs versus the market's original expectations and our own for 2019. But I am pleased to say that it looks like we'll be able to deliver on our financial guidance once again this year in spite of this negative impact.

As this is reflected in our year-to-date results through September 2019 has been a year of strong free cash flow generation and I'm pleased with the way our teams have kept us on track with our original business plan from a year ago and how they continue to exceed expectations on project delivery on generating new business, all while spending less capital than we planned. In fact, despite losing about $100 million of our planned direct commodity margins, we are still on track proving up the diversity of our cash flows and the power of crisp execution by our teams.

Also growth CapEx could easily come in under the low end of our $2.3 billion to $2.5 billion guidance range which as you know has already been reduced once this year and our dividend coverage ratio continues to be better than our $1.7 billion guidance.

Our 2019 results illustrate the steady and strong cash flow growth profile of our large-scale diversified natural gas focused business and the excellent security of our dividend even in a very tough commodity price environment.

Moving on now to 2020 guidance, we're currently working through our 2020 operating and capital plan and intend to provide the 2020 financial guidance at are upcoming Analyst Day on December 5.

At this event, we will also provide our latest views on the sustainability of our natural gas focused strategy and our unique positioning to grow alongside to continue expansion of natural gas as a preferred and vital fuel around the world.

Although we have great confidence in the long-term sustainability of our business strategy, the current low natural gas and NGL prices which are exceeding the long-term growth of natural gas demand have had a pretty significant impact on the forecasted near-term growth from our G&P business, particularly in the Northeast.

And clearly our producer forecasted cash flow that they have available to drill with has been heavily impacted by much lower strip prices for gas and NGLs. And as a result, our 2020 Northeast gathering volume growth forecast has steadily drifted downward.

As we said earlier in the year, we are committed to keeping our guidance up to date with our changes in our producer plans and so we've continued as those forecasts have come in, we've continued to make those changes.

However, as we've said before, confidence in low-cost U.S. natural gas reserves will continue and is continuing to drive strong natural gas demand growth over the long term and there will have to be a call on natural gas focused supply areas given the continuous growth in demand and the stronger than ever capital discipline from the producer community and of course we will be extremely well positioned and are well positioned for the upside associated with that.

As a result, we believe that as long as we continue to see natural gas demand growth that we should see the volume and capacity demand growth necessary to generate the 5% to 7% adjusted EBITDA CAGR that we continue to talk about over the long term to be clear this is not mean that every year we will be exactly in that range, some could be slightly lower and others like this year will be above.

The 2020 financial guidance, we provide in early December will be built off of low strip prices for natural gas and NGLs and because of this we view the guidance is having significant upside as the gas market rebalances. However, we're pleased to say that we have been taking measures to mitigate this risk and our 2020 plan will show the discipline and resulting improvement that we've been putting on our cost structure so realizing we were going to have some risk associated with this, we've taken a big swipe at our cost and team has been extremely effective on doing that.

And so the benefit of that as well as some other continued growth, we believe, will continue to offset the reduction that we continue to see in the Northeast. We will see reduced capital expenditures in the Northeast but we also are very focused on the very strong dividend coverage that that's providing us.

So speaking of growth capital, our 2020 capital budget will be dominated by our regulated pipeline expansions as much of the major build out of our GMP systems will be completed by the end of this year driving even higher levels of free cash flow growth and we had earlier expected.

One of the areas that is beginning to be a big driver of free cash flow growth is the Northeast operating area and we have been working hard to stay on top of the producer forecast changes in the Northeast. Our previous guidance for the Northeast G&P for 2019 remains intact where we are currently forecasting gathering volume growth of about 13%.

And this should result in adjusted EBITDA growth of 19% for a total of about $1.3 billion, so not a bad year given all the much more negative forecast provided by Research and others. So, year-to-date through the third quarter, we've generated about 17% gathering volume growth but we do expect that overall annual growth to moderate here in the fourth quarter since our fourth quarter comparison will be up against the volumes that grew rapidly right after Atlantic Sunrise came online last October.

Looking towards 2020, our latest forecast informed by our planned producer activity shows about 3.5% gathering volume growth versus our previous expectation of 5.5%. The decline in expected G&P volume growth was driven primarily by lower customer forecasted volume growth in the Bradford Utica and Susquehanna areas as producers continue to react to lower forecasted 2020 natural gas and NGL prices and based on this forecast, we would still expect adjusted EBITDA growth of about 8% to get to about $1.4 billion, so $50 million is lower than what we had for our second quarter expectations for '20, but still $100 million of growth here in 2019 to 2020.

So the decrease in expected adjusted EBITDA also includes a pretty significant reduction from the Blue Racer investment. So part of that $50 million reduction comes from the non-operating investment we have in Blue Racer.

And then beyond 2020, we continue to see an opportunity for a stronger growth rate to resume in 2020-2021 in the Northeast and that of course would be dependent on better balance in the natural gas market but we remain excited about how well we are positioned for that call on natural gas.

So overall, we remain encouraged to see the level of EBITDA growth. Our Northeast G&P business can continue to generate in a very weak natural gas and NGL price environment and we remain very focused on cost reduction and capital discipline as we await long-term fundamentals to balance. We believe it won't take a large price recovery to quickly restore growth rates above 8% for our Northeast G&P footprint.

So now let's move on to discuss our Transco growth projects. First, I'll provide an update on the rate case, very pleased that we have reached an agreement on the terms of the settlement and as a result, we've reduced the reserve we established against the cash and the receiving from the filed rates that went effective in March of this year which along with other related accounting entries results in about $44 million in favorable adjustments.

The agreement will resolve all issues in the rate case with no need for any hearings. Of course, final resolution of the rate case is subject to a filing for us to file a formal stipulation, an agreement with the FERC and final approval by the FERC.

So a lot of process still in front of us to get final resolution on that rate case but we're very pleased with way that came out. The terms of the settlement are non-public until the stipulation and agreement has been filed with FERC. We will provide an overview of the key terms of the settlement following the FERC filing.

For now, I'll just say we're pleased that we were able to reach agreement on the key terms with our customers and related regulators and we await the final FERC approval of the settlement. But I want to make it really clear on one point here, I would caution you from thinking that this reserve adjustment provides you with a clear picture of the annual run rate impact for 2020. And we certainly look forward to being able to show you the full impact once those filings are completed.

So let's touch on the status of Transco's major growth projects, starting with the Northeast Supply Enhancement project. Lots of headlines out there related to this very important project for the residents and businesses of New York City. We are still awaiting the State Water Quality Certification permits required for the project from both the New York DEC and the New Jersey DEP.

At this point, the risk to our targeted in-service date is increasing although we are going to do everything we can to meet our targeted in-service date for the fourth quarter of 2020, it is quite challenging to bring the onshore compression facility, a portion of the project which is there in New Jersey really challenging to get that done within a year's time frame and that is the current critical path that will be up against but currently we still feel that we can help support the peak load for the '20 and '21 winter.

So a lot of great work by our team that's been going on that. I can tell you there's been an impressive amount of work in a working with the various agencies and the various stakeholders on that and I remain confident in our ability to bring that one across the line.

So next, I'm very pleased that we're able to place our Rivervale South to Market project in the full service ahead of schedule. The project is a Transco expansion of 190 million cubic feet per day to service additional customers in New Jersey and New York City. We also received FERC approval for our important Southeastern Trail expansion. The Southeastern Trail project adds about 295 million cubic feet per day to the Transco pipeline system and this is designed to serve growing markets in both the Mid-Atlantic and Southeastern states by November of 2020.

In fact, all of our Transco projects that have been permitted for construction are progressing well. And finally, our most recently announced Transco project the Regional Energy Access project is now headed for approval at our upcoming November Board meeting, so great work by the teams in pulling that project together as well. And I'll remind you that one of the chief benefits of that project is being able to utilize our existing right of ways for that project.

Now moving on to Slide 7. Here just to conclude, taking a quick look at our third quarter performance and our high-level review of our key investor topics, we look forward to our upcoming Analyst Day on December 5th and this is going to give us an opportunity to dive deeper into a lot of the really key issues that are out in front of us right now and a lot of the drivers for growth that we are really excited to share about with you both for 2020 and beyond 2020.

So just in closing, I'll remind you we do live in a world that will continue to need more energy, there is a growing need for that energy to be as clean burning as possible. Renewables are certainly going to play an increasingly important role but their growth requires a partnership with natural gas to meet the energy needs of the world while also reducing emissions over time.

Natural gas does have the lowest CO_2 emissions to heat content ratio when compared to other fuels and provide superior economics versus other fuel types and as an example between 2005 and 2018 CO_2 emissions from electricity fell 27% due to replacing coal and oil and natural gas power generation. So while low cost natural gas also facilitates costly investments in renewables, it is paving the way around the world to be the fuel of choice.

Williams benefits from having ideally situated existing pipes in the ground and we continue to see demand for expansion for the long for both the near term and the long term and despite a pretty tough current commodity price and regulatory permitting environment the future remains very bright for Williams as we demonstrated here in the third quarter and for strategically placed natural gas focus assets like we are so fortunate to operate and we look forward to discussing that future with you in December.

So with that, let's go ahead and transition to our Q&A session. And thank you again for your time today.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Colton Bean with Tudor Pickering Holt & Company.

Colton Bean

It sounds like Haynesville volume growth was fairly robust through Q3, can you use off your thoughts on how that's progressing here in Q4 and maybe what the outlook looks like for 2020?

Alan Armstrong

Well, I think there's obviously been a lot of focus on Chesapeake, in the Haynesville and certainly they've had a strong year of growth. But our teams have been out contracting with other customers and have been very successful with other customers in the area. And likely we will start to see some reduction in the growth we've enjoyed from Chesapeake volumes, we're now starting to see that picked up by third parties and we're really excited to be working with some of those and we've got some very collaborative ideas about the way to grow the Haynesville volumes out there.

So we're actually pretty encouraged about what we've been able to work with other producers that surround and integrate with the Chesapeake acreage.

Colton Bean

And in terms of those agreements, are those consistent with maybe some of the legacy terms or should we think about those as newly cut the agreements that are more current market?

Alan Armstrong

Well, I would say there's a combination there. Obviously, it depends on what the market is in the area and so I'm not going to comment on specifically what those rates are but obviously it just depends on what kind of market apparently, we have in there.

Colton Bean

And then just maybe transitioning over to the West, can you characterize some of your discussions with producers around the Piceance and Southwest Wyoming footprints and maybe more specifically have the reductions to bank commodity there, so those having an impact at all for the private producers there?

Alan Armstrong

That's a great question. I would say we've seen very steady volumes there in the Piceance and so that's been a real positive. And it and it is mostly private money driving that. A lot of those folks as you know put hedges out in front and so they're just drilling up against those hedges. And then in Wyoming, in place like the Wamsutter, we have seen some slowing of what was some very robust growth but we are still seeing some nice growth there and the Wamsutter.

Probably the area that I would expect to see more decline on volumes would be the gathering upstream of our old power processing plant would be the area. So a lot of that gas we don't gather, that is gathered by third parties but we do the processing on it so that's probably the biggest decline we are seeing in the Rockies right now is pullback in that area.

Operator

Our next question comes from Gabe Moreen with Mizuho.

Gabe Moreen

Just had a quick question on the Northeast capital spend and I know you'll probably get into this at the Analyst Day quite a bit but relative to what looks like to be in Northeast G&P run rate spend about $550 million is plus or minus this year, can you maybe talk about just how low that could potentially go next year order of magnitude and to what degree there might be some mandatory capital spend you still have to finish up next year?

Micheal Dunn

Gabe, this is Micheal Dunn. We will have a capital program up there. We have expansions that are ongoing in the Bradford that will continue to spend money on that are coming online in the second quarter. So we do still have a pretty significant program there and also some well connect activity as well. So I don't think you would see as robust as what we're spending this year by any means but we will still have some capital investment going on in the Northeast.

Gabe Moreen

And then. Alan, let me if I could ask just bigger picture in terms of the EBITDA growth trajectory. I appreciate that some years will be up some of those will be little lower EBITDA growth but to what extent you think dividend growth may need to move in lockstep or not in lockstep with projected EBITDA growth just your latest thoughts around that.

Alan Armstrong

That's an excellent question, Gabe. And I would just tell you that the free cash flow growth as you can see by the increase in coverage that we've got this year against it, we don't see any change in getting outside of that range that steady 5% to 7% range that we've talked about for dividend growth because the cash flow growth in a year where the capital spending might be lower, is just that much stronger.

And obviously, we can see the growth coming because most of our capital despite we will have some capital in most of our capital, next year is going as I mentioned in my notes, most of our capital is going into regulated projects and therefore that cash flow growth is highly predictable to us in terms of when that's coming on. And so, we're not having to guess about what that growth in the prior years will be around that.

Gabe Moreen

And I appreciate you will get more on the Transco rate case settlement with FERC approval but can you at all speak to where they're not the emissions tracker, reduction tracker wasn't approved as part of the settlement?

Alan Armstrong

We cannot speak to that at this point. So I would just say there's a number of trade-offs around that but we cannot speak to that at this point.

Operator

Our next question comes from Spiro Dounis with Credit Suisse.

Spiro Dounis

Maybe just starting off or going around with the 2020 CapEx. Alan, it sounds like you've indicated a little bit this on directionality year-over-year but you also mentioned 2019 coming in potentially below the low end. So just curious with that bar sort of getting even lower, how should we think about the magnitude and direction of CapEx coming down next year? Obviously, you mentioned G&P skewing towards the low end of course but you also talked about regulated asset spending and I guess that's where maybe I'm unsure. Do we assume flat higher year-over-year, does that offset a lot of the GP decline?

Alan Armstrong

Yes, I would just say certain projects like for instance the Regional Energy Access project which will be taken to the board. So we'll see increase perhaps from what we had forecasted earlier on the regulated side but decrease in particularly in the G&P area and as we've talked about a lot of the growth that we have in the Deepwater Gulf of Mexico doesn't require much capital relative to its growth and so we're going to enjoy some pretty attractive. There is one project in particular there that is going to require some capital and that started to get very clear for us in terms of what that's going to require in the Deepwater but a lot of the projects that we're working on there that the producer is providing the capital for.

So I would just say for '20 as I mentioned, the '20 CapEx is definitely going to be dominated between the regulated gas pipeline and the long haul NGL pipeline that we're doing the Bluestone Pipeline that's going to dominate the 2020 CapEx.

As Micheal mentioned, there is some cost of service capital still going into place in places like Bradford but majority in 2020 is going to be on the transmission side and it looks like based on the continued demand for the regulated pipe that we're going to continue to see some growth there and then as we get into '21 and '22, we will start to see the some of the impact of - one of the deepwater projects that I talked about start to impact our capital for '21 and '22. So I think that's about all I can give you right now sort of what we're going to show you at the Analyst Day.

Spiro Dounis

Yes, and I can appreciate that. And then just on NESE, you mentioned the headlines and certainly I want to put too much emphasis on those but I guess what we're struggling with is, just given what some of the government officials have said, it just seems like some of those statements or maybe hard to walk back to get them to a point where they can improve the pipeline. So maybe just extra color on what we're not appreciating in that dynamic and to the extent that NYSE does get at the letter or may be mothball from here. Is there another regulated project out there that you can sort of fast track to get to the front of the stack? And as a replacement and then ultimately, what does that do to CapEx in '20 got I think that NESE is a big part of that right now.

Micheal Dunn

I will take that. This is Micheal. We're still confident the NESE is going to have some approvals this fall that allow us to start construction in order for us to meet that winter of 2021 timeframe and why we're confident is because of the significant emissions reduction opportunities that the project allows our customer and the customers of our customer in their service territory in Brooklyn and Long island but also the economic development impact is a very significant if this project does not get built.

And so that's why it gives us a lot of confidence that this will happen and obviously you see the headline and we have been very responsive to the regulators in regard to what their concerns were with our permitting applications that we've remedy those we believe and we do have full expectations that we will have permits in place so that we can start construction this fall.

And our teams do a great job of getting projects done on time and we certainly have developed contingency plans to accelerate construction if we get crunched on our schedule but we certainly believe we can make the December of '20 timeframe so that our customer can meet their peak load requirements that are occurring in the next winter season after this winter.

Other projects in the queue, I would just tell you we have about $3 billion of capital that we're actively working that's just on the Transco system including NESE and Regional Energy Access and the other projects that we've talked about and certainly will provide a lot more information on this at Analyst Day but we have great confidence in this $3 billion of CapEx, it's about 2.5% Bcf of capacity increase alone on the Transco system.

And these are the ones that we have very high confidence and I can tell you we're working on another couple of billion dollars capital investment just for the Transco system now that certainly out into the future, we're talking maybe a 2020-2024 timeframe as to when those projects will be in service but there is a long runway of projects just on the Transco system that we're actively working now. We have high confidence in it.

Operator

Our next question comes from Jean Ann Salisbury with Bernstein.

Jean Ann Salisbury

What if anything would cause Williams to renegotiate contracts with shippers? Are their win-win outcomes that you could see via contract extensions or new dedications?

Alan Armstrong

Sorry Jean, are you talking about gathering contracts I assume?

Jean Ann Salisbury

Yes, definitely.

Micheal Dunn

Yes. Because I wouldn't think of anything that would bring anything on the pipeline side, a very standard tariff and obviously you have to treat everybody the same on the regulated pipelines. On the gathering stuff, I would just say, we always have our eyes open to ways we can add value on that but there is really not anything we're aware of out there that would motivate us to lower any rates that are out there other than on a short-term basis to increment volumes in an area to spur drilling. But I really don't know of anything that would motivate us to lower rates from our existing rates out there other than for the increment sometimes that we do to incent drilling in the area.

Jean Ann Salisbury

And then just one more on SEM. If it does not go forward with the ultimate outcome of that from New York's perspective be more oil burning to meet demand or is there anything else out there that they've kind of proposed as an alternate solution?

Alan Armstrong

I think the only thing else we've heard is trucking LNG or bringing in propane. So I think that's the options other than more oil burning. I mean it is interesting because there is so much growth going on it surprises us I think when we realized how much real demand growth there is going and how fast the growth is going on in the Brooklyn and Bronx area there and that is what's really putting pressure on this issue is not just the conversion but as well the growth that's going on there.

So it's pretty overwhelming as we studied it, what's really driving the growth there. And so, as Micheal said, I think that really gives us a lot of confidence both the ability to help reduce emissions in the area, but to also there's got to be support for economic development there in a sustainable way and therefore that gives us a lot of confidence.

Operator

Our next question comes from Jeremy Tonet with JPMorgan.

Jeremy Tonet

I just wanted to start off with 2020 EBITDA guidance and recognize that this is something for the Analyst Day and don't want to parse your words too much here but when you talk about 2020 the headwinds you noted growth could be a bit less that year than the normal five to seven range and when you say a little bit less, Just trying to get a feeling for that is that mean growth could be zero, could it be negative or is it just below five or is there any other color that you can provide on what you mean by a little bit less there?

Alan Armstrong

Jeremy, thank you. And I'm really glad you brought that question forward because I think there might be some confusion brewing on this issue. We really, we're just trying to remind people because we do have so much growth going on across the business and particularly with this Transco rate case which again we can't lay out the details on that but we really are trying to remind people as they start to see all these positives that they don't pile that on to the level that it gets inappropriately high growth rate but we certainly expect significant growth next year.

We just want to make sure people don't get too far ahead of us and that they're taking those issues into account because people are really starting to form their model for 2020 and we just want to make sure that they're taking all these other variables into account because I think if you start piling all these positive things on top of each other, you would actually get to a pretty high growth rate, if you're not taking into account things like the Barnett in the Gulfstar step down, so that's really what we're trying to do there is just remind people to build that into our model. And so, perhaps our conservatism on that over did that a little bit but that was what we were trying to accomplish now.

Jeremy Tonet

And just want to go back a topic that's been talked about in prior calls and you guys have taken strong actions in the capital discipline side, as far as portfolio optimization is concerned do you still see opportunities to take actions there or any way to thoughts you could provide?

Alan Armstrong

Well, I would just say the thing that we've really done well and I call credit Micheal and his very engaged oversight on this is we have just been making sure that we're not putting capital out in front the growth and so we have really reign that end and so we've really made sure that any growth capital that we're investing in most of these areas comes with some either an MVC or rate increase that supports it so that we're not out on a limb building out in front of a bunch of growth and so that's the discipline and as a result of that people are not willing to make those commitments were pulling in the capital that. And so that is really what provide a lot of opportunity as well in UIO the synergies there is with the UEOM is a great example there where we had capital expansions, we were going to have to make for fractionation there.

And by doing that deal, we were able to eliminate that we also have been able to work with some of the other processors in the area and take overflow volumes rather than seeing capital being invested in the areas. So we really, and it's nice to see the whole industry really trying to bring that capital discipline across the space, because I think that makes us all healthier and so we're seeing a lot of discipline that is showing up as higher returns and better free cash flow for us here in 2020 and beyond.

Jeremy Tonet

It is good to see you guys kind of swim in their lanes there. I think that's good for the industry but I was also just curious I guess on the joint venture side or asset sale side if there are any other thoughts on potential future actions there that you guys could share?

Alan Armstrong

I would just say we are, we still see very significant opportunity along those fronts. And we're really excited. I think one of the things that we have going for us is that where our assets are, we tend to have very well-positioned assets with very strong contract behind them and very long-lived contracts behind them and as a result of that, that gives a lot of security of the cash flows that we have.

And that's exactly what the private side investor, not necessarily typical private equity but the private funds, pension funds and so forth is that's exactly what they're looking for and so we make a great joint venture partner with those folks because we're a safe, reliable and conservative minded operator. And so, we make a great partner for those folks. And so, yes to answer your question we see some pretty significant opportunity there and we are working that angle pretty hard.

Operator

Our next question comes from Alex Kania with Wolfe Research.

Alex Kania

Just a question on your thoughts around the mid pipeline sale and that was not certainly at this fall, I believe you guys had a right of first refusal on the transaction. So I'm just wondering what your thoughts were with respect to not going forward to exercise that, was it price? Were there any other benefits or something like that with respect to the leased at them, that that may have kind of made you sort of okay with not exercising that option, just curious.

Alan Armstrong

Yes, I mean part of it certainly was price. If you look at the cash flow relative to the price paid and kind of ignore the structuring around that, it's pretty low return and so that was certainly a piece of it and then there was some consideration that we received in exchange for that and we're not going to discuss the details of that. So we certainly took a look at it but it just didn't make sense really for our given our other investment opportunities that we have. It really just been stack up against our other investment opportunities.

John Chandler

This is John Chandler, if you think about that in many ways would be something like debt on our books and we're paying lease payments against that meet interest. We looked at that long and hard to actually buy that interest in what we would have incurred an additional $400 million in debt. Basically, to do that and that's taking our leverage the wrong way. So our leverage focus came into play in that decision as well.

Alex Kania

Just again respecting that you can't really say much on the settlement. Just I'm thinking about how the accounting and then necessarily would work when you're able to give more details on that. Would it end up you recognizing kind of revenue for this year and with that already be included in the guidance that you've reaffirmed or would that be kind of another variable that that might affect that going into the end of the year.

Alan Armstrong

Yes. It's a great question. I would just say that our performance or our guidance certainly takes in that into account and it's just one of those things that just like we've seen the negative impact of low cycle NGL margins is one of those things that offsets that - the beauty of having a big diversified business to be able to see some positives and some negatives during the year. So, but it definitely is considered as we think about the guidance affirmation for the year.

Operator

Our next question comes from Praneeth Satish with Wells Fargo.

Praneeth Satish

I just have one question I guess one of your large utility customers is proposed a large offshore wind farm near Virginia. So I'm just curious how you think about renewables in general and then whether you've thought about investing jointly in these type of projects?

Alan Armstrong

It's good question. I would just say we have so much investment opportunity already that are at higher returns than what we've seen of - then realized in those projects that given our continued focus on balance sheet as well as the higher return investment opportunities that we have that just wouldn't make sense right now and obviously there is always learnings when you venture into something new and we think there's risk obviously associated with that and bottom line is sticking to our knitting right now we think is going to add a lot of value and is the right approach for us.

Having said that, there are things like our right of ways and things like that that can be very valuable when it comes to renewables but we are very convinced after studying this issue a lot that the natural gas generation that has to go along with the renewables effort is going to continue to be a big driver of growth for us and it is showing up in very real ways in terms of RFPs and negotiations with customers even beyond the visibility that we provided to date on that. And so until that word in or we can start to see that starting and I just don't think we've got capital or risk appetite to venture into something new given the opportunities in front of us today.

Operator

Our next question comes from Craig Shere with Tuohy Brothers.

Craig Shere

If the 2020 strip remains below 250 and Cabot another customer moved maintenance only investment, would it be reasonable to use the third quarter, Northeast G&P run rate as a steady-state level?

Alan Armstrong

I don't really think so just because there is some MVCs and so forth that are getting built into some of the capital it's going in right now. So I really don't think that would be a real good assumption, it is a good question but I don't think-- it's certainly might be for certain areas as we get towards the end of the year here. I mean we have already seeing volumes obviously here in the fourth quarter that show us continued growth.

So on an actual basis here so I don't know that would be a very fair assessment given what we're seeing here in October and then there is other areas that like in the Bradford where we have real capital but it is going into place in the cost of service will step up as a result of that. So good question, but I would tell you right now I kind of doubt that would be the case.

Craig Shere

And one last question, apologies if I missed it, it looks like some good clarification about the impact of the Barnett MVC step down in the third quarter, was there any specific figures around the Gulfstar One deferred revenue recognition in fact as we head into 2020?

John Chandler

This is John Chandler. As you think about 2020, actually there is a small additional, Barnett step that I think about it this year. We've had two quarters of higher levels of deferred revenue that step down in the third quarter, so we have about $20 million to $30 million of additional step down in the Barnett amortization next year just because you've got four quarters of that step down in 2020. And in addition somewhere around that $70 million to $80 million of up around $7 million step down in the at Gulfstar amortization. As we come out at the end of the exclusivity period that for that platform.

Craig Shere

And is that 70 plus million for Gulfstar in 2020 does that impact the full year or does some of that.

John Chandler

That's a full year number because that exclusivity period in the November the last payments of this year.

Operator

Our next question comes from Shneur Gershuni with UBS.

Shneur Gershuni

One of my questions have been asked and answered but I was wondering if we could just circle back a little bit on the rate case, a little bit. First, just to confirm, one of the comments you made in the prepared remarks that we can't really on any of the reserve adjustments, should we just think of it is, it's an accounting movement from a reserve to the income statement and it's just a journaling entry and that really has no tell about what is going on with the rate case, is that an accurate reflection?

Alan Armstrong

Yes I mean obviously if you think about the way that works, we have to record our best available information that come through in that but the rate case has a lot of complex issues to be dealt with and I would just say that not all of those are reflected in that change that you saw. And so that's why I know everybody wants to jump ahead, we would rather have not had to show anything on that honestly but from an accounting rule standpoint, we have too but it is not the whole picture and we look forward to be able to share that whole picture there.

Shneur Gershuni

And I realize you can't sort of talk about the case itself. But I was wondering if you can talk about the back and forth between you and the counterparties in the negotiations, do you feel that both sides concluded that they got some of what they wanted?

Micheal Dunn

Yes, this is Micheal. I would say it was actually a very good negotiation with our shippers as we always have with the Transco organization and we have a great relationship there with the shippers and the regulators over those customers as well. And there is always contentious issue that somebody wants to make sure that they have success on and I would say both sides walked away from that pleased with the outcome.

And we are happy to get it behind us and able to go through the litigation of the of the rate case and so there's always some issue that it can be contentious. But I think both sides dealt with it very professionally.

Shneur Gershuni

And then one final question, I know there's been a lot of back and forth about NESE and when it comes to the regulators and so forth but in a scenario where NESE is delayed longer and you have to move the in-service date by at least a year let's say, do you see an opportunity to potentially deploy kind of the budgeted CapEx towards buybacks, do you feel that's an option or an arrow in the quiver at this point that you can, potentially use just given where your stock is trading at?

Alan Armstrong

Yes, I would just say that first of all, we remain confident on that. And so really don't see that as something that we'd be looking at the trade up. I think as we get further out and we get below down to the credit metrics that we want to, I definitely think that will be on the table as a debate but right now the I know that we see a big hole in our capital coming up just because while there might be little changes here and there in the grander scheme of things, I don't really see a big change come in there and any anything that would present itself here in the very near term as a surprise, excess cash available would just go out and be to taken the credit metric down very quickly.

Operator

Our next question comes from Derek Walker with Bank of America Securities.

Derek Walker

Just a quick, just a quick one on the leverage and I believe you said you're expecting to hit kind of four five by the end of the year. And there is a long-term target of the four two number. Can you just talk about, I think you said you're evaluating some opportunistic transactions to improve leverage metrics further, is that what's needed to hit the four two or is that mostly just coming from an EBITDA ramp and are you still looking to make transaction to go below that four two number?

Alan Armstrong

Great question. Well, certainly the path we're on gets us to the four two. It's a question of, if there is additional value added transactions that we could do in other words that would add value to the equity side as well rather than just taking down the debt and so some of the transactions that we've done to date, we think a very valuable to shareholders where we've been able to sell assets at 14 to 15 times and redeploy that capital into higher return investment opportunities.

And so we think as long as that continues to be available to us so that's really good value for our shareholders and we'll continue to pursue that, but the first thing we would do, it's just a matter of how fast we get there, really the first thing we would do with excess cash would be to take it down four two.

And I'll just remind you in terms of the '19, we are already below the four five here for or '19 and so we're making great progress towards that. But it really just a question of rate or acceleration of that goal. But we certainly are on that trajectory is just that it's a big number and we can move it a lot quicker, if we were to do some transaction.

Derek Walker

And maybe just one on the operational side, I believe you just commissioned the Keenesburg one facility processing facility. I think as capacity of 225, can just talk about the utilization on that plant and I believe you are also targeting second Keenesburg plan in '21. And you mentioned sort of the step down a CapEx for next year. Can you talk about how you're thinking about that that like a plan as well?

Micheal Dunn

This is Micheal. I will take the question on the Keansburg plant. We commission that on time and on budget. Our team did a great job following up our Fort Lupton plant $200 million a day plant that we commissioned back in April. And we're able to balance volumes between those two plants and right now we're doing so and catching a lot of additional volume from spillover customers that have other arrangements and aren't being met with our competitor peer group in the DJ Basin and so we're actually tracking a lot of additional business there.

Our Fort Lupton plant was at full capacity already and our Keansburg plant was at about 50% capacity pretty darn quick there and right now we're balancing between those two plants based on deliverability of NGLs off the plants as well as residue gas. So pretty good load factor on both those plants right now considering just came online this year.

Operator

Thank you, everyone. This concludes today's question-and-answer session. I will now turn the conference back over to Mr. Alan Armstrong for closing remarks.

Alan Armstrong

Okay. Well, great, thank you all for the really good questions. And we really look forward to sharing the growth that we've got ahead of us within the Analyst Day. So we look forward to seeing you there. Thanks again.

Operator

Thank you, everyone, this concludes today's teleconference. You may now disconnect.