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Sempra Energy (SRE) Management on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-01-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.5 beats by $0.03 | Revenue of $2.76B (-6.19% Y/Y) misses by $-176.91M

Earning Call Audio

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Sempra Energy (NYSE:SRE) Q3 2019 Earnings Conference Call November 1, 2019 12:00 PM ET

Company Participants

Faisel Khan - Vice President, Investor Relations

Joe Householder - President and Chief Operating Officer

Trevor Mihalik - Executive Vice President and Chief Financial Officer

Caroline Winn - COO, San Diego Gas & Electric Company

Conference Call Participants

Greg Gordon - Evercore ISI

Steve Fleishman - Wolfe Research

Julien Dumoulin-Smith - Bank of America

Michael Lapides - Goldman Sachs

Shar Pourreza - Guggenheim Partners

Sophie Karp - KeyBanc

Paul Patterson - Glenrock Associates

Operator

Good day ladies and gentlemen and welcome to the Third Quarter Earnings Call. Please note that today's call is being recorded.

And at this time, I would like to turn things over to Faisel Khan. Please go ahead, sir.

Faisel Khan

Good morning and welcome to Sempra Energy's third quarter 2019 earnings call. A live webcast of this teleconference and slide presentation is available on our website under the Investors section.

Here in San Diego, several members of our management team, including Joe Householder, President and Chief Operating Officer; Trevor Mihalik, Executive Vice President and Chief Financial Officer; George Bilicic, Group President; and Peter Wall, Vice President, Controller and Chief Accounting Officer.

Before starting, I'd like to remind everyone that we'll be discussing forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those discussed today. The factors that could cause our actual results to differ materially are discussed in the company's most recent 10-K and 10-Q filed with the SEC.

It's important to note that all the earnings per share amounts in our presentation are shown on a diluted basis and it will be discussing certain non-GAAP financial measures. Please refer to the presentation slides that accompany this call for a reconciliation to GAAP measures. I'd also like to mention that the forward-looking statements contained in this presentation speak only as of today, November 1st, 2019, and the company does not assume any obligation to update or revise any of these forward-looking statements in the future.

With that, please turn to slide four, and let me hand the call over to Joe.

Joe Householder

Thanks Faisel and thank all of you for joining us today. Normally, Jeff would lead this call, but he and Dennis are currently traveling overseas for our LNG business, meeting with current and future partners and customers. So, I'll be filling in for him today.

I'll start off by saying that this quarter's strong operational and financial results reflect our company's focus on execution and demonstrate progress towards our mission to be North America's premier energy infrastructure company.

I'll provide a more detailed business update later in the presentation. But our recent accomplishments include placing Cameron LNG Train 1 and the project shared facilities into service, while also advancing commission and construction of the two remaining trains, reaching a constructive resolution with the CFE in relation to our two pipelines in Mexico and placing the marine pipeline into service, receiving a constructive general rate case final decision at SDG&E and SoCalGas, with a focus on safety and reliability; progressing the sale of our South American businesses by announcing sales agreements for both Peru and Chile; increasing the CapEx plan at the Texas utilities to keep up with the continued growth Oncor is seeing in and around its service territory; and finally, continuing to progress our LNG development projects as highlighted by the recent MoU announcement with Mitsui.

In sum, it's been a remarkable year for our company. All of the positive regulatory, legislative, and operational developments we've recognized year-to-date give us increased confidence in our financial outlook.

With this in mind, we're raising our full year 2019 adjusted EPS guidance from our previous range of $5.70 to $6.30 and to a new higher range of $6 to $6.50. Additionally, based on California Utilities' 2019 GRC final decision, coupled with the announced sales of our South American businesses, we're affirming our full year 2020 adjusted EPS guidance range of $6.70 to $7.50. As we look towards the rest of the year, we remain focused on our strategic goals to help drive shareholder value and benefit all of our stakeholders.

Please turn to the next slide. You'll recall that we presented a similar version of this slide at our Investor Day earlier this year. We believe it's worth highlighting again, given the progress we've made in repositioning our portfolio.

It's hard to imagine that just last year, we were active in 18 states in United States and three foreign jurisdictions. Now, we've narrowed our focus to three states and one foreign jurisdiction. We believe that we've high-graded our portfolio by exiting our U.S. renewable generation and South American businesses, and replaced them with higher quality T&D earnings. This focused strategy allows us to concentrate on growing our Tier 1 position in some of the most attractive markets in North America, which have strong business fundamentals and meaningful growth opportunities.

Please turn to slide six, where I'll review the recent developments related to our South American businesses. We first announced the decision to sell our South American businesses in January of this year, with a view of recycling capital into growth at our utilities and infrastructure businesses and to reduce parent debt.

The sales of these businesses represent an important strategic shift for our company and is another example of our ability to effectively optimize our portfolio, while increasing value for our shareholders. The combined sales price of over $5.8 billion reflects the quality of these businesses, and we're very pleased with the results of the sales process to-date. We've laid out a general time line of the transactions on the slide and expect the sales of both our Peruvian and Chilean businesses to be completed in the first quarter of 2020.

Before I move on, I would like to recognize George, Trevor, Dennis and the team for a great job getting us to this point in the sales process. I would also like to recognize the wonderful teams in Chile and Peru, run by Francesco and Mile, they have done a fantastic job over the past 20 years and added a lot of value to Sempra.

Please turn to the next slide, where I'll discuss some of the recent business updates at SDG&E. I'll first discuss the general rate case. As a reminder, this is the first time that the risk assessment mitigation phase, or RAMP, process was integrated into the GRC.

Importantly, this takes into account safety and reliability spending as directed by the California Public Utilities Commission. You'll also recall that the GRC usually represents a sizable portion of our capital plan, but does not capture FERC-related investments or CPUC projects addressed outside the GRC. This proceeding also does not change our utilities authorized cost of capital, which is being addressed in a separate proceeding.

Now, let's review the key details of the final decision issued in late September as it relates to SDG&E. Overall, we're pleased with this decision as we believe it fairly balances customer rates and critical investments needed to help ensure the delivery of safe, reliable energy.

The decision approved the following for SDG&E. A 2019 test year revenue requirement of $1.99 billion, which represents an increase of approximately $107 million or 5.7% over 2018 authorized revenues as well as overall post-test year revenue requirement attrition rates of 6.7% in 2020 and 4.8% in 2021.

It's worth noting that the 2020 and 2021 post-test year attrition amounts for capital investments are significantly higher than the O&M attrition amounts. This is a reflection of our commitment to thoughtfully invest capital related to safety and reliability, while efficiently and effectively managing O&M cost. These increased revenue requirements will support improvements in critical energy infrastructure and risk mitigation.

Now, let's turn to the cost of capital proceedings. Regarding the FERC cost of capital, all parties have reached a negotiated resolution and we've submitted an offer of settlement in mid-October. The settlement request an authorized ROE of 10.6%, which includes the 50 basis point CAISO adder. This represents a 55 basis point increase from our currently authorized FERC ROE of 10.05%. We expect the commission to issue an order on this matter in the first half of 2020. For the CPUC cost of capital proceeding, we continue to expect a final decision toward the end of this year.

Regarding our initial and ongoing contributions to the California Wildfire Fund, we are expensing the total contributions over the estimated period of benefit, which we estimate to be approximately 10 years and we would record additional charges if a wildfire event occurs and the fund is reduced.

Please turn to the next slide. I'd now like to take a moment and address the recent wildfire situation across the state. Our thoughts are with the first responders, firefighters, residents, and the broader communities being impacted by these terrible events.

Importantly, wildfire safety and risk mitigation are a top priority for us within our service territory. And we continue to be vigilant, monitoring weather patterns and potential wildfire threats, while remaining engaged with our customers and communities in order to maintain critical lines of communication.

As a reminder, investing in wildfire mitigation is not something new for our company. In fact, we've invested approximately $1.5 billion in related efforts over the past decade. This includes deploying the most highly concentrated weather station network in the U.S., installing over 100 high-definition cameras across our service territory, replacing over 21,000 wood poles or steel poles, developing weather and fire models based on years of collected data, allowing us to forecast potential weather events several days in advance and fire hardening approximately 75% of our electric transmission lines with a goal to fire harden the remaining 25% over the next few years.

Another example is our Fire Safe 3.0 project, which continues to build on our foundation of industry-leading mitigation efforts and includes utilizing artificial intelligence and machine learning to improve situational awareness, introducing a new vegetation risk index, enabling satellite wildfire alerts, and improving our unprecedented weather data network with high-speed capabilities.

In combination, these items should further enhance our ability to deliver safe and reliable energy to the communities we serve. This is just a glimpse of the type of project highlights we'll be providing at our Investor Day next year.

Now, please turn to slide nine, where I'll discuss developments at SoCalGas. The recent final decision in the GRC also marked the first time, the RAMP process was integrated for SoCalGas. It approved the following: a 2019 test year revenue requirement of $2.77 billion, which represents an increase of approximately $314 million or 12.8% over 2018 authorized revenues as well as overall post-test year revenue requirement attrition rates of 7.9% in 2020 and 5% in 2021.

Similar to SDG&E, SoCalGas' 2020 and 2021 post-test year attrition amounts related to capital substantially outpaced O&M. The increase in the revenue requirement related to capital and corresponding increase to rate base should enable us to make critical investments in our infrastructure system around safety and reliability for the benefit of our customers.

An example of this is the continued support for SoCalGas' pipeline safety enhancement plan, and notably, the GRC approved 32 PSEP projects, plus 284 valve enhancement plan projects over the next three years.

Now, please turn to slide 10, where we'll talk about Texas. The macro and business environment in Texas remains one of the strongest in the U.S., and Oncor recently announced another increase to their already substantial five-year capital plan, as shown by the chart on this slide. The increase is mainly related to the growth in and around Oncor service territory with growth CapEx accounting for about two-thirds of this capital plan.

Importantly, these infrastructure investments will help facilitate renewables integration in Texas, keep up with the growth in West Texas and the Dallas-Fort Worth area, and strengthen and expand the grid for the benefit of Oncor's customers and the communities it serves.

Accounting for this increase, they now plan on spending approximately $11.9 billion over the 5-year period between 2020 and 2024. Oncor is clearly a great example of focusing our portfolio on attractive growing markets.

Please turn to slide 11, where I'll discuss Sempra LNG. This past quarter had some notable accomplishments at our LNG business. Specifically, we placed Cameron Train 1 in service and continued to progress our LNG development projects.

I'd now like to discuss the Cameron LNG project in a little more detail. Specifically, I'd like to highlight that the two companies, Chiyoda and McDermott, that collectively make up our EPC contractor, are joint and severally liable. So, if one is unable to perform its duties, the other is required to complete the project.

Both Chiyoda and McDermott, along with their subcontractors, continue to be on-site and active in the project. We remain confident about the Cameron LNG project schedule. Train 1 and the project's shared facilities are already in service, and Train 2 has begun its commissioning process. In fact, Cameron LNG estimates that the project is over 96% complete. Additionally, the schedule for Trains 2 and 3 remain unchanged.

Switching to our other LNG projects, we've recently begun limited site activities at Port Arthur and our teams continue to advance discussions with interested customers for the remaining facility capacity. Based on the current project schedule, we're targeting an FID on Port Arthur around mid-2020.

At ECA Phase 1, we plan on reaching FID in Q1 2020, a bit later than our year-end target. Overall, the project continues to make progress, and we're taking some extra time to evaluate EPC proposals from two highly qualified bidders. We believe this process will help drive the long-term value of the project to Sempra and its shareholders.

Please turn to slide 12. At Sempra LNG, we're committed to advancing our LNG development projects. This slide is a great representation of how active our LNG marketing team has been and the resulting MOUs, HOAS, and SPA that we've been able to secure through these efforts. It's also a positive reflection of the quality of these projects and the confidence in our ability to develop them.

A good example of this is the recent MOU with Mitsui. The MOU contemplates Mitsui's potential purchase of up to one-third of the available capacity at Cameron Phase 2 as well as the potential offtake of approximately 1 million tons per annum of LNG and equity participation in ECA Phase 2.

As I mentioned earlier, Jeff isn't on the call today, because he's traveling overseas with Dennis Arriola for our LNG business, meeting with current and future partners and customers. This is a great example of how these marketing efforts have significant participation at the highest levels of our organization. Our management team realizes our LNG business is a large contributor to the company's projected growth.

With this in mind, we're focusing on bringing our LNG development projects to fruition and securing binding offtake agreements in order to help meet global energy demand and deliver value to our shareholders.

Please turn to the next slide, and we'll go over developments in Mexico. Mexico continues to be an attractive market for us with substantial growth opportunities premised on energy accessibility, reliability and emissions goals.

At Sempra Mexico, IEnova continues to execute on infrastructure projects in Mexico that should help it provide increased affordability and accessibility to cleaner, more reliable energy for its rapidly growing population.

Notably, the team recently reached a resolution with CFE regarding the Guaymas-El Oro and Marine pipelines and subsequently put the marine pipeline in service in mid-September and announced the border solar project, which is contracted with high-quality counterparties.

I'd also like to highlight that given these developments and expected positive momentum, IEnova recently raised its dividend by approximately 5%.

Now, let me turn the call over to Trevor, who will review our financial results, beginning with Slide 14.

Trevor Mihalik

Thanks Joe. Earlier this morning, we reported third quarter 2019 GAAP earnings of $813 million or $2.84 per share. This compares favorably to third quarter 2018 GAAP earnings of $274 million or $0.99 per share. On an adjusted basis, the third quarter 2019 earnings were $425 million or $1.50 per share. This compares to our third quarter 2018 adjusted earnings of $339 million or $1.23 per share.

Please turn to slide 15, where I'll discuss the key drivers of our quarterly results. The variance in our third quarter 2019 adjusted earnings when compared to last year was affected by the following key items: $34 million of lower earnings at Sempra Renewables related to assets sold in December of 2018 and April of 2019; $24 million of lower earnings at SDG&E from electric transmission operations, primarily due to a FERC formulaic rate adjustment benefit in 2018; and $14 million of lower earnings at Sempra LNG, primarily due to lower earnings from our marketing operations, mainly driven by changes in natural gas prices. This was offset by Cameron Train 1 commencing commercial operations in August of 2019. These items were offset by $60 million of higher earnings at the California Utilities from higher CPUC base operating margin authorized in 2019, predominantly driven by the GRC final decision.

Please note that our year-to-date results reflect the additional $196 million retroactive benefit from the GRC final decision for the first 6 months of the year. $58 million of higher equity earnings at the Sempra Texas Utility segment due to impacts of Oncor's acquisition of InfraREIT.

Higher distribution revenues resulting from an increase in volumes driven primarily by weather and higher transmission revenue driven by rates, and $38 million of variance at Sempra Mexico due to impacts from foreign currency and inflation effects, net of foreign currency hedges. This large delta year-over-year was primarily driven by an $11 million benefit in the third quarter of 2019 from a depreciating peso compared to $27 million of expense in the third quarter of 2018 from an appreciating peso.

Please turn to the next slide. We're pleased to say that this was a very successful quarter, both operationally and financially. We're continuing to execute on our goals and are progressing our mission to be North America's premier energy infrastructure company.

In line with this, as Joe previously indicated, we are raising our full year 2019 adjusted EPS guidance range and affirming our full year 2020 adjusted EPS guidance range, driven primarily by the constructive GRC decision at our California Utilities as well as the robust proceeds expected from the announced sale of our South American businesses.

These proceeds should allow us to pay down parent debt and fund growth at our U.S. Utility and Infrastructure businesses. Importantly, we remain focused on achieving our goals, including maximizing long-term shareholder value.

Before we open it up to Q&A though, I'd be remiss if I didn't thank Joe for his invaluable contributions to the company. As most of you know, Joe will be retiring soon. He has played an integral role in the growth and progression of our businesses during his nearly two-decade career at Sempra Energy. We'll all miss him and we wish Joe and his family, the very best in his retirement.

With that, we will conclude our prepared remarks and stop to take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] And we'll go first to Greg Gordon of Evercore ISI.

Greg Gordon

My first question is on the FERC settlement, does that mean that you and the other parties to the case have all agreed on that number and are submitting it for approval? And if so, who are the parties that have agreed that, that's a fair return for your FERC assets?

Trevor Mihalik

Hi Greg, yes, thanks for the question. Yes, this settlement means that all the parties have agreed to push this forward and let the FERC make a final decision on this. We expect that final decision to occur in the first quarter.

At this point, there are some proceedings that will take place in November. But all the parties to the case, and I don't have them all at my fingertips, but we can get you those if that's important to you. But everybody has agreed to go forward with these numbers. So, that's what we would expect to get pushed out in the first of the year.

Greg Gordon

The CPUC is a party, correct?

Trevor Mihalik

Yes.

Greg Gordon

Thank you. My next question is the wildfire amortization, are you guys assuming that, that is going to be amortized through ongoing earnings? Or are you going to consider that a non-operating item because yesterday or the day before on Edison's call, they indicated they would be considering that a non-operating item for earnings reporting purposes?

Joe Householder

Yes. Thank you, Greg for that question. I'll speak to it at first, and then I'll probably have Trevor add to that. I think first, I would say you have to recognize that there is a pretty significant difference in the amounts that we each contributed based on the size of our territory and all the work we've done over the last decade.

And doing all the work we needed to do, the risk view was that our contribution was lower. And so it's less material to SDG&E than it was to Southern California Edison and then further less material to Sempra. But we're evaluating that. I did look at what they did. And the way they do core, noncore is probably a little different than we do adjusted earnings. And let me ask Trevor if he has another comment on it.

Trevor Mihalik

Yes. Thanks, Joe. Hey Greg. Again, from what Joe said, this is going to be a fairly immaterial amount for us and then we're anticipating it could be about $30 million a year given a 10-year amortization cycle on it. And so we're still looking at it.

I think one of the things we probably will do is give prominence to it and try to break it out so that it's very clear, clearly shown on the face of the financials, but we're still evaluating that. But again, from our perspective, we generally do not exclude smaller items, and this would be a recurring item over a 10-year amortization period. So, I think our treatment may be different than Edison's.

Greg Gordon

Okay. My last question is this. In reiterating your guidance is a pretty bullish outcome, I think, because the guidance, as it was set, included the earnings from Chile and Peru. And so basically, what you're telling us is pulling out what was the expected earnings contribution from Chile and Peru, net of the initial savings from deleveraging with the proceeds and the outcome from -- the positive outcome from the rate cases and the CapEx increase in Texas that you've basically be able to offset the removal of those earnings completely, if not almost completely. Is that a fair summary?

Joe Householder

Yes. So, thank you, Greg. Look, we've had a remarkable year, as I said in our opening remarks, thus far this year. And the proceeds that we're getting from the South American sale, the tax savings we've had there and a GRC out of this risk RAMP case that is -- that allowed the capital that we need to run the utilities in a safe and reliable manner.

All of our businesses are doing well and we're very focused on the strategy and we're very pleased that we're able to maintain the guidance for next year based on the operations, based on the GRC, based on South America, all the elements you mentioned; it's very solid.

Greg Gordon

Thank you guys. Congrats.

Joe Householder

Thanks very much.

Operator

Our next question will come from Steve Fleishman of Wolfe Research.

Steven Fleishman

Hi good morning. So, just a broad question on California. Obviously, first, congratulations, you've continued to manage the fire season very well for 30 in a row. And -- but it's just been obviously a kind of interesting two weeks in terms for the whole sector and the state.

So, maybe just some perspectives on how you're thinking about any changes from the Governor, the commission, how you're managing your shut-off plans, if at all? And anything about the structure of the sector and the state. I'd just be curious how you're taking this all-in?

Joe Householder

Thank you, Steve. It's a broad question. I have quite a bit that I'd like to say about it. So, bear with me, probably and I appreciate your comment. We didn't have any significant wildfire, catastrophic fire in our territory. This year, we faced very severe weather conditions, but safety is top of mind across our companies in California and in Texas, where we've had some pretty severe tornadoes.

But I want to start out with saying how proud I am and how proud we are of our team at SDG&E. I was actually over there at the emergency operations center the day before yesterday during the peak time, which was sort of between 10 in the morning and noon here. And I've been there many times in non-weather conditions and practice sessions. And that's always interesting, and I'm excited to see it.

But seeing them in action, taking immediate decisions as the conditions change, and it's not just the people in that room that room is buzzing and they're all working together really well, but it's all the people in the field. I'm listening to phone calls back and forth about live conditions in the community, allowing the team to really have see on the ground, right?

We have all these cameras, but now we have people on the ground and that underground experience, helping them make prudent decisions. I saw them turning off lines based on what was going on, on the ground to save lives and reduce the potential for fire.

So, I just want to congratulate our team. I actually ask Caroline Winn, who is the COO at SDG&E to come, and I'm going to ask her to speak about this in a minute, but I want to touch on a couple of other points that you made.

Look, I think the Governor did a really good job coming into office; working with the legislature and the company's; resetting the prudency standards, the presumptions; letting the CPUC consider factors within and outside our control; looking at humidity, temperature, wind speed. It's been an incredible difficult couple of weeks.

So, we've had a big head start, and -- but we're not stopping. You probably saw our Fire Safe 3.0. We're continuing to innovate. And we will help the others try to catch up, but it's been 10 years of hard work, but we just keep wanting to get better and better.

I have to tell you on the power shutoffs, I've advocated to Pedro and others like, you guys have got to, it's the only way you're going to keep people out of harm's way. And I have very strong views on this. We have to do it, okay? I think the Governor believes that we have to do it. The Governor has been very supportive of SDG&E. Power shutoff isn't the first thing we do. It's a tool and we use it when we have to, at the end, when there's no other option.

But we're continuing to learn, innovate, the people really care and they are razor focused. It's not any time for newcomers, no time for a bunch of forms to fill out, reviews, debates, the situation is intense, and we're dealing with people's lives and we have to do it, and we know what we're doing, and we've proven that we know what we're doing. It's still a challenge, but I think it's manageable if you get the right processes in place.

I want to have Caroline take a minute and explain how the last couple of weeks have been. And, yes, she's in charge of making sure that we're all safe.

Caroline Winn

Thanks Joe. Just to give a little context, we're coming off the heels of our fourth Santa Ana Red Flag event of the season. We saw typical wind speeds consistently blowing at 20 to 30 miles per hour and peaking at 60 to 80 miles per hour in our highest elevations during this operational period.

I will tell you that our system held up well given the environmental conditions and there were no major fires, as Joe mentioned. Around 25,000 customers in this last event were impacted by the public safety power shutoff, and I'm encouraged with our ability to minimize the customers that are affected as a result of PSPS.

Our capabilities have been really enhanced over the last several years as a result of our investments in more precise controls of our PSPS plans. And I would also add that in the last couple of years, we have been focused on refining our customer outreach and communication strategy as well as our operational readiness and response.

Just speaking a little bit more about customer outreach. We understand the impact that these outages have on businesses and families. And this is an area that we've been really focused on. And there are 3 areas that I'd just like to mention.

The first is a comprehensive and advanced notification to our customers. We don't want our customers surprise, and we want to provide them with complete information so they can make the appropriate plans for their families and businesses. Having said that, the weather conditions can change on a dime and there are circumstances where we may need to turn off the power to customers that we hadn't anticipated. And we're not shy to do so.

I would say, two, we have worked on the strategic placement of our community resource centers throughout the community to make sure that they're properly placed and make sure that customers have easy in, easy out access, and they have the information and the amenities that they need.

And I'd say, lastly, it's our key to building strategic partnerships. We learned very early on that we can't do this alone. And so in fact, before these events, we had conference calls with our non-profit and community-based organizations so that all customers were notified and had the things they need.

I think a good example is before this last event, we partnered with Meals on Wheels and the Red Cross to provide the senior communities affected by this PSPS with the amenities that they would need during these cooler temperatures.

So, that's just some examples of the areas, and we continue to refine our plan. We continue to improve what we do and learn from every event that we have.

Joe Householder

Thanks Caroline. And Steve, let me just add one more thing because you asked a broad question and one thing I would mention is, as I've watched this and I don't have all the information about the fires up north, where we've had fires in several different territories, not ours, it doesn't appear at this time that the magnitude of those fires will impinge on the fund.

So, I think with the $1 billion requirement for insurance, these were large severe fires and our heart goes out to all these people, but it is such that it doesn't appear to me today that, that's impacting the fund. It's tough. And I can tell you, much the way many of you have been with us for 20 years, much the way we used to manage the commodity business, the CEO, myself, we worry about this stuff every day.

Jeff was calling me, he's traveling overseas on the LNG business, but he's been calling me and contacting me every day about this. He worries about it every day. I worry. Then we call Kevin, then we call Caroline. We're on top of it. And it's just something that we have to manage, much like people in the Northeast or the Southeast have to manage hurricanes or snow events or whatever. We have to manage this and it's a little bit new for California. California is a mild climate. And generally, we don't have outages. This is a different event, and we're learning to deal with it. Thank you.

Steven Fleishman

Great. Great. Thank you.

Joe Householder

Welcome.

Operator

Our next question will come from Julien Dumoulin-Smith of Bank of America.

Julien Dumoulin-Smith

Hey, good morning or good afternoon.

Joe Householder

Hi Julien.

Trevor Mihalik

Hey Julien.

Julien Dumoulin-Smith

Hey. So, guys, I suppose with respect to the proceeds in aggregate from Latin America, I'm curious how you think about the 2020 uses at this point. Obviously, we're hearing you say debt pay down. Obviously, you raised your CapEx here. But just ideally, if we can get a little bit more granular as to how you're thinking about it?

And separately, and I know Jeff is not here, how do you think about more strategic uses of this capital given some of the comments on the last call as well?

Joe Householder

Thank you, Julien. I'm going to turn this over to Trevor in a minute, but we're really pleased with getting full value for these companies. We've run them well for 20 years, and we're getting the right value, and that's really important. And we've talked about paying down debt.

But let me -- let Trevor address your question. You hit on a number of points. And on the very last one, we're not going to talk about M&A kind of activities. But obviously, we're very focused on large capital programs. So, Trevor?

Trevor Mihalik

Yes, thanks, Joe. Yes. So, Julien, with the amounts of the proceeds that we'll be getting in the first quarter after tax, it's, call it, roughly between $4.5 billion to $4.7 billion. We would be deploying that cash in the short-term over paying down our short-term debt and then realigning the debt portfolio and then as well as having it support the CapEx growth.

Certainly, we're seeing increased capital requirements in the California Utilities as a result of the GRC and the RAMP filing. A big portion of that GRC is allocated towards capital around safety and reliability. And then we've also seen an increase in the Texas Utilities with the capital going up there. So, deploying that capital as efficiently as we can.

Julien Dumoulin-Smith

Got it. And then maybe if I can pivot very quickly over to the LNG side of the business. Obviously, constructive developments of late, would be curious how you're thinking about public developments? And again, however -- in whatever form that takes through the course of the next year, especially given the update on Port Arthur to mid-next year on FID, what is the outcome?

Joe Householder

Sure, sure. Thank you. So, I appreciate the questions. These LNG liquefaction projects are very large, complex and quite competitive. And we are progressing these projects to help unlock North America's energy potential and deliver clean energy across the globe. And I travel around the world a lot as Jeff, and we want to get these projects right for our customers and our investors. And in most of these cases, our customers are also investors in the project.

And as we've traveled around, and I was recently in Japan, just been in multiple countries in the last 10 days, we were both at the Cameron, dedication with all of our current partners and customers at Cameron and others, we find them all committed to ensuring the success of these projects and long-term returns.

So, I know it feels like it's taking time. But this is just us getting it right. We're highly focused on creating value. And I feel really good about the projects and the team. I wouldn't read anything into this. This is us making sure we get the EPC agreements, get the right contractor, get all the things we need to take FID. We are starting to work on financing for Port Arthur. But our partners also have to get comfortable with the returns and everything. Everybody's working toward it.

And so I wouldn't read anything in. These are small months in time when we're talking about four or five-year construction projects and multiple year development projects. We are signing a lot of MOUs, and you see that. Partially, that is, the customers are quite excited about being in some of these projects, and they worry that they're going to get left out and they want to sign something.

And so we're signing these things, but we're not quite ready. So, we signed an MOU for Cameron expansion. The partners are moving forward. We've got Total telling us exactly how they think we should do it. We haven't voted on anything yet. We've got the expansion at ECA. We're not ready to take FID on that yet. We don't have all the designs and everything, but people want to have their place and it's important.

And so we're making that public. I think as we make progress, we'll try to make -- you guys can see all the FERC things, you see that we're actually in commissioning and Train 2 at Cameron now. It's a little bit harder in the development phase. I think as you see us start to do something like financing work at Port Arthur, you'll see -- you'll get the confidence that we have.

Julien Dumoulin-Smith

Thanks for the time guys.

Joe Householder

Thanks Julien.

Trevor Mihalik

Thanks Julien.

Operator

And now we'll take question from Michael Lapides of Goldman Sachs.

Michael Lapides

Hey guys. A couple of questions. One on the California Utilities, can you remind us, obviously, you get those GRC step-ups each year for the next several years in EPA, SoCalGas and San Diego Gas & Electric, are those the only CPUC related step-ups you get in these three-year periods? And can you get quantified for us what the FERC transmission step-up will be at SDG&E for 2020? I know a lot of those have already been settled or are part of settlement agreements.

Joe Householder

So, a couple of things to address there, Michael. So, what we've addressed here is the impact on 2019 through the third quarter of the rate cases, the affirmation of our 2020 guidance without all the pieces, some of that relating to the confidence we have in the rate cases. There's nothing in there relating to the cost of capital, which we expect to get settled by the end of this year that starts effective next year.

So, that will be a component that we would expect to see. I think you'll get more details around all of this at the Investor Day. There are some projects that we do at both companies that are sometimes out of the GRC, we'll lay those out, and you've seen those before. But we'll give you a lot more clarity into 2020 and beyond at the Investor Day.

Michael Lapides

Got it. Question--

Joe Householder

Sorry, you asked, on the FERC question -- on the FERC question, that one, we expect to get finalized next year. And we would see a step-up from our current rate to the new rate starting then.

Michael Lapides

Got it. And is that new rate -- is that settlement document, a public document with the rate disclosed or the revenue step-up disclosed?

Joe Householder

Yes.

Michael Lapides

Okay. If it's a public document, what's the step-up?

Joe Householder

It's 10.6.

Trevor Mihalik

Yes. Retroactive.

Joe Householder

Retroactive at the beginning of this June -- I'm sorry, June 2019.

Trevor Mihalik

Yes.

Michael Lapides

Got it. Okay. I was thinking more of the dollar-million amount. Sorry.

Joe Householder

We haven't published that.

Michael Lapides

Okay. Finally, on Cameron, is there a material cost change if you finish Cameron 3 before you've made FID decisions on Cameron 4 and 5? I would think there would be in terms of like releasing crews and sending folks home. I mean you're not that far away from sending crews home because you're not that far away from having Cameron 3 done. I'm just curious how you think about that and how you kind of -- how much that plays a role in the negotiation process and in the planning process with both customers and partners?

Joe Householder

Yes, let me speak to that. I mean, first and foremost, all of the partners in Cameron are very focused on getting Trains 2 and 3 finished and into service before we do anything beyond that. So that's a primary goal, and we're getting very close. I mean we're about 96% finished and really Train 2 is in commissioning and 3 not far behind. So, those are almost done, but they still need to finish their commissioning process. Everybody is focused on that.

We are still just in the last couple of weeks have kind of honed in on what we think we want to build there. We haven't announced what that is yet. And we are still deciding how we're going to do that. It's undetermined at this point exactly how we're going to do it or who will do it.

So, I think you probably remember from a few years ago when we were going to try to do Train 4, we were going to try to do continuous construction. That ship really failed because what's going on right now is doing a lot of electrical work. It's being done by subcontractors and the commissioning is being done mostly by Chiyoda people and some McDermott people. It's not the same people that would get -- go in and start doing pilings again. So, the idea of any kind of continuous construction went away years ago. And so I think, I'd leave it with that.

Michael Lapides

Got it. Thank you, Joe. Much appreciated guys.

Joe Householder

Sure Michael.

Trevor Mihalik

Thanks Michael.

Operator

And now we'll take our next question from Shar Pourreza of Guggenheim Partners.

Joe Householder

Hi Shar.

Shar Pourreza

Hey guys, how are you doing?

Joe Householder

Good.

Shar Pourreza

Let me just follow-up question on LNG and sort of as you're thinking about cash flows as Cameron Trains 1 and 3 continue on pace. But we saw a peer transact and monetize a part of cash flows at a very healthy multiple. So, as you guys sort of think about the existing Cameron 1 and 3, even 4 and 5, ECA, Port Arthur, how do you sort of feel about potentially monetizing some of these cash flows, especially since we just got a pretty healthy public mark?

Joe Householder

Well, look, I'm not going to talk about some kind of an M&A sort of transaction, which that isn't a bit of. But I would say this, remember, we already have 50% ownership. We don't own 100%. So, it's a little bit different situation. We clearly have good value. You can see the cash flow, the EBITDA from Cameron. And we've had good value in the company from Cameron for some time now as we've been constructing it.

But I would say, we're going to build a pretty large LNG business. And I would think that we are going to use that cash flow to help build both the expansion at Cameron and new projects. So, that's what I would think we would be doing to create value -- to create additional value. We're always open to looking at things like that. But know, we've looked at MLP some time ago, that ship sale. But -- we're always looking at things. I actually think we will wind up using the cash for building our LNG business bigger.

Shar Pourreza

Got it, self-fund each other. Okay, that's good. And let me just shift real quick to Texas. Oncor, obviously, it's a very healthy CapEx increase that you guys had. A lot of it was driven on sort of the transmission side. Distribution kind of still remains a little bit modest, totally.

At what point can you start to pull forward some of that distribution spend? Should we think about it as an opportunity when transmission spend slows down and you offset with distribution? I mean you obviously have the economic backdrop to support more spending. So, how do we sort of think about the interim mix between distribution and transmission?

Joe Householder

Yes, I'll start and then I'll ask Trevor to comment. Look, we're very excited about Oncor and the growth in Texas, and there's a lot to do there. And so I think we're very focused on helping them fund that growth. And Trevor, do you want to speak to the details that he is asking about in transition?

Trevor Mihalik

Yes, I think, when we look at this, Shar, the big legs of the stool is really in the growth in Texas are in and around the Dallas-Fort Worth Metroplex being one of the fastest-growing metroplexes and looking at kind of their 2% premise growth on a year-to-year basis. So that's really kind of on the distribution side.

Then you look at the West Texas with the Permian and all what needs to be built out on the transmission side with the Permian. And then the third leg is, there's, call it, close to 100 gigawatts in the queue, which is primarily renewables based. So, you see kind of that slant towards more transmission right now as opposed to the growth that we're seeing in and around the Dallas-Fort Worth Metroplex. But all three legs of the stool, renewables, West Texas and the Permian as well as Dallas are all very, very healthy growth areas for us.

Shar Pourreza

Got it. Thanks guys. Appreciate it. Congrats.

Joe Householder

Thank you.

Operator

We will now go to a Sophie Karp of KeyBanc.

Sophie Karp

Hi good morning. How are you guy doing?

Joe Householder

Very well. Thanks. You?

Sophie Karp

Okay. Thank you. Congrats on the quarter. Just wanted to go back a little bit to the guidance. Clearly, we're very impressive that you're maintaining the guidance despite selling and divest in South America. Maybe, could you help us a little bit to bridge how that's -- how much of that's kind of delta is going to be covered by savings on debt versus maybe incremental earnings from Texas and LNG ramp sort of -- maybe if you could provide a little bit more color on that?

Joe Householder

Look, I think that as we were able to finalize the sales agreements for South America, assess the rate case, which just got finalized at the end of September, and look at all of our businesses afresh, we became very confident that our guidance range was still good, despite the sales and that was really good news for us because all the businesses are doing well.

We have confidence in Cameron and the California Utilities, Oncor and then the South American proceeds. They all come into play. We're not going to break down segment guidance until we have our Investor Day. So, we'll give you all that detail at that point in time.

Trevor Mihalik

Sophie, yes, this is Trevor. I would just add one thing, though, that with the sale of the renewables that you saw earlier, we were able to maintain our guidance as we recycle that capital. And likewise, with the sale of South American recycling net capital coupled with, like Joe said, a constructive rate case, that's really focused on capital around safety and reliability, we feel good that we've been able to recycle capital and maintain guidance. So, a huge positive for us in that respect.

Sophie Karp

Yes, yes. And so maybe just to double check, does that assume any particular outcomes in the cost of capital preceding and at the FERC.

Trevor Mihalik

No, that's outside of the cost of capital. So, that's not in the specific guidance. But again, it most likely would be within that guidance range.

Sophie Karp

Okay. And the FERC settlement?

Trevor Mihalik

Same thing. It would be in the guidance range. But it's not specifically included. No assumption on that is built into it right now.

Sophie Karp

Got it. And then just to confirm on taxes, the incremental CapEx that you are putting in at Oncor; that would be recoverable through TCOS and DCRFs, correct?

Trevor Mihalik

That's right. That's right.

Sophie Karp

All right. Thank you. That's all I had. I'll jump back in the queue.

Joe Householder

Sophie, thanks.

Trevor Mihalik

Thank you.

Operator

And we will now go to Paul Patterson of Glenrock Associates.

Paul Patterson

Hey good morning guys.

Trevor Mihalik

Good morning. How are you Paul?

Paul Patterson

All right. So, just to sort of follow-up on Greg's and Steve's questions. If I understand sort of your answer, it looks like you guys are leaning to basically including an adjusted EPS, the Wildfire amortization?

Trevor Mihalik

Yes, let me take that one, Paul. What we're leading to is calling it out prominently probably on the face of the financial statements, but probably not carving it out as a separate adjusted guidance. But again, we're still working through that right now. This quarter, it was pretty small. It was only $6 million of earnings, so we didn't call it out.

But again, I think one way or the other; we will show it pretty prominently that people can identify that number on the face of the financial statements.

Paul Patterson

Okay. And then with respect to the PSPS that you guys have instituted, how would they compare? I mean, I realize that there are separate and distinct situations in every service territory, et cetera. But as a percentage of customers, and I think you guys said, I think, something in the 100,000 customer range. How does that compare to the number of customers that are being reduced in the service territories to the north?

And how long are these people on average being cut off, how long is their power out? Because from our perspective, I mean, obviously, different service territories, different numbers of people, but the reaction to these power shutoffs to the north seem to be rather hostile, which I haven't really -- I've seen complaints about obviously people being disconnected in your area in the past and what have you, but I haven't seen anything to this level if you follow me. I'm just wondering if you could speak to that a little.

Joe Householder

Yes, let me take it first, Paul. And then I think I'll have Caroline also address it. It's quite interesting and I alluded to this earlier, I've lived in different parts of the country and seen power go out for a variety of reasons, generally, weather events, right? You have planned outages; those are usually generally very short in term.

But I've seen weather events across the Eastern seaboard. And nobody likes it, but it happens. And if there's ice and snow or wind knocks trees down and knocks the lines down. This is what happens. And I've been through periods where the utility in and around Washington, D.C. was -- you didn't do enough to keep the reliability up. So, it's always an issue.

I think in California, we've been so used to mild climates and very high reliability that it's a little bit unusual. And what we've tried to do, and I'm going to let Caroline speak to this, is we've -- over the 10 years, we have tried to figure out a way, segment our grid, really take out the power, shut the power off for safety reasons in small areas where the wind speed is just too intense. And that doesn't cause as much issue.

Although at the very beginning, it was difficult, but then we started to build centers for people to go to, got the communications chain. So, we learned a little bit by doing. I think up north, they're cutting off a much larger percentage of people, of course, they have a bigger territory. I don't think they're at the point yet where they can do exactly what we're doing; they can get there. But I think that's what you've seen a little bit of backlash on. It's something people in other parts of the country have had to deal with for most of their lives and people in Northern California haven't.

Caroline, can you talk about this? Because what you've said is something about hundreds of thousands. We had a much smaller number of people out than that. They've had very significant, over 1 million, I think. Caroline, go ahead.

Caroline Winn

Sure. In our last event, we impacted around 25,000 customers, as I mentioned earlier, and I would just tell you that over the past decade, we continue to improve. And one of the things that we did early on after we've had these public safety power shutoff, we set our senior management team to these communities that were impacted to do one thing, and that was to listen to customers.

What were customers concerned, how can we lessen the impact when a PSPS occurs. And that's really where the idea of these community resource centers was generated from us going out and listening to our customers. And in turn, we're showing them the types of conditions that we're seeing and the types of wind speeds that the area is experiencing, and I would just tell you that we're also going out and doing community resilience fares.

So, we're out in the communities that were most impacted. And I have to tell you that over the years, the impact and the response from customers has been actually positive. They're thanking us for turning off the power. And so I'm really pleased to hear that. Now is 100% of the customers happy? No, but I can tell you that customers are more accepting of the practice that we're doing and they know the conditions we're experiencing. And we're listening on how to lessen the impact to them when we do have to do a PSPS.

Joe Householder

And you might talk too about how long have we had to turn people off and it's different in different areas?

Caroline Winn

Yes, it's absolutely different in the highest elevation, where we've had to do more significant PSPS. But I can tell you, in the last -- the events over the last week, the average duration of these PSPS has been around 24 hours. So, we have tried to minimize that.

However, we're also careful that we're not going to turn the system back on when the conditions prevail. We do 100% patrols of all of our circuitry and the circuit segments that we de-energize to ensure that there's no trees on the line. There's been no damage to the lines.

And surprisingly, we have found things that have happened. We found broken poles. We found broken cross-arms. We found trees on wires. So, that's the importance of doing these 100% patrols before we turn back customers on.

Paul Patterson

Okay. Well, great job, guys. I mean maybe, you guys can profit -- well, I don't know, maybe you guys can help the other guys up to the north, and maybe that could be appreciated some more?

Joe Householder

We do.

Paul Patterson

Okay. Thanks so much.

Joe Householder

Thank you, Paul.

Operator

And with that, it does conclude today's Q&A session. I would like to turn things back to Joe Householder for any additional or closing comments.

Joe Householder

Thank you all for joining us today. I will see many of you at EEI in about a week. In any event, I'd like to express my gratitude to each of you for the confidence you've had in Sempra Energy and support you've given me, and it's been a real pleasure knowing you all. If you have any follow-up questions, please feel free to contact the IR team. And have a great day.

Operator

And with that, ladies and gentlemen, that does conclude today's call. We'd like to thank you again for your participation. You may now disconnect.