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WEC Energy Group, Inc. (WEC) CEO Joseph Fletcher on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-06-19 Earnings Summary

Press Release SEC *10-Q*

EPS of $0.74 beats by $0.02 | Revenue of $1.61B (-2.17% Y/Y) misses by $-71M

Earning Call Audio

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00:00 -56:38

WEC Energy Group, Inc. (NYSE:WEC) Q3 2019 Earnings Conference Call November 6, 2019 2:00 PM ET

Company Participants

Gale Klappa - Executive Chairman

Anthony Reese - VP & Treasurer

Joseph Fletcher - President, CEO & Director

Scott Lauber - Senior EVP & CFO

Conference Call Participants

Gregory Gordon - Evercore ISI

Shahriar Pourreza - Guggenheim Securities

Julien Dumoulin-Smith - Bank of America Merrill Lynch

Michael Weinstein - Crédit Suisse

Michael Lapides - Goldman Sachs Group

Praful Mehta - Citigroup

Vedula Murti - Millennium Management

Paul Patterson - Glenrock Associates

Operator

Good afternoon, and welcome to WEC Energy Group's Conference Call for Third Quarter 2019 Results. Today's call is being recorded for rebroadcast. [Operator Instructions].

Before the conference call begins, I'll remind you that all statements in the presentation, other than historical facts, are forward-looking statements that involve risks and uncertainties that are subject to change at any time. Such statements are based on management's expectations at the time they are made.

In addition to the assumptions and other factors referred to in connection with the statements, factors described in WEC Energy Group's latest Form 10-K and subsequent reports filed with the Securities and Exchange Commission could cause actual results to differ materially from those contemplated.

During the discussions, referenced earnings per share will be based on diluted earnings per share, unless otherwise noted. After the presentation, the conference will be open to analysts for questions and answers. In conjunction with this call, a package of detailed financial information is posted at wecenergygroup.com. A replay will be available approximately 2 hours after the conclusion of this call.

And now it's my pleasure to introduce Gale Klappa, Executive Chairman of WEC Energy Group.

Gale Klappa

Good afternoon, everyone. Thank you for joining us today as we review our third quarter 2019 results. First, as always, I'd like to introduce the members of our management team who are here with me today. We have Kevin Fletcher, President and CEO; Scott Lauber, our Chief Financial Officer; Bill Guc, Controller; Peggy Kelsey, Executive Vice President and General Counsel; and Beth Straka, Senior Vice President of Corporate Communications and Investor Relations.

I'm also pleased to introduce Tony Reese, our new Treasurer. Tony joined our finance group back in 2006 and most recently, he served as the Controller for our Illinois utilities. Welcome, Tony.

Anthony Reese

Thanks, Gale.

Gale Klappa

Now as you saw from our news release this morning, we reported third quarter of $0.74 a share. During the quarter, we continued our focus on financial discipline and operating efficiency. That focus, which is embedded deeply in our culture, helped us to deliver solid results despite severe July storms that caused extensive damage to our system. Rebuild, repair and recovery from 9 tornadoes and 120-mile an hour straight-line winds resulted in a drag of the $0.03 a share for the quarter. Also during the summer quarter, temperatures were slightly above normal but milder than the third quarter last year.

So when you shake it up and put it altogether, we're pleased with the consistency of the company's financial and operating performance. Scott will provide you with more details on the quarter in just a few minutes. But first, let's take a quick look at the economic conditions here in Wisconsin. Unemployment remains at or near record lows of the state, and we continue to see positive news on the economic development front as well. For example, Foxconn announced plans to begin construction on its high-performance computing center later this year as it builds out Phase 1 of its advanced manufacturing campus south of Milwaukee where it also continues on Foxconn's Gen 6 fabrication plant. Crews began installing the roof on the nearly 1 million square foot facility last month. As you may know this will be the first LCD display plant to be built in North America.

Then we saw another positive announcement just a few days ago. Molson Coors, the beverage company, confirmed it will base its major support functions, including finance, IT, legal and human resources here in Milwaukee. You can hear more about the economic growth in our region when you join us at the EEI conference next week. And more growth is on the horizon for our company as well. In the earnings packet we released this morning, you will find a snapshot of our capital plan for the 5-year period 2020 through 2024. We expect to invest $15 billion in infrastructure projects during the next 5 years. This represents an increase of $900 million or 6.3% over our current 5-year plan.

Now folks, we've identified 3 key areas for increased investment. First, we plan to expand our regulated natural gas infrastructure to meet growing customer demand. In particular, Wisconsin needs more natural gas peaking capacity at the highest demand times on the coldest days. This became especially clear during the polar vortex event back in January when the windshields dropped to near 50 degrees below 0. To address the demand, we plan to develop 2 liquefied natural gas facilities in our service area. In fact just last week, our We Energies subsidiary filed an application to the Wisconsin Public Service Commission for approval to build the LNG facilities. We believe these projects are the most cost-effective way to serve our customers natural gas needs during the winter peak. Building LNG plants will differ costly and lengthy projects to expand pipeline capacity into the state.

We're also increasing our 5-year spending target for our electric distribution network across Wisconsin. As you know, we consistently been named the most reliable utility in the Midwest. But to maintain the high levels of service that our customers deserve and expect, we need to replace aging poles, aging transformers and modernize hundreds of miles of overhead and underground lines.

And finally, we plan to deploy additional capital in our energy infrastructure business outside of our traditional footprint. We see excellent opportunities to leverage our tax position and continue to optimize our earnings growth. We expect this segment of our business to grow to approximately 6% of our total asset base by the end of the 5-year period.

Overall, our new capital plan should grow our asset base by 7% annually over the 5-year period, and I would emphasize this with no need to issue additional equity. And the investment plan continues to support our long-term earnings growth rate of 5% to 7%. This projection comes off a new base of $3.50 a share, and that's the midpoint of our original 2019 guidance.

We look forward to sharing more details with you at the upcoming EEI conference. And now I'll turn it over to Kevin for an update on our regulatory calendar and more details on our operations. Kevin, all yours.

Joseph Fletcher

Thank you, Gale. I'd like to start by reviewing where we stand in Wisconsin. First, an update on the rate review process. If you recall, in March of this year, we filed a proposal to the Public Service Commission of Wisconsin to set customer rates that we introduced on Wisconsin Public Service. This August, we entered into settlement agreements with the Citizens Utility Board of Wisconsin, Wisconsin Industrial Energy Group and Clean Wisconsin. Hearings concluded in October, and I'm pleased to say that we received a unanimous decision from the commission approving the settlement agreements just last week. Rate design will be determined by the commission in mid-November, and we expect the written order in December with new rates effective January 1.

Now turning to our solar projects. You may recall that in Wisconsin, we have a total of 300 megawatts of utility-scale solar capacity plant. We've broken ground on 2 solar projects for Wisconsin Public Service, Two Creeks and Badger Hollow I. As a reminder, these projects will be the first utility scale solar facilities in Wisconsin. Our share will total 200 megawatts with an investment of approximately $260 million. We expect both projects to begin producing energy by the end of next year. We also have plans for more renewable generation at We Energies. This past August, we filed with the Public Service Commission for approval to acquire 100 megawatts of capacity at the Badger Hollow II solar park. The projected investment would be $130 million, and we expect to receive the commission's decision in spring of 2020.

Meanwhile, on the natural gas side of our business, we're taking steps to maintain reliable and affordable service for our customers. As Gale mentioned, We Energies just filed an application to construct 2 liquefied natural gas facilities here in Wisconsin. We expect to invest approximately $370 million in these projects. We are now evaluating site plans and, subject to approval, we would begin construction in the summer of 2021.

Turning to Illinois. Our People's Gas subsidiary continues to modernize Chicago's natural gas system. This program is critical to the long-term safety and reliability in America's third-largest city. As we replace the cities aging iron pipes and facilities, we are following rigorous protocols to keep our employees and the public safe. The program will be approximately 28% complete by year-end and has created more than 2,000 jobs so far.

And with that, I'll turn it back over to Gale.

Gale Klappa

Kevin, thank you. Now folks, considering our strong performance so far this year, we're tightening our 2019 full year guidance to a range of $3.51 a share to $3.53 a share with an expectation of hitting the top of the range. This translates to a growth rate between 7% and 7.6% of the midpoint of our original 2018 guidance.

And now for a quick reminder about our dividend. As usual, our board will assess our dividend plans for next year in our scheduled meeting in early December. We continue to target a payout ratio of 65% to 70% of earnings. We're in the middle of that range now, so I expect our dividend growth will continue to be in line with the growth in our earnings per share.

And now, with details on the third quarter results and our outlook for the future, here's our CFO, Scott Lauber. Scott?

Scott Lauber

Thank you, Gale. Our third quarter earnings of $0.74 per share were level with last year's results. We benefited from additional capital investment, reduction tax credits and a continued emphasis on cost control. However, as Gale mentioned, July's severe weather significantly impacted portions of our electric system. We estimate that the storm restoration expenses resulted in a $0.03 hit in the quarter. In addition, comparatively mild temperatures accounted for a $0.02 drag in the quarter, and we did not book any sharing in our Wisconsin companies in 2019.

We posted the earnings packet to our website this morning, and it includes a comparison of third quarter and year-to-date results. I plan to focus on the quarter beginning with operating income and then other income, interest expense and income taxes.

Referring to Page 9 of the earnings packet. We reported $310.9 million in consolidated operating income for the quarter. This compares to $302.7 million in 2018, reflecting an increase of $8.2 million. Adjusting for the impact of tax repairs and our adoption of the new lease accounting rules, operating income was flat quarter-over-quarter.

Recall that as part of our previous rate settlement in Wisconsin, we agreed to apply the benefits of tax repairs to offset the growth of certain regulatory asset. That plan continues through year-end, and our expectation remains that the transmission escrow balance at We Energies will be reduced to 0 by the end of this year. My update will focus on changes in operating income by segment, excluding the impact of tax repairs and the new lease accounting rules.

Starting with the Wisconsin segment. Operating income decreased $5.6 million net of these adjustments. Lower sales volume due in part to less favorable weather resulted in a $22.4 million decrease in operating income. Depreciation expense increased by $9.7 million. These items were substantially offset by a $23.5 million reduction in operating and maintenance expense. This was largely driven by a couple of items. Recall that the July storm resulted in a $12 million drag on the quarter. However, we have recognized about a $20 million cost reduction driven in part by our recent plant closings. In addition, last year, we accrued $15 million in the third quarter of earnings sharing mechanism we have in place at our Wisconsin utilities. No sharing was recorded this quarter.

In Illinois, operating income increased by $9.3 million as a result of our continued investment in the safety and reliability of the People's Gas System. Operating income at our Other States segment increased $3.2 million driven by higher volumes related to customer growth in capital investment in gas utility infrastructure.

Turning now to our energy infrastructure segment. Operating income at this segment was down $1.3 million. As expected, the Bishop Hill and Upstream Wind farm did not have a material impact on operating income. However, recall that a portion of earnings from these facilities come in the form of production tax credits, which are recognized as an offset to income tax expense. These production tax credits added approximately $0.02 per share to our earnings for the quarter. The operating loss at our Corporate and Other segment increased by $5.6 million. The variance reflects a $5.3 million gain that we recorded in the third quarter of 2018 related to the sale of a legacy business. Combining these variances and excluding the impact of tax repairs and the new lease rules, consolidated operating income was unchanged.

Earnings from our investment in American Transmission Company totaled $38.7 million, an increase of $5 million as compared to the third quarter of 2018. The increase was driven by a ATC's continued capital investment.

Other income net decreased by $4.3 million as a result of lower investment gains associated with our benefit plans. Note that these investment gains partially offset the benefit expenses included in our operating segments. Our net interest expense increased by $13 million, primarily due to higher long-term that balances to fund capital investment. This excludes the impact of the new lease accounting guidance. Our consolidated income tax expense, net of tax repairs, decreased by $13.1 million. Drivers include production tax credits related to our infrastructure wind investments and the 2018 tax reform item. We expect our effective income tax rate to be between 10.5% and 11.5% this year. Excluding the benefits of tax repairs, we expect our 2019 effective tax rate would be between 20% and 21%.

At this time, we expect to be a partial taxpayer in 2020. Our projection show that we should be able to continue to efficiently utilize our tax position with our updated capital plan. Looking now at the cash flow statement on Page 6 of the earnings packet. Net cash provided by operating activities decreased to $167.5 million. The decrease was largely driven by higher working capital balances. Total capital expenditures and asset acquisitions were $1.8 billion for the first 9 months of 2019, a $68.6 million increase from the same period in 2018. This reflects our continued investment focus on our regulated utility and energy infrastructure businesses.

Our adjusted debt-to-capital ratio was 53.8% at the end of the third quarter compared to 53.4% at the end of 2018. Our calculation continues to treat half of the WEC Energy Group 2007 subordinated notes as common equity. We are using cash to satisfy any shares required for our 401(k) plans, options and other programs. Going forward, we do not expect to issue any additional shares. We paid $558.4 million in common dividends during the first 9 months of 2019, an increase of $35.4 million over the same period in 2018. This reflects the 6.8% increase in the dividend level that was effective in the first quarter of this year.

Turning now to sales. We continue to see customer growth across our system. At the end of the third quarter 2019, our utilities were serving approximately 10,000 more electric and 21,000 more natural gas customers compared to a year ago. Retail electric and natural gas sales volumes are shown on Page 13 and 14 of the earnings packet. Overall, retail deliveries of electricity, excluding the iron ore mine, were down 3.2% compared to the first 9 months of 2018. And on a weather-normal basis, deliveries were down 1.8%. Natural gas deliveries in Wisconsin increased 2.7% versus the first 9 months of 2018. Natural gas and deliveries in Wisconsin grew by 1.3% on a weather-normalized basis. And this excludes use for power generation.

Finally, a quick reminder on earnings guidance. As Gale mentioned, we are tightening our full year earnings guidance to $3.51 to $3.53 per share with an expectation of reaching the top of the range. This assumes normal weather for the remainder of the year.

And with that, I turn things back to Gale.

Gale Klappa

Thanks, Scott. Thank you very much. Overall, we're on track and focused on delivering value for our customers and our stockholders. Operator, we're ready now for some jive talking, better known as the question-and-answer portion of our call.

Question-and-Answer Session

Operator

[Operator Instructions]. Your first question comes from Greg Gordon with Evercore ISI.

Gregory Gordon

I have two actual real questions now. The first is, your weather normal sales growth is down. It's not a terrible number, but it is couple hundred basis points off of what you're assuming your longer term, economic normal economic growth forecast is going to be. Can you chuck that up to the near-term uncertainty with regard to the trade issues or other factors that are also weighing on sales?

Gale Klappa

Good question, Greg. I think the biggest factor is clearly is the decline that we saw in the industrial energy consumption. I may have mentioned that to you on our previous call that about 20% to 25% of all the industrial production that takes place among the various industries across Wisconsin is designed for export. So if you look at economic conditions in Europe, the trade tensions with China, I think you see those as the reasons why we're down in terms of industrial sales. Having looked, though, Scott and Kevin and I just looked at the latest data thinking that you might ask this question actually, and while we're down in the last quarter or the last few weeks, we're roughly 4.5% to 5% compared to a year ago. The various industries seemed to have stabilized at that level. So we're not seeing any further deterioration as we enter Q4, but I really think what's going on is an industrial pause associated with the trade war tensions and with the soft economy in Europe. I would remind everybody, though, that our margins from industrial energy use particularly those customers that are on the real time pricing, our margins are very slim. So a slight downturn or even a 4.5% or 5% downturn in industrial demand does not translate into a major earnings hit at this stage of the game.

Gregory Gordon

Okay. Thanks. My second question is on the capital plan, up from $14.1 billion to $15 billion, and the energy infrastructure component is also up. But it's up a little bit more on a percentage basis than the overall increase. I think your infrastructure spend as a percentage of the $14 billion was around 10%. Your infrastructure spend as a portion of the $15 billion is closer to 12%. Not a big increase but where are you seeing those opportunities? And do you still think that the risk profile at that level of capital spending is commensurate with what you're doing in the core utilities?

Gale Klappa

Well, first of all, Greg, I thought we're going to let Shar ask all the multiple questions.

Gregory Gordon

Got me. You got me.

Gale Klappa

Shar will be back here in a moment, I'm sure. Yes, we saw -- you're seeing in the new 5-year plan a slight uptick in the percentage of capital spend going to our energy infrastructure business outside of our footprint. Two reasons driving that. One, again, we're looking and seeing a significant number of really good projects that fit our risk profile. And when I say fit our risk profile, meaning high-quality projects with high-quality, long-term offtake agreements with creditworthy customers, number one. And number two, this level, as we continue to refine our projections, this level of spending not only meets the kind of opportunities we think we have, but don't change our risk profile, but also maximizes our tax position. So we think that this is a really good deployment of our capital.

Operator

Your next question comes from Shar Pourreza with Guggenheim Partners.

Shahriar Pourreza

Just real quick on -- two quick questions here. First, on the utility side. We did see one of your Wisconsin peers propose a 1-gigawatt solar proposal by '23. I'm kind of curious, like you guys are doing Badger Hollow, you're doing Two Creeks. How do we sort of think about sort of incremental opportunities here especially since your generation CapEx looks like it modestly decreased in your new plan, and the governor's obviously can't afford this. So I'm kind of curious on how you're thinking about that.

Gale Klappa

I'll give you my take on it. We'll also ask Kevin to give you his view on this well. First of all, as you know, our generation planning really tracks what we think our capacity needs really are. So at the moment, we've got 200 megawatts of solar already approved. Then for our We Energies subsidiary, we just went in for another 100-megawatt approval, what we call Badger Hollow II, which should be immediately adjacent obviously to Badger Hollow I. So absent retirements of additional other generating capacity, that type of solar investment fits our capacity need, which is really, Kevin, a peaking right now. Now having said that, the governor has formed a task force related to trying to figure out what is the most cost-effective way to get to net zero-carbon generation by 2050. I'm pleased that the governor has asked our company to be a member of the task force. And we'll see where we'll go in terms of if there's any acceleration coming out of the task force. Kevin, any other thoughts?

Joseph Fletcher

Gale, I'll just add, as you mentioned the governor has announced his plan and I've had an opportunity, and some of our folks, to talk about his plan. And I'll tell you he's comfortable with where we are and what we've laid out. As you said, we've retired, well, since 2014 about 40-plus percent of coal-fired plants. As you mentioned, the solar capacity meets our peaking needs for now. But we're starting to take a look at what our peers are doing as time moves on. But I feel good about where we're at and what we've announced so far.

Gale Klappa

Amen.

Shahriar Pourreza

Good. That's perfect. And then just on your remaining coal assets. Obviously the PFC that we've sounded pretty cautious around kind of approving the partial securitization at Pleasant Prairie. Any sort of thoughts or guidance on how we should think about the balance of your fleet as we look at sort of the generation transition, i.e., was sort of the securitization a one-off? Or was it to be assumed that could be a template as we move forward?

Gale Klappa

Well, first of all, Shar, I guess, we read the reaction of the commission and the discussion of the commissioners. The securitization of $100 million of our remaining book balance at Pleasant Prairie, we read that all differently than what you may have read it. In fact my sense is, from their conversation and from the feedback we've gotten from staff that they thought this is a very positive solution that worked in this instance. I think that the -- perhaps the one note of caution that you might have picked up on is that I think everyone of the commissioners said publicly that these works, and this was a good solution for this particular situation, the retirement of that particular plant. But they were open to whether or not this is a template, and they weren't saying by being positive about this approach this time that it was necessarily a template. But I think, overall, in the settlement and the process I think was very well received by all of our stakeholders. In terms of going forward, we don't have any plan to retire any additional capacity in the next 12 months or during 2020. But obviously, we continue to look at our portfolio, look at the demand, look at economics, and see where we're at. But right now, for the next 1.5 years or so, we're going to be focused on getting that solar capacity in and operating well.

Joseph Fletcher

And I would just add to, that as we look at the decisions, moving forward on what the right generation mix is for us, as you mentioned in your comments, we don't have to look far back. In January, we had our polar vortex. We had extremely cold weather. And the balance of having a mix portfolio of generation, including the coal assets, was something that we needed to keep people's lives on and keep the gas flowing. So in addition to the economics and from a technological standpoint making the decisions, we'll balance that into our decision-making also as we move forward.

Gale Klappa

Yes, Kevin. And Shar, that's a great point. And truth of the matter is, if we haven't had the full array of capacity, solar, wind, natural gas, coal and nuclear, if we haven't had that full complement of capacity back at the end of January, it would have been a life-and-death situation. So there's nothing to fool around with. But obviously, we'll continue to refine our plans. We'll continue to look at what makes the most economic sense.

Operator

Your next question comes from Julien Dumoulin-Smith with Bank of America.

Julien Dumoulin-Smith

Two quick points, if I can. Your peers regionally in the MISO footprint have generally been revising upwards there, sort of, 5-year CapEx outlooks. Can you comment if there's anything specific in the ATC context? Obviously, the MVP stuff rolling off still, so there could be some discrete items there. How do you think about that rolling into the longer term? And then separately, if I get the second part in here now, on the infrastructure bucket, I think I heard that you largely are not a cash taxpayer through the forecast period. And I presume that's tied to the infrastructure spend. How do you think about your ability to continue scaling infrastructure through the forecast period, given what I presume to be, largely tax producing assets that you're going to be investing in? Or tax [indiscernible] assets.

Gale Klappa

All right. Great. Great questions, Julien. If you don't mind, I'll tackle your second question first, on the tax position. What we wanted to say and should clarify for you is that today, if we don't have any more infrastructure investment coming, then we would be a partial cash taxpayer in 2020. However, with the infrastructure plan that we've laid out in our new 5-year capital budget, we expect that will optimize our tax position and allow us to efficiently add additional tax credit related capacity in that infrastructure segment and maximize our tax position. Scott, am I...

Scott Lauber

No. That's exactly correct. We will be a cash taxpayer in the future. And the 1.8 just helps us that we're going to utilize that efficiently and we can make those purchases.

Gale Klappa

In essence, this -- what we have put in the capital budget for the next 5 years essentially effectively takes advantage of our cash tax position and allows us to take full advantage of the production tax credits that would be available to us with the additional investments. I hope that clarifies that for you, Julien.

Julien Dumoulin-Smith

Indeed. And the former?

Gale Klappa

Yes. How about tell me again? I was so focused on your tax question that how about roll out that first question by us again?

Julien Dumoulin-Smith

So with respect to your peers on MISO, on transmission, is there anything we should know about ATC? Your friends at some of the adjacent utilities have seen positive revisions, and meaningful positive revisions at that. Anything we'd be aware of?

Gale Klappa

Yes. Great question. Let me put it this way. Scott and Kevin and I don't like a lot of white space in our capital plan. And so in essence, we have pulled out of our capital plan any potential ATC investments outside of our footprint. So what you see and what you'll see in more detail at EEI and our 5-year capital plan, is really solid stuff that we know is going to have to be built by ATC in our footprint. But we deliberately pulled out anything outside of the footprint, because essentially, right now that would be white space. And we just don't like a lot of white space. We like to be able to show you exactly what we're going to do.

Joseph Fletcher

And I think the potential exists as more and more renewable get into the system, that there may be more transmission projects that do come in the future. But we took out all the white space.

Gale Klappa

That's what I was going to discuss just a little bit. But look, I'd have to study this from our peers, my suspicion is that a lot of that additional capital is for Wisconsin, for additional opportunities on the renewable side. If there is something there, it will be upside for us.

Operator

Your next question comes from Michael Weinstein with Crédit Suisse.

Michael Weinstein

Just continuing on the tax question. Are you guys -- do you have any insight at all as to whether you think the PTCs might be extended beyond the current program? And then separately from that, if the PTCs or as things start to wind down, do you think that on the infrastructure bucket you might start focusing more on solar projects rather than wind at some point in the future?

Gale Klappa

Mike, two things. First of all, and you probably picked this up. There had been some rumblings on one or two of the house committees in Washington about the potential extension of some of the tax credits associated with renewables. If that were to happen, our understanding is that it would occur in the tax extenders bill that will be likely to be voted on like at 11:59 on New Year's Eve. So if that happens, great. But we are not counting on that. With the plan we've laid out and the additional investment we've put into the 5-year plan in our infrastructure business, we're assuming that the production tax credits roll down as they would roll down from the current law. So that's kind of the answer to the first part of your question. I think the second part, if they roll down at the current law stays in place and the production tax credits become less valuable, will that push us more to solar? Probably not. Although we continue to look at solar projects as well as wind, as well as other natural gas infrastructure that would fit our risk profiles. But everything we have seen so far would indicate that the better projects for us still stay with wind, even with a potential reduction in the value of the tax credits.

Michael Weinstein

So, I mean, if there is an extension to 11:59 on New Year's Eve, should I be expecting an update to the capital forecast toward the infrastructure bucket?

Gale Klappa

No. Not necessarily. This is what we think -- we think what we've got in that plan is our sweet spot.

Operator

Your next question comes from Michael Lapides with Goldman Sachs.

Michael Lapides

Real quickly. Does the change in the capital spend forecast change your expected kind of 5-year CAGR for rate-based growth? Or is law of big numbers kicking in because your rate base growth has grown so much that expectation takes this higher capital level at utility to maintain the same rate base growth percentage level?

Gale Klappa

Well, what I can tell you, Michael, and thank you for the question, is that if you look at the whole Wheel of Fortune, as we call it, in terms of the breakdown of our capital spending, our asset base across our company, given this 5-year plan, will grow at 7% a year.

Michael Lapides

Got it. And do you anticipate having to use holding company debt at all to fund the growth at the utility, so will the utilities be self-financing? I know holding company financing will be used to finance the wind projects outside of the utility. I'm just trying to think about financing the utilities themselves.

Gale Klappa

Occasionally, we do use commercial paper to fund utility infrastructure growth. But by and large, given the equity in that situation, by and large, that will be a timing thing. Scott?

Scott Lauber

Right. And for the most part, our utilities are doing dividend up to the parent to support the overall dividend of the corporation. And remember, that We Power also is a positive cash flow item that goes up to the parent.

Michael Lapides

Got it. And then just last item, I noticed the spend on generation is down relative to the prior year forecast. Not a lot, just under $200 million. Just curious what's the driver of that? And where are you in the process about thinking about whether there could be incremental coal plant retirements and therefore a need for other forms of generation, incremental and developed, a couple hundred megawatts of solar you have coming?

Gale Klappa

Well, when you look at the new 5-year plan compared to the 5-year plan that we rolled out at this time a year ago, probably the biggest difference in the generation piece is that we completed, actually what we call the rise units in the Upper Peninsula of Michigan. That was a fairly sizable capital expenditure. Those units are in service. They are working great. They are providing very cost-effective energy to the Upper Peninsula including the iron ore mine, which by the way, the iron ore mine demand for electricity is up considerably this year. But I think the big difference you see is that we essentially put into service a large capital project. What is really kind of replacing that, as you mentioned, is the solar capacity that we're now gotten an approval for, and the additional solar capacity that we're hoping to receive approval for in the spring of 2020. And then to answer your question about additional coal retirements. Our focus in the next 12 months -- next 15 months or so is going to be on getting those solar capacity in service and operating well. We don't have any immediate plans to retire any additional coal units in the next 12 to 15 months.

However, having said that, we will continue to collaborate and have good interactive discussions with our major customers, with the commission staff, as we continue to refine our generation plan going forward. And obviously MISO is a big factor in whether or not any units can be retired as well. So you never say never, but certainly our plan for the next 12 to 15 months is to focus on getting the capacity in, the solar capacity in an operating well and to continue to look at the economics in the future of our system.

Operator

Your next question comes from Praful Mehta with Citigroup.

Praful Mehta

So maybe on the industrial growth point that you talked about earlier. If there is more trade uncertainty and industrial growth continues to be weak, do you see at some point going into 2020 that's starting to impact other factors? I know you mentioned the margins are thin, but obviously that supports helping spread the costs out on a larger base. How do you see that industrial growth weakness if it rolls into 2020?

Gale Klappa

Well, and I think, there's a good possibility it will go into 2020. However, we have anticipated this. We have looked at this. It was part of our thinking in the rate case. So I don't see any change in our outlook even given continued weakness of the kind we have seen in the industrial sector. Scott?

Scott Lauber

I agree completely. And we've been monitoring our industrial sales weekly in fact, and we've been factoring this into, like Gale said, our rate case settlement and what we are looking at for the future years.

Praful Mehta

Got you. So what kind of growth would you assume for 2020, I guess, on the industrial side just to be more specific then?

Gale Klappa

Well, we're right in the middle now of our updated assessment with our major industrial customers. We have a process that we've had in place for years where we actually interview our large industrial customers on their outlook for 2020, and then we update our plan. So nothing we're seeing right now would change the answer we've given you. But you'll see in either December or January, you'll see our updated forecast. I would remind you, though, that we're still seeing very significant economic development opportunities that are coming into service not next year. But as Kevin pointed out, I mean we've got Foxconn ramping up 2021, 2022. We've got HARIBO coming in. We've got Komatsu coming in. So I don't expect that you're going to see any change in our longer-term growth forecast. Kevin?

Joseph Fletcher

I would add to that, Gale. If you look at, for example you mentioned Foxconn just from an economic development perspective, when you see businesses like that come to a region, and we've mentioned that at EEI we'll refresh it coming up here next week, there's a lot of industries that are there to support Foxconn but just peripheral industries and not buying customers that are being added as well. That happens when you have these areas that become very popular in the growth. And that's what we're seeing in that particular area of our state at this particular time. More to come when talk a little bit at EEI.

Gale Klappa

So to summarize, Praful, I wouldn't get overly concerned about this bit of downturn that we're seeing in industrial. It's not something that we have not -- it is something that we had anticipated and planned for.

Praful Mehta

Got you. Super helpful color. And then maybe just quickly on the equity side. You mentioned that you're going to become a cash taxpayer but you have all these investments in the renewable side that probably help you offset most of the cash taxes. Just wanted to understand, you also mentioned no equity need. Is there a push up in the credit metrics? As in, do the metrics get a little weaker over time? Or do you still have the ability to maintain the metrics but still don't need equity over this time period?

Gale Klappa

We will maintain our metrics, and we do not need additional equity. So that's one of those, read my lips, no new equity. And the metrics stay in very good shape.

Operator

Your next question comes from Vedula Murti with Avon Capital.

Vedula Murti

A few things. When I was looking at the adjusted retail sales, your normalized or whatever. It seems like it's pretty seems fairly weak across the board in terms of residential/small commercial. If ever, I'm just wondering if you can maybe speak to kind of what you're seeing and whether, as we go forward, whether that's going to be something we continue to see? Or whether that -- just normalized whether there's any factors that are kind of distorting that?

Gale Klappa

Vedula, you'll probably say, "I've heard this before from you," and you have. Our weather normalization techniques in this industry are not great. And in fact, Scott and I were just talking about this as we saw the numbers come in. Everybody does their best at weather normalization. But frankly, the error margin or the margin of error in the weather normalization is pretty significant. So I think both Scott and I believe that the residential and commercial piece that looked a little bit weak is probably just because we didn't get the weather normalization right last year. The industrial, I talked about, you probably heard me say, it's down. I think we're in a pause. But we've taken this into account as we look forward, and we don't see any significant deterioration from that drop in our low-margin customers in terms of usage. Scott?

Scott Lauber

No. You're exactly right, Gale. And the fact that pulled up last year's investors or the deck, and the residential customers actually normalized last year were about 2%, and we talked about that being a little high. Now we're showing 0.2 year-to-date. So we get -- average them together, it's right in that 1%. So I'm not really concerned. I really do agree there's most likely related more to last year than this year, but more of a trending -- it's not a trending issue.

Joseph Fletcher

And there's going to be a lot of air conditioning next year, next summer, when somebody comes to town, given.

Scott Lauber

That's right.

Joseph Fletcher

If you look at next year, we're going to be hosting, as I am sure all of you know, the DNC. And as Gale mentioned, anything around downtown Milwaukee area would be residential, industrial commercial. All electricity will be flowing. All air conditions will be on. And it will be a great time for us. So we're looking forward to that.

Vedula Murti

When I think -- one of the things that always was a hallmark that you guys have been able to do was talk about your competitive advantage in terms of rates. But in all residential commercial, industrial classes within the region and given the overall period of time and the investment, can you refresh us as to how you are viewing that? And because -- if I'm not mistaken, it seems like it's now -- that advantage has been compressed.

Gale Klappa

I suspect during -- certainly, during the period when we were putting all of our Power the Future investment into place, investments that were badly needed, that advantage was somewhat compressed. But we've just come off of a 4-year freeze in rates. In fact, our base rates for our customers were lower in 2019 than they were in 2015. And then you look around the neighborhood and you see double-digit rate increases by many of the utilities in Michigan. I'm sure you saw Exelon in Minnesota and Northern States Power Minnesota just asked for a 15% rate increase over 3 years. We feel very good about our competitive position. And by the way, in our rate settlement, as you know, for our largest subsidiary, We Energies, customer rates are only going up 1.3%.

Vedula Murti

I appreciate that. And one last thing. Given what you did with Pleasant Prairie in terms of your voluntary securitization on some of the investment, what -- how should -- can you give us a little thought as to -- I expect it's not simply a one-off. But this is an idea of how to use a tool going forward over the next few years. And can you give us some thoughts as to how, at least as of today, how we should be thinking about and how you're thinking about using that tool going forward?

Gale Klappa

Well, let me start by saying there is a law in the State of Wisconsin, which allows companies like ours to request securitization for environmental -- the cost of environmental projects. So that's the law in the State of Wisconsin. It is a voluntary law. In other words, it can't be ordered. But it's a voluntary law. We actually supported the development and the vote on that law, oh my goodness, back about 15 years ago. So we thought it was a good tool for this instance. I think the commissioners in their public setting in their public discussion of our rate to review a couple of weeks ago agreed that for this particular case, this worked exceptionally well and benefited all of our constituents. But they also said, don't count on these being the full template going forward. And we certainly understand that. So I think there'll be a lot of discussions among all of the stakeholders and the commission staff going forward including, I suspect, the governor's office, because as you know he would like to get to a net zero-carbon by 2050. And that's going to require additional technology and retirements of existing units. So I think the short answer is, time will tell, but we have one good tool and equipment right now, and we'll see where we go.

Operator

Your next question comes from Paul Patterson with Glenrock Associates.

Paul Patterson

So let me ask you this. Just to follow up on Vedula's question on the sales growth forecast. Last I recall, you guys were looking at electric, I think, 0 to 0.5% through 2021, and then 1.2% to 1.5% in 2022 will be on?

Gale Klappa

Yes.

Paul Patterson

So is that still the case? And does that include industrial?

Gale Klappa

Yes [indiscernible].

Paul Patterson

But what would it be without industrial, I guess. Without industrial, what would it be, I guess? And why does it go up again in 2022 and beyond?

Gale Klappa

Well it goes up in 2022 and beyond because we have this, as I've mentioned, this very large pipeline of economic development projects that will be coming into operation, from Foxconn to HARIBO to Komatsu to Amazon to Milwaukee Tool. There's a very significant number. Yes, a very significant number of projects that are either in the groundbreaking stage right now or under construction, where they will be significant additional electric demand coming out in 2022, 2023 and 2024. So we'll obviously put together, as we finish up the year, our revised sales forecast. But as Scott mentioned, the downturn that we've seen, this pause that we've seen in industrial demand, we anticipated this. It was part of the discussions in the rate settlement. So I don't see this causing any kind of major change in our longer term forecast. Scott?

Scott Lauber

No, I agree. And specifically, the longer-term forecast, we are still seeing the good construction projects are continuing here at Foxconn, Amazon, all the stuff that Gale and Kevin just mentioned. So that's positive. Unemployment is still at near record lows here in Wisconsin, so that's been positive. And on the gas side, we continue to see great customer growth. So I'm not really that concerned in our forecast. And remember, what we put into forecast are only announced projects. We really didn't put in that secondary effect of other smaller customers coming in on the secondary or the residential load. So we only put what we actually knew was out there and coming, and we're monitoring those literally on a monthly basis here. So I feel very comfortable with that forecast.

Paul Patterson

Okay. So when we look at that forecast, we should be thinking about the increase being essentially sort of economic development large customers, which I would assume, again, to your comments earlier, sort of low margin customers, correct? Or because you're not really counting in sort of higher-margin ancillary effect. Is that correct?

Gale Klappa

That is correct. That's exactly right. And I would just a remind you, because of kind of nailed it, but I would remind everyone, that the low-margin industrial customers, particularly those on real time pricing, really do not drive our earnings growth.

Paul Patterson

I got you. Now just on Foxconn. There's been a lot of local press that they really are coming through with what was originally expected in terms of the original announcement, et cetera. There's been some, last month or so, a lot of press about that. I was just wondering if you could comment, since you made comments about Foxconn before, about how you're -- what you're seeing, I guess, on the ground or your expectations with respect to that.

Gale Klappa

I'm glad you asked the question. My overall advice for what it's worth is, ignore the noise and look at what's actually going on in the ground. So what's actually going on in the ground is that they are following through in great detail on the revised plan that they announced in January. So remember, the plan was to have 3 phases of development, which eventually over a 10-year period would add 13,000 well-paying jobs. They have not backed away from the 13,000 over the longer period of time. They have redesigned Phase 1, and Phase 1 will be a bit smaller in terms of the footprint. But in their original Phase 1, they had 2 things that were changed. Originally, they were going to build Gen 10/5 LCD plant. They are now building a Gen 6. That is not inferior technology, but the difference is Gen 6 plant produces smaller-sized LCD screens. So there is a downsizing in terms of the footprint and the electricity demand from a Gen 10 to a Gen 6. However, they've add now to their Phase 1 plan and in fact they are going to be in construction later this year on a high-capacity data center.

So when we look at -- and our technical folks meet with Foxconn every single week, and I meet with the Foxconn folks every 6 weeks. When you look now at our projected demand for Phase 1, even though it has changed to some from their original thinking, the overall demand hasn't changed because of the addition of a very significant high-capacity data center. So I really have a different view than what you might be seeing in the press. They did revise their thinking in terms of Phase 1. But Phase 1 is rocking. And if you drove from Milwaukee to Chicago, you would see off the side of the freeway enormous amount of development going on, and they are following through to a T on their revised Phase 1 plan.

Joseph Fletcher

Gale, let me just add too, in addition to the things you just mentioned that Foxconn are doing. They're also building a, they call the smart manufacturing center, where they're actually building the hardware from servers and things like that to offer for service for them, for their data centers and others. So in addition to what you mentioned, there is additional high tech facilities with the drawing board and the plan to build immediately.

Gale Klappa

Amen. All right, folks. Well, I think that concludes our conference call for today. Thank you so much for participating. If you have any other questions, feel free to call Beth Straka, and she can be reached at 414-221-4639. Thanks, everybody. See you in about a week. Bye, bye.