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PPL Corporation (PPL) CEO Bill Spence on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-05-19 Earnings Summary

Press Release *Slides*

EPS of $0.61 misses by $-0.01 | Revenue of $1.93B (3.26% Y/Y) misses by $-110.51M

Earning Call Audio

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PPL Corporation (NYSE:PPL) Q3 2019 Earnings Conference Call November 5, 2019 11:00 AM ET

Company Participants

Andy Ludwig - Vice President of Investor Relations

Bill Spence - Chairman & Chief Executive Officer

Joe Bergstein - Chief Financial Officer

Greg Dudkin - Head of U.S. Utility

Paul Thompson - Head of U.S. Utility

Phil Swift - Head of Western Power Distribution, U.K.

Conference Call Participants

Ali Agha - SunTrust

Ryan Greenwald - Ryan Greenwald

Praful Mehta - Citigroup

Greg Gordon - Evercore

Paul Patterson - Glenrock Associates

Gregg Orrill - UBS

Anthony Crowdell - Mizuho

Operator

Good morning, and welcome to the PPL Corporation Third Quarter Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Andy Ludwig, Vice President of Investor Relations. Please go ahead.

Andy Ludwig

Thank you, Jay. Good morning, everyone and thank you for joining the PPL conference call on third quarter 2019 financial results. We provided slides for this presentation and our earnings release issued this morning on the Investors section of our website. Our presentation and earnings release, which we'll discuss during today's call, contain forward-looking statements about future operating results or other future events.

Actual results may differ materially from forward-looking statements. Please refer to the appendix of this presentation and PPL's SEC filings for a discussion of factors that could cause actual results to differ from the forward-looking statements. We will also refer to earnings from ongoing operations or ongoing earnings, a non-GAAP measure on this call. For reconciliations to the GAAP measure, you should refer to the appendix of this presentation and our earnings release.

I'll now turn the call over to Bill Spence, PPL Chairman and CEO.

Bill Spence

Thank you, Andy and good morning, everyone. We're pleased that you've joined us for our third quarter earnings call. With me today are Vince Sorgi, PPL President and Chief Operating Officer; Joe Bergstein, Chief Financial Officer; Greg Dudkin and Paul Thompson, the Heads of our U.S. utility businesses; and Phil Swift, Head of our Western Power Distribution business in the U.K.

Moving to slide 3. Our agenda this morning begins with highlights of our 2019 third quarter earnings results and a brief review of operational and regulatory developments. Joe will then provide a more detailed review of third quarter earnings as well as an update on our foreign currency hedging status. As always, we'll leave ample time to answer your questions.

Turning to slide 4. Today, we announced third quarter reported earnings of $0.65 per share resulting in a total of $1.89 per share through the first nine months of 2019. Adjusting for special items, primarily related to unrealized gains on our U.K. earnings hedges, third quarter earnings from ongoing operations were $0.61 per share compared with $0.59 per share a year ago.

On a year-to-date basis through September, total ongoing earnings were $1.88 per share, which was even with last year on a per share basis and in line with our expectations. Based on our solid financial results through September, we have narrowed our 2019 guidance range to $2.35 per share to $2.45 per share maintaining our midpoint of $2.40. In addition, we remain on track to invest $3.3 billion in infrastructure improvements during 2019.

Looking beyond 2019, today we also reaffirmed our projection of 5% to 6% compound annual earnings growth rate per share through 2020 measured against the midpoint of our original 2018 earnings forecast of $2.30 per share. In addition, we maintained our 2021 earnings forecast of $2.50 to $2.80 per share.

We continue to monitor macroeconomic factors for potential impacts on our earnings projections including impacts on currency, exchange rates, inflation in the U.K. and interest rates.

Shifting the focus to operations. PPL continues to modernize and reshape the grid investing in infrastructure and technology that will further strengthen grid resilience, improve service to customers and enable the transition to a cleaner energy future.

In the third quarter, PPL Electric Utilities neared completion of a multi-year advanced meter replacement project in Pennsylvania. This $470 million project involves the installation of 1.4 million advanced meters. These meters enable us to respond more quickly and efficiently to customer requests by remotely connecting and disconnecting service.

They also provide customers with more detailed usage information to help them make wise energy decisions. They also alert us when power is out enabling us to respond more quickly, to notify customers when they're not home and to better pinpoint problem areas. In addition, they help us to monitor power quality and better identify and address potential problems before they impact electric service. We expect to complete the project this year. It's yet another example of our ability to execute large-scale capital projects on time and on budget.

Additionally, PPL Electric Utilities was recognized in October by the Association of Edison Illuminating Companies for groundbreaking technology that safely and automatically cuts power to down power lines, protecting the public first responders as well as employees. Safety is paramount to our everyday operations and we're very proud of our team for developing this innovative technology that will enhance the safety of our distribution network.

We expect to have this technology deployed in about 1,500 locations, across our Pennsylvania service territory by the end of this year. In Kentucky, meanwhile Louisville Gas and Electric Company and Kentucky Utilities Company continued to look for opportunities to economically add clean energy for our customers.

The company has completed construction of a new community solar facility in late July. This 1,400-panel array is the first of eight plan Solar Share developments that will provide an option for customers to support local solar energy without installing equipment on their properties.

We are very close to beginning the installation of the second Solar Share array as response from customers has been strong. In addition, Kentucky Utilities announced an agreement to build, own and maintain a solar array at the Maker's Mark bourbon distillery operation in Loretto, Kentucky as part of the utility's Business Solar Program.

The company expects to complete construction by the end of the year. Our continuous investment in our reliable electricity system in Kentucky also enables us to continue to pursue these efforts of economically advancing renewable generation in the state of Kentucky.

Shifting to the U.K. and a brief regulatory update, as we noted on our second quarter call, Ofgem formally kicked off the consultation process for the RIIO-ED2 price control in early August. We've since reviewed Ofgem's open letter, which outlines its approach to setting the next price control. And we've submitted responses on behalf of all stakeholders of both Western Power Distribution and PPL Corporation including our shareowners.

In PPL's response, we highlighted the real value that RIIO-ED1 has delivered and continues to deliver for our U.K. customers. For example, customer interruptions are down 11% on average. Outage durations have fallen by 9%. Customer service scores are very strong with distribution network operators earning on average an 8.7 out of 10 rating from our customers.

Meanwhile DNOs have continued to invest in network improvements and innovation. Four years into the RIIO-ED1 price control, customers are receiving high levels of service and performance. And in our view, the focus in RIIO-ED2 should be building upon the success of RIIO-ED1 and refining the framework where needed.

As stated in our comments, we welcome the opportunity to support U.K. decarbonization and electrification initiatives that will play a critical role in achieving the governments target of net zero emissions by the year 2050. We forecast that a significant amount of capital will be required to be invested in the distribution networks to advance these objectives.

We believe it's critical that RIIO-ED2 provide DNOs fair and reasonable returns that will attract and sustain the investment necessary to achieve this transition to a low-carbon economy. And we believe the incentive scheme in RIIO-ED2 must drive both innovation and outputs that create long-term value for our customers and enable top performers like WPD to earn strong returns.

Much of these concepts have been echoed by our investors and we provided Ofgem with a summary of that direct feedback as well.

In WPD's comprehensive response to the consultation questions, we've highlighted areas for improvement and offered ideas on how Opgem can achieve its objective of continuing to drive efficiencies while preparing the network for the future.

Ofgem is expected to issue its framework decision by the end of the year. As we said on our last call, we believe Ofgem agrees that distribution networks are critical to enabling the shift towards a more sustainable energy future. We expect that Ofgem will produce the framework necessary for DNOs to support decarbonization objectives and incentivize the level of investment required to do so. And we believe Ofgem will be focused on differentiating returns among electricity DNOs providing substantial opportunities for outstanding performers like WPD as we enter into RIIO-ED2.

With that, I'll turn it over to Joe for a more detailed financial overview. Joe?

Joe Bergstein

Thank you, Bill, and good morning, everyone. Let's move to slide 5 for an overview of third quarter segment results. As Bill mentioned, PPL delivered third quarter 2019 earnings from ongoing operations of $0.61 per share, which was $0.02 higher compared to the third quarter of 2018 and in line with our expectations. Our strong results more than offset $0.02 from share dilution and over the quarter there was $0.01 benefit from weather-related variances compared to the prior period. Weather was about $0.02 favorable compared to our forecast for the third quarter of 2019, primarily in Kentucky where cooling degree days were about 30% higher compared to normalized levels.

Turning to our segment results. Our U.K. Regulated segment earned $0.28 per share, a $0.01 decrease compared to the same period a year ago, excluding the impact of dilution. The decrease in the U.K. earnings was primarily due to lower sales volumes and lower realized foreign currency exchange rates compared to 2018 with third quarter 2019 average rates of $1.26 per pound compared to $1.34 per pound in the third quarter of 2018. These factors were partially offset by higher prices due to the April 1, 2019 price increase and higher other income due to higher pension income.

Moving to the Pennsylvania segment. Our PA Regulated segment earned $0.16 per share in the third quarter of 2019, which was even compared to the third quarter of 2018. Higher adjusted gross margins, primarily due to returns on additional capital investments in transmission were primarily offset by higher operation and maintenance expense and several other items that were not individually significant.

Turning to Kentucky segment. Our Kentucky Regulated segment earned $0.20 per share in the third quarter of 2019, a $0.03 increase compared to the third quarter of 2018 excluding the impact of dilution and weather. The increase was primarily due to higher adjusted gross margins, which reflect higher retail rates approved by the KPSC effective May 1, 2019 and lower operation and maintenance expense, primarily due to lower storm costs. These positive drivers were partially offset by higher depreciation expense due to additions to PP&E and higher depreciation rates.

And finally, Corporate and Other remained relatively even compared to the same period a year ago. As Bill noted, we narrowed our 2019 forecast range due to our strong third quarter performance, which positions us well to achieve our earnings forecast for this year. And for your convenience a walk of the year-to-date results is available in the appendix.

Before I turn the call back over to Bill, let me provide an update on our foreign currency hedging status which is on slide 6. For the balance of 2019, we continue to be 100% hedged for our ongoing earnings at an average rate of $1.45 per pound. For 2020, we increased our hedge percentage by 7% and our 2020 ongoing earnings are now 70% hedged. The average rate for 2020, reflecting these new hedges remained at $1.46 per pound. We were able to maintain these average hedge rates by optimizing our hedge portfolio given the recent uplift in currency rates, following the momentum surrounding Brexit and to strengthen our 2019 results to date. We continue to utilize options in our hedging strategy that preserve upside to the current market rates with about one-third of the 2020 hedge portfolio being option-based.

And we remain opened in 2021. As Bill mentioned, we'll continue to monitor Brexit developments and fluctuations in currency exchange rates, while we evaluate potential impacts for earnings projections. The flexibility in our hedging program enables us to take an opportunistic approach as we continue to assess the dynamic political situation. We believe we're well positioned to manage this uncertainty in the near-term through our hedge position. And we are optimistic that the market will rationalize the currency rates higher than we see today and continue the recent upward trend as the U.K. moves closer toward a Brexit resolution.

That concludes my prepared remarks, and I'll turn the call back over to Bill for the question-and-answer period. Bill?

Bill Spence

Thank you, Joe. In closing, our third quarter results exemplify our continued commitment to delivering outstanding operational performance. We remain solidly on track to deliver on our 2019 earnings guidance.

As we continue to invest in a sustainable energy future, as we strengthen grid resilience. And reshape electricity networks, to enable a low-carbon future. I'm very proud of the direction we're headed, as we look to close out 2019, with continued strong performance.

With that, operator, let's open the call up for questions, please.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question will come from Ali Agha with SunTrust. Please go ahead.

Ali Agha

Thank you. Good morning.

Bill Spence

Good morning, Ali.

Ali Agha

Good morning. Bill, first question, can you give us an update on your latest thinking around your U.K. operations? And any strategic actions you may take, to address the investor concerns and valuation discounts that, you're seeing in your stock?

I know, there's been some new stories out there, but anything you can share with us. Anything new opportunities or anything that you can -- you're looking at today?

Bill Spence

I appreciate the question. But as I'm sure you can understand, we don't comment on market rumours or speculation. And that's consistent with our long-standing policy.

As for the overall strategy, we've discussed our thoughts extensively on past calls, and nothing has changed from that perspective. And as we said, the company continues to operate exceptionally well. And we believe the current business mix and plan will generate long-term shareowner value.

Ali Agha

I understood. Fair enough. Second question, as you mentioned, you're expecting the framework decision from Ofgem later this year. Can you just highlight for us from your vantage front, what are the sort of the important data points you expect to get firmed up in this decision, as it relates to your business. And thinking about RIIO-2 et cetera?

Bill Spence

Sure. I'll make a general comment. And then, I'll turn it over to Phil, to maybe give you a highlight on some of the specifics that we're looking at, as we go into the framework discussion with Ofgem.

Since the process just kicked off, there's no major update at the moment. But we do remain encouraged by our continued dialogue with Ofgem, as they recognize, that the distribution networks are an integral part, of the future of the U.K. energy goals to decarbonize the country.

And we're going to continue to remain engaged with Ofgem. And all stakeholders as we establish this framework for the next price control review. As for the specifics we're looking at, Phil did you want to make a couple of comments there?

Phil Swift

Yeah. I mean, I think, the key thing is it's very early days at the moment. The actual sector methodology consultation is actually next year, when we get more detail on the financial package and everything else.

Right now our position is very much around focusing Ofgem on the fact that ED1 is working incredibly well. And therefore, ED2 should be a progression from ED1 and not a sort of a step change away from it.

Bill alluded to that in his opening remarks, in terms of outcomes for our customers. The interruptions on minutes are dramatically down. And our availability of electricity is running 99.99%.

In terms of customer service we continue to drive that upwards with WPD now, at or around over 90%. And the whole sector has moved up to around about 87%. So our key messaging with Ofgem has been very much around progressing into ED2 with a good incentive package reflecting the decarbonization agenda.

And we see that as the main adjustment going forward. But in terms of decisions in terms of cost of equity and everything else we won't see that until next year.

Ali Agha

Got you, last question, Bill, the $15 billion of CapEx that you've highlighted for us through 2023, can you give us some sense of -- as you look at customer needs et cetera, what kind of potential upside there could be, particularly in the outer years when you receive that drawdown?

And is that 4.7% rate base CAGR really realistic at the end of the day?

Can you give us some sense of where -- what kind of opportunities are out there, on the CapEx front?

Bill Spence

Sure. Well, the capital plan that you have in front of you today reflects only identified projects. And there are certainly opportunities that could arise as we execute the plan, particularly at the back-end of the plan as you know. Those potential opportunities within that five-year time horizon could come from a couple of sources. One would be further grid resiliency efforts in both Pennsylvania and Kentucky; future AMI deployment in Kentucky which we've talked about in the past; potential renewables expansion I would just say in general across the board; perhaps other generation modifications in Kentucky that could be required by any new environmental regulations.

I think as you probably know our capital plans in the U.K. are essentially set until the end of RIIO-ED1. And we do expect beyond that timeframe beyond RIIO-ED1 that there could be very significant capital investment opportunities to meet the required electrification initiatives to allow the U.K. to achieve its recent commitment of a net zero emissions by 2050. So, that's -- those are the areas that I would probably highlight at the moment.

Ali Agha

Yes. Bill I know -- I mean not all of it comes to fruition but just a sense of the size of that bucket as you're looking at these opportunities?

Bill Spence

Well, I would say that they would certainly be in probably $100 million versus the tens of millions of dollars. So, I think particularly as it relates to the U.K. we're looking at something that could be several hundred million dollars incremental per year depending on how aggressively Ofgem would like to go for the carbon reductions that the country has already established as a target.

Ali Agha

Thank you.

Bill Spence

You're welcome.

Operator

Your next question will come from Julien Dumoulin-Smith with Bank of America. Please go ahead.

Ryan Greenwald

Good morning guys. This is actually Ryan Greenwald on for Julien. Thanks for taking my question. Good morning.

Bill Spence

Good morning. Sure.

Ryan Greenwald

Can you guys just give a little more color on the hedging strategy in the current environment? It seems like you guys are being pretty patient. Can you just kind of elaborate there given the improving currency as of late?

Bill Spence

Sure. I will ask Joe to comment on that.

Joe Bergstein

Sure. There's been no real significant change to our hedging strategy. We are being patient and we continue to monitor Brexit situation and potential impacts from the pending U.K. elections and the January Brexit deadline with the prospects of a no-deal Brexit greatly reduced. Current probability sit at 90% for a deal or no Brexit at all. Both of those would be positive to the pound.

So, current forecasts point to upside relative to the current FX rate into the $1.35 $1.40 area. So, we'll again continue to wait and see how these events play out over the next several months and opportunistically layer on hedges if the opportunity presents itself.

Ryan Greenwald

Got it, that's helpful. And then how real do you guys perceive nationalization risk given the latest development?

Bill Spence

Well, I think that risk well we have always said we believed it to be extremely low has gone even lower. The Labor Party has really dropped in the polls. Their manifesto could only be really achieved if they win at outright majority in the election. That is very unlikely.

Their best shot would be to form a coalition government and very likely the coalition partner that they align with would not be probably likely to want to sign on to a renationalization manifesto. So, we believe that things from our perspective are moving in the right direction that that risk continues to go even lower from a pretty low starting point to begin with.

Ryan Greenwald

Got it. Thanks for the time.

Bill Spence

You're welcome.

Operator

The next question will be from Praful Mehta with Citigroup. Please go ahead.

Praful Mehta

Thanks so much. Hi guys.

Bill Spence

Good morning.

Praful Mehta

Hi. So, maybe just on the foreign exchange side and the hedging that you talked about. You reiterated your guidance for 2021. Can you just give us a sense of what's built into that in terms of the range on the foreign exchange side for 2021?

Joe Bergstein

Yes, we're using -- Praful its Joe. We're using the forecast that we had for FX rates at the time we gave that guidance which was $1.35 to $1.60.

Praful Mehta

Got you. So, the lower end of that is $1.35 depending on where that goes. Obviously, the estimates can move as well I guess?

Joseph Bergstein

That's correct.

Praful Mehta

Got you. All right. And then secondly, in terms of the strategic sign, I'll ask a more generic question if that's okay. What I'm trying to get a sense of is, I know that in the past you've looked at the U.K. strategically and said that the tax leakage has been a challenge. If there is somebody who can help offset that tax leakage using tax assets of their own, is that something you see as valuable as a strategic opportunity? Or do you not really consider that as an opportunity from your perspective?

Bill Spence

Well as I said, I'm not going to speculate on the strategic front. We have mentioned in the past that we continuously look for opportunities whether they're tax-related or not to take strategic action that could certainly improve the shareowner value as we've done over the past decade. So from that perspective nothing has really changed.

Praful Mehta

And just following up on that. Do you see -- from an buyer interest perspective, on the strategic options in the U.K., would you consider now to be a good time? Or do you think that there's just so much uncertainty on Brexit that if you had to do something you're really not -- that nobody's got really good clarity on it? Or do you see that or that -- is there a different perspective on timing around something to do with the U.K.?

Bill Spence

Well I would say that we have not tested the market on an outright sale of our U.K. businesses at this time. And I think to your point, this may not be the best of times given we're very close to seeing the outcome of Brexit. And I think it's clear from our perspective relative to Brexit that either way the general election turns out, we think the pound is going to strengthen once the uncertainties of Brexit are removed. And it will be clear I think. If you believe the polls and if they ultimately prove correct the Conservatives will win an outright majority and it's very unlikely the Labor Part you could achieve a majority. And as you also probably know that one of the overhangs on all the utility businesses in the U.K. has been on the threat of renationalization, which as I indicated earlier is dropping pretty significantly in our view.

Praful Mehta

Got you. That's super helpful and congratulations. Thank you.

Bill Spence

Thank you.

Operator

The next question will be from Greg Gordon with Evercore.

Greg Gordon

Hey, good morning.

Bill Spence

Good morning, Greg.

Greg Gordon

You guys -- I'm noticing that you're talking about in Kentucky on the margin they're embracing more renewable energy alternatives. It's been a call centric state. Can you talk about what your short- medium- longer-term plans might look like maybe not in this next rate case, but maybe as you think about the mid- to late-2020s with regard to aspirations to continue to push the green agenda in that state and what it might mean for rate base growth?

Bill Spence

Sure. Paul, do you want to comment on kind of the landscape in Kentucky and what you see on the ground there?

Paul Thompson

Certainly. Again, this is Paul Thompson. We have a inventor -- I mean a integrated resource plan that of course we do tri-annually and it still has coal as our least cost resource going out into the late 2020s early 2030s when we might see some more change. But aside from that, we're looking at the market all the time and as Bill said earlier looking for economic advantages for the customer. So one of the things that we're doing now as we've commented on is going to test the market with an RFP for renewables. We put that out in February. That was for upwards of 200 megawatts.

We're still processing that. But based on that we expect to see some filings to move forward on some more renewable energy that is economic to the customer set. So things like that in the near term, we're going to continue to do. When you get out into the later 2020s and as we had in our climate assessment report, we talked about as coal becomes not economic for whatever reason or ages to the point of not being able to be economically retrofitted, et cetera, we will likely be looking at renewables and/or gas as the economics may dictate. So I think we're trying to stay on the forefront of what's economic to the customer. And some of this renewal certainly can be and that's what we're going to try to keep doing in the state.

Bill Spence

I would just add Greg that I think that what we're seeing based on some modeling, we're doing and other things is that, it may not be that we actually shut down some of these larger coal stations, but we supplement them with renewable energy such that the output -- coal-based output may drop, but it could be that for the customer as Paul mentioned, could be still economic to kind of pair that base load generation with some of this variable generation. And that could be I think a win-win for the customers.

Paul Thompson

Yeah. A good way to balance the reliability against the cleaner resources.

Greg Gordon

Thank you very much guys.

Bill Spence

Okay, Greg. Thank you.

Operator

The next question is from Paul Patterson with Glenrock Associates. Please go ahead.

Paul Patterson

Hey, good morning.

Bill Spence

Good morning, Paul.

Paul Patterson

So like all my questions have been answered, but there was this discussion you guys made about this innovative technology regarding down power lines and cutting off the power to it. And I think you guys were talking about in the context of first responders and stuff. But what does this mean for the potential of wildfires? Or is there any application there at all? Is it proprietary? Is there more to this maybe than what it sounds like? I'm just curious.

Bill Spence

Yeah. Good question. Very good question. I'll ask Greg Dudkin, who heads up our PPL Electric Utilities to make some comments.

Greg Dudkin

Yeah. So, just very quickly about the technology, what we're using is, we're using information that comes back of a power line that hits the ground or taking information from our relays to determine, a, we may have a power line down on the ground and we can automatically de-energize it.

So as you said, the first application is to protect the public and its application. I think it could be used in areas of -- at risk of wildfires. So that could be a potential application in the future as well.

Bill Spence

And how about the proprietary nature of it?

Greg Dudkin

So we've applied for a patent on it, but we don't expect to get rich on it. But -- and we'd be more than happy to talk to other utilities that use.

Paul Patterson

Okay. Just -- when you say a grounded -- power line that hits the ground, what about if a tree hits the power line? Does that have the same impact?

Greg Dudkin

So we are now taking a look at that as well. This application is more around where you have live conductors that are on the ground. But we are taking a look at -- because actually they -- I'll call it the signature is similar to be able to identify when a tree hits a line as well.

Paul Patterson

Okay. Well, thanks a lot.

Greg Dudkin

You're welcome.

Operator

The next question will be from Gregg Orrill with UBS. Please go ahead.

Gregg Orrill

Yeah, thank you. Just in the U.K., where do you stand in terms of returns and achievement of performance incentives versus your plan?

Bill Spence

Sure, Gregg. Generally speaking, we're right on track with the plan in terms of executing the capital and the O&M that was approved in our fast-track application in the very beginning of the process or the rate period. At the operating company level, so at the four distribution network operations companies, we've been in this roughly 9% to 10% return on regulatory assets in that range. I don't know Phil, if you want to comment more specifically, but we've been kind of low -- just below about 10%.

Phil Swift

Yes, that's correct Bill. So, we continue to execute in line with the plan as you said. And in terms of incentives, we maximize incentives on customer service. We're close to maximizing -- maximize on two of the licenses on interruptions. Stakeholder engagement, we were ranked the best in the sector again for the eighth consecutive year with the highest level of incentives in line with plan possibly slightly better.

Bill Spence

And that roughly mid-9% is on a real basis. As you recall in the U.K., we start with the nominal and then we book to the real based on incentives and inflation et cetera.

Gregg Orrill

Thank you.

Bill Spence

You're welcome.

Operator

[Operator Instructions] The next question will come from Anthony Crowdell with Mizuho.

Anthony Crowdell

Hey, good morning. Hopefully two quick questions. One is -- and I don't know if you can answer. How far along '20 -- how far along in 2020 would you go with keeping 2021 completely exposed on the hedge status?

Bill Spence

Sure. I'll ask Joe to comment on that.

Joe Bergstein

Hi, Anthony. I think it -- again, to my earlier points, we want to monitor the events as they occur in the U.K. over the next several months with respect to the general election in mid-December and the end of January Brexit time line. So, I think I don't have a date specific, but we'll monitor those events. Again, we would think based on information we have today relative to those events, the pound would move higher. So, we'll wait to see what happens then and see how the pound materializes over that time and book hedges sometime in 2020 or 2021.

Anthony Crowdell

And then, switching gears to -- the credit agencies have typically viewed -- view U.K. regulation I guess as maybe a credit positive or a premium jurisdiction. Has that changed at all as you've seen the other segments get potentially lower returns?

Joe Bergstein

So we've had conversations with rating agencies and I think they've made comments with regard to this. But in our conversations with them, they don't view the U.K. differently at this point with respect to electric distribution. RIIO-ED1 goes through the end of March 2023. So, we have quite a bit of time and certainly in cash flows to do that. And I think they'll continue to monitor the U.K. and development through the rest of ED1 and how that may impact RIIO-ED2 before they make any decisions. But I think they continue to view the U.K. positively.

Anthony Crowdell

Good. Great. Thanks for taking my questions.

Joe Bergstein

You’re welcome.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Bill Spence for any closing remarks.

Bill Spence

Okay. Thank you, operator, and thanks for all that participated today and I look forward to seeing many of you next week at the financial conference.

Operator

And thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.