NorthWestern Energy Group, Inc.

First Quarter 2024 Earnings Call

Presentation

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Thank you for joining NorthWestern Energy Group's Financial Results Webcast for the Quarter Ended March 31, 2024. My name is Travis Meyer, I'm the Director of Corporate Development and Investor Relations Officer for NorthWestern. Joining us today to walk you through the results and provide an overall update are Brian Bird, President and Chief Executive Officer; and Crystal Lail, Chief Financial Officer.

[Operator Instructions] NorthWestern's results have been released and the release is available on our website at northwesternenergy.com. We also released our 10-Q premarket this morning. Please note that the company's press release, this presentation, comments by presenters and responses to your questions may contain forward-looking statements. As such, I'll direct you to the disclosures contained in our SEC filings and the safe harbor provisions included in the second slide of the presentation.

Also, please note this presentation includes non-GAAP financial measures. Please see the non-GAAP disclosures, definitions and reconciliations are also included in the presentation. The webcast is being recorded. The archived replay of today's webcast will be available for 1 year beginning at 6:00 p.m. Eastern today and can be found in the financial results section of our website.

With that, I'll hand the presentation over to Brian Bird for his opening remarks.

Brian Bird
CEO, President & Director

Thanks, Travis. Well, we were in the South Dakota this week -- actually, we were in Brookings earlier in the week, we had the fortunate event of having a valve turning on the first renewable natural gas coming on to our system. And a matter of fact, with 5 more of those projects, 2/3 of our residential customers in South Dakota will be receiving renewable natural gas. So that's in 2025. So we have a handful more of those projects coming on, we're very excited about that and certainly helpful for our net zero by 2050 goal.

We're in Brookings in the latter half of the week, also, for a Board meeting, which we finished up this morning and had the annual meeting. And at that annual meeting, it was our Board Chair's last meeting, Dana Dykhouse termed out after 15 years on our Board. He's been a fantastic Board member, and he is an icon in the state of South Dakota. We've been very, very fortunate to have him on our Board, and we will miss him dearly.

With that, I'm going to talk about the recent highlights for the quarter. We've reported GAAP diluted EPS of $1.06, non-GAAP diluted EPS of $1.09. We're affirming our 2024 diluted EPS guidance of $3.42 to $3.62 for 2024. We're affirming our long-term rate base and earnings per share growth rate targets of 4% to 6%. We've completed our debt financing needs for 2024. And we declared a dividend of $0.65 per share payable June 28, 2024 to shareholders of record as of June 14, 2024. The Montana -- we also have Montana Electric and Gas Rate Review Filings anticipated for the third quarter of 2024.

And that will -- for Montana Electric, it will include the prudence review of the Yellowstone County Generating Station. We also will be publishing here shortly in May, our Wildfire Mitigation Plan. That plan will include our new Public Safety Power Shutoff, PSPS process and the plan recognizes and addresses the unique needs of our customers, communities and first responders. I'll speak to that more in a moment.

Our Northwestern value proposition, I think, with a 5% dividend yield sitting here today and following through on our base capital plan of $2.5 billion, and Crystal will speak to that more later in the presentation. But that 5% dividend yield plus a 4% to 6% EPS growth rate gets you to 9% to 11% total growth great return. On top of that, we have some incremental opportunities. We continue to explore some FERC transmission investments, incremental generating capacity necessary in both jurisdictions from an electric perspective. We're evaluating some QF contracts and PPAs for potential buyouts and just continued electrification that we're seeing in most jurisdictions, of course, in the U.S. that support economic development. And with those incremental opportunities, we'd see it higher than 11% total growth in return for our investors.

With that, I'll pass it over to Crystal for comments on the quarter.

Crystal Lail
VP & CFO

Thank you, Brian. My comments today will cover our financial performance for the first quarter and a bit of an update on our overall financing plans and balance sheet in addition to where we're at on the capital execution side for the year.

As Brian noted, we delivered strong financial performance here in the first quarter of 2024 with EPS of $1.09 compared to $1.05 last year. These quarterly results were driven by new rates importantly and solid expense management. They were tempered a bit by milder weather and a few onetime items impacting the quarter, which I will provide a bit more details on in a minute. From a net income basis for the quarter, that led to, from a GAAP perspective, a $2.6 million improvement or 4.2%. On a non-GAAP adjusted basis, $4.2 million of an increase or 6.7% increase versus the fourth quarter of 2024.

Moving to Slide 7. This slide highlights for you the after-tax drivers of change in our diluted earnings per share for Q1 2024 as compared to 2023. You'll note importantly, the strength of our higher utility margin of $0.15, really driven by the regulatory execution that we talked about quite a few times with the Montana electric gas rate Review and what we will have is a full year impact of new rates for 2024.

In addition to that, we also concluded the South Dakota electric rate review and received final rates there in January. So you see a significant driver of results here in the first quarter for us. In addition to that, you'll note O&M expenses increased about $0.05 versus the first quarter of 2023. I would highlight for you that included in that $0.05 of detriment at the O&M line is a litigation outcome and also an impairment impact. Together, those items were $0.6. So if you remove that -- subtract the $0.06 of impact from that litigation outcome, and the impairment impact sitting in the O&M line, you would actually see solid cost management there, which would result in $0.01 lower O&M versus the first quarter of last year. Also note that depreciation and interest expense also increased each $0.04 versus the first quarter of 2023. In addition, we had $0.03 of dilution impact from additional shares outstanding, all of that leading to $1.06 of earnings on a GAAP diluted basis and on an adjusted basis of $1.09.

Moving to Slide 8, a bit more detail on our utility margin. For the quarter, [indiscernible] margin was driven by $0.25 of new rates and $0.04 of improvement from transmission services. These were offset a bit by lower volumes of about $0.08 driven primarily by milder weather and $0.04 from an impact from our Montana PCCAM and that was driven by the January cold weather event. I think we spoke with you about that at our February call that we saw power prices over $1,000 a megawatt hour to procure and serve our customers in that storm event. You see that impact in our PCCAM noted here at the $0.04 of detriment in Q1.

Slide 9, we provide the details of our adjusted earnings. To highlight a couple of things that I just covered in our bridge detail. So you'll note that, on the left-hand side of this, in Q1 2024, we started with $1.06 of earnings, add back $0.01 of unfavorable weather and then netting the 2 items, which is the impairment of the energy storage-related investment, offset by the reversal of a penalty netting to a $0.02 add-back gets you to $1.09 of earnings in the first quarter of 2024.

When you compare that to last year in the first quarter, notably, we have significantly more favorable weather. So think about where we live. It was really cold last year in Q1 in Montana, South Dakota, Nebraska. And this year, it was certainly a lot milder, and we all noticed it. So you saw a $0.05 add-back last year. So notably, that was a $0.06 swing in earnings impact to us versus the 2 quarters. And then also, you see that we had a tax item that we had adjusted last year. All that being said, to say, $1.09 of earnings compared to $1.05 of adjusted earnings in the prior quarter, which is a $0.04 increase or 3.8%.

Moving to Slide 10. A key strategic objective for us has been further strengthening our balance sheet. We have been very disciplined about our regulatory execution, which we talked about and the impact of that to our utility margin and importantly, to our cash flows. In addition to disciplined capital allocation, such that I am happy to say here at the end of Q1, closing out the quarter that our FFO-to-debt metric as we concluded is over 14%, and many of you that follow us know that, that is our downside threshold from a credit rating agency perspective. So we're really happy to see the disciplined execution in the last couple of years leading us to a point where we're very happy about where we are from a balance sheet perspective. In addition to that, during Q1, we had announced our financing plans for the year, which include no equity, but some debt financing needs, we have executed on that and have closed out our financing needs for 2024.

I will turn you to Slide 11 and reiterate. Brian has already noted earlier that we are affirming our guidance for the year. So in Q1, we are reaffirming our 2024 guidance of $3.42 to $3.62. And that is consistent with our long-term earnings guidance of 4% to 6% from an earnings per share growth rate, and we feel good about where we are from those targets and where we are with solid execution in Q1, setting up a base for the rest of 2024.

Slide 12. I'll highlight our capital forecast for 2024 includes over $500 million of investment driven by our base system and really supporting our customer needs and making sure we're serving them well, but also and importantly, the completion of Yellowstone County Generating Station. We talked about this many times, but resources such as Yellowstone County are incredibly critical to our ability to serve our customers when they need it most. We're happy to say that our capital forecast here is on track and importantly, on track for what we think are the most critical investments to serve our customers.

So with that, I will turn it back to Brian.

Brian Bird
CEO, President & Director

Thanks, Crystal. Just one page here just to talk about the wildfire plan when we meet many of you at AGA and beyond, we'll talk in more detail about the plan after we released it here in early May. I think the main thing to talk about, first and foremost, before this plan, I think our last plan, we just put in front of the commission not too long ago in our last rate review, really captured everything we've been doing from a wildfire mitigation perspective for decades actually in terms of system hardening in the 2010 through kind of 2020 time period, hazard trees and dealing with many other forest-related issues and just putting in place very, very good procedures to deal with that.

The one area where we thought we needed more work was in system monitor, situational awareness, if you will and we have done a tremendous amount within the last year adding technologies and other process to do a much better job on that. And we continue to think about public communication and outreach and then it all be addressed in this upcoming plan. One major difference between this plan that you'll see here shortly and the plan from a couple of years back is, we are now going to be executing public safety power shutoff on a going-forward basis.

And again, we have -- our segments have been down to very, very, I would say there's so many segments, the amount of customers potentially impacted by PSPS is going to be significantly different than you might see from some other utilities. We'll manage that pretty fine detail. One other thing I should point out on this particular page is, we assess each of our segments in terms of risk. And as we sit here today, only 6% of our distribution and about 7% of our transmission are in the highest risk category for our Montana electric assets. So that's also helpful.

But we know that wildfires can start in many different spots, and we'll continue to really look at our system as a whole and manage that accordingly. We look forward to talking about this more in May after we release the plan. One of the reasons we're waiting -- to release it, we will be meeting with the Montana Public Service Commission on May 6 as well as the Montana Governor to get a preview of the plan, we'll be releasing shortly after. So we're very excited about the steps we've taken thus far and continued progress on this.

And obviously, we, like the rest of the industry trying to mitigate this risk as best as we can, not just for our customers but all of our stakeholders. And with that, just from a concluding standpoint, again, I appreciate the support of the company, and we're making great strides in '23, and we continue, as you've noted here, thinking about rate reviews. From our perspective, we are just really trying to capture, recover the investment we're making to serve our customers. And I think making sure that those increased customers are seeing -- are going to be manageable in line with inflation on a going-forward basis.
And with that, we'll turn it over to Mr. Meyer to handle any questions .

Question and Answer

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Thank you, Brian. Thank you, Crystal. [Operator Instructions] We'll take our first call from Jeremy Tonet at JPMorgan.

Jeremy Tonet
JPMorgan Chase & Co, Research Division

Just want to start off, I guess, EPA had some new announcements yesterday and wanted to just follow up, I guess, on the thoughts that you provided in the press release there, how do you think this impacts NWE going forward at this point given what's new?

Brian Bird
CEO, President & Director

Yes, I would say this. I think from our perspective, when you say impacts NWE, I'm primarily concerned about how this impacts our customers to start. From our perspective, we have a capacity shortfall in Montana as we start and adding incremental Colstrip is going to certainly help us drive that, and we believe that still makes great sense. But I think this news, obviously, it was not good. I think the decision puts a significant risk on our ability to reliably serve our customers.

I think it ultimately could force us to make short-term decisions that could impact the affordability for our customers instead of long-term cost-effective solutions to provide more capacity for our customers. And again, I think I want to make sure everyone is aware here, we, like every other company in the utility space, we obviously want to go down the direction to promote cleaner generation resources to serve our customers, but we want to be able to do that in a way with proven technology that's cost effective.

And unfortunately, these rules -- and I think, by the way, to be able to do that, be it small modular reactors or what have you, that's 10 years in the making. From my perspective, until those resources are available and certainly cost effective, but making us make changes here probably going to result in short-term decisions that, again, are going to impact customers from a reliability standpoint and an affordability standpoint and trying to have anybody to do something within 4 years around these rules makes absolutely no sense. So Jeremy, if you think I feel strongly about this, you're absolutely right.

Jeremy Tonet
JPMorgan Chase & Co, Research Division

That's helpful there. Just curious, to the extent you might be able to comment whether you think there could be, I guess, legal challenges here in how that might unfold if you're able to comment there?

Brian Bird
CEO, President & Director

Yes. I think from our perspective, we feel very strong, particularly around the maths that they're -- we expect litigation around that. I believe based upon the first blush of the rules, I think the industry as a whole is going to think about this from a litigation perspective, and all the rules for that matter. So -- and it will be interesting to see how this plays out.

Jeremy Tonet
JPMorgan Chase & Co, Research Division

Got it. And then, I guess, pivoting back to just Montana itself, and I just wanted to get your thoughts, I guess, for the next rate case, it seems like there's going to be some changes in the commission. Just wondering with elections and term-outs, what have you, if -- the next rate case will be under the current composition or changes in composition or any thoughts, I guess, on Montana regulatory strategy at this point given the moving pieces.

Brian Bird
CEO, President & Director

No, I think when you say regulatory strategy, and again, we appreciate the current commission. And obviously, there can be changes. We certainly know there's 2 positions that will change. President Brown is not seeking reelection, and commissioner O'Donnell is leaving the commission, he's termed out. So there's going to be a change, but that doesn't change our regulatory strategy in 1 iota. It doesn't necessarily matter who's sitting in those chairs. From our perspective, we want to come forth what we believe makes sense, obviously, for us but also for our customers and as appointed also working with commissioners to ultimately achieve good outcomes regardless who's sitting in those seats.

Jeremy Tonet
JPMorgan Chase & Co, Research Division

Got it. That makes sense there. And then just finally, in addition to the wildfire mitigation filings, are there any key state or federal legislative changes that could -- that you're watching with regards to wildfire risk in your service territory and how conversations with stakeholders trending? And really do you see, I guess, the potential for national policy coordination here?

Brian Bird
CEO, President & Director

Great question, Jeremy. I would tell you this. I think, obviously, the industry has been focused on this quite a bit, and I appreciate EEI and many of their electric utilities trying to address this units -- this issue, excuse me, at the federal level. We mentioned state as well, we will be working with other utilities and co-ops in Montana regarding legislation around wildfire mitigation. It's early innings to determine what that would look like, but we certainly plan in the 2025 session to be bringing that forward. And obviously, I think we'll be working on many different means to try to mitigate this risk on a going-forward basis. But yes, we expect to see something in early January around that issue.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

We'll take our next question from Alex Mortimer at Mizuho. As well it could be Anthony who dialed in under Alex.

Alexander Mortimer
Mizuho Securities USA LLC, Research Division

I guess, just given the load growth sort of being the topic of the year right now, sort of industry-wide, can you touch on anything you're seeing from that perspective and then as well as given potentially incremental load, sort of any upside to CapEx -- or potentially in your plan?

Crystal Lail
VP & CFO

It's Crystal, I'll take that question. I think a couple of things when it comes to load growth come to mind. First of all, I would go back to Brian's comments on the EPA and the importance of getting our Yellowstone County facility done, which is we sit in a unique position of being at a deficit to be able to serve our existing customers. So the criticality of executing on completing our Yellowstone County facility and addressing these issues with EPA, I think would enable the next steps of investment that would allow for getting us to resource adequate and then to be thinking about what are the options around load growth.

Obviously, there's a lot of commentary in the sector on what's going to happen with the things that are driving the broader trends whether that's onshoring or AI or EVs or all those things. We're very focused on the capital execution to support our current load and then also working with the government of Montana and South Dakota, both economic development drivers, and we want to be a partner in that. So we think there is a lot of opportunity there. But our first blocking and tackling is serving our existing load, and we're obviously pretty short of that. And the EPA may have just made us far shorter of that in a very short amount of time.

Alexander Mortimer
Mizuho Securities USA LLC, Research Division

Understood. And then pivoting back to wildfire in the upcoming rate case. You mentioned attaching the wildfire plan to the case or filing it in addition to it. Does the commission approve the wildfire plan or accept or reject, like, can you just go through sort of the fundamentals of what that process is going to look like?

Brian Bird
CEO, President & Director

Yes. I think it's too early to say whether they'll effectively approve the plan or not. I think, obviously, we want support of the plan. And if that's an approval, that would be fantastic. But we want to make sure that all the stakeholders that are going to be involved with this, be it forest service and many and many other stakeholders that we're going to need to work with, with our fire mitigation plan and the commission as well, obviously, recovery of costs associated with that, we're going to need people to support the plan.

Crystal Lail
VP & CFO

And I would just add on to that. If you're probably aware, we filed our plan previously in our last Montana electric rate review. We achieved deferral of incremental O&M costs in that plan to support of spending as it related to executing upon and accelerating spending in that plan. Obviously, that discussion, as Brian alluded to, cost recovery will continue in our upcoming filing.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

And we do not have any other questions in our queue. So with that, I'll turn it back to Brian for some closing remarks. Well, hold on 1 moment. It looks like Mr. Crowdell knocked in and wants to ask a follow-up question potentially.

Anthony Crowdell
Mizuho Securities USA LLC, Research Division

Just a quick follow-up. And you may not want to answer it. Just curious if the company has an embedded interest rate forecast as we go through the year, we're not sure if rates [indiscernible] higher. I'm just curious if you guys have any embedded forecast of interest rates? And that's all I have.

Brian Bird
CEO, President & Director

First of call, Crystal, do you want to not to answer it because it's Anthony or do you not want to answer it because there is any other reason. I think that's the question I think we need to answer first.

Crystal Lail
VP & CFO

Well, if it's Anthony. I will answer. To be clear that way. First comment, I won't tell you what that embedded number is, but I will tell you we here at the NorthWestern have had the higher-for-longer view, maybe a little -- maybe less upside potential than the market thought on interest rate cuts. So where we sit from a financing plan perspective and assumptions, we feel good about where things are today. And obviously, Jay Powell signaled that he may not have -- may not decide to cut rates as soon as some others may have thought. But I would just tell you, we were in the higher-for-longer camp and have managed our plan consistent with that.

Anthony Crowdell
Mizuho Securities USA LLC, Research Division

Great. And then just, again, I apologize if I hit the wall again. Just before you file a rate case, I think there are some like you need the parties', I don't know the right term is, it's not testimony, but you kind of get all the policy makers together. Any feedback you can give us, especially related to Yellowstone that you're getting from the parties.

Brian Bird
CEO, President & Director

Effectively, we'll file this and then start talking with stakeholders associated with that around those issues.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Thanks, Anthony. And with that, we have no other questions in the queue. And so Brian, any closing remarks?

Brian Bird
CEO, President & Director

No, I just appreciate the continued support, and we're going to get forge ahead and obviously plan to hit our guidance here for the end of the year. Thank you.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer
Thank you.