NorthWestern Energy Group, Inc.

Second Quarter 2023 Earnings Call

Presentation

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Good morning, and thank you for joining NorthWestern Corporation's financial results webcast for the June 30, 2023, second quarter results. My name is Travis Meyer, I'm the 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, the 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 pre-market on Tuesday 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 our safe harbor provisions included on the second slide in this presentation.

Please also note this presentation includes non-GAAP financial measures. Please see the non-GAAP disclosures, definitions and reconciliations also included in the presentation today. 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 Time today and can be found in the Financial Results section of our website.

With that, I'll hand the presentation over to Northwestern CEO, Brian Bird.

Brian Bird
CEO, President & Director

Thanks, Travis. Good morning, folks.

I know many of you would have liked to have heard from us yesterday. That's -- but the reason we're having the call this morning is to diminish the amount of travel necessary on Sunday, our Board meeting ran late on Tuesday, and so we decided to have the call here on Wednesday morning.

To start, regarding the second quarter, we are very, very busy in the regulatory affairs as you are well aware. We recently filed South Dakota electric rate review. And obviously, we're waiting for a decision on our multiparty settlement in the Montana rate review. And so hopefully, we'll hear from that real soon.

Regarding Yellowstone County Generating Station, a lot has happened since the first quarter. So during the second quarter, we had a tremendous amount of support from the governor and the legislature in Montana, which helped us resume construction of the facility, and we're ramping up that construction as we speak. We invested over $200 million of the estimated $275 million in the project itself.

We continue to operate in strong and growing service territories as is seen by very, very low unemployment, some of the lowest unemployment in the country. And as a result, we're also seeing very good customer growth, which didn't necessarily help us here in the second quarter but is going to help us on a going-forward basis with our business.

And lastly, on this page, I think it's important to point out, and this is one of the great things about NorthWestern this workforce we have here and the culture we have here and I think certainly being acknowledged by Newsweek as one of America's Great Workplaces in 2023. It's a pretty cool announcement for us. There's only 11 utilities acknowledged and the only one in the SMID cap space was NorthWestern Energy. That, of course, came on the heels of 2022 have also been acknowledged as a Great Places to Work. So we just -- it's a great tribute to our employees, and we're very excited about that acknowledgment.

And with that, I'm going to hand it over to Crystal.

Crystal Lail
VP & CFO

Thank you, Brian. I'll begin my comments on Slide 4 here and just conclude Brian's comments on working with a great team. I think the Newsweek acknowledgment of what work we do here and the great people we work with is a pretty fantastic thing.

So then I'll turn myself to second quarter performance. And before getting into a bit of detail, we've added a couple of slides to hopefully give you a bit of color as to how we're thinking about the quarter. And while Brian acknowledged their results a little bit lower than we had hoped for the quarter, but in line with our expectations and how we think about the year.

So to give you a little bit of color here, Q2 results lower on a GAAP basis by $10.7 million or $0.22 of EPS versus the prior year second quarter. So how do we think about that $0.22 of spread? We were impacted by shoulder season weather, and you all know, Q2 is our lightest quarter from an earnings perspective. And you can see a bit of variability there depending upon weather. So for this year, Q2 '23, that was $0.03 of unfavorable weather. But I would note, last year, we had more favorable weather for us. That was $0.04 last year in Q2 of '22. So when you compare those two, that's a $0.07 swing in our earnings due to weather period-over-period for second quarter.

In addition, you're all familiar with our equity issuances. So there's about $0.03 of drag with relation to shares outstanding impacting results for, again, Q2 '23 versus '22. In addition, as we had talked to you at the end of Q1, we had just concluded hearings in our Montana rate review and reached a settlement there. So we've provided a bit more detail, I would say. As you all know, we do not have guidance out for '23 and won't update you on our expectations fully until we see an outcome from the Montana Commission. But what we have done here is quantify the impacts of the Montana settlement to both our Q1 and Q2 '23 earnings if it were approved as is with no adjustments.

Again, this is meant to give you a bit of an indication of what we see as the impact of that settlement to our financial statements. So in '23, this would include impact of both the revenue line and tax implications and would contribute about $0.15 to our Q2 earnings based off our estimates, again, if this settlement were approved as is.

So Slide 4 provided you a bit of that color, again, comparing quarter 2 versus -- of '23 versus '22, $0.22 there. There's definitely variability in weather and how that impacts our performance. I'll dig into that in a little bit further detail in slides coming up, but you think about that $0.07 plus $0.03 of equity drag. And if we were able to record the impacts of that settlement contributing another $0.15 and you see a more comparable number as to how we think about that.

Then on Slide 5, again, you're all familiar with our Q1 results. We had favorable weather then and some solid results. Brian talked about the customer growth that we continue to see underlying that. So you would see the impact of the settlement. Again, the Q1 would have been $0.20, that would bring that to $0.35 total on a year-to-date basis. And you can see on the non-GAAP basis versus the numbers that you would see year-to-date. At this point, $1.40, you adjust that, we'd be $1.75 at halfway through the year. And so that gives you some indication as to how we are thinking about our earnings, both on a -- as we conclude a half year basis and from a '23 perspective.

So with that, I would take you to Slide 6 and dig a bit more detail -- into the detail of the quarter results. So from a net income basis, $19.1 million net income as compared with $29.8 million in Q2 of '22. That's a $10.7 million reduction. And on an earnings per share basis, $0.32 compared to $0.54. That's a $0.22 difference. Again, that's the color I just gave you a bit explaining and bridging that difference of $0.22 from last year's performance.

Slide 7 breaks that down. You can see we had favorable utility margin overall on what actually falls to the bottom line for us, and that was driven by favorable on the electric side, offset by unfavorable on the natural gas side. And I have a slide upcoming that will give you a bit more detail on that. And then you can see a continued push of what I would call the cost of running the business. So operating costs, interest and depreciation, leading us to the $0.32 of earnings contribution from a second quarter basis.

Slide 8 provides a bit more detail of the margin performance. And I would always highlight the positives, right? So first, positives, interim rates and the criticality of the Montana Commission's decision. And with regard to that, again, those interim rates are just over $31 million and our settlement overall is about $81 million so you can see the impact there in Q2 of that contribution.

I also would mention our property tax driver, and that's not something we've talked about a lot, but I think most of you know from a bill comparability perspective, in Montana, we collect property taxes or ad valorem taxes for the state, and that's about 15% of our customer bill. In Q2, we typically negotiate our valuation with the Department of Revenue, a variety of factors in that, but we saw a decrease in that valuation versus the prior year.

We have a tracker in place. It's not a full tracker because it contains that haircut. And typically, that haircut is 1 minus the tax rate and has been detrimental to us. This year, we happen to have a positive from that in negotiating a lower valuation. So you can see $3.3 million versus last year in Q2, a positive there in the margin line.

And then PCCAM is the next item here showing favorability, $3 million favorable again versus Q2 of last year. And PCCAM has not been my favorite thing to talk about in the past. So I do have to take a moment and highlight the positive there. What we saw is certainly consistent with the shoulder season weather impacting us volumetrically in loads. The flip side of that is we also saw more moderate pricing. And then more importantly, the impact of that interim rate base being much closer to what is the final base we've agreed to and a reasonable amount to have the 10% sharing around.

So that's $0.04 of favorability for us when comparing to '22. And not that I want to relive it, but for '22 full year impact, I'll remind you that we had $0.10 of drag from that PCCAM mechanism. So when we're thinking about '23, seeing prices moderate, importantly, that's a huge impact to our customers in their bill and the amount that $0.10 is compared to, but also how we think about drag in our earnings to see favorability here in Q2 and to think about what that impact was last year. This is certainly one of the things I'll say is a positive for Q2 and how we think about that.

Then moving more to the right side of the bridge here, you see detriment primarily related to weather. I would highlight both the electric transmission and retail electric gas volumes all impacted by weather. When we think about our transmission business, the ability to move power across our lines elsewhere a cool, wet spring, certainly, we saw less demand for that. Having been in Missoula, Montana yesterday, I can tell you that weather has changed. It was quite warm in our service territory, but that certainly drives demand on the transmission side, and we have a little bit of a rate change there as well versus last year in that formula rate. And then you can see the lower electric and retail volumes, both electric and natural gas, and I would tell you that we, underlying, see customer growth there.

But in a shoulder season, you can also see the impacts to what ultimately ends up being margin. I would also mention we have irrigation loads. And that's something that with a cool, wet, spring, we didn't see come through and so impact there and also a little bit of softness in the industrial side. We do have some Bitcoin miners on our system, and we saw a little bit lower loads there. So overall, again, a bit of favorable on the utility margin that falls to the bottom line, but a lot of moving pieces in there for the quarter.

I'll move on to Slide 9 and talk about our operating, administrative and general costs. And again, I think us and everyone else is impacted by pressures of these lines. We are focused on maintaining a sustainable level of operating costs. And I think managing a lot of the business in a very reasonable way, you see the largest impact here is really the compensation and benefits of our people. That cost of labor impacts us and everyone else and is something we certainly expected for 2023. And you can see that as the most significant driver in our operating costs versus 2022.

Slide 10. Again, I highlighted this at the beginning, but this is a reconciliation of non-GAAP where hopefully you to get a picture of what the weather piece that we adjust out. And again, our weather model isn't perfect. You'll see that there's a cooling degree days and heating degree days both and a shoulder season like this. But while it may not be perfect, it is consistent, and we try to give you our best view into our estimate of weather impacts to us. You'll see in 2023 $0.32 on a GAAP basis, adjusting out unfavorable weather of $0.03 gets us to $0.35. And then what I mentioned earlier in bridging that $0.07 gap, in Q2 of '22, we had $0.04 of favorable weather that we backed out.

And then moving on to Slide 11. I'll just mention our cash flows and financing plans. Again, the impact of interim rates has been significant to us at both the base rates that we will earn on and also adjustment to that PCCAM mechanism, you can see some favorable cash flows here. We also previously announced our plans for $75 million of equity using our ATM remaining availability there in 2023. We did start that program up in Q2 and issued approximately $10.8 million, and we do expect to issue the remainder in 2023.

With that, I'll move to Slide 12. And again, I reiterate that while you're all awaiting a full update from us, and we do expect to do that, we are awaiting the commission's decision, and it is a very significant outcome for us. So with that, we won't be providing a broader update at this point. But while Q2 results were certainly impacted by weather, the results were otherwise consistent with our expectations, and we await the Montana Commission's decision to provide that update. But as you can see with the cost of our business, that settlement is critically important to us in the sense of being able to cover the cost to serve our customers. And we feel good about what we placed in front of the commission, and we will be checking in with you after we receive that update.

And with that, I will turn it to Brian.

Brian Bird
CEO, President & Director

All right. Thanks, Crystal.

On Slide 13, we talk about the Montana rate review, and we spent a tremendous amount of time talking about this already in earlier calls. Obviously, no settlement has been reached, and we're waiting on an outcome from the commission on that settlement. The only thing I'd want to say about the settlement itself is just to remind folks that all parties to this settlement are the only parties that provided any testimony on revenue requirements. So those intervenors who were opposed to the settlement didn't even provide testimony on revenue requirement. So something that I'm sure the commission is considering as they make their decision.

Secondly, just anticipated next steps. All the briefing has been done as we wait for the decision here during the third quarter. And I could argue that could be in August is -- any time in the third quarter. So we're waiting patiently for an outcome there.

As I move on to Slide 14, really talking about the South Dakota rate review. It's the first rate review we filed since 2015. So much like Montana, it's overdue in terms to come in recovery of the significant amount of investment we've been making in all of our jurisdictions. And in South Dakota, $267 million has been invested during that time period. I think many of you know just over $80 million of that is associated with the Bob Glanzer plant that was filled. So that's a big part of it. But a lot of T&D investment has been made as well. As a matter of fact, 99% of the requested increase of that $30 million, approximately, 99% of the increase is associated by that investment. We've done a really nice job in their jurisdictions to manage our costs. And so it's really a function of getting a return of a return on our investments we've been making.

Speaking of investments on Page 15, from a capital investment perspective, the 5-year history here, again, a pretty impressive 16% CAGR of that investment over that time period of $2.1 billion, a tremendous amount of investment still necessary in our system in the next 5 years looks to be $2.4 billion and 2/3 of that is -- continues to be investment we need to make in our T&D business.

You've heard me talk about capacity challenges at this company, certainly on the supply side, there will be capacity investments. We don't know what those are beyond Yellowstone County, but those will be coming as well. Those are not included, obviously, in that $2.4 billion. But of that amount, 2/3 again T&D, tremendous amount of investment there. And that rate base growth is going to be approximately 4.5% over that 5-year period.

And with that, just in concluding, I think in fairness to our customers too, we shouldn't be waiting this long from a rate case perspective. We want to see increases that are more in line with inflation and try and manage those cost increases to be less than inflation. And as a matter of fact, we need to be also fair to our investors, who commit for more timely recovery of our investments we're making and obviously, returns associated with those investments. So you'll see us obviously manage these rate reviews that we're currently in, but being more tentative to what our actual returns are versus our authorized returns and likely being more frequent filers.
And so with that, I will turn it over to Travis to handle any Q&A.

Question and Answer

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Excellent, Brian. Thank you. [Operator Instructions] We will take our first question from Shar Pourreza at Guggenheim.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

Guys, can you hear me?

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Yes, Shar, we can.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

Brian, I just want to kind of just dive into this a little bit more. And I think you kind of -- modestly you sort of touch on it a little bit. But I guess, why is the Montana case getting delayed? How have sort of the work sessions been going? And is there any indication just so investors can get a little bit of relief here that maybe a final order could deviate from the settlement you entered to with the case's primary intervener? So maybe just a little bit more color on the process, that would be great?

Brian Bird
CEO, President & Director

Yes, I would say -- I would argue that we're really not seeing any delay associated. This is not unusual to see this kind of timing. I think we'll see something relatively soon. I don't know when the schedule is actually going to be for decision, but I do expect it to be relatively soon. I think that, as you saw on the hearing itself, the commission did a fantastic job. President Brown did a fantastic job of running the hearing itself. And I just think we've seen very, very good response from the commission in terms of -- on other issues. And I expect that we'll find on this, we'll hear something relatively soon.

And I think regarding the settlement itself, I think, as I pointed out on the call here, the settlement, the parties that all agreed on this, agreed all the revenue requirement matters. We covered many different topics. We struck a very good balance amongst the parties. I think it's very compelling by the commission. That doesn't mean they can't try to do things and certainly that has happened in the past, but I anticipate in light of the very good settlements put in front of us, it's going to be difficult for them to make any adjustments.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

Perfect. And then just lastly, maybe a little bit more of a question to Crystal. But as you're kind of thinking about the timing around issuing guidance, could South Dakota's rate case impact, I guess, what guidance could be issued, meaning maybe only a roll-forward of the capital plan versus touching on the EPS growth rate? I guess how do we think about South Dakota in the next year?

Crystal Lail
VP & CFO

Sure. Thanks, Shar.

On the South Dakota side, I would just tell you, and we didn't put a time line in here, I don't think, maybe Travis will correct me here. But there is a statutory 6 months once you file that is basically a waiting period for interim rates. So when you think about impact to '23, we filed that in mid-June. The earliest interim rates would apply would be mid-December. So it's really not a '23 item and how we think about that, that's a '24 item, and will not impact our timing of giving '23 guidance.

Obviously, the biggest impact to us is we think about a settlement of over $81 million of revenues versus $31 million of interim rates in Montana decision. We're very focused on South Dakota as well, but that will really be a '24 item. And the biggest thing on giving guidance is Brian mentioned in your question, briefing on the legal side, the attorney has the last word, that took them through the end of June, early July. The commission has work to do to put together a final order. We know they're working on that. Once we see an outcome and then if we need to see that final order for any clarity, that will dictate the timing of us coming out with guidance. But we know you're all anxiously awaiting to hear from us, but the South Dakota rate won't delay that guidance issuance.

Shahriar Pourreza
Guggenheim Securities, LLC, Research Division

Okay. Perfect. And then, Brian, just last one for me is, do you have a clear line of sight now I think with Yellowstone? Is there sort of anything else that you can see could derail it? Or should we just assume that it's been derisked?

Brian Bird
CEO, President & Director

No. As we pointed out, the third quarter of '24, we aren't back to full staffing, if you will. So again, when you ask everyone to leave and now you've asked everyone to come back, we're getting there, and I think the timing has been delayed a little bit, but anticipated still the third quarter. So we feel good about getting the plant down. You saw the percentage of spend. So the amount of work between now and then is a lot of finishing work, as you'd say. But I think we feel very good about the process of primarily having that resource, hopefully in time for peak weather in the summer, but definitely meeting it before the winter season and the end of '24.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

We will take our next question from the line of Jeremy Tonet at JPMorgan.

Robin Shillock
JPMorgan Chase & Co, Research Division

This is Robin on for Jeremy. Can you hear me?

Brian Bird
CEO, President & Director

Robin, yes, we can hear you.

Robin Shillock
JPMorgan Chase & Co, Research Division

So you mentioned your goal to maintain sustainable operating costs. Was the negative $0.06 year-over-year headwind from increased labor and benefit costs driven more by onetime items or more structural expenses? And based on the current Montana rate case settlement, any color on 2023 O&M expenses or O&M growth trends more broadly?

Crystal Lail
VP & CFO

So I would take your question in two parts in the sense of, is it structural or onetime items? It's definitely structural. And I would -- since I don't have '23 guidance, I would point you back to my '22 bridge where we laid out that we needed to get to a more sustainable level of operating costs. And while we manage the rest of the business, we benchmark ourselves on an electric OA&G perspective with our SMID cap here and even some larger caps, both on a per revenue and per customer basis, we are very low. And so we know that we have to have a reasonable amount of operating costs. And the reason I lead in with that is we captured those costs through '22 from a known and measurable adjustment perspective in the Montana rate review, what you see here is structural increases in our base cost of labor. That's the biggest driver, and we do see that as something that we'll continue to focus on recovering our costs as we go in. I think there's probably not anyone listening to this call that didn't get a pay raise in the last couple of years. If you saw the labor markets and the tightness there, that's what this represents.

From a year-end perspective, we haven't given you that kind of guidance more clearly on operating costs. But I would tell you that we would expect a little bit of moderation there versus what you see in the percentage increase on a strict quarter-over-quarter basis. But those costs are definitely structural from a labor and benefits perspective, just the cost to do business and labor.

Robin Shillock
JPMorgan Chase & Co, Research Division

Okay. Great. And then on a year-to-date basis, you're estimating that your pro forma EPS is about $1.75, assuming the Montana rate case gets approved. Do you think it's -- I realize you haven't provided guidance, but just speaking high level, would it be reasonable to assume similar shaping, similar cadence in the back half for around $3.50 for the year? Or just any high-level guidance there, thoughts?

Crystal Lail
VP & CFO

While we are not giving guidance, the comment I would probably make is that's probably reasonable math.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

We will take our next call from Paul Fremont at Ladenburg Thalmann.

Paul Fremont
Ladenburg Thalmann & Co. Inc., Research Division

First, my first question would be on the Supreme Court constitutional challenge for Yellowstone. Can you give us any update on where that stands and whether hearings have been scheduled there?

Brian Bird
CEO, President & Director

I think from our perspective, we feel good about the decision that the Supreme Court made on Yellowstone. That was certainly helpful, but we already hit -- as a result of -- I believe it resulted in the stay that we received. And so it was helpful in that regard.

I would just say that we're continuing to move forward with Colstrip. We have our permit that we need. And could there be future challenges on the plant? Certainly, but we anticipate to continue to move forward, build the plant. I think you saw the support that we have in the state for the plant and the need for our customers, and we'll continue to force through and make that happen.

Crystal Lail
VP & CFO

And then, Paul, follow-up there, there's been no movement in the schedule that Montana Supreme Court filing. So once we have something, we'll update on that, but no change in the sense of when that might get docketed.

Paul Fremont
Ladenburg Thalmann & Co. Inc., Research Division

Great. And then in terms of the timing of guidance, would that occur on the third quarter call? Or would there be like a special call after the Montana Commission acts?

Crystal Lail
VP & CFO

That's a great question, and it will probably depend on exactly the direction the Montana Commission goes. So I can't give you certainty. But certainly, if we do decide to do something before Q3 call, we will make you all aware of it.

Paul Fremont
Ladenburg Thalmann & Co. Inc., Research Division

And then last question for me. With the South Dakota rate case filing, is that going to impact potentially you giving or delaying guidance for '24? Or is that not going to affect that?

Crystal Lail
VP & CFO

Paul, just earlier, I made the comment, there's statutory 6 months on that filing before you can receive interim rates. We are working with the South Dakota commission. We've received data requests there. With regard to impacting either '23 or '24 guidance, it won't impact our timing of '23 guidance. With regard to '24 guidance, we certainly hope we can work with the commission and resolve that docket in a timely fashion.

And whichever way we go, it may either assume no outcome there or something in the lines that I don't think it will impact our guidance timing for 2024. But it would contain certain assumptions if we have not reached outcome in that docket yet.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

The next question we'll take it from Sophie Karp at KeyBanc.

Sophie Karp
KeyBanc Capital Markets Inc., Research Division

So first, maybe on the settlement approval process here. I was just curious if we should be thinking about any specific accounting adjustments or any discrete items that may accompany that settlement in the quarter when you receive it?

Crystal Lail
VP & CFO

Sophie, Crystal here, right? There are -- the thing I would just highlight for you, I think you're all aware that we received interim rates October 1 of '22. So pending the outcome of the settlement, the impact will be retroactive. So the thing I would just mention is there will be what I would call out-of-period impacts in the sense that we would record some adjustment related to 2022 results. And so that's the item I would highlight is there's likely impact of that settlement that are related to out-of-period items. And certainly, when we record that, we will highlight and separate what is '23 an ongoing structural versus what may be related to prior periods.

Sophie Karp
KeyBanc Capital Markets Inc., Research Division

Got it. So that will basically be the difference between the interim rates and the rates authorized in the final settlement -- final order?

Crystal Lail
VP & CFO

Yes, there's a variety of things in there. And certainly, the discrete difference between interim and final is a piece of that.

Sophie Karp
KeyBanc Capital Markets Inc., Research Division

Got it. Got it. Okay. And then my other question was, I guess, about the weather, right? So the other mild shoulder season for days you flagged the negative impact on volumes and margins. I was curious if you could comment on how the third quarter is shaping up so far? And if there's enough weather in summer months so far to potentially maybe negate some of that negative impact from the second quarter and the full year results?

Brian Bird
CEO, President & Director

Well, one thing we'd say and I think everyone can appreciate this on the call, the U.S. as a whole continues to see extremely hot temperatures. Crystal mentioned earlier, we were in the high 90s in Montana yesterday. We continue to be hot throughout our service territory. And so July certainly is going to look good from a load perspective. But I can't -- other than that, I really -- can't really speak to how things will play out.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

We'll take our next question from the line of Jonathan Reeder at Wells Fargo.

Jonathan Reeder
Wells Fargo Securities, LLC, Research Division

Can you hear me okay now?

Brian Bird
CEO, President & Director

You bet.

Jonathan Reeder
Wells Fargo Securities, LLC, Research Division

Just want to know, Brian, how should we be thinking about the potential implications of the Montana IRP? I mean I know the conclusion that more resources are going to be needed in the early 2030s. It's pretty consistent with how you've talked about it in the past, once you have the additions of Yellowstone and the additional Colstrip ownership. I know the IRP noted that the earliest an RFP would be potentially issued as mid-2024. So kind of what needs to transpire between now and then for you to move forward with an IRP and seeking more resources?

Brian Bird
CEO, President & Director

Yes. I think one thing, Jonathan, we need to also deal with is EPA's proposed rules here are -- certainly could impact our coal-fired fleet. And so we needed to seriously take a look at that. We need to work with the EPA and others in the industry to fully understand how that impacts our business, but more importantly, help get to a point where we can continue to operate those coal-fired plants to help us bridge, if you will, to cleaner resources.

So I think the timing associated with that IRP is appropriate where it sits today, but we also are going to have to probably accelerate some of our plans as a result of continued pressures from the EPA.

Jonathan Reeder
Wells Fargo Securities, LLC, Research Division

Okay. But in terms of like moving forward like an RFP, would you be waiting to see like -- I know the commission doesn't kind of rule on the IRP, but I think they do make comments like would you be waiting to see what those comments are? Is it completely all internal to this analysis around EPA rule impact and stuff like that?

Brian Bird
CEO, President & Director

Well, We will -- after the rate review decision, we will continue to have a dialogue with the commission to make sure they're aware these challenges. We have given them a bit of a heads up when the rules came out. They're certainly concerned about it. So there'll be a dialogue. And obviously, from that will come forth of the plan in terms of how we address the IRP.

Jonathan Reeder
Wells Fargo Securities, LLC, Research Division

Okay. Great. And then kind of going to one of your comments and the remarks. Just given that Montana's historical test year and mindful of the recently filed South Dakota rate case, how close do you think you can earn to the authorized levels when we look out to '24 and beyond or perhaps kind of asked another way, how many basis points of structural regulatory lag kind of exist for you guys?

Brian Bird
CEO, President & Director

That was like a great Crystal question, Jonathan. So...

Crystal Lail
VP & CFO

Jonathan, you're asking about our internal dialogue here. The CEO would like to pressure the CFO on that exact topic, but I'll give you my -- we -- last year, I think we were in the 7.5% of an earned ROE from a 9.65%. Obviously, we have to improve upon that. This rate case will move us what I would suggest, and I think I've said publicly before is around 100 bps is my guess.

It will take another rate case, and we're thinking about that to continue to work on. And I think Brian started the call with saying our focus of regulatory execution is getting closer to our earned ROEs with a more reasonable amount of lag in there, given it's a historic test period. So I would tell you that this will take a huge step forward. It won't get us all of the way.

And we're focused on, again, given the amount of investment -- critical investment that's needed for infrastructure, making sure that we will be in for more frequent rate cases to address that. So I would tell you after this one, I would suspect we'll be around, assuming the settlement is approved as is, as I caveat that I'll say to everything, probably around 100 bps of lag.

Brian Bird
CEO, President & Director

And the only thing I'd add there, Jonathan, having only 75% of our deemed rate base that's eligible to be earned upon, it's just way too low. We can't afford to put ourselves in that situation on a going-forward basis. It's not -- no business would have 3/4 of their investment recovered. They want to be closer to 100% of that. And so obviously, we just need to be more frequent to make sure that we're getting -- more frequent filers to make sure we can recover that investment.

Jonathan Reeder
Wells Fargo Securities, LLC, Research Division

Yes. No. I agree. I mean the case in South Dakota seems like a pretty large case. Does that surprise folks when you filed it? Or had you kind of communicated the magnitude of the case coming and everything?

Brian Bird
CEO, President & Director

I think the commission is very supportive of the Bob Glanzer plant. And a matter of fact, the commissioners were there for the opening. They understood that we would be coming in shortly after that large investment. And I think they know about the T&D investment associated that came with it. So I can't react until their -- the headline number at all, but I certainly know they're aware of the investment we've been making to support our customers in the state.

Jonathan Reeder
Wells Fargo Securities, LLC, Research Division

Okay. Great. Now I appreciate you taking the time to answer my questions. And good luck on the Montana outcome and as the South Dakota process progresses.

Brian Bird
CEO, President & Director

Thank you.

Crystal Lail
VP & CFO

Thanks, Jonathan.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

All right. We will take our next call from what I believe is the line of Paul Zimbardo at BofA. Paul is that you? I just see a telephone number.

Paul Zimbardo
BofA Securities, Research Division

Yes, it's Paul Zimbardo. Can you hear me, okay?

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Perfect, Paul. Yes, we can hear you.

Paul Zimbardo
BofA Securities, Research Division

Great. Great. Just a follow up on that $1.75 annualized question. Just what does that assume for the second half of the year on a cost perspective? Because if I have it right, I think earnings tend to be a little bit first-half weighted. So just curious what is assumed on the cost side prospectively?

Crystal Lail
VP & CFO

So Paul, you were fabulous at asking the guidance question in yet another way. So the $1.75, I would say it this way, points to you for that one, is the quantification of the settlement if approved as is to our first quarter results, we haven't given all of the guidance things that you're exactly asking about, which is the shaping of the back half of the year.

So I would tell you, we will give you more quarter -- or more color on that once we see an outcome from the Montana Commission, but no further details on that at this point.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Crystal, may I add one data point?

Crystal Lail
VP & CFO

Travis, you can always offer more than one data point if you would like.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Yes, Paul, I would just remind you, and Crystal did mention this earlier. But just -- yes, as you're thinking about the -- even if you're looking back to 2022, that PCCAM pressure we had the power markets blow out a bit in the third quarter, we had that $4 million of drag just on the PCCAM sharing alone in the third quarter, another $1.3 million in the fourth quarter. So there is a lot of pressure in the fourth quarter of last year.

In addition, the property tax in the fourth quarter that we ended up truing up once we got our mill rates in. And so if you're bridging from last year to this year, there's -- I would point to more tailwinds and headwinds.

Crystal Lail
VP & CFO

And I think what Travis is nicely pointing out is the known unknowables. And you all heard me at the end of the year where we came in just off of our guidance and things that push it outside of that range was definitely that PCCAM impact of $0.10 total to last year. So when you think about -- and again, assuming the Montana rate case outcome gives us that full base, you can already see the impact of power prices coming off, combined with a reasonable amount of base PCCAM costs is certainly something that I think I would like to say will not be headwinds for us this year like it was the last couple of years. So that's a great point that Travis is following up on there.

Paul Zimbardo
BofA Securities, Research Division

Okay. Excellent. Now message received loud and clear. And I know you got asked a little bit about it, but just in terms of the weather in the quarter and what you showed on the actual versus adjusted the pretty large declines in electric, gas even after you adjust out the weather, do you think some of that could be the breakdown of a shoulder period, weather normalization? And I know you've had kind of this volatility in the past. So any color perspective you could provide there would be helpful.

Crystal Lail
VP & CFO

So Paul, what I would tell you is having worked closely with the prior CFO and his frustration at times like Q2 weather model impacts and how we get better at that, here we are talking about our Q2 and our weather model impacts. So I will tell you it is absolutely consistent. And we want to present to you an approach that is always consistent. But I would certainly not tout it as perfect and particularly in a shoulder season.

When you look at light amount of both cooling and heating degree days and what the model does with that, we present to you what it spits out, but it may not fully capture what is weather impacts to us. But again, it would be consistent. So something that you guys can think about as you're looking at the numbers.

Paul Zimbardo
BofA Securities, Research Division

Okay. And it sounds like the bias is towards the understating of the weather drag effectively.

Crystal Lail
VP & CFO

I would certainly say that, that is a reasonable conclusion.

Paul Zimbardo
BofA Securities, Research Division

Okay. Great. And then the last one, if I have it right, you're planning to giving the 5-year capital refresh/roll forward with the next update. Just if there's any flavor on the base transmission distribution needs, any way to quantify it even in terms of miles or some kind of heuristics so we can calibrate there would be helpful?

Crystal Lail
VP & CFO

It's a great clarification. So I would clarify what we expect to update we want to hear from the Montana Commission, that's certainly the '23 guidance from an earnings perspective and how we're thinking about that earnings perspective rolling forward.

From a capital plan perspective, we did roll that forward to EEI last year and consistent with our underlying planning processes and board approval, we would -- I would not expect a major capital refresh with -- if we give that guidance earlier, the capital refresh we would do annually in that kind of November, December time frame. And so I would separate the two a bit.

The only other comment I would give there is that structural T&D investment there. There's a lot of work to be done on the system and plenty to capture there. But again, I wouldn't expect us to update that until more along the November time frame for that longer-term capital look.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Next question in the queue is Aida Wozniak from Siebert Williams Shank or could be Chris Ellinghaus, 1 or 2?

Christopher Ellinghaus
Siebert Williams Shank & Co., L.L.C., Research Division

Yes, it's a good question. First question for Brian. You mentioned that it's on a typical schedule for Montana, this is normal. Lots of things are normal in Montana, I suppose. But it's a pretty long process for a settlement to be approved sort of on a national basis, 4 or 5 months. Is there a way to improve upon the process in any way to have settlement reviews not take 4 or 5 months?

Brian Bird
CEO, President & Director

I think it's a fair question, Chris. I think Crystal made a good point earlier though, that the briefing schedule brings you well into June. And so as we sit here a month by the time that the commission staff can kind of put together a summary of everything and provide advice to the commission, it doesn't appear that unreasonable.

If they could reduce the briefing schedule, again, it's around a settlement that, I think, would be helpful. But I think Crystal summed it up well that the lawyers get the last word. I think that's my -- that would be my recommendation. We have a settlement, why do we need to have all of that briefing associated with it? That would be my only thing. But again, I think the hearing and even this time period that we're waiting has been reasonable compared to some delays we've seen historically.

Crystal Lail
VP & CFO

And Chris, the only thing I would add to that is the timeliness of interim rates we received while the commission works out this process having received interim rates effective October versus last year is really critical too. Then if the commission needs to take a bit more time to fully get order drafted, the impact to us is less significant.

Brian Bird
CEO, President & Director

And at that point, we had never received interim rates that quickly from the commission. So we certainly appreciated that.

Christopher Ellinghaus

Siebert Williams Shank & Co., L.L.C., Research Division

Right. Also, Brian, you talked about the customer growth. Given where customer growth is and sort of the, I'd call it the acceleration in decarbonization in general, are you thinking that sort of the tenor of your CapEx today is adequate for what you're seeing in terms of adjustments to load growth and customer growth? Or do you see potential for adjustments to just the T&D component? Obviously, you talked about needing some additional capacity later. But do you feel like you're on the proper tenor? Or is there upside to that?

Brian Bird
CEO, President & Director

My perspective, Chris, and I think there's a lot of discussion in this country about gas usage and thinking about long-term investment there. We continue to see great demand in our gas business as well. And that, of course, is concerning from a capacity standpoint and from a transmission perspective. Also electric transmission capacity is certainly much more important today. So I do feel upward pressure associated with addressing those leads.

I have concerns there. And obviously, on the generation front, my concern there is pushing us to make decisions in generation modes. At the same time, we're trying to do something from a cleaner perspective, we're being pushed to do something sooner. We're doing something sooner, it's addressing capacity and long duration capacity, we're going to be doing something that emits carbon.

And so I'm trying to understand why -- I understand the push to do things quickly, but with the technology where it sits today, we need a more reasonable period of time to address our capacity needs. Not 2027, we need more like 2037 to adequately do what the nation wants us to do to have cleaner generation. But I think everyone on this call knows it's going to be extremely difficult to do that in the next 5 years.

So Chris, I would just say there is a tremendous amount of investment that this company needs to do to address our capacity needs, period.

Christopher Ellinghaus
Siebert Williams Shank & Co., L.L.C., Research Division

Sure. Okay. And one for Crystal, you already gave us a really good start on the pro forma numbers, and I won't ask you to give us a guidance number. But when you do give guidance, given that you've already sort of given us a look at the first and second quarter, will you give us sort of your view of the seasonality of the remaining stub?

Crystal Lail
VP & CFO

Sure, Chris. I think that's a reasonable answer and just from an overall seasonality for us, I would tell you that as I think about it, while I'm not giving guidance, is the -- we are winter and summer peaking. So we're a dual peaking utility. However, the amount of peak there is, as you guys know, stays very cold, December, January, February kind of, I think, 3 months of sustained load impact versus when we see our summer peaks. Those are typically a shorter amount of time.

So Q4 and Q1 are really important to our earnings. Q3 as well, but a little bit less impactful than summer peak. And particularly if we don't have the PCCAM drag that usually offsets some of that favorability.

So that's the seasonality color I would give you as to how I think about it and then I'll be mindful of that. And then we do give guidance as to how we're thinking about how that plays out the rest of the year.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer

Thanks, Chris. And with that, we have exhausted the queue. So I'll turn it back to Brian for any closing remarks you may have.

Brian Bird
CEO, President & Director

Great questions, and I appreciate folks thanking us for taking your questions, but more importantly, we appreciate you asking them. And again, we really appreciate the support all of you provided to the company. Thank you.

Travis Meyer
Director of Corporate Finance & Investor Relations Officer
All right. Thanks, again, for joining us. I bring the webcast to a close. You may now disconnect.