Avangrid, Inc. (AGR) Q3 2022 Earnings Call Transcript
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Q3: 2022-10-25 Earnings Summary
Play Call10-Q
EPS of $0.31 misses by $0.04 | Revenue of $1.84B (15.02% Y/Y) beats by $106.09M
Avangrid, Inc. (NYSE:AGR) Q3 2022 Earnings Conference Call October 26, 2022 10:00 AM ET

Corporate Participants
Alvaro Ortega - Vice President of Finance Investor Relations and Treasury
Pedro Azagra - Chief Executive Officer
Patricia Cosgel - Chief Financial Officer
Catherine Stempien - President and Chief Executive Officer, Avangrid Networks

Conference Call Participants
Richard Sunderland - JPMorgan
Insoo Kim - Goldman Sachs
Julien Dumoulin-Smith - Bank of America
Michael Sullivan - Wolfe Research
David Arcaro - Morgan Stanley
Angie Storozynski - Seaport Research

Operator
Thank you for joining today's call. I would like to welcome you all to The Avangrid Third Quarter 2022 Earnings Conference Call. My name is Brica. And I will be your events specialist operating today's call. After the speakers' remarks, you will have the opportunity to ask a question. [Operator Instructions].
I would now like to hand the call over to our host, Alvaro Ortega, Vice President of Finance Investor Relations and Treasury to begin. So Alvaro, please go ahead when you are ready.
Alvaro Ortega
Thank you, Brica, and good morning to everyone. Thank you for joining us today to discuss Avangrid's third quarter 2022 earnings results. Presenting on the call today are Pedro Azagra, our Chief Executive Officer; and Patricia Cosgel, our Chief Financial Officer. Also joining us today for the question-and-answer part of the call will be Catherine Stempien, President and Chief Executive Officer of Avangrid Networks; and Jose Antonio Miranda, Chief Executive Officer and President of Avangrid Renewables. Other members of the executive team are also joining us today and maybe call upon to us with the Q&A part of the call. If you do not have a copy of our press release or presentation for today's call, they are available on our website at avangrid.com.

During today's call, we will make various forward-looking statements within the meaning of the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995 based on current expectations and assumptions, which are subject to risks and uncertainties. Actual results could differ materially from our forward-looking statements if any of our key assumptions are incorrect or because of other factors discussed in Avangrid's earnings news release in the comments made during this conference call in the Risk Factors section of the accompanying presentation or in our latest reports and filings with the Securities and Exchange Commission, each of which can be found on our website, avangrid.com. We do not undertake any duty to update any forward-looking statements.

Today's presentation also includes references to non-GAAP financial measures. You should refer to information contained in the slides accompanying today's presentation for definitional information and reconciliations of non-GAAP financial measures to the closest GAAP financial measures.

I will now turn the call over to Pedro.

Pedro Azagra

Thank you, Alvaro, and good morning, everyone.

Before I get started, I'd like to thank the many of you who were able to join us at our Investor Day last month in New York City. We were pleased to share our strategic plan for ‘22 to ‘25 defining a clear focus on regulated growth, consistent execution and value creation. And we look forward to updating you on our progress as we deliver on that strategy. So with that said, we appreciate you being here with us today for our nine months results presentation.

Let's turn to Slide number five. We continue to make progress on our commitment to execution on operational excellence. In the first nine months, we have delivered double-digit growth in both our businesses and at the consolidated level. Our EPS has grown 22% year-over-year to $1.90 per shares and adjusted EPS has grown 11% year-over-year to $1.94 per share.

In networks, each of our plant rate cases have now been filed. Last week, we filed our response to a staff testimony in New York and have proposed to enter settlement negotiations are starting next week. In addition, we expect a ruling on our settlement for our Berkshire Gas Company rate case in Massachusetts [indiscernible].

Regarding our New England Clean Energy Connect project, we were pleased to receive at the end of August a favorable decision clarifying vested rights jurisprudence from the Maine Law Court on our legal challenges to the Maine referendum that resulted in the halting of the construction of the transmission project. The matter was remanded to the trial court for the vested rights determination. The Trial Court recently denied reconsideration of its prior order denying our request for a preliminary injunction that would allow construction to resume as the legal proceeding continues.

We remain confident that the full process will find referendum designed to block these projects construction is unconstitutional. The NECEC project will benefit Maine and all New England by reducing the regions dependence on fossil fuels and providing much needed energy prices stability, keeping fossil fuel generators from giving themselves on 80% or higher rates on the backs of Maine and New England families while moving our region closer to our renewable energy future.

In renewables, our 184-megawatt Landfill Solar project reached COD this month, raising the total capacity we brought into operations over the last 12 months to 475 megawatts. We're constructing approximately 600 megawatts of additional new capacity. We also continue to focus on mitigating risk and prudently addressing supply chain challenges. In addition to the panels we've previously secured from projects with COD in 22 and 23. We have now also secured or required panels for 24.

In our offshore business, construction on Vineyard Wind 1 is on track, and is steadily progressing. We are proud to announce that the manufacturing of all major components for this landmark project is underway. In addition, we're taking strategic steps to advance opportunities for long-term growth based on our strategic plans for 2025. This month, we executed Heads of Agreement with Sempra Infrastructure to support the potential joint development of large-scale clean green hydrogen, and ammonia projects in the U.S. with an initial focus on the Gulf Coast and the West Coast.

Given this positive trajectory, and our operational achievements, we are confident in our ability to deliver results for the full year within our expectations. We are now reaffirming our outlook for net income and adjusted net income of $850 million to $920 million, or $2.20 to $2.38 per share. This adjusted net income range would imply year over-growth versus 21 ranging between 9% and 11%. We are focused on setting reasonable and achievable goals and most importantly, on following through continuing to build a trend where we consistently meet the market.

Taking a closer look at our nine-month results on slide 6. We are demonstrating a very solid earnings trajectory and further reinforcing of our trend of continued growth over the last two years. Since 2020, our nine-month net income and adjusted net income have each increased by over 70%. The net income and adjusted net income we were reporting today for the last time nine months have already surpassed the levels we were able to deliver for the full fiscal year 2020. These results have driven approximately 40% growth in 2020 in our earnings per share and adjusted earnings per share. Even with the impact of last year's equity issuance, our nine-month adjusted EPS has grown since 2020 at a strong compound on our growth rate of approximately 18%.

Moving on to our businesses on the network side, we are focused on execution and investments. We have filed rate cases in all jurisdictions this year each seeking multi-year plans with new rates effective in 2023. As mentioned at our Investor Day, these rate cases combined with our FERC formula rates will provide regulatory agreements for approximately 90% of our rate base.

Our request and to balance the investments needed to improve the system and deliver on a state climate policy with customer affordability. We have requested approval of approximately $10 billion in capital investments over the next three years, focusing on clean energy transformation, reliability, and resiliency, and improving the quality of service to our customers, which will also create jobs in our local communities. The investments needed to modernize the system and meet the state policy goals are substantial. And the proposals we have put forward represent a balanced path to address those needs. As we work with regulators on these proceedings, we have taken a conservative approach to our long-term outlook, maintaining capital spending on average at historical, but ultimately in sufficient levels to meet the future, the full needs of the system into the future.

As filed, the resulting bill impact will be around 13% in New York, with rates for our company remaining among the lowest in the state, and between 4% and 5% for CMP UI and Berkshire

Gas an increase that is lower than the current level of inflation. At CMP, our rates will remain among the lowest for investor-owned utilities in New England.

Turning now to the process in New York we have filed our response to a staff testimony which supported an average rate increase across all four businesses of 20% versus 25 percentile. Beneficiary hearings are scheduled to begin early next month. However, we have filed for a stay of those proceedings in order to enter into voluntary settlement negotiations shortly with all parties.

In Maine, technical conferences on initial testimony are scheduled for November and in [indiscernible] testimony suspected to be filed in December. In Massachusetts, our pre-filing settlement with the Attorney General is currently being considered by regulators and an order is expected shortly, if approved, our new rates will take effect in January.

Turning now to our offshore business on Slide number eight, as you know, Vineyard Wind 1 is the first utility scale offshore wind farm in the U.S. and a key project both for our company and for the country, which will generate clean affordable energy for over 400,000 homes and businesses while reducing carbon emissions by over 1.6 million tons per year. The project is progressing well and remains on track with the construction plan. As we have discussed previously, the supply chain for Vineyard Wind 1 is fully contracted and no labor costs are either fixed or capped, which protects the project from current market pressures.

We have now issued all notices to proceed and the manufacturing for all major components is now underway. In particular, we are happy to report that the offshore export cable installation will start this week. A steel erection for the onshore superstation is 95% complete and installation of equipment is ongoing. We're very encouraged by the excellent progress made here. And we get closer to delivering this milestone project in 2024.

In Park City and Commonwealth Wind, our focus is on improving the periodic economics and renegotiating our PPAs because of the difficult environment. As you know, we beat these projects in 2019 and 2021 respectively. Since then, the market experienced meaningful and anticipated changes due to high inflation, supply chain constraints. And higher capital and borrowing costs make it necessary for us to pursue changes to the BBA terms, which we believe are modest and achievable.

To facilitate this process, we have filed a motion with regulators in Massachusetts to suspend regulatory review of our Commonwealth Wind PPAs for one month. As New England's largest offshore wind supplier Avangrid is committed to developing these new American industry and bringing with it the wide range of benefits to our communities.

Based on a report by PwC, we estimate that our investment in our three New England projects will generate 10s of 1000s of jobs during the construction phase, most of which will be in Massachusetts and Connecticut, where we will be also generating over 1500 long-term sustained jobs during the operational life of the projects. As we delivered these benefits, our offshore activities will benefit from Iberdrola's development experience and proven track record of execution.

Moving to Slide nine, in onshore over the last 12 months, we have achieved commercial operation of approximately 475 megawatts, including 281 megawatts of wind and 184 megawatts of solar. We have roughly an additional 600 megawatts under construction included 106 megawatts of new onshore wind and 480 megawatts of new solar.

In line with our focus on mitigating risk and ensuring we can deliver on our existing commitments, we have worked with our suppliers to secure their required panels for also our projects with planned COD in 23 and 24. In addition, we continue to work with our customers to renegotiate certain terms and condition of our PPAs to address inflation pressures accommodate the scale of impact and maximize project value.

The Inflation Reduction Act will be a driving force for America's clean energy industry, not just in the next one or two years, but over the next decade. We expect the IRA, we create a strong long-term tailwinds for additional investments in wind, solar and other renewables and subject to Treasury guidance, we are moving forward on plans to capture the opportunities the IRA brings.

We are evaluating the best feet within our fleet to execute repower projects, as we have done in the past. And we will maximize the value proposal of new growth on a project-by-project basis by maximizing the contribution of tax credits in their different forms, as well as their monetization schemes. As we deliver near-term and future projects, we will also continue to benefit from the experience on a scale of Iberdrola growth, especially when it comes to purchasing power and new technologies like green hydrogen.

Turning now to Slide number 10, our top strategic priority is execution. And as you can see from the list, our team is taking action. Throughout the year, we have delivered a number of successes across the organization and in both our businesses. Above all, at Avangrid level we are working to deliver on our 2022 earnings outlook. And given our strong trajectory through these first nine months, we are on track to do so.

To-date, we have delivered 2.1 billion in investments and 11% year-over-year increase as compared to 21. Last month, we presented our new strategic plan, which will provide a deeper focus on a steady regulated growth and healthy but achievable results, while also identifying a robust set of opportunities to deliver incremental value over and above our assumptions. We also remain committed to creating sustainable value through our focus on ESG.

As part of the nearly $800 million of debt with close on this year, $275 million were new green bonds. Reinforcing our commitment to climate action, we're now targeting to reach carbon neutrality in the scope one and scope two emissions by 2030, putting us ahead of most other major U.S. utilities. In addition, we are advancing innovative new technologies such as green hydrogen that will support long-term decarbonization. Our efforts continue to be recognized by third parties, including Hemisphere which named Avangrid one of the world's most ethical companies for the fourth year in a row.

In networks, our team have worked hard to put forward thoughtful proposals for our rate case filings in each of our states, balancing investment needs with customer affordability. We've taken significant steps forward in Maine, with our improved customer service performance at CMP, leading to the removal of the 100-basis point ROE adjustment, and we received a favorable ruling on NECEC from the Maine Supreme Court.

We have also achieved a number of positive regulatory outcomes, including an order in New York providing the state funds to help pay down the unpaid balances of our most vulnerable customers impacted financially by the COVID pandemic. We also received approval for additional storm amortization in Maine to recover our full 2021 differed storm balance and our utilities are being recognized by the EI for their outstanding performance helping Louisiana recover up to Hurricane Ida. In recent weeks, our crews traveled north to help restore power to Nova Scotia after Hurricane Fiona.

Lastly, for networks, we are accelerating our digital transformation and enhancing the customer experience. We have increased our EBL enrollments by 22% year-over-year, reaching a 40% adoption rate among our customers, and have increased the loads of our mobile app by 76% year-over-year.

In renewables, we completed the restructuring of our offshore wind joint venture partnership which allowed us to take full ownership of our largest New England projects, and we reached COD on roughly 400 megawatts of new onshore capacity. We're taking action to mitigate macro pressure on the business by securing partner supply for our projects through 2024 and through the renegotiation of the PPAs. We continue to make steady progress in the construction of our Vineyard Wind 1 project, and this week we will start the installation of the offshore export cables.

Furthermore, the passage of the IRA represents the largest federal investment in clean energy and climate in the U.S. history, providing long-term certainty on a range of incentives and lock interests for stability as an alternative to tax equity, and overall creating a strong growth signal for the industry. As we await additional guidance from the federal government, our renewables team is focused on reviewing the impacts of the full package ensuring we can swiftly respond and capture all benefits that align with our businesses.

Finally, we committed tax equity for approximately 600 megawatts of onshore projects. And as mentioned, we continue to optimize our portfolio and development pipeline to maximize expected returns and reduce risk, including, sell ourselves potentially. With this achievements, on a solid operational and earnings trajectory in hand, I'm confident that we are on firm footing to deliver future growth.

To discuss our growth further on Slide 11, I'd like to bring you back to the investments we expect to make through 2025 using a broader view that reflects our full contribution to U.S. growth and clean energy development.

On the left are our planned investments with the PNM Resources merger. The chart on the right shows our total investments with PNM Resources, including the full enterprise value of the transaction and estimated CapEx from 23 to 25. In both cases, we have included 100% of the CapEx for Vineyard Wind 1, where we have the opportunity to consolidate the price after COD pending a final business decision.

After including the full CapEx for Vineyard Wind 1 even without PNM Resources regulated networks accounts for roughly 60% of investments, or 6.3 billion. If we exclude the non-controlling interest in Vineyard Wind 1 with our PNM Resources regulated networks will account for over 70%. PNM Resources adds another 10.9 billion composed of our equity investment projected CapEx and debt increasing network share of our total investments to 80% or 88%, if we exclude the non-controlling interest in Vineyard Wind 1.

Altogether, including PNM Resources, our investment totals over 21 billion in regulated networks and contracted renewable assets. Across our existing utility footprint, we are holding CapEx steady at a level consistent with the prior three-year period, allowing us to grow at an even pace, balancing investments to improve reliability and resiliency with customer affordability.

As a reminder, our projections do not fully consider the proposed investments in our rate cases, including investments to meet the state policy goals. As mentioned previously, we are focused on taking a disciplined approach that prioritizes the strategic and profitable growth of both our networks and renewables businesses, and positions as to deliver healthy financial results, even through our personally challenging economic environment.

Turning now to Slide 12. Over the last several months, we have engaged with many of you and I've heard your feedback. I'd like to spend a few minutes here providing some additional color and explaining how our team and our near strategic plan are addressing those topics. First, as I continue to say our number one objective is execution. Over the last two years, we have established a solid trajectory of sustainable and reliable earnings growth, and we are on track to deliver our 2022 guidance.

Our investment plans in 2025 centers around our regulated network businesses and will promote secure and stable growth over the coming years, including the full enterprise value of PNM Resources and 100% of Vineyard Wind 1 CapEx, we're investing $21.5 billion to expand our footprint in both networks and renewables or approximately 11 billion with our PNMs enterprise value and organic CapEx.

Another of my top priorities is engagement and building constructive relationship with regulators and other key stakeholders. And we've made important progress over the years. We have been focused on making sustained improvement in customer service in Maine. And as a result, we are successfully removed the 100-basis points ROE adjustment on CMP. And as you know, we find multiyear rate plans in each of our states, keeping the bill impact well below the current rate of inflation in Connecticut, Maine and Massachusetts. We designed our proposals to include mechanisms to reduce risk exposure such a forward looking plus year's revenue decoupling and trackers. A challenging macro environment and rising commodity cost puts pressure on our customers by driving an increased focus on operational excellence securing government assistant funds proposing balanced rate plans and developing low-income rates. Our utilities are working hard to help support our customers.

Our work has a real positive impact. When we asked for a rate increase, it's to invest in our space through additional capital projects that create economic benefits, such as local jobs, additional tax base, whereas the much larger increases requested by sources fewer generators are PR margin. We're also executing on our key projects, with Vineyard Wind 1 progressing on time and on budget. We've delivered both of the multibillion-dollar financing for this project and finalized the term sheet for the tax equity.

We are encouraged by the Maine law courts recent ruling on NECEC. And while the lower court decided not to grant a preliminary injunction, we believe we have a strong understanding and remain confident the full legal process we find that the references are tracked deblocking on NECEC isn't unconstitutional. We are 100% committed to profitable growth with a disciplined approach focused on value creation. Thanks to our early investments in offshore wind, we have built a large sprayer pipeline at a lower cost and competitors entering the space today. We have 2.4 gigawatts of owned and contracted capacity, including the first commercial large-scale projects under construction.

This is part of a larger diversified 26 GW pipeline, combining onshore wind, solar and onshore wind, which provides us incremental growth and value creation opportunities through asset rotation or partnerships.

Lastly, as peers strive to create cleaner generation profiles, and set a stronger climate commitments, we are already there and look very attractive from that perspective. Clean renewable resources account for over 90% of our portfolio, which is at least twice as much as the other two leading renewable operators in the US. And unlike those companies, we have no coal in our generation mix. We were the first utility to set up a carbon neutral goal. And we've continued to raise the bar now targeting neutrality in scope one and scope two emissions by 2030. If we continue to concentrate on each of these areas, and right our relentless focus on execution, I know we can deliver success. Now I will hand it over to Patricia to provide more detail on our financial results.

Patricia Cosgel

Thank you, Pedro. Good morning, everyone.

Turning first to our earnings performance. In the third quarter of 2022, we generated net income of 105 million, and our adjusted net income was 122 million. While the quarter-over-quarter comparison benefited from the New York and Maine rate plans and positive results in thermal and asset management and renewables. There was an overall modest decline primarily due to the absence of AFUDC from the NECEC transmission project in 2021. Higher depreciation on collectibles, and business costs in networks that principally reflect the implementation of rate plans in New York. In renewables, production and pricing was flat quarter-over-quarter with favorable pricing offsetting lower volumes due to curtailments and congestion.

Quarterly results are also impacted by lower taxes and renewables that are offset by higher taxes in networks. During the first nine months of 2022, our net income was 734 million. The adjusted net income was 749 million increases of 35% and 23%, respectively, from the same period in 2021.

The first nine months of 2022, compared to the first nine months of 2021 benefited from the implementation of a rate plan primarily for the New York companies, which increased adjusted net income by 58 million. That number includes a positive impact for the removal of 100 basis point ROE adjustment in Central Maine Power effective earlier this year, resulting from our improved customer service metrics. And regulatory outcomes, including the New York arrearages earlier this year had a net positive impact year-over-year.

Results for the nine months comparison also benefited from the 181 million gains in the restructuring of the offshore wind partnership agreement that gave us control of 100% of the Park City Wind and Commonwealth Wind project from a $38 million increase in results in renewables pricing and production and from lower taxes. Those increases were moderated by the absence in 2022 of 83 million from our strong performance in the 2021 Texas Weather Event and 17 million of AFUDC in 2021 primarily for the NECEC project, as well as by depreciation and as noted higher business costs, which networks -- and networks are related to the rate plan implementation and then renewables are related to growth.

Moving to the next slide, we are reaffirming our 2022 outlook for net income and adjusted net income of 850 million to 920 million and EPS and adjusted EPS of $2.20 to $2.38 per share. Our focus remains on achieving these targets as we execute our investment plans with discipline and risk management focus continuously driving operational excellence. Our expectations reflect our performance to-date, including the implementation of our network rate plans and offshore wind restructuring, higher capitalized labor and thermal and asset management results in lower taxes, which have been moderated by negative regulatory adjustments and uncollectable labor expense and the impacts of renewables of congestion and COD [indiscernible].

We also show expectations of opportunities and risks for the remainder of the year versus our outlook expectations, which include wind production and pricing, thermal and asset management results, taxes, regulatory adjustments, including negative revenue adjustments that could be related to achievement of annual reliability and service metrics, as well as labor business costs and uncollectable.

Moving to the next Slide. In this challenging and changing economic environment, we are focused on our balance sheet access to liquidity and credit ratings. Access to capital at attractive rates is important. Last year, we secured a $2.3 billion construction and terminal facility from the large group of banks that is funding the construction of our Vineyard Wind 1 project, which we attached to competitive rates a year ago. And we recently executed a term sheet for 1.4 million of tax equity for that project. Vineyard Wind 1 is the first large scale offshore wind farm in the U.S. to deliver this important achievement which will allow us to monetize the tax benefits from this landmark project. Year-to-date, we also pull some tax equity funding for 606 megawatts of solar and onshore wind projects.

As a reminder, several of our regulated subsidiaries priced 575 million of debt in the second quarter locking in competitive rates for the funding in December. Two of these bonds that are Central Maine Power Company, the green one and as you know issued 4 billion of equity in May of 2021 for the PNM Resources merger, which has been using to fund the capital investments and networks and renewables and which has helped to pay our external debt needs as we grow these businesses.

Strong liquidity is a key priority. At the end of the third quarter we have approximately 60 million of cash, which along with ongoing cash from operations, debt at utility level, tax equity financing and renewables, our 2 billion commercial paper program backed by 3.575 billion credit facility, our 500 million intercompany line of credit with Iberdrola and the 575 million of debt proceeds we will receive in December, we will use to fund investments and dividends. Iberdrola has also provided us with a $4.3 billion commitment letter that backstops our PNM Resources merger closing. These sources provide us with 8.7 billion of liquidity covering 21 months. We also have the unique benefit of being a member of Iberdrola Group, which has a strong liquidity of approximately €25 billion covering 27 months.

Finally, our dividend policy remains the same, we are targeting a payout of 65% to 75% that we will go into as our earnings increase over time, subject to Board approval. Our Board recently declared a regular quarterly dividend of $0.44 a share payable January 3, 2023.

In summary, our year-to-date, results remain on track and we're focused on execution. As we outlined in our recent Investor Day, we have a disciplined focused on our investments, risk management, financing plans, liquidity management, and maintaining our credit rating.

Thank you for joining us today for our financial update. I'll now hand the call back over to our operator for questions followed by closing remarks by Pedro.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We have the first question from the phone line from Richard Sunderland from JPMorgan Chase.

Richard Sunderland

Hi, good morning. Thank you for the time today. When starting on offshore, you've been very clear on the challenging backdrop for offshore now versus when striking the Park City and Commonwealth contracts. Thinking about the restructuring gain earlier this year versus the current CIP challenges on those two projects. Do you need to be successful in the renegotiations to realize this value? You also cleared what the range of options are for moving forward and the timing expectations for that process versus the 2027, 2028 CODs?

Pedro Azagra

I think I'm going to take the lead on this one. First of all, from a game point of view, I think we're very comfortable, the value as you can see of just the leases of those projects is huge. So from that point of view, I think you know, there is a value in those assets, whether you go ahead with the project now, later or you just cancel them and start again, the leases are worth a lot. So from our point of view, I think the value that we have agreed for our gain that you mentioned in agreement with CIP is clearly a very good value for us, well below most of the comparable transactions, just for either leases, okay.

Second, I think it's important that, everything we're doing right now is what we do in many projects. We renegotiate, we've been working right now in onshore wind, solar projects that we were developing this year in renegotiating timelines, we are renegotiating period of delivery, and avoiding 10s and 10s of millions of potential penalties are doing the same thing here. There is a change, a dramatic change in the world right now, in many aspects that we have commanded. And therefore, we believe these projects are the cheapest alternative for energy in New England, without any doubt, it doesn't matter what you compare this with, and therefore, we're not suggesting, we want to make more money, what you're suggesting, we need to find, this project is back to the return, we were expecting and basically not to lose money.

And it's a question of, putting that on the table, which we are doing, and I think we are comfortable that, this is something to work with many parties, and we are working right now, in negotiations, many meetings already, it is a process that is going to take probably nine months, at least. So from our point of view, we are working as we do in other situations. So very comfortable in the process ahead of us, either to renegotiate, or to start again, but I think we're comfortable right now with the process and the argument we're using.

Richard Sunderland

Got it. Appreciated the color there. So just to be clear, you see the value in terms of the agreement is being derived from the leases, rather than the contracts, meaning if you have to go into the process of getting for new contracts on a new RFP, there wouldn't be a change on the day, is that the case?

Pedro Azagra

You can pick up one or the other one, if you conclude successful renegotiation, the value is huge. You saw the growth. They sold the asset in East of Anglia, and you saw they have sold a stake also in this taking Vineyard Wind 1. So if you have a proper renegotiation, I think the value would be amazing. Okay, if you stay with the leases, and you participate in an auction, how much it was paid in Carolinas and New York and other places. So you will see that it's also hundreds of millions of value there well above in any case, the values that we have considered for the CIP agreement.

Richard Sunderland

Got it. That's very helpful. And then I just wanted to ask on the Sempra agreements. Can you speak a little bit more about either what you're evaluating or what the next steps could be here?

Pedro Azagra

I think on the Sempra agreement again, we knew each other for a long time. And from our point of view, there are some times in life either for financial discipline and complimentary in terms of by both, that we were much better going together to such a massive development that you have ahead of us in the U.S. in hydrogen, and therefore, they have a very good gas business, gas infrastructure, et cetera, I think we are probably one of the leaders in renewables. I think we know that we are in the geographies where the ammonia, the hydrogen is needed. So from that point of view, let's get together, analyze.

The next step is simple, I think we're going to conclude this analysis on a specific price. But for the time being, for confidential reasons, we don't mention where and what exactly we're doing, but I think it's probably two or three months, we should conclude those analysis and then go full speed if we think you'd be successful.

Richard Sunderland

Got it. That's very helpful. If I can just slip one more in here, you've spoken a lot about the activity on the rate front and on your developing regulatory relationships with the states. How do you see this from a higher level in terms of the discussions on the offshore contract side? The rate case backdrop, and your relationships in the state? Is there any trade off between what you're asking for on the offshore side versus what you hope to achieve? In terms of the regulated relationship for [indiscernible] that is completely separate properties?

Pedro Azagra

I mean, the teams involved, sometimes you have legal restrictions and regulatory restrictions that they need to be different. But I think the important thing is, it shows a commitment, Avangrid have some on Iberdrola Group to the region. I think we're there to help the state to put on the table the energy that otherwise they will not have, you see, the news recently about the lack of oil, the potential issues of lack of gas, there are many, many issues well, those are not to become less and less over time they are to interest. I think we're working to bring energy, renewable energy and the cheapest possible you can find. So from our point of view, I think we're not negotiating like to oppose parties, this is a common objective. And we are we know, one of the few people putting ideas on how to work together to a good feature for the citizens of those state. So I think we are working together in the same direction.

Operator

Thank you. We now have Insoo Kim of Goldman Sachs. Your line is now open.

Insoo Kim

Thank you. First question, just following up on the offshore wind PPA repricing process. I guess, if we think about whether you do successfully are able to renegotiate through the states or, if they offer a new competitive bidding process that you may reenter into, are you still looking to in either option? Are you still looking to choose or stick to the option that gets you to the low teens levered returns? Or are you willing to, like accept modified lower return, if you're able to at least get the current price restruck?

Pedro Azagra

I think the EDA is to go back to the same return that we were expecting in the project, you know, when we put it on the table? So I think what has changed is, the world is different the supply chain issues, the commodity prices, they delay in construction. So there are many things happening that were unexpected, even in the last 20 years this has not happened at all. So I think the idea is to go back, you know, to the same numbers and economics we had before.

Insoo Kim

Okay. And then just from a legal perspective, is there any legal precedent for a competitively struck contract through a regulatory system be repriced just trying to see if there's something that we can look to in history?

Pedro Azagra

There are cases I understand that there has been renegotiation in contracts. And then second, and I understand also, what we're trying to do here is to renegotiate within the framework of our contract. Okay, so we're not trying to go up, around or both the contract that we have that we believe has clauses in the transmission line in mainstream Sydney, the appropriate, we believe within, what is in the contract, there is room for the request we're doing.

Insoo Kim

Okay. Just one more on any TC, with the remand to the lower courts, and but not being able to, I guess, commence construction until at least the April 2023. Trial concludes, does this still keep you in that timeline of your 2024? Or does this latest development, push it back a little bit? Thanks.

Catherine Stempien

Yes, hey, and so this is Catherine. So what we said at the Investor Day was, we currently had at that time, an in service date of 24. But what we are really focused on is the contract that we have with EDCs, which requires us to have COD by April of 2025. So we're currently assessing the construction timeline, when we think that we'll be able to start construction after the expedited trial proceeding in front of the trial court, and just looking to work with our contractor so that we can start construction soon thereafter and get going back on the project again.

Operator

Your next question comes from the line of Julien Dumoulin-Smith of Bank of America, Merrill Lynch. Your line is open Julian.

Julien Dumoulin-Smith

Hey, good morning, Pedro and team and thanks for the time. If I can just to go back on the last set of questions. And I just want to pin you down a little bit more on the offer considerations. If the Massachusetts Commission does not grant a higher PPA, will you move forward with the project? I guess I just want to see if we can ask this in a more of a black and white kind of way.

Pedro Azagra

The answer is we need to -- those revisions in order to continue with the project. We just need that.

Julien Dumoulin-Smith

Yes. You need them to move forward, right? I'm hearing you, right.

Pedro Azagra

Yes. No doubt. I mean, we don't want to share just trying to make more money. No, this is a very serious matter, with full transparency onboarding everything happening on the table.

That's why I think we're having good meetings so far in general. So the answer is simple. Yes, we need that.

Julien Dumoulin-Smith

Yes. Thank you for the clarity there. I appreciate it. And then, separately, does the change in the equity value here change your view about the relative merits of selling assets versus raising common equity here. I get to the common equity timing might be somewhat delayed here given the close of PNM push to the next year, et cetera. But can you talk about the desire to pursue more assets held relative to the equity issuance outline to the analyst day? Just considering higher rates obviously, impacting the stock price, but also impacting the asset sale market as well.

Pedro Azagra

I think usually the conclusion why do you need to raise equity is because you need equity. I think for us the message we passed in the strategic presentation was clear. We maintain what we had told the market before, but we're going to focus on asset rotation. And if PNM doesn't happen, we don't need to do any capital increase. Actually, we will be over levered -- excess leverage capacity and if PNM happens we are still considering as we said at least $2 billion of asset rotation. So, if that happens, then probably we will need either all or part of that capital increase. So, the answer is yes, of course we always keep in mind the price but I don’t think the price or the share price is what drives the divestiture. The divestiture is something we're analyzing and we'll try to get them done as we have done in the Group for 20 years non-stop and we have all the levers. So, it's not really because of the price that we will do more or less divestitures. We'll do as many divestitures needed, because they make sense and that will be the driver for doing it.

Julien Dumoulin-Smith

Right. But let me put it this way, if I can take your temperature on the asset sale market, I mean how is that market evolving here? Obviously, we see the equity price where it is, do you still feel robust buyer backdrop, and especially it's sort of relative, right as I think about its like, if asset valuations are sustained relative to the stock price, you would think that that would be on the margin a little bit more of an interesting avenue but as you say, timeline is important to watch here as well. Right?

Pedro Azagra

I think asset valuations, we can go back to the 2005, 2006 I think there is a moment that you review history, and I thought that was going to be all time high seeing multiples of sales and then there was another deal, and then there was another one. I think the amount of money that is right now on the table, because of funds because of other companies they need renewables, they need regulated assets, it’s unlimited and it's unbelievable compared to 10, 15 years ago, you see recent transactions involving a German-company and a U.S.-company, you see another U.S. company with Total, I mean, you can go one by one. I think you always thought maybe this is when things are going to change. I don't think there is even one feeling that I have that the appetite of the people I usually deal with that they're interested in either buying things or doing things with us has been reduced is the contrary. I think the appetite is there and very good relationships and I think there is an interest.

Julien Dumoulin-Smith

Got it. All right, excellent. Well, thank you very much.

Operator
Thank you. We now have the next question from Michael Sullivan of Wolfe Research. Your line is open.
Michael Sullivan
Hey, everyone. Good morning. Wanted to start with just the quarter and the year-to-date results, if I'm doing the math right, it looks like the implied Q4 earnings are going to be down about $0.09, $0.10 year-over-year at the midpoint of your guide, are there any headwinds that we should be aware of as we just think about the next quarter? Or is it just conservatism and just reaffirming the guide? Patricia?
Patricia Cosgel
Sure, yes. I mean we are confident in our guidance, which is why we reiterated it today. We don't do quarterly estimates. So we're just kind of looked at put out that year-to-date information with our annual guidance number, I think we highlighted some risks and opportunities that we are always focused on in the year-to-date into the quarter. So just to reiterate kind of for the fourth quarter, we will definitely have some incremental benefits from the rate cases, if we look on a year-over-year basis. But we do have risks and opportunities and those relate to wind production and pricing, thermal asset management, variability in results that includes even as we get to the end of the year we can tax, so obviously, look at how we're performing against some of our reliability and customer service metrics. So there could be regulatory adjustments related to that and then we're kind of watching any regulatory development could happen or trends and uncollectables, things like that. I can't -- we have, those are the things we've highlighted on the call the things that have been impacting us year-to-date or in prior years as well.
Michael Sullivan
Okay, but it sounds like there is no specific items from last year's quarter that we should be backing out or mindful of?
Patricia Cosgel
I think when we, I think that there's -- it's just really more a continuation of what's going on, there might be little things but not a big item.
Michael Sullivan
Okay. And then as we think about next year, just wanted to understand a little bit better, the base business. So I think you pointed out some of the kind of bigger moving pieces year-over-year like offshore wind gain, I think you had a Kitty Hawk sale in there as well and then obviously PNM for half of the year. But as we think about excluding that, what are the drivers, is the bass business growing at all or not?
Patricia Cosgel
So some of the things that we're looking at is, you’re actually looking at the Renewable business, we do have just under 600 megawatts in construction, we have new assets that we’re, just one COD, this year we just announced one hilt, so that'll have a positive impact year-over-year, we have a couple of other projects as well, that will be COD. So those will have an impact on year-over-year.

And then we’re looking at the timing of rate case, rate cases might not have a decision until later in the year but there might be similar to what we had in the New York rate case settlement in the past where we had a decision at the end of the year, but there was sort of a true-up that happened later on in the year. So those are some of the things to consider.

Michael Sullivan

Okay, thanks. And then last one, just on the New York rate case, can you just summarize the CLCPA upside what you filed and what staff is recommending?

Pedro Azagra

Catherine?

Catherine Stempien

Yes, I'll take this one. So the New York rate case gets complicated because of the legislation with the CLCPA that got filed. So our rate case filing contained base CapEx that we see is needed for the resiliency of the grid, as well as proposals under both phase one CLCPA and phase two of CLCPA. And if you're called phase one, are those reliability projects that we have accelerated within our service territory, and phase two projects are projects that are needed to bring renewable production downstate and so those phase two projects are anticipated to be spread across all of the state as opposed to just within the nice [indiscernible] service territory. So in total, our filing amounted to about an $8.6 billion worth of investment and $2.9 billion of that was CLCPA. When we look at the staff testimony, they had a higher weighting of expenditures in CLCPA than in base CapEx. But as Pedro said overall, as their testimony came in their rate increased was approximately 20% versus our 26% on the base PND [ph] rates. So we're looking forward to entering into negotiations with staff and with other intervenors to really talk about what's the base CapEx and what are the clean energy kind of requirements for New York investments in order for them to meet their requisite timeline for the clean energy transition.

Michael Sullivan

Okay, thanks. Sorry just to be really clear, the $2.9 billion you filed, I understand there is moving pieces but what is the apples-to-apples staff number on that?

Catherine Stempien

It's hard to put exactly the pieces because they excluded all of the phase two push that off to most of those investments are investments that we would be making and putting into rate based post 2026. So they're really focused on the portion -- it's a little bit over what $0.5 billion on phase two, phase one investments rather. And so they would accelerate a large part about $900 million of those phase one investments into the rate case here. Our rate case proposal was focused more on the base CapEx needs of the system. So if you compare again, if you look at what they asked for versus or with their testimony supported versus what we requested, they're not that far off it's just a mix of how you get to that total rate impact in the CapEx investments needed for the system.

Pedro Azagra

And remember in our base case for the projection of the steel plant month ago. We will see a month ago, we assume nothing in CLCPA okay, so we didn't put anything into the model of CLCPA.

Operator

Thank you. We now have the next question from David Arcaro from Morgan Stanley. Please go ahead when you're ready.

David Arcaro

Hi, thanks for taking my question. Could you just give an update on what you're seeing for the inflationary backdrop, just any inflationary pressure on O&M whether it's labor, materials, components, other things in the business right now.

Patricia Cosgel

Sure. I guess I would just say, in terms of inflation, there certainly are impacts on labor and there is certainly impact on costs. But I think in our network business we have, which is really about 80% of our net income and our earnings. We're pretty well protected over time, because our commodity prices are passed through. When we're looking at gas and commodity costs we laddered those we don't purchase them all at once, and we store them for the winter. We've also entered into rate case filings where we have included updated inflation estimates, and we actually have requests for inflation trackers and in those cases and we look forward to looking at strategy where we minimize the gap between rates. So we are updating and accounting for these new costs going forward and then just to reminder you that the FERC transmission rates are reconciled annually.

When we look at, on the offshore businesses as Pedro had mentioned we actually have secured all the solar panels for 2024 and we have been negotiating successfully some contracts to adjust inflation as well as our supply chain challenges. And then finally, if we look at our offshore renewable projects Vineyard Wind 1, we've secured all the CapEx and we're actually actively and on target with our construction. So we have -- do not have that exposure for that project and we've spent some time already talking about future projects beyond our plans in offshore and how we're addressing them.

David Arcaro

Got it. That's really a helpful color, I appreciate it. And then back on just the asset recycling potential here for $2 billion of proceeds going forward. I was just wondering if you could give your latest thinking around what assets could get priority, which might have the most interest in the in the market, must appeal in the market? And would you also be considering minority interest sales in regulated utilities?

Pedro Azagra

I think the appetite for our assets, I think is any of the assets. I think you know that a lot of people are keen on renewable assets, a lot of people are keen on minority stakes in businesses and not in regulated only but in renewable companies. So from that point of view I think we just, we're just reviewing the portfolio making sure we put on the table the right approach and I think we will go into actions very soon. So from that point of view, I think we don't rule out anything, probably the first focus for us is the renewable business, or we have a lot of assets and I think there is a lot of appetite for those assets and probably that should be the first area of focus for us in terms of opportunities in industrial rotation.

David Arcaro

Okay, got it. Thanks so much.

Operator

Thank you. We now have a question on the line from Angie Storozynski from Seaport Research Partners. Please go ahead. Your line is now open.

Angie Storozynski

Thank you. So my first question is about what we've seen in Nova Scotia, the proposal to caps customer utility rates, non-fuel rates and how you actually see this risk in New England or

Northeast in general given how high electric customer bills are about to go? And then secondly, the poorer decision about the implementation of bill discounts for low income customers and how you're going to recover those discounts in cash in your future rate cases? Thank you.

Catherine Stempien

Thank you, Angie. So first with respect to your first question, I kind of see it as the risk with respect to rising costs and will that follow over on to utility rates, and that's why we are focused so much on affordability for our customers and when we filed our rate cases really focused on balancing the needs of the system with the affordability of that. But our systems really do require investment and I think our regulators and stakeholders understand that reliability is a priority, especially as we move into changing climate and also the aggressive goals that our states have with respect to clean energy.

So it's all a balance when we talk about that and look for various rate mitigators to help smooth out that transition for our customers. With respect to low income a couple of things there first, in our Connecticut rate case, we actually, for the first time had offered up a special rate for low income customers, that's directly in response to some of the feedback that we've had from some of our stakeholders. And so we'll be discussing that type of a proposal in Connecticut and see what the appetite is for that proposal. Then with respect to our existing kind of rates and our customers, we're really proud of the work that we were able to do in New York in order to get some arrearages paid off for some of those low income customers. And those were accessed from funds that the New York State Legislature had set aside to particularly target the impacts of COVID on low income customers. We're continuing to look for options like that on a Federal and a State level to see if we can work with our states as well as with, for instance, the Joint Utility Group in New York to see if there's additional funds that we can access to help those particularly vulnerable customers.

Angie Storozynski

Okay, thank you. That's all I have. Thanks.

Operator

Thank you. We have no further questions. So I'd like to hand it back to Avangrid CEO, Pedro Azagra for some final remarks.

Pedro Azagra

Okay. So close this call, I'd like to bring you back to one simple question, why Avangrid, why us, the heart of our plan is a commitment to execution as well as NECEC focus on regulated growth and value creation. And also our company is, our heart is our regulated utility business which is contemplated by additional renewables opportunities. This unique and balance mix positions us to accelerate transformation in the energy sector from multiple angles.

Across all sectors, businesses are facing a challenging economic environment in the near term. We are responding for realistic targets and a study discipline approach, knowing that the wait is in the longer term is at our back. The energy transition is here to stay, there is no turning back and diversify utility companies like ours are poised to benefit.

As we look at the next three years, we expect to grow our earnings and adjusted earnings per share at a healthy compound annual growth rate of 6% to 7%. We don't announce quarterly guidance, we just go to annual and I think we're comfortable to provide a clear guidance on ‘23 versus ‘24 and ’25 to make it always very clear what we're expecting year-by-year and on a combined basis for the period.

Our core regulated network business continues to be our key driver for growth representing as we discussed approximately 80% of our plan investments. We are determined to maintain a supportive balance sheet and leverage value creating opportunities, like asset rotation and partnerships to further improve our position, while maintaining our credit ratings and a strong liquidity.

We are closely aligned with accelerating the State and Federal Policy targets ahead of many of our peers and as a result, we are positioning ourselves to deliver investments in offshore wind, onshore renewables and transmission that we create jobs to stimulate economic development and support our own long-term growth as well.

Furthermore, we have substantial upside opportunities to generate value over and above what is assuming our plan, including approximately $2 billion in our asset rotation option, incremental investments in our rate case proposals and unprecedented policy support from the IRA. We're just execution, execution and execution as our team works to deliver we will benefit every step of the way from the strong backing of Iberdrola, it’s extraordinary global expertise and proven track record of success.

Thank you again for joining us today on our third quarter call. If you have any other questions please follow-up with Alvaro and their team and have a great day. Thank you very much.

Operator

Thank you for joining. That does conclude today's call. Have a lovely day. You may now disconnect your lines.