Emera Incorporated TSX:EMA

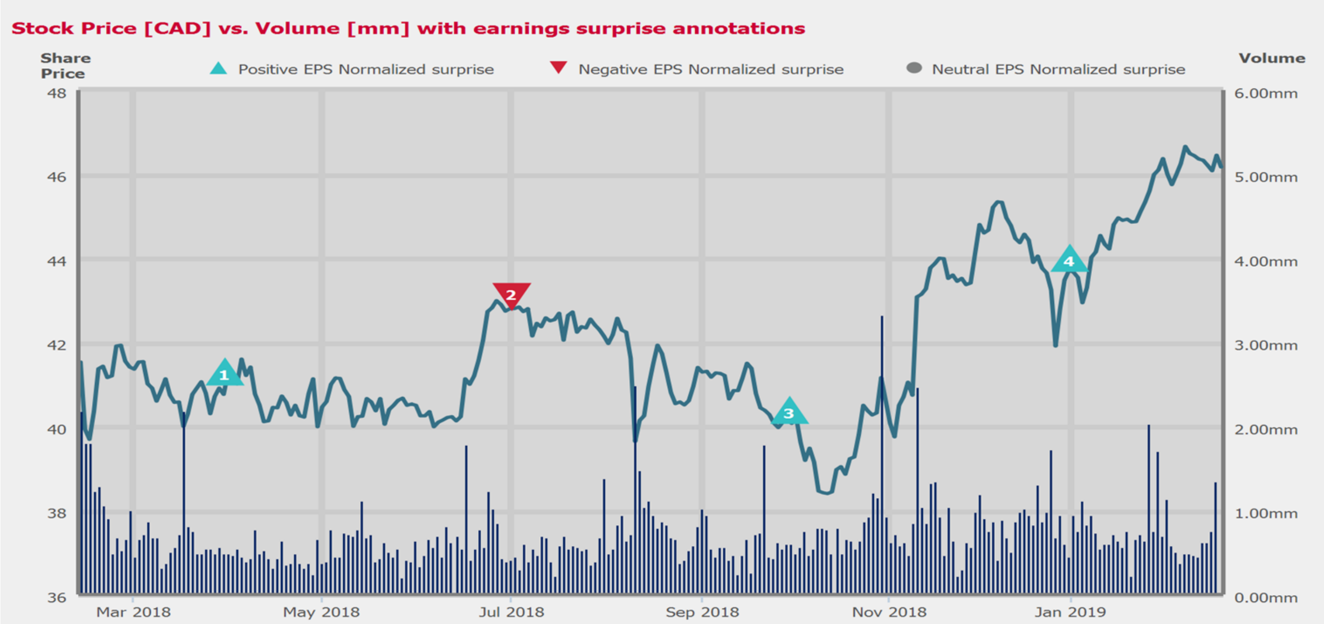
FQ4 2018 Earnings Call Transcripts

Tuesday, February 19, 2019 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.68	0.71	▲4.41	0.86	2.85	2.88
Revenue (mm)	1772.24	1799.00	▲1.51	1998.96	6544.43	6524.00

Currency: CAD
Consensus as of Feb-19-2019 1:07 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	0.80	0.87	▲1 8.75 %
FQ2 2018	0.57	0.48	▼2 (15.79 %)
FQ3 2018	0.70	0.81	▲3 15.71 %
FQ4 2018	0.68	0.71	▲4 4.41 %

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Call Participants

EXECUTIVES

Erin Power
Manager of Investor Relations

Gregory W. Blunden
Chief Financial Officer

Judy A. Steele
President & COO of Emera Energy Inc

Nancy G. Tower
President & CEO of Tampa Electric Company

Scott Carlyle Balfour
CEO, President & Director

ANALYSTS

Andrew M. Kuske
Crédit Suisse AG, Research Division

Benjamin Pham
BMO Capital Markets Equity Research

Linda Ezergailis
TD Securities Equity Research

Nicholas Joseph Campanella
BofA Merrill Lynch, Research Division

Robert Catellier
CIBC Capital Markets, Research Division

Robert Hope
Scotiabank Global Banking and Markets, Research Division

Robert Michael Kwan
RBC Capital Markets, LLC, Research Division

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Emera Q4 analyst conference call. [Operator Instructions] Please note that this call is being recorded today, Tuesday, February 19, 2019, at 8:30 a.m. Eastern time.

I would now like to turn the meeting over to your host for today's call, Erin Power, Manager, Investor Relations for Emera. Please go ahead, Ms. Power.

Erin Power
Manager of Investor Relations

Thank you, Sharon, and thank you all for joining us this morning for Emera's Fourth Quarter 2018 Conference Call and Live Webcast. Emera's fourth quarter earnings release was distributed this morning via Newswire and the financial statements, management's discussion and analysis and the presentation being referenced on this call are available on our website at emera.com.

Joining me for this morning's call are Scott Balfour, Emera's President and Chief Executive Officer; Greg Blunden, Emera's Chief Financial Officer; and other members of Emera's management team. This morning, Scott will begin with an update on the business and our strategic initiatives, and Greg will follow with an overview of the financial results. We expect the prepared remarks to last about 15 minutes. Following our prepared remarks, we will open up the lines to take questions from analysts.

I will take a moment to advise you that this conference call will contain forward-looking information and statements with respect to Emera. Forward-looking statements involve significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking statements. Generally, these factors or assumptions are subject to inherent risks and uncertainties surrounding future expectations. Such risk factors or assumptions include, but are not limited to, regulation, operations and maintenance, energy prices, global economic conditions, weather, derivatives and hedging, capital resources, loss of service area, licenses and permits, environment, insurance, labor relations, human resources and liquidity risk. A number of factors could cause actual results, performance or achievements to differ materially from the results discussed or implied in the forward-looking statements.

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

And now I will turn things over to Scott.

Scott Carlyle Balfour
CEO, President & Director

Thank you, Erin, and good morning, everyone. 2018 was a strong year for Emera. We made significant progress on our growth strategy, especially in Nova Scotia and Florida, continued to deliver cleaner, affordable and reliable energy to our customers and also delivered record adjusted earnings per share and cash flow for our shareholders. Our business has never been stronger, and it showed in the financial performance we saw in 2018 across all our businesses.

Our Florida and New Mexico utilities posted record earnings, and Emera Energy had an exceptional year. Nova Scotia Power once again delivered strong earnings. Emera Maine overcame challenging weather conditions and delivered results largely in line with 2017 and our other regulated businesses delivering consistent growth. Overall, I'm pleased with the performance by our regulated utilities and how our strategic positioning has enabled us to capitalize on earnings and growth opportunities.

In Florida, we are well advanced on our solar program, and these investments are contributing to the growth we are seeing in our bottom line. The first phase of the program will see us construct 600 megawatts of new solar. In September, we placed the first 145 megawatts into service and customer rates were increased accordingly. Over the course of 2018, Tampa Electric collected $8 million of new revenue related to those projects.

Since September, we've continued to advance construction, and so power in 2019, we placed an additional 175 megawatts into service, bringing our total new solar capacity to 320 megawatts. We look forward to placing an additional 85 megawatts in into service later this spring. Customer rates continued to be adjusted as projects come into service, and solar-related revenues are expected to be USD 70 million in 2019, adding net earnings of USD 30 million.

In total, by the end of 2019, we would've invested over 90% of our USD 850 million Phase 1 solar program. At this point, with only installation remaining, we are confident that the cost of the project will stay within budget. And it's worth noting that at this stage where solar program is complete, 7% of Tampa Electric's energy generation will come from the sun. That's a tremendous shift to clean energy for our customers in the sunshine state and a great demonstration of how we're transforming the energy landscape.

Our investment in modernizing Big Bend to be a cleaner, more flexible generating station, which will further support the development of solar generation in Tampa and will provide cleaner lower cost energy to our customers. In May last year, we announced our USD 850 million investment in Big Bend to retire Unit 2 early and to repower Unit 1 with natural gas combined-cycle technology. This project is progressing in line with our expectations with procurement and design -- detailed design now well advanced, and we look forward to breaking ground this summer. The Big Bend modernization is another great example of Emera's strategy in action, delivering value to shareholders by delivering value to customers. Our $850 million investment will save our customers USD 750 million over the life of the investment and increase annual earnings coverage at Tampa Electric by USD 50 million. This equation allows us to manage customer rates while delivering cleaner energy. As the process -- as is the process in Florida, we will proceed for rates when needed in support of the capital. The significant customer benefits of these investments as well as the environmental benefits leave us confident in the regulatory process in front of us.

In Nova Scotia, now that the Maritime Link is complete, the island of Newfoundland is connected to the North America energy grid for the first time in history. And with the completion of the Labrador-Island Link, there will be a path for energy to flow from the vast tighter resources of Labrador to Nova Scotia and beyond. We've begun recovering our investments in Nova Scotia customer rates with the project contributing to Emera's consolidated operating cash flow. We look forward to the completion of the remainder of Lower Churchill Project including Muskrat Falls in 2020 when we will begin to generate an additional $50 million of cash flow from the Maritime Link, and the Labrador-Island Link's earnings will convert from AFUDC to cash.

The Maritime Link was a transformational project for both the energy market in Atlantic Canada and for Emera. The Maritime Link was and still is the single-largest organic road project Emera has ever completed. Our ability to deliver the link successfully for our customers and shareholders required us to think creatively and to execute with discipline. And it's our success with transforming the energy landscape in Nova Scotia that gives us confidence as we undergo a similar transformation in Florida.

Today, between our solar program and the Big Bend modernization, we've committed to investing USD 1.7 billion or approximately CAD 2.2 billion to transform how we deliver energy to our customers in Tampa. Together, these 2 projects will drive earnings and cash flow that's equivalent to 2 Maritime Links, and we see room to do more. We believe that the greater Tampa has the potential to handle an additional 600 megawatts of solar generation, and we're actively pursuing the second phase of solar investment post 2020. To enable our investment, we've begun sourcing and securing land options and are working through the regulatory strategy.

As we outlined in November, we expect to invest over $6.5 billion to grow our rate base over the next 3 years. Investments like our solar program in Florida, the Big Bend modernization and across utility investment in smart meters are the backbone of this program, which is focused on investments in cleaner generation, customer-focused technologies and infrastructure renewal. Our investments are focused in Florida and Nova Scotia, which together account for approximately 85% of our planned spending over the forecast period. We expect that the majority of our capital investment profile in the state of Florida, a jurisdiction with above-average equity thickness and double-digit ROEs will achieve higher EPS growth and naturally improve our balance sheet to our target capital structure over the period.

Our regulated capital investment program is expected to continue to drive healthy annual rate base growth of at least 6% through 2021. This growth is driven by highly accretive growth investments in our Florida utilities and sustainable and consistent growth in our other utilities. As we've noted in the past, the rate base profile includes only projects that we are highly confident will proceed. The additional capital investment opportunities we have identified, including the second phase of solar in Florida, will sustain or enhance our long-term rate base growth profile.

On our third quarter conference call, I shared with you our approach to funding for the next 3 years. One of the key objectives of our approach is to significantly reduce and potentially eliminate our external common equity needs beyond our dividend reinvestment program. In that sale of our New England Gas Generation fleet or -- is the first step towards meeting this goal, plus we introduced our funding plan this past November.

Capital market conditions have evolved, and Emera's share price performance has improved. We believe that some of this improvement is evident. Their funding plan has been well received by the market, but we're also benefiting from a shift in capital market settlement, especially as it relates to the pace of interest rate increases. Despite our higher share price, we have not changed our approach to funding, and we continue to advance other asset sale processes that could generate equity proceeds above to $1.2 billion. We are confident that redeploying capital into the growth investments of our strongest performing assets will lead to higher quality earnings and cash flows creating an even stronger Emera.

I'm pleased with the progress we've made in 2018 on our growth initiatives across the portfolio and with the financial results that we've delivered to our shareholders. I'm also happy with the progress we've made on strengthening our balance sheet. As Greg will walk through with you in a few moments, we have made meaningful progress towards achieving our target capital structure, and we ended 2018 better positioned to continue to deliver long-term growth.

As I look forward to 2019, I'm excited about the long-term growth opportunities in front of us at Emera. Over the next 12 months, we have a visible plan to invest $2.3 billion across the utilities driven by our investments in Florida and smart meters at Nova Scotia Power and Tampa Electric. We will also continue to execute on our funding plan throughout 2019, which will result in us making measurable progress towards our target capital structure.

As you can see, we have a lot of great momentum in Emera, and we're on track to keep delivering for our customers and our shareholders. And as you would've seen in our 2018 sustainability update, our team will continue to find ways to create value for the communities and the environment, too.

And now I will turn it over to Greg, who will take you through our financial results. Greg?

Gregory W. Blunden
Chief Financial Officer

Thank you, Scott, and thank you all for joining us this morning. As Scott highlighted, 2018 was a record EPS and cash flow year for Emera. Our business has never been stronger, and our affiliates have delivered strong financial results for the quarter and for the year.

For the fourth quarter of 2018, Emera reported adjusted net income, which excludes mark-to-market adjustments and for 2017, excludes the revaluation of U.S. nonregulated deferred income taxes of $167 million or $0.71 per share compared to adjusted net income of $137 million and $0.64 per share in Q4 of 2017. For the full year, our adjusted net income was $671 million or $2.88 per share compared to $524 million or $2.46 per share the same period in 2017.

I will note that in Q3, we recorded a $0.10 gain on a change in our Florida tax deployment factors. Absent that nonrecurring item, adjusted EPS would've been $2.78 for the year, a 13% increase on a year-over-year basis.

In addition to our strong earnings, we also reported significant increase in our annual operating cash flow before changes in net working capital. For the year, our annual cash flow increased by $509 million or 39% to $1.8 billion compared to $1.3 billion in 2017. Operating cash flow is the fourth metric for our business as it is the basis of how our credit metrics are calculated. And as I'll take you through in a few moments, our improved cash flow, combined with our funding initiatives, has translated into improved cash flows debt metrics for the year.

Growth in fourth quarter EPS was largely driven by our Florida, New Mexico, Emera Energy and Caribbean segments. At Tampa Electric, as Scott noted, our investments in solar and the Big Bend increased quarterly earnings compared to 2018. Utility also benefited from incremental revenues from customer growth and favorable weather conditions, which provided for above-average earnings opportunities in the quarter.

Emera Energy contributed -- continued its strong 2018 performance in the fourth quarter. Marketing and Trading margins increased $18 million to $42 million in Q4 2018 compared to $24 million for the same period in 2017. Q4 2017 saw significant pipeline maintenance, which reduced margins on hedged capacity. With normal pipeline operations in Q4 of 2018, the full value of the transportation capacity was able to be realized. As well, the generation business continued to realize higher capacity revenues in the quarter as a result of the step-up in capacity revenues that came into effect in June.

We're fortunate to have less -- significantly less hurricane activity in our Caribbean service territories in 2018 compared to 2017, that's the primary driver of improved Caribbean earnings in Q4. COGS in our Corporate and Other segment increased in the fourth quarter, largely driven by timing-related adjustments and project cost at Emera Utility Services. The profile of our performance-based compensation cost is weighted towards the fourth quarter, driven by the trend of our share price performance in 2018.

A strong year for Emera Energy business and growth from our Florida and New Mexico utilities are the primary drivers of our EPS growth in 2018. A cold Q1, a warm Q3 and a solid Q4 enabled Emera Energy's Marketing and Trading business to deliver an impressive USD 40 million earnings for the year, in excess of its normal USD 15 million to USD 30 million earnings guidance range. This is a demonstration of the upside potential that market conditions present themselves, an opportunity that I have to note.

The generation business benefited from higher capacity revenues growth in 2018 along with improved regional energy margins and fewer unplanned outage hours. Emera Florida and New Mexico's annual earnings has benefited from strong customer growth in Florida, increased base revenues from our solar investments, higher AFUDC earnings driven by investments in solar and Big Bend and favorable weather conditions for our gas utilities.

Over the course of 2018, Tampa Electric has experienced customer growth of 1.6% while Peoples Gas has grown its customer base by an impressive 3.5% over the same period. Our Florida utility again delivered record earnings, which helped to drive annual earnings growth in the segment on a U.S. dollar basis of 12%.

Annual results from Nova Scotia Power and Emera Maine are in line with our expectations and provide a solid and predictable earnings foundation for the business. Nova Scotia Power has experienced strong customer and well-driven loan growth throughout the year, which tempered the effects of higher-than-expected storm cost in the first and fourth quarters. Nova Scotia Power earned a regulated ROE of 9.25% and delivered modest growth in both its rate base and annual earnings. Emera Maine delivered results modestly lower than 2017. Like Nova Scotia Power, the utility also experienced an increased level of storm activity in 2018, which increased our operating cost. Higher OM&G was partially offset by higher T&D rates and increased flow.

As Scott highlighted in his remarks, we have made measurable progress against the 3-year funding plan that we first outlined on our third quarter conference call. This past November, we announced the sale of our NEGG facilities for USD 590 million. The transaction is progressing as expected, and we are on track to close the deal by the end of the first quarter. In addition to the announced NEGG sale, we are continuing to advance the balance of our asset sale program as part of our overall funding plan. We are pleased with the progress we have made on our asset sale program and expect there's something to announce this spring. The team is working hard and is targeting that the entire asset sale program to complete by the end of this year.

We continue to be focused on transitioning the balance sheet to our targeted capital structure. I'm pleased with the progress we have made in strengthening our balance sheet since we first acquired TECO on July 1, 2016. Since that time, we have raised over $1.4 billion of equity capital through a combination of our DRIP and discreet equity offerings, and we have issued an additional $300 million of preferred shares. As a result, we have decreased our leverage ratio by over 300 basis points and we are on track to achieve our capital target structure of 55% debt, 35% equity and 10% hybrid capital in 2020.

And with the closing of the NEGG transaction later this quarter, we expect to take another meaningful step towards our targeted capital structure with a further step change expected to occur once the remainder of our asset sale program is complete.

In addition to a stronger consolidated balance sheet, we've also steadily decreased in our holding company leverage. At the end of 2018, we brought our holdco leverage down to above 44% from over 50% at the end of 2016. Our funding plan is designed to continue to reduce this metric over time, and we would expect to be below 40% by the time we achieve our targeted capital structure in 2020.

As I noted earlier in my remarks, our strong growth in operating cash flow combined with the lower level of leverage has improved our cash flow to debt metrics for 2018. By giving pro forma effect to the NEGG proceeds, we ended 2018 with cash flow debt metrics in the mid-11% range for both agencies. As we continue to execute on our funding plan throughout 2019 and look forward to 2020, we would expect these metrics to continue to be on a positive trend towards 12% in the immediate term with the objective of sustaining this level or higher over the longer term.

We've highlighted in the past that over the long term, we would expect our EPS growth to approximate the rate base growth. This does not mean that a rolling EPS CAGR were always in line with the rate base growth, and of course, this growth will not be linear as EPS growth is often lumpy. Looking ahead to 2019, we are focused on continuing to grow earnings from our utility businesses supported by strong capital investment and rate base profile. But we also recognize that 2019 will be a transition year with the sale of NEGG and that we will lose the earnings contribution from these assets for a significant part of 2019, thus impacting our year-over-year earnings profile. While we are confident that the NEGG sales is the right decision for our company and for our shareholders, the declining -- and with the declining profile of New England capacity revenues over the next 3 years, the EPS impact of the transaction will decrease over time.

And as I mentioned earlier, our 2018 adjusted EPS includes a onetime $0.10 benefit related to the revaluation of preferred income tax as a result of the change in the Florida state tax apportionment factors. And as always, for planning and forecasting purposes, it is prudent to assume Emera Energy for Marketing and Trading will deliver earnings within its normal range rather than the 2018 premium levels.

Overall, with the strong growth [probably] in our core utility assets, we believe that our prudent and disciplined reallocation of capital in 2019 will result in a stronger Emera that is well positioned to continue to deliver long-term earnings and cash flow growth to our shareholders.

So with that, I'll turn the presentation back over to Erin.

Erin Power
Manager of Investor Relations
Thank you, Greg. This concludes the presentation. We would now like to open up the call to take questions from analysts.

Question and Answer

Operator

[Operator Instructions] And your first question comes from Linda Ezergailis with TD Securities.

Linda Ezergailis
TD Securities Equity Research

I'm just wondering with respect to asset sales, I realized you can't really comment much, but I'm wondering under what scenario might your proceeds potentially exceed the range of what you're targeting, if at all. And are you going through processes that some of them might not conclude? Or are you looking at selling maybe more depending on the conversations that you've had?

Scott Carlyle Balfour
CEO, President & Director

Linda, it's Scott. So thanks for the question. It's a bit difficult to answer without getting into more details than we'd like to at this course. Of course, when we're going through a process, we have a view as to what sort of the expected range of proceeds we could expect when running through a market-driven process, but we don't know how that will conclude, and so we see a market response. And so it's hard to be much clearer beyond providing range at this point as to what our target is for proceeds. As I said early in this process, the advantage of the portfolio that we have is we have some optionality as to how we would proceed if market response wasn't what we would hope or expect to a particular initiative. But at this point, we're comfortable with the progress that we're making and comfortable that we'll have something further to report within the time lines that Greg mentioned in the call.

Linda Ezergailis
TD Securities Equity Research

And maybe I realized that -- and I don't think that's hard to predict is higher energy services business will unfold for the year. The year is young, but we have seen some weather in the U.S. Northeast. So I'm wondering if you can comment on kind of what you've seen so far in Q1 specifically.

Judy A. Steele
President & COO of Emera Energy Inc

Linda, it's Judy. I would say that Q1 '19 is solid, but Q1 '18 was superb, but still quite reasonably strong for Q1 '19. So we would still -- at this early point in the year, the only guidance we could really say is within our $15 million to $30 million.

Linda Ezergailis
TD Securities Equity Research

That's helpful. And maybe just as a follow-up. Can we get a sense of the aggregate approximate weather effects on net income for the year last year if you look at it kind of across the business?

Gregory W. Blunden
Chief Financial Officer

Linda, we don't have that available to you. We could probably take it offline. So I think it's probably best that we follow up with you offline because that's something that we would to track in the [CAGR].

Operator

Next question comes from Nicholas Campanella with Bank of America Merrill Lynch.

Nicholas Joseph Campanella
BofA Merrill Lynch, Research Division

So just starting with 2019 expectation, you listed a few negative items to consider year-over-year on Slide 19. Can you just kind of sum up quickly? Should we be thinking of '19 as flattish, up or down relative to '18, to be clear?

Gregory W. Blunden
Chief Financial Officer

We came out with our dividend growth guidance and forecast to rate base growth. We talked about EPS over the funding period kind of approximating our rate base growth. Obviously, if you adjust for the $0.10 for the Florida tax apportionment factors. In 2018, EPS was up 13%, so obviously slightly stronger in '18 than we would expect over the period. I think when we look at everything in total in 2019, we wouldn't be unrealistic to expect EPS to be relatively in line with 2018 and then getting back to growth in 2020 off of that base that's in line with our rate base growth.

Nicholas Joseph Campanella
BofA Merrill Lynch, Research Division

Got it. And then just on the asset sale program, can you just kind of shed light on your discussion with the agencies since you introduced the program and kind of their feedback and then any sense of the time that you need to execute on this plan? I think you kind of mentioned making some type of announcement in the spring and kind of wrapping this up by year-end. Is that kind of within their window?

Gregory W. Blunden
Chief Financial Officer

Yes. I mean, obviously, both rating agencies are insiders. So they have full visibility in terms of our expectations and timing. And at this point with the announcement of NEGG -- the sale of NEGG in the fourth quarter, expect to close in Q1, and as we indicated, on track for spring announcement. The second announcement of sale, that would be in whole alignment with the expectations of both agencies.

Nicholas Joseph Campanella
BofA Merrill Lynch, Research Division

Got it. And then last one just real quick. We've all seen kind of the anti-hybrid proposals out there from the IRS, just want to confirm no material impact on your end.

Gregory W. Blunden
Chief Financial Officer

Yes. No, we can confirm that, Nick, we do have some cross-border structures in place, but we have not been booking any accounting benefit as a result of that. So as a result of the changes, there's no impact on our, going forward, earnings or cash flow.

Operator

The next question comes from Rob Hope with Scotiabank.

Robert Hope
Scotiabank Global Banking and Markets, Research Division

Just want to switch attention over to Maine for a second. We have a few senators there proposing that Central Maine and Emera Maine be expropriated into a public-owned utility. Just want to get your thoughts on that potential. And I know you haven't highlighted specific asset sales, but if Emera Maine was for sale, could that slow down that process?

Scott Carlyle Balfour
CEO, President & Director

Yes. It's Scott, Rob. Thanks for the question. So look, I mean, it's something obviously that's caught our attention as it has our colleagues in the state. There has been no legislation that's proposed at this point. And so well, obviously, we'll pay attention to it seriously. There's nothing at this point to seriously respond to or to address. So I think unless and until there's legislation that's drafted, it will be possible to continue to watch, but nothing for us to specifically take action on at this time.

Robert Hope
Scotiabank Global Banking and Markets, Research Division

All right, appreciate that. And then just taking -- moving over to the 2019 outlook, appreciate the commentary on EPS. How do you expect CFO to trend in 2019 versus 2018, just given the very strong CFO growth we saw in '18?

Gregory W. Blunden
Chief Financial Officer

Yes, we would expect, Rob, that it would be pretty consistent on a year-over-year basis. And then obviously with the asset sales and redeploying that capital, pay down all the company debt, we'll see a measurable uptick in the credit metrics. And so probably whereas the focus might have been on the numerator in 2018, it will be more on the denominator in 2019.

Operator

Your next question comes from Robert Catellier with CIBC Capital Markets.

Robert Catellier
CIBC Capital Markets, Research Division

All right. just a couple of follow-ups on the financing. There's comments in the MD&A about interest deductibility and your expectations that U.S.-based plans will be deductible under the act. Is that contingent in any way on success on the asset sales or issued preferred shares or anything of that nature to get the holdco down as a percentage?

Gregory W. Blunden
Chief Financial Officer

No. No, it's not, Robert.

Robert Catellier
CIBC Capital Markets, Research Division

Okay. And then I just want a clarification on the solar. It looks like you've maintained your earnings expectations there, but might be some change in wording as to in-service dates. Now I think you're expecting that 85 megawatts in service in the spring versus January previously. So can you help us square up the consistent earnings? What can seemingly change in in-service date?

Scott Carlyle Balfour
CEO, President & Director

Sure. Nancy, do you want to respond to that?

Nancy G. Tower
President & CEO of Tampa Electric Company

Sure. Thanks for the question. So yes, we are a little later in in-service date, but the -- we are already getting the revenue from customers. But we will, of course, true that up at the end for the later in-service date. But we are protected contractually for the later in-service date, and so we don't expect any net income impact on us.

Robert Catellier
CIBC Capital Markets, Research Division

Okay. And then can you just...

Scott Carlyle Balfour

CEO, President & Director

Competitive...

Robert Catellier
CIBC Capital Markets, Research Division

Go ahead.

Scott Carlyle Balfour
CEO, President & Director

Sorry, Robert, it's Scott. I'm just going to say, so the protection with the contractor effectively to help to ensure that there's no negative impact to customers or to Tampa Electric through the completion, and the projects are -- we'll expect to be online by the end of first quarter.

Robert Catellier
CIBC Capital Markets, Research Division

Right. So that then is -- we can interpret that as a construction variance as opposed to permitting or anything like that.

Scott Carlyle Balfour
CEO, President & Director

Yes, that's right.

Nancy G. Tower
President & CEO of Tampa Electric Company

Yes. That's all in construction.

Operator

Your next question comes from Ben Pham with BMO.

Benjamin Pham
BMO Capital Markets Equity Research

I was wondering if you can comment on the final impact of U.S. tax reform this year, the $100 million that you expected and then just whether your -- just how that looks relative to your core performance.

Gregory W. Blunden
Chief Financial Officer

Yes. Ben, it's Greg. Obviously, we made quite a bit of progress earlier in the year to mitigate the impact of tax reform from a cash flow perspective, in particular, Tampa Electric, and reached a settlement to net the storm cost, which we would've expected to recover over both 2018 and 2019, effectively recover them all in 2018. And so the most recent guidance that, I think, we're $75 million to $125 million is still probably reflected from a cash flow perspective. From an earnings perspective, the impact to EPS in 2018 was not as large as we would've expected predominantly because of the performance of Emera Energy. So that is the part of our business that would have the most benefit from U.S. tax reform. So as a result of that, we're probably more like in the $0.03 to $0.05 impact on EPS on a year-over-year basis.

Benjamin Pham
BMO Capital Markets Equity Research

Okay. That's great. And then on -- to follow on the Emera Energy results, when you look at it year-over-year even on an annual basis, was outperformance mostly in the trading business rather than doing one cash funds?

Judy A. Steele
President & COO of Emera Energy Inc

Yes. So there's obviously a big uptick year-over-year in New England because of capacity prices, but that's something we could have calculated 3 years ago. So the real -- I guess, what I'll say is that, first, it's harder to predict with Trading and Marketing business. And so it start -- it had very strong first quarter. So we had a solid start to the year. But then again, as we said, Q3 was also very, very solid and we round the year up well, too.

Benjamin Pham
BMO Capital Markets Equity Research

Okay. So it sounds like, I mean, the market is not going to give you the benefit of the volatility, but you're unnecessarily giving a better way back by selling the dealing on gas plants. So okay, that's good to know. And then can you also talk about -- lastly, Linda had some questions on asset sales and funding. I'm just wondering at this stage, though, are you at the point where you have flexibility not to sell more assets at this stage? Are you far along enough that you've -- you're generally committed to that asset sale range?

Scott Carlyle Balfour
CEO, President & Director

Yes. I mean, I think, Ben, that we sit on a path that we described late in 2018 that we had started a little bit before we started talking about it, and we continue to be on that path. So I guess on the one hand, theoretically, there's flexibility for us to do something different, but you've heard us today anchor our view and our intention of continuing along the path that we described late in 2018.

Operator

Your next question comes from Andrew Kuske with Crédit Suisse.

Andrew M. Kuske
Crédit Suisse AG, Research Division

So we've seen some other players in Florida announce a pretty big ramp-up in solar. So how do you think about that? Is that really a validation of the investment strategy you put forth a few years ago? Or do you see that as being also kind of a threat?

Nancy G. Tower
President & CEO of Tampa Electric Company

Andrew, it's Nancy. FPL, you're probably referring to FPL's big announcement on 30 to 30. I think it's a reflection in Florida's customers' desire for more solar and more renewables. And so we were happy to see that FPL will do that in their service territory, and I think it really paves the way for the rest of us in terms of adding more solar. And of course, we've talked about adding our next 600 megawatts. So we think it will be good for customers and really good for the state.

Andrew M. Kuske
Crédit Suisse AG, Research Division

And then on a longer-term basis, how do you think about just the development of additional gas load in the state or battery usage?

Nancy G. Tower
President & CEO of Tampa Electric Company

So we've got a small battery project that we're going to do this year. We're going to put it next to our solar installation at Big Bend, our smaller solar installation. So I think we, like others, are going to look at batteries and look how they integrate with our system and how they integrate with solar. So we think that certainly will be part of our future. From a gas perspective, I'm not sure if I completely understand your question. The Big Bend modernization will increase our use of gas. Those units will be highly efficient natural gas combined cycle. And so we, like other utilities, in the stage are making that transformation from coal to gas.

Operator

[Operator Instructions] Next question comes from Robert Kwan with RBC Capital Markets.

Robert Michael Kwan
RBC Capital Markets, LLC, Research Division

Just continuing on with solar in Florida and the Phase 2. You've mentioned that you're securing land options and some of early regulatory. I'm just wondering in terms of actually sanctioning in trying to get approval for Phase 2, do you need to attain certain milestones on the Big Bend modernization before sanctioning just to ensure that you can balance the generation?

Nancy G. Tower
President & CEO of Tampa Electric Company

Robert, it's Nancy. We are -- so just from that second 600 megawatts, we're making our way, as Scott said, buying land and looking at regulatory strategy, and we were putting together the business case and looking forward to that. Yes, we do have to get -- so from a timing perspective, it will probably be a little bit past the current -- we'll be doing -- we'll be looking at sort of '21, '22, '23, that time frame. And by that time, we will have the simple cycle phase of the Big Bend in place, and so more fast-acting generation will help us integrate that second 600 megawatts of solar.

Robert Michael Kwan
RBC Capital Markets, LLC, Research Division

Okay. So but in terms of actually getting into regulatory, how far along the Big Bend modernization do you need to be that you're confident you're going to be in there on timing and ability to kind of phase the solar, the phase 2?

Nancy G. Tower
President & CEO of Tampa Electric Company

So I think we would look at -- so first phase, the Big Bend 2021 in service, and so we wouldn't be looking to add solar more than the 600 megawatts before then. And as you will remember, the final tranche of the first 600 comes into service in January 1, '21. So really we would fall along the next 600 from that -- from sort of later than '21.

Robert Michael Kwan
RBC Capital Markets, LLC, Research Division

Got it. Okay.

Scott Carlyle Balfour
CEO, President & Director

Yes. I think -- Robert, it's Scott. I think once we get our permits in place this summer, then we'll be on path with Big Bend modernization that gives us the confidence in that generation capacity being available to support the solar, and that's the time frame that Nancy laid out for that investment.

Robert Michael Kwan
RBC Capital Markets, LLC, Research Division

Understood. Just in terms of the directional 2019 segment guidance, is all of that before any assumed asset sales? Or do you actually color coded something behind that guidance?

Gregory W. Blunden
Chief Financial Officer

Yes. So I think -- Robert, it's Greg. Really the asset sales that would have a material impact on 2019 would be the already announced sale of NEGG. So where we would have had contribution from those 3 gas plants for 12 months in '18, we're likely not to have it for 9 months in 2019. Other than that, we wouldn't see asset sales of having any impact in 2019.

Robert Michael Kwan

RBC Capital Markets, LLC, Research Division

Okay. And maybe just to finish something a little more granular. Maritime Link, equity earnings were down in the quarter. Just wondering what's in behind that. And if -- do you have how much cash it actually generated in 2018?

Gregory W. Blunden
Chief Financial Officer

So the answer to your first question, there's a little nuance that happens with Maritime Link is that Nova Scotia Power, through the regulatory decision, had to demonstrate the ability to generate $10 million a year in value for customers in both 2018 and 2019. We were a little slow getting ahead of the gate and working with our partners in 2018. And as a result of that, we had an adjustment in Q4 and reflect the actual performance of the year. It was low single-digit millions of dollars, Robert, and so that's really what's driving the quarter-over-quarter change from Maritime Link. From a cash perspective, it was around $40 million to $50 million.

Operator

[Operator Instructions] And we do not have any phone questions at this time. I will turn the call over to the presenters.

Scott Carlyle Balfour
CEO, President & Director

Well, thank you for all the questions and participation in the call. And we look forward to speaking with all of you as part of our Q1 results, and hopefully see some of you at our Annual General Meeting as well. Thank you.

Operator
This concludes today's conference call. You may now disconnect.