

Public Service Enterprise Group Inc. Q1 2009 Earnings Call Transcript

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Public Service Enterprise Group Inc. ([PEG](#))

Q1 2009 Earnings Call

May 4, 2009 11:00 am ET

Executives

Kathleen Lally - VP IR

Ralph Izzo - Chairman President and CEO

Caroline Dorsa - EVP and CFO

Analysts

Paul Fremont - Jefferies

Kit Konolige - Soleil

Michael Goldenberg - Luminous Management

Angie Storzynski - Macquarie Capital

Vedula Murti - CDP US

David Frank - Catapult

Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Kali, and I am your event operator today. I would like to welcome everyone to today's conference, Public Service Enterprise Group first quarter 2009 Earnings Call and webcast.

At this time all participants are in a listen-only mode. Later, we will conduct a question and answer session for members of the financial community. (Operator Instructions).

As a reminder, this conference is being recorded Monday, May 04, 2009 and will be available for telephone replay, beginning at 2 PM Eastern Time today until 11:30 PM Eastern Standard Time on May 11, 2009. It will also be available as an audio webcast on PSEG's corporate website at www.pseg.com.

I would now like to turn the conference over to Kathleen Lally. Please go ahead.

Kathleen Lally

Thank you very much Kali. Good morning. Thank you for participating in our call this morning. As you are aware, we released our first quarter 2009 earnings statement earlier today. The release and attachments are posted on our website, www.pseg.com under the Investors section. We also posted a series of slides that detail operating results by company for the quarter.

Our 10-K for the period ended March 31, 2009 is expected to be filed shortly. I am not going to read the full disclaimer statement or the comments we have on the difference between operating earnings and GAAP results, but I do ask that you read all of these comments contained in our slides and on our website.

The disclaimer statement with regards forward-looking statements, detailing the number of risks and uncertainties that could cause actual results to differ materially from forward-looking statements made therein. Although we may elect to update forward-looking statements from time-to-time, we specifically disclaim any obligation to do so even if our estimate changes unless required by applicable securities laws.

We also present a commentary with regard to the difference between operating earnings and net income reported in accordance with Generally Accepted Accounting Principles in the United States. PSEG believes that the non-GAAP financial measure of operating earnings provides a consistent and comparable measure of performance of metrics to help shareholders understand performance trends.

I would now like to turn the call over to Ralph Izzo, Chairman, President and Chief Executive Officer of Public Service Enterprise Group. Joining Ralph on the call is Caroline Dorsa, Executive Vice President and Chief Financial Officer. At the conclusion of their remarks, there will be time for your questions. We ask that you limit yourself to one question and one follow-up question. Thank you.

Ralph Izzo

Thanks Kathleen and thank you everyone for joining us today on this call. Earlier this morning, we reported operating earnings for the first quarter of 2009 of \$0.95 per share compared with \$0.86 per share reported a year ago. These operating results both in the current and in the prior year excludes the impact on earnings from a change in the value of our nuclear decommissioning trust funds, which I will refer to as the NDTF now on, as well as other charges related to mark-to-market accounting.

It will come as no surprise that we are experiencing some very challenging markets, but the results for the first quarter demonstrate the strength of our operations and the flexibility of our asset mix under the direction of PSEG's very capable workforce.

PSEG Power's asset mix and hedging profile supported attractive margins in a market characterized by weak demand. Performance was also aided by continued excellent performance from Power's nuclear fleet.

The fleet performs at a capacity factor of nearly 98% in the quarter. We had fewer outage related days in 2009 versus 2008. You may recall, Salem 2 underwent stream generator replacement last year, and although it was the second fastest ever in our industry, it was longer than normal outage.

On top of the fewer outage days, the additional capacity of 173 megawatts from the work completed in mid 2008 has helped (inaudible) in Salem also supported an increase in nuclear generation during the quarter.

Now moving from Power to the Utility, PSE&G is focused on controlling expenses to meet the challenges of a difficult environment as it maintains its high standards for reliability. The New Jersey Board of Public Utilities recently approved PSE&G's plan to invest \$694 million in electric and gas infrastructure projects over a period of 24 months. This is an acceleration of projects that would have been undertaken over a longer period of time.

The program of investment is in response for the government's call for increased capital spending to create jobs while ensuring customers receive safe, reliable service. It is most importantly a demonstration of the strong role PSE&G is willing to play in support of New Jersey's development and economic health.

PSE&G is also awaiting approval of its proposed investments in energy efficiency and solar. New Jersey was one of the first states from the nation to endorse energy policy goals supporting a clean and sustainable energy future.

This has been demonstrated through the state's participation in the Regional Greenhouse Gas Initiative, or as we often refer to it RGGI, as well as release of an Energy Master Plan that calls for a reduction in electric demand, and increased reliance on renewable sources of generation, and a reduction in the level of carbon produced, but this topic is growing important to outside of trends and in the RGGI states as well. Energy and environmental policy are at the forefront of the Obama administration's agenda. We like the way PSEG is positioned.

PSEG Power gets the majority of its power from clean-burning nuclear generation. PSE&G is pursuing investments in energy efficiency and solar as I mentioned a moment ago. PSEG Energy Holdings is considering investments in offshore wind and is a partner in the joint venture that would promote the development of wind resources through utilization of compressed air energy storage.

We have been active participants in the debate as Congress considers action on bills that could reshape the nation's approach to energy policy. We continue to believe that a national policy on climate change with clear objectives would provide the blueprint for disciplined investment.

I am very pleased with the strong results we reported for the first quarter. The focus and dedication of PSEG employees through operational excellence supported these results and allowed me to reaffirm our 2009 operating earnings guidance of \$3 to \$3.25 per share. The anticipated growth in 2009 earnings also provides the foundation for the 3.1% increase in our common dividend during the first quarter to the current indicated annual rate of \$1.33 per share. I can assure you we are all working very hard to create value for our shareholders today and into the future.

I am now pleased to turn the call over to Caroline Dorsa. Caroline joined PSEG as our Executive Vice President and Chief Financial Officer in early April from Merck. As you get to know Caroline better, you will come to fully appreciate why I am able to say we are absolutely delighted she is part of PSEG.

So, welcome Caroline.

Caroline Dorsa

Thank you, Ralph, and good morning. It is a pleasure to be part of the PSEG management team, and I look forward to meeting many of you in the coming months. As Ralph has said, PSEG reported first quarter 2009 operating earnings of \$0.95 per share versus \$0.86 per share in last year's first quarter.

I want to remind you that with the reporting of this year's results, our operating earnings exclude the impact of any change in valuation for NDT Fund, as well as other charges related to decommissioning, and any change in the value of transactions that don't qualify for hedge accounting which we often refer to as mark-to-market. We have also adjusted the prior year number to simplify your compares. However, including all of these items, earnings from continuing operations would have been \$0.88 per share versus \$0.85 per share a year ago.

As you can see in slide eight, PSEG Power provides the largest contribution to earnings and represented the improvement in growth for the quarter. Power reported operating earnings of \$0.71 per share compared to \$0.55 per share last year. PSE&G reported operating earnings of \$0.24 per share compared to \$0.26 per share last year.

PSEG Energy Holdings reported operating earnings of \$0.01 per share compared with \$0.06 a year ago. Parent company related expenses which are primarily interest were unchanged in this quarter with expenses of \$0.01 per share, same as a year ago.

We have provided you a waterfall chart on slide nine that takes you through the net changes in quarter-over-quarter operating earnings by major business. I would now like to turn to each company in some greater detail.

First, let's go to PSEG Power. As shown on slide 11, PSEG Power reported operating earnings for the first quarter of \$0.71 per share compared with \$0.55 per share a year ago. As you know, the operating environment in the first quarter was very challenging.

The quarter was characterized by higher than expected, weather related demand in January only to be followed by more normal weather and a contraction in demand for the full quarter, a low gas price environment, and market volatility. Power's results were strong in this environment given its base load hedge position and the dispatch profile of its generating units. As you will see in a moment, we were able to source a larger percentage of its demand from our low cost nuclear assets and gas displaced coal.

Power's results were driven by strong operations and re-contracting, particularly in PJM, as well as lower fuel costs. Higher average prices realized by Power reflect the positive impact of the 2008 BGS contract for \$111.50 per megawatt hour which replaced the 2005 auction contract price at \$65.41 per megawatt hour for that three-year contract period beginning June 1, 2008. In addition, the re-pricing of a below market, round the clock wholesale contract for 500 megawatt which expired at the end of 2008 also supported the quarter-over-quarter improvement in pricing.

As I mentioned, a contraction in economic activity reduced demand in the quarter. However, the improvement in nuclear generation and the availability of low price gas supplies allowed Power to meet its load obligations in a cost effective manner. During the quarter, our combined cycle gas units displaced some generation from our coal facilities. In aggregate, Power's fuel costs declined 22% for the quarter.

Slides 13 and 14 provides an overview of our generation mix and fuel cost for the first quarter of 2009 versus the first quarter of 2008, and you can see those dynamics on the slide. Included in Power's first quarter gross margin improvement is income associated with the closing out of positions with counterparties which accelerated the recognition of income which otherwise would have been realized later in the year. This represented \$0.03 per share in the quarter and this impact is included in the improvement in first quarter pricing.

Power's results were also helped by strong performance from the nuclear fleet. Generation from the nuclear fleet increased 7.6% in the quarter as overall generation declined 4.3%. Power's New Jersey fleet operated at a 99.3% capacity factor during the quarter, and including Power's ownership in Peach Bottom, the fleet operated at a capacity factor of 97.8% versus 94.1% in the year ago quarter.

The performance was aided by 13 fewer outage related days in the first quarter of 2009, and this compares to the 2008 first quarter when Salem 2 was out of service for the replacement of its steam generator, as well as an increase in nuclear capacity from the uprate and turbine replacement at Hope Creek and Salem.

We continue to forecast the capacity factor for the nuclear fleet in 2009 of 92%, and for your information, Hope Creek has just returned from a successful refueling outage which began on April 10. The combination of higher prices and lower costs led to a stronger than anticipated

improvement in Power's gross margin for the quarter to \$63 per megawatt hour from \$51 per megawatt hour last year first quarter. Included in this figure is the benefit of the early termination of contracts that I just mentioned, which represented approximately \$1 to \$2 per megawatt hour of gross margin improvement.

Other items which had an influence on Power's quarter include the moderate improvement in our BGSS results for \$0.01 per share, and then going the other way, an increase in operation and maintenance expenses driven primarily by pension expense, reduced earnings by \$0.02 per share, and an increase in depreciation and amortization expense of about \$0.01 per share.

While we don't forecast a similar improvement in gross margin per megawatt hour during the remainder of the year as we experienced in the first quarter, we are maintaining our forecast improvement in Power's gross margins for the full year to \$57 to \$58 per megawatt hour from \$55 per megawatt hour for the whole year of 2008. Similarly, the improvement in year-over-year pricing is not expected to be as strong as that experienced in the first part of the year.

The February 2009 BGS auction contract for \$103.72 per megawatt hour is only slightly higher than the 2006 contract for \$102.51 per megawatt hour which it replaces on June 1st of this year. Also, margins during the remainder of 2009 should reflect the impact of our higher contracted coal costs as these units are called on to meet summer demand requirements. Also, results for the remainder of the year will not include the income associated with the accelerated contract income recognized in the first quarter.

Now, let me take a minute and turn to the other operating companies. First, PSE&G; PSE&G reported operating earnings for the first quarter of 2009 of \$0.24 per share compared with \$0.26 per share for the first quarter of 2008 as shown on slide 18.

The results for the quarter were affected by several factors. First, colder than normal weather increased the demand for gas, degree days were 8.5% higher than the level experienced in 2008's first quarter and 3.3% greater than normal, gas sales increased 3.1% in the quarter. The quarter-over-quarter increase in sales was led by a 7.8% increase in sales to the residential sector.

The weather related increase in sales contributed \$0.03 per share to earnings. Weather adjusted sales continue to be constrained by poor economic conditions. A reduction in the economic activity negatively affected non-firm demand from commercial and industrial customers, reducing earnings by \$0.01 per share in the quarter. Electric sales declined 2.1% in the quarter. However, margins were relatively unchanged.

Slide 20 provides a good overview of the items that affect the electric and gas margins. As shown, 50% of PSE&G's electric margin and 30% of PSE&G's gas margin is supported by demand charges which are unaffected by changes in volume. Earnings for the quarter were also aided by an increase in transmission revenues which were effective on October 1, 2008 for \$0.01 per share.

The improvement in earnings from gas and transmissions was offset by higher pension and operating and maintenance expense, \$0.01 per share; depreciation expense increased with a higher level of capital spending, also \$0.01 per share; earnings comparisons were also affected by the absence of tax benefits recognized in the year ago quarter for \$0.02 per share, and miscellaneous items at \$0.01 per share.

PSE&G is expected to experience a decline in 2009 operating earnings. Demand is expected to remain weak in response to our contracting economy. We have adjusted our forecast of electric sales for the year and we are currently forecasting a 1.5% to 2% reduction in electric sales for the full year compared with our prior forecast of about a 0.5% to 1% decline in sales. However, we continue to forecast that residential customers will consume a similar amount of electricity in 2009 as they did last year, and keep in mind as the pie chart shows, the majority of non-residential electric margin is not volume sensitive.

Results will also reflect an increase in pension expense as well as higher levels of depreciation expense associated with the startup of PSE&G's new customer information system and an increase in financing costs. As many of you know, PSE&G recently received approval from the New Jersey BPU for \$694 million capital infrastructure program. As a result, PSE&G's capital spending program in 2009 will increase by \$190 million. These costs will be recovered through a separately approved tariff which will provide on time recovery.

As you can see from the expected spending in 2009, the impact on our current year results will be minimal with most of the benefit coming in 2010. PSE&G continues to await BPU decisions on its energy efficiency and solar proposals. Just a reminder, these proposals are for \$198 million and \$773 million respectively in additional investment. PSE&G is preparing to file a combined electric and gas rate case by mid-year. The request will address the company's increased level of capital spending and pension related costs.

Let's now turn to Energy Holdings. As shown on slide 23, Energy Holdings reported operating earnings of \$0.01 per share versus operating earnings of \$0.06 per share during the first quarter of 2008. The decline in operating earnings for the quarter was influenced by several factors. First, a reduction in gas prices reduced the profitability of the combined cycle gas assets in Texas, impact of \$0.01 per share. As you can see on slide 25, output from the Texas generating units increased by 12.7% over a year ago in what remains a difficult market.

Second, earnings were also hurt by a reduction in income on the lease portfolio, \$0.02 per share, and third, the absence of tax benefits recorded in 2008 and an increase in taxes hurt earnings by \$0.05 per share. These items more than offset a gain of \$0.03 per share recorded on the termination of leases during the quarter.

Energy Holdings' operating income is expected to decline in 2009. This outlook reflects difficult market conditions in Texas for the gas-fired assets with a decline in power prices and spark spreads year-over-year. The results will also be affected by a full year decline in the return on Resources leverage lease portfolio. These items will more than offset the benefits of a reduction

in interest expense associated with the redemption in February of this year of \$280 million of non-recourse debt on the Texas assets.

Resources has been actively managing its lease portfolio. The termination of leases during the quarter has reduced Resources investment in international leases by approximately \$75 million. The termination of leases provides cash for the prepayment of taxes due on termination reducing our exposure. However, the challenge by the IRS regarding the timing of deductions remains outstanding.

We have also entered into an agreement for the sale of our remaining investment in India. Based on reserves that we have already taken, we expect that this sale will not result in either a gain or a loss.

So, just to sum up for the total business, as Ralph indicated, we are reaffirming our guidance for 2009 of \$3 to \$3.25 per share. In addition, operating earnings guidance by subsidiary remains unchanged and is provided for you on slide 27.

Just a final comment on our financial position. Our financial position remains strong. We had \$4 billion of liquidity including cash available at the end of April.

Slide 28 provides an update of our credit facility. We closed the first quarter with \$1.2 billion in cash. Cash from operations in the first quarter was supported by a positive change in working capital. This results from the normal seasonal drawdown of our natural gas inventory via our BGSS product.

In addition, the quarter's cash was bolstered by a better contract margin position, proceeds from the sale of Resources leverage leases, and a release of restricted cash in Texas as a result of the early redemption project debt. For your information, we paid down \$250 million of maturing debt at Power the day after the quarter closed on April 1.

That concludes my overall remarks. Now, I will turn the phone lines back over to Kathleen and we will be happy to take your questions.

Kathleen Lally

Thank you, Caroline. Operator, if you can set up the queue for Q&A and indicate to us when you are ready?

Question-and-Answer Session

Operator

(Operator Instructions). Your first question is from Paul Fremont with Jefferies.

Paul Fremont - Jefferies

I am not sure I am understanding PSEG Power. It looks like in the first quarter you have pretty much made it all the way to the bottom end of the PSEG Power guidance of \$1.210 billion. If I factor in the type of prices or gross margin that you were projecting of \$57 to \$58 for the remainder of the year, there should be another \$70 million or so of gross margin improvement which should take you to the top end of that guidance range.

Am I missing something that is a potential offset that would put you at the higher end of that range? Also, given the fact that you are 100% hedged, I am not sure I understand why there is such a wide range to begin with in terms of the low end and the high end.

Caroline Dorsa

Sure. So, let's just talk a little bit about the dynamics of this quarter related to the dynamics for the full year. As we pointed out, the quarter was unusual given the fact that we were able to displace a lot of our coal with gas, and given the low gas prices, as we noted, you see a dramatic drop in the total cost of fuel and therefore a strong margin.

As we come into the warmer weather and into the summer season, what you should expect is those coal units that really were quite reduced for this quarter would come back online and of course you know that the higher price of coal relative to gas would have an impact on our margin going forward. That being said, that is why we are still comfortable with our full year margin, even given the results we saw this quarter were somewhat unusual, but we will go back to putting in coal in the forward period.

Paul Fremont - Jefferies

I guess I am using your numbers of \$57 to \$58 for gross margin on the rest of the year which is still improved from last year's second, third and fourth quarter numbers of \$54 and like \$56. I guess the only one that is sort of comparable is the third quarter.

Ralph Izzo

Paul, this may help a little bit. Don't forget, when we talk about our hedging, we are talking only about the baseload units. It is actually our nuclear and all of our coal which includes some of the mid-merit coal. So, gas is not sold into just to remain long for some of the peaks and valleys particularly of the summer months, and with lower gas prices, we are seeing spark spreads that are not at the high end of what we have seen in the past. So, I am not following all your arithmetic, but I think the combination what Caroline offered and I offered should help you get to the confidence we feel with the existing range of Power's full year performance.

Kathleen Lally

Thanks Paul. Next question.

Operator

The next question is from Kit Konolige with Soleil. Please proceed with your question.

Kit Konolige - Soleil

Caroline, welcome. You know, you are replacing a former colleague of mine, but you have got to be a better golfer than he was, because that part isn't a problem, so you know. I wanted to get a sense from you guys both at a federal and a state level.

It seems to me that you have been talking a lot and are well positioned to grab a lot of these multibillions that are floating around out there for rebuilding infrastructure, and getting green, and building windmills out in two miles of water and all of this stuff.

So, that question and then you just got approval from the New Jersey regulators for more work on, if I recall, the gas infrastructure. That is one clear direction that the government wants to go in and that you want to go in and that you are well positioned to go in.

Pushing against that, is I assume all the people who get bills from you guys in New Jersey, if they know and which maybe they don't that this could cost money, but I would say more specifically, politically, we are clearly seeing for example the Waxman-Markey bill is getting held up; that is not even getting out of their committee in the House despite strong support at the White House level.

Caroline Dorsa

I think you have got five questions in one very long sentence.

Kit Konolige - Soleil

It is a long, but I guess what I am asking is what is realistic for us to think that where you guys can get some upside, I assume a lot of this would be in the regulated business.

Ralph Izzo

So, Kit I will take a try at those few questions. So, in terms of the regulated business, you are right. We do think that there is a high probability that we will get approval of our additional request for \$190 million in energy efficiency which should reduce customer bill.

Kit Konolige - Soleil

Right.

Ralph Izzo

As well as our \$700 million in solar for all, which will increase customer bill. Recognize that that is about 120 megawatts of electricity on a service territory that has about a 12,000 megawatt

peak. So, in terms of the overall customer impact, it is pennies per month when you amortize this over the course of the investment.

The policy assumption is that while you are paying a lot per kilowatt hour in the near-term, you aren't producing many kilowatt hours, and therefore the overall bill impact is small but you are helping to grow an industry which with advances in technology will reduce the cost per kilowatt hour as it contributes more kilowatt hours.

New Jersey has demonstrated a willingness to pay \$3.50 per ton of carbon through RGGI, to pay \$677 per S-REC in the form of an Energy Master Plan and all of that is already baked into the rate. So, what you will see is as the contribution grows and the cost declines, some trade-offs of rate impacts to customers.

On the federal side, we are going to pursue stimulus funds in a couple of areas. I don't think we have released that information, but those will not have significant earnings impacts but will help us in some of the areas that we have talked about in particular in our compressed-air energy storage systems and in our offshore wind projects.

I continue to testify and the energy industry continues to rally behind getting a national climate change bill approved so that we can get some certainty before the industry and therefore some clearer path as to how we want to invest shareholder dollars going forward.

Kit Konolige - Soleil

Can I just follow with that? This is a very short, simple question, but it does go back to the [actually a] market question which is your RGGI is \$3. Pelosi and those guys were talking about \$20 and \$30 a megawatt hour in 2012, but that doesn't appear like that is in the cards right at the moment.

Can you give us some sense; obviously, you can't predict what is going to happen and when, but give us an idea of what you think a reasonable investor would be thinking about in terms of you guys benefit from high market prices which would be driven by CO2 costs, right? So, when can we expect something higher than \$3? Let me ask that.

Ralph Izzo

So, Kit, RGGI is about, as I said \$3.50 per ton of carbon, and that is driven by the fact that the RGGI allowances that are being auctioned off today exceed the demand for RGGI allowances and the fact that there is anything above the reservation price is really attributed to the bank ability, if you will, if I could just create a verb, bank ability of those allowances going forward.

I can tell you this, that in the President's 10-year budget, based upon his aggregate numbers for what he expects to achieve in terms of auctioning of federal allowances and given how much we emit per year, that his administration apparently is counting on price of about \$15 to \$20 per ton, but that is based upon a 14% reduction in CO2 emissions from the 2005 level by 2020.

As you know, Waxman and Markey are talking about a 20% reduction, so compared to the present 14% reduction by 2020. So, that is safe to assume that that would produce something north of \$20 per ton, and you are right, that as for as many analyses that have been published, there is a wide dispersion in estimates. So, if you are going to peg me to a number, I will guess \$25 a ton, but it is truly a guess and I would refer you to EPA studies and various other studies.

Kit Konolige - Soleil

I know the studies. I think it is more important to know what the Democratic Senators from Michigan and so on are going to do. Would you agree with that?

Ralph Izzo

I do think that there is a set of more moderate, middle of the road members of the House and Senate who will determine whether or not we see legislation this year. I agree with you.

Kathleen Lally

Thank you, Kit. Operator, the next question.

Operator

The next question is from Michael Goldenberg with Luminous Management.

Michael Goldenberg - Luminous Management

Congrats on an excellent quarter. I will keep my questions short. The mark-to-market NDT losses or gains, should we assume that tax rate on these is always the standard mid-30s rate when we try to back out that of other expenses and income?

Caroline Dorsa

Yes, you should assume generally that rate applies.

Michael Goldenberg - Luminous Management

Okay and then my only other question, wanted to get an update, I am sorry, I missed maybe you touched upon it in the discussion. What is the latest on the issue with the IRS?

Caroline Dorsa

Sure. Relative to the issue, if you are talking about LILO and SILO with the IRS.

Michael Goldenberg - Luminous Management

Right, yes.

Caroline Dorsa

So, there has been no update in terms of any of our activities with the IRS. If you look at some of the cases that are out there, the ConEd case, there has been no decision on that either. So, there is really nothing new on the IRS side.

What I would point out though as we talked about in the opening remarks is we continue economically to actively manage the lease portfolio and to we terminated some leases this quarter, we continue to look at that as economic transactions, and to the extent that those leases are terminated, we essentially cut off the net cash exposure with the IRS as we pay those taxes.

It doesn't handle those issues that go backwards in terms of the interest. That is still at issue with the IRS, but we think we have the right approach which is to manage these leases as we go forward actively, appropriately and then deal with the issues relative to the IRS as they come, but there is no specific IRS update at this time.

Michael Goldenberg - Luminous Management

Just to confirm, I think about a year ago, you said that you were going to make \$900 million in payments over three years in lieu of that, of actual cash payments. Are you still planning to do that or have you decided maybe to hold onto the cash if the situation is looking better?

Kathleen Lally

Michael, it is Kathleen Lally. The number remains the same, but when we pay and how much we pay depends on getting notice from the IRS and that has not happened. We are still planning or potentially having to make a sizable payment to the IRS during the second half of this year that could be in excess of \$500 million.

Caroline Dorsa

Again, nothing has been defined at this point.

Michael Goldenberg - Luminous Management

Okay, cool. All righty. Thank you very much.

Operator

The next question is from Angie Storzynski with Macquarie Capital.

Angie Storzynski - Macquarie Capital

First of all, you are saying now that your coal output is 100% hedged and I just wondered is it related to the fact that you are now projecting a lower output and so for your projected output, you are just fully hedged or did you add additional hedges?

Ralph Izzo

Angie, we typically in the current year strive to hedged 100% of our nuclear and coal. So, there is nothing unique about that. That is consistent with the way we have operated those units and managed the portfolio in the past. Also, what we have seen is that there has been a reduction in BGS demand. So, combined with the economics of coal, we have seen just a lessening of the output of those units.

Angie Storzynski - Macquarie Capital

Secondly, that is going to be probably related to your IRS settlement and I understand that the potential payment is coming, but your cash position has improved so dramatically. Should we have hopes for potential share buybacks?

Caroline Dorsa

This is Caroline. I will take that question, Angie. Thank you. So, you are right. We had a good cash result for this quarter, but a couple of dynamics to keep in mind in that regard. First of all, the cash position and the cash benefit that we get in the first quarter is typically the strongest because of that roll off of the gas inventory as we sell through under BGSS. So, you are normally are going to see the strongest cash flow from ops in the first quarter of any of our quarters of the year.

The other things that I mentioned that affected cash during this particular quarter release of restricted funds, collateral margin, think of those things as a little more onetime in nature in addition to termination of leases.

So, when we look at the total cash flow, we are very pleased with the cash for the quarter. We were using it to do things like pay down debt as I mentioned as we did on April 1 and given all of those dynamics and of course the uncertainties we see in the market at this point, we don't see treasury stock as something that we will be doing share buyback in the current period, just given all the uncertainties in the market.

We do have obviously \$658 million left in the remaining authorization, but given the markets as we see it now and the good uses that we see for our cash to reinvest in the business for shareholder returns, some of the things that we talked about at the utility that we filed for, we don't see share buyback right now.

Angie Storzynski - Macquarie Capital

Okay and the last question. Could you give us any color or any comments about your expectation about demand, response, resources for the upcoming RPM auction?

Ralph Izzo

Angie, we don't typically comment on what we think will fill in the various components of the RPM auction. As you know, the auction begins today. Final bids are due by the end of the week and we will all hear the results of that in just a week from Friday. So, rather than conjecture what it might look like in 10 days, we will know exactly what it looks like.

Operator

The next question is from Vedula Murti with CDP US.

Vedula Murti - CDP US

My question, I want to make sure I understand and it has to do with the pricing of RGGI. It is like \$3.50 versus what people are talking about at \$15 to \$20 a ton in terms of CO2. I know you touched on it briefly into an earlier conversation, but if you can explain at least from your perspective what accounts for that significant difference?

Then I would assume that if there is some federal standards or program put in place that that would then supersede RGGI and then that regime would then be put in place? Can you talk a little bit about that difference?

Ralph Izzo

Absolutely, and I will keep it very high level. If you want more detail, just let me know. So, if you think about the price for an allowance, it is set by the supply of allowances versus the demand for those allowances and the RGGI states basically took a four or five-year average of emissions and set the cap above that level until the year, I believe it is 2014, at which point it begins to then decline.

So, right now, the number of allowances that the RGGI states are making available to emitters of carbon exceed the number of tons of carbon that people are emitting. So, the only reason why those allowances are worth anything other than zero is because people believe that they can bank them and use them in the future when the amount of emissions exceed the amount of allowances either because of pickup in the economy or because the cap begins to come down

Vedula Murti - CDP US

There is no expiration on an allowance to bank?

Ralph Izzo

I want to say that there is a five-year expiration. There is no expiration going forward. There is a limitation on how much you can buy forward to use today. So, I don't believe that there is any limitation of what you can use going forward. So, that is a separate system and a separate regulatory regime.

In the RGGI MoUs that were signed by the 10 states, there is language that says if there is a federal program that is more stringent than RGGI, then it is anticipated that RGGI will go away and the federal program that is being discussed today really falls into a range and that is truly being discussed in terms of legislative circles. It is not enacted and it ranges from the President's expectation of 14% emission reductions, quite a bit more sizable by 2020 over the 2005 levels to what is in the Waxman-Markey bill which is the primary vehicle being discussed in Congress right now which has a 20% reduction in CO2 emissions by 2020.

So, because of the more stringent cap, the greater amount of reduction, the expectations are that since you lower the supply of the emissions credits that the price for them will be higher than what you are seeing in RGGI.

Vedula Murti - CDP US

RGGI contemplates what type of reduction versus the 14 and the 20 you referenced?

Ralph Izzo

The 2.5% reduction beginning in 2014, so it would be about 10% reduction.

Vedula Murti - CDP US

Okay. So, RGGI is 10% and the other ones are 14 and 20. Good, we want apples-to-apples. Okay, thank you very much.

Operator

The next question is from David Frank with Catapult.

David Frank - Catapult

Ralph, you said at the analyst day presentation not long ago that while you did not want to give specific guidance beyond '09, you did say consensus for 2009 looked a little too low and a little too high for 2010. Is that statement still accurate?

Ralph Izzo

Yes, and I am absolutely delighted that people heard us and refreshed their numbers and everything worked the way we were trying to signal. So, there are a couple of folks out there

who I think are still maybe joined to refresh their gas numbers, but we were quite pleased that we were speaking English and people heard us in English and it all worked out well.

David Frank - Catapult

Then Ralph, in the press release this morning you talked about a challenging market and you cited weak power prices, softening demand, but over the next couple of years, the company has seemed to insulate itself very well given that you have gone out and you have done a very good job in hedging the output from your generation fleet at prices that are well above the current prices or even the forward market prices. I am however wondering what steps if any can you take or are you taking to keep 2010 from being sort of a peakish earnings year?

Ralph Izzo

David, as I mentioned at the investor conference, we have a habit and we has a polite way of including us and others in the industry of taking the forward price curve from this morning and taking the forward price curve of this afternoon and forecasting it forward for the next 10 years.

What we are doing is what we have done before. As a BGS, which accounts for about half of our baseload capacity is a six-year blend of prices and that is a very good thing given the types of earnings volatility we would have otherwise seen if it had been just all in one year at any point time.

We are making, as Caroline pointed out, some smart investments in climate change and aging infrastructure at the utility with on time almost real-time returns coming from that. We have a base rate case that we will be filing in a couple months. We will be bidding 150 to 300 megawatts of additional peaking capacity in the RPM auction.

So, we have a variety of good investment opportunities that and that doesn't say anything about some of the other things that are going on and Holdings that I think will help us continue to deliver attractive returns for our shareholders. Now, we don't control the economy and we don't control gas prices, but we are not sitting back and just letting it happen to us.

David Frank - Catapult

That sounds good. Thanks Ralph.

Operator

Mr. Izzo, Ms. Dorsa, there are no further questions at this time. Please continue with your presentation or closing remarks.

Ralph Izzo

Thank you. Thanks Caroline, thanks Kathleen, and thank you all for joining us today. We hope you do agree that our first quarter results, support the things we highlighted in that March conference that we first of all live up to our commitments, we are delivering value today and we are well positioned for the future, but that future, given the problems in the economy will rely on the talents and efforts of our employees to focus on cost control while we wait for markets recover and they will recover. Similarly, those employees have never let us down. So, thank you for being with us today. We will see you at various conferences and on our next call.

Kathleen Lally

Thanks very much.

Operator

Ladies and gentlemen, that does conclude your conference call for today. You may now disconnect and thank you for participating.

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