Q4 2015 Earnings Call

Company Participants

- Anastasia Minor
- Gerard M. Anderson
- Gerardo Norcia
- Peter B. Oleksiak

Other Participants

- Andrew M. Weisel, Macquarie Capital (USA), Inc.
- Daniel L. Eggers, Credit Suisse Securities (USA) LLC (Broker)
- Greg Gordon, Evercore ISI
- Jonathan Philip Arnold, Deutsche Bank Securities, Inc.
- Julien Dumoulin-Smith, UBS Securities LLC
- Neel Mitra, Tudor, Pickering, Holt & Co. Securities, Inc.
- Paul Patterson, Glenrock Associates LLC
- Paul T. Ridzon, KeyBanc Capital Markets, Inc.

MANAGEMENT DISCUSSION SECTION

Operator

Good day, ladies and gentlemen, and welcome to the DTE Energy 2015 Year Ending Earnings Call. Today's conference is being recorded.

And at this time, I'd like to turn the conference over to Anastasia Minor. Please go ahead, Ms. Minor.

Anastasia Minor {BIO 17978541 <GO>}

Thank you, Sheevan, and good morning everyone. Welcome to our 2015 year-end earnings call. Before we get started, I would like to remind you to read the Safe Harbor statement on page 2 of the presentation, including the reference to forward-looking statements.

Our presentation also includes reference to operating earnings which is the non-GAAP financial measure. Please refer to the reconciliation of GAAP net income to operating earnings provided in the Appendix of today's presentation. And starting last quarter, we are now including additional sales data in the Appendix of our presentation which has historically been provided in a separate supplemental document.

With us this morning are Gerry Anderson, our Chairman and CEO; Peter Oleksiak, our Senior Vice President and CFO; and Jerry Norcia, President and COO of DTE Electric and Gas, Storage and Pipelines. We also have members of our management team with us to call on during the Q&A session.

And now I would like to turn it over to Gerry to start our call this morning.

Gerard M. Anderson {BIO 1391607 <GO>}

Well, thanks, Anastasia. Good morning, everybody. Thanks for joining us. I'm going to use my time this morning to recap our performance in 2015 and to preview 2016. But in a nutshell, I am glad to be in a position to say that we had a very successful year in 2015 not only financially but on many other fronts. And I feel we're well positioned for a similarly strong year in 2016 and we are off to a good start on that one month into things.

So moving on to slide 4, I'm going to start by recapping our accomplishments in 2015, and then I'll give you a quick energy policy update, and then move on to long-term growth, and then I'll turn things over to Peter Oleksiak to give you a bit more detail on our financials and then we'll wrap up.

So I'm going to provide the 2015 recap within the context of our system of priorities that's laid out on slide 5. And those of you who followed us for a number of years know that we've consistently worked the system of priorities for the last half dozen years. And for those of you less familiar, I'll just give you a quick grounding and then I'll move on to the summary. But system really starts on slide 5 with employees. And I believe that it's hard to be an excellent or great company when you've got employees who have mediocre energy.

So we put a lot of time and focus on engagement in the energy and focus of our employees. Believing that if we get that right, we can focus those employees on top decile customer satisfaction, doing a great job for our customers, on continuous improvement that we focus on intensely, and on growing the company.

And if we do those three things right, if we serve our customers well, manage our costs well, and grow and connect that growth through the economic development of our communities then the prospects for constructive political and regulatory treatment or higher. And if you combine, constructive regulation with healthy growth, we produce great outcomes for you. And for us, that means consistent predictable 5% to 6% earnings growth combined with an attractive dividend, the dividend growth founded on a strong balance sheet.

So, page 6 then begins the recap of our accomplishments against that system of priorities this past year. And I'll start with the employees and say that for the third consecutive year, we earned the Gallup organization's Great Workplace Award. That's given to a handful of companies worldwide each year. And we're the only utility company to ever receive it. We were, again, in the top 15% of their worldwide database. That was very encouraging.

We also achieved the Best Safety Result in our company's history. The lowest OSHA rate we've ever had. We're now approaching the safest in industry level. That is our explicit goal. In fact, we had the safest January in our company history by pretty wide margin recently as well. And the National Safety Council has us ranked in the top 3% of their 670 participating companies. So we're in the top 20 of their nearly 700 companies.

Moving on to continuous improvement, I was really glad to see our customer outage minutes drop sharply this past year by 65%. That's been a key focus for us. We got some help from the weather, but we also had really strong underlying change in our performance. So that's a good thing. Our fossil fleet was top quartile in its reliability for the fourth consecutive year. We're nearing top decile in our gas leak and leak repair program. Also an area we're very focused on. And I think importantly for you, our utility O&M costs were down year-over-year, and we remain below 2008 levels, and near the very front of the industry in terms of O&M costs management.

On the customer front, our electric company was top-quartile for both residential and business. In fact, our residential was number two in our peer group. DTE Gas ranked number one in 2015 on business customer satisfaction and number two in residential customer satisfaction. So when you look at the overall set of customer metrics, we had a strong year in 2015.

Moving on slide 7, on the political and regulatory front, I'd say we had a constructive outcome in our electric rate case that went final last year. We also filed late last year our first gas rate case in four years. We're entering the final stages of discussions in Michigan energy policy, and I'll talk more about that a little bit later. And we have now reached a point where our spend with Michigan suppliers has doubled since we started the program back in 2011, nearly $1 billion spend with Michigan suppliers, up from $475 million back in 2011. That's an important program for us.

On the growth and value front, we invested $2.4 billion, $2.1 billion of that was in our utilities, focused on infrastructure and reliability and continued investment in renewables. We also had significant investments, as I think you're aware, in our gas storage and pipeline business related to our Bluestone assets, and we also made significant progress on both in NEXUS Pipeline and expansions of the Millennium Pipeline. So significant capital to support future growth.

And finally, on the financial front, operating EPS at $4.82 that compares to our guidance coming end of the year of $4.60. It was our eighth consecutive year of delivering EPS at or above the top end of our original guidance. And in addition, we increased our dividend by nearly 6% to $2.92 a share. So based on that recap of 2015, I hope you can see why I said at the outset that we had a very successful year in 2015, not only financially but on many other fronts.

And though I know it's natural for you to focus most heavily on our financial results, in the end those financial results are closely tied to the fairness and the quality of our regulation. And in turn, the quality of our regulation is contingent on how well we do controlling our costs via continuous improvement and how well we serve our customers, and how we invest in our communities. And so staying focused on the full spectrum of our priorities is really key to our long-term performance.

Moving on to slide 8, I'm now going to take a minute to update you on energy policy discussions in Michigan. And those are summarized at high level on slide 9. As you're well aware, Michigan has been considering updates to its energy law since last year. And the move to update the current legislation was tied to the need to remake Michigan's power generation fleet, and it focuses, the legislation focuses on reforming our state's retail open access provisions, defining an integrated resource planning process to choose our future generation mix, and on clarifying the role of renewables and energy efficiency in the future.

So late in 2015, a package of bills moved out of the House Energy Policy Committee. And early this year, the focus is moved to the Senate. Senator Mike Nofs, who's Chair of the Senate Energy and Technology Committee, is now leading the effort to define consensus legislation that will be supported by a strong coalition. And I have to say that Nofs is really well suited to this role.

He was a principal author of our state's 2008 energy legislation, and he is as knowledgeable and experienced as any legislator in the state in this area. So we continue to work closely with Senator Nofs to define and pass this legislation in the first half of the year and we believe that's achievable.

As I said a minute ago, the goal of this legislation is to enable the transition depicted on slide 10. Between 2015 and 2030 driven by the aging of our power plants and the Clean Power Plan, our generation fleet will transition from one dominated by coal-fired generation to one with a much heavier mix of gas and renewables. And we've begun the detailed planning for this transition as you'd expect that some of our early investments will play out this year. We'll add 50 megawatts more of wind to our wind production here in Michigan and we'll invest in our first large scale solar facility, a 50-megawatt installation north of Detroit.

I am sure you all saw that the Supreme Court yesterday stayed the implementation of the Clean Power Plan. I must say that that was a surprise to me. It's unusual to stay a regulation prior to litigation in the lower courts. People speculated about the possibility, but I don't know that a lot of people considered it likely. So, somewhat of a surprise. We'll have to see how the legal challenge continues to evolve. A quick reaction with kind of one night to sleep on it is that, I'm not sure much will change for us at least in the first half of the 15-year Clean Power Plan implementation period. And that's because, we and I think many in the industry are dealing with, during that period with the replacement of very old smaller and marginally economical plants, especially given gas prices now. We're dealing with those sorts of plants during that period. But as you look to the latter half of the plan, as you get out in the later years of 2025 to 2030, you do start to take on some of the larger facilities.

So if it turned out that the Clean Power Plan were changed in some way, those years, I think, could be affected. But that said, there is a lot of water that needs to flow over this dam before we get too specific about the impacts of the stay. It could range anywhere from the rule being stayed, litigated, some refinements made, and the Clean Power Plan moves ahead. Without much change in its impact, two things that are more impactful than that. So we'll just have to wait and see as it evolves.

Moving on to slide 11, I'm going to turn now to an update on our long-term growth and its drivers, beginning with a recap of our 2015 results as well as our 2016 guidance, and that's laid out on slide 12. So we finished with strong results in 2015. As you can see at the top left, our initial guidance for last year was $4.60. We upped that guidance twice over the course of the year ultimately to $4.78 at our fall Analyst Day. And in the end, we delivered $4.82. And as I said earlier, that's the eighth consecutive year in which we've met or beaten the top end of our guidance.

So we talk about 5% to 6% earnings per share growth. You can see in the oval at the top right that our actual growth in recent years has been 6.5%. This growth has been driven by a portfolio of businesses that have worked well together, with steady growth from our two utilities and some growth upside from our non-utility businesses.

For 2016, the midpoint of our guidance, as you see at the top right, is $4.93. I feel very good about our ability to deliver that result or exceed it. As we always do, we intertwist 2016 with specific plans to address potential risks or uncertainties in our budget. And though I entered the year worried about super El Niño weather, January was pretty close to normal and we are off to a good start on the year. And as I sit here talking to you, it's cold and snowing outside. So February is not matching the worries I entered the year with either, to this point.

Moving on to the bottom of the slide, we increased our dividend in 2015 by 5.8%. And I have said consistently that it's our intention to grow our dividend as we grow earnings. And the oval at the bottom right shows that that's been our pattern in recent years, and I expect that pattern to continue in 2016.

I'm going to turn now from a focus on 2015 and 2016 to a focus on our longer-term growth and investments. And I'll begin that discussion on slide 13. So the underpinning of our future growth is the investment profile that you see on this slide. And as you can see, our investment level over the next five years will be up on the order of 30% versus the last five years. And as I'll describe over the next few minutes, this increased investment is playing out in nearly all of our business units, in our Electric and Gas utilities to address aging infrastructure and reliability issues, as well as the beginning of our generation fleet renewable, and in our gas, storage and pipelines business to capitalize on the opportunity to move Marcellus and Utica gas, which are the highest quality gas reserves in the country, to nearby markets via our Millennium and Bluestone and NEXUS assets.

Moving to slide 14. Within our electric utility, investing in our distribution assets to address aging infrastructure and improve reliability has emerged as a key area of focus for us. As you can see on the left-hand side of the slide, of the $18 billion we project we'll invest in our electric utility over the next decade, more than a third, $6.5 billion in our base case, is targeted at our distribution infrastructure. And frankly, the underlying need is larger than that. And this focus really comes from listening to our customers. So we're approaching the top end of J.D. Power's Midwest customer satisfaction rankings. The biggest gap between us and the top-rank performer is in distribution reliability.

And so, moving on to slide 15, we are making significant investments in distribution infrastructure resilience that improves reliability, and we're doing that by replacing aging infrastructure and addressing our circuits with lowest reliability. We're also seeing the need to redesign our distribution infrastructure to address growth in some of our areas. Many of our substations are now overloaded and need to be upgraded or replaced. We're moving to do this, for example, in Ann Arbor, where growth of both the community and the university are overwhelming our infrastructure there, and we're doing the same in downtown Detroit, so we have a new $600 million Red Wings arena and multi-entertainment facility going in, and probably over $1 billion of growth when you take into account everything that's happening around it; that is going to require a lot of electric infrastructure. We have a similar project underway to enable a new multibillion dollar bridge between Detroit and Canada that requires a lot of infrastructure investment.

So these are the sorts of things that we're undertaking on the distribution front. But as we undertake this investment agenda, we are keeping a very close eye on affordability, because our customers are asking for improved reliability, and we do need to renew our aging infrastructure. But we've got to maintain affordability and competitiveness while we do that.

And so the next few slides show that we've done well on that front in recent years as well, on the affordability front. So on slide 16, you can see that residential bills for both our gas and electric customers are down in recent years. The electric bills are down principally due to continuous improvement work and rate reductions. Even after our most recent rate case that finalized in December, our bills are below 2012 levels. We filed our next electric rate case just a little while ago, week or so ago. But even after that case plays out, bills will be flat to levels five years earlier.

In our gas utility, on the right hand side, bills this year are down materially from levels in 2012, driven most heavily by gas prices. We also have a gas rate case in process that was filed last year, but we project that bills will still be 10% lower than five years earlier, after that case is finalized in December.

With respect to our industrial customers, you can see on slide 17, their rates are below both the U.S. average and the Great Lakes average. And five years ago, this wasn't the case, but we have made good progress in recent years on pushing to the left on this distribution. Our industrial rates have declined 22% since 2013, which has been really important for the competitiveness and economics of this group of customers.

I'm going to turn now from our two utilities to an update on our gas storage and pipelines business. Slide 18 lays out the footprint of this business. And I want to focus on two portions of the footprint today. The Millennium Pipeline in the Marcellus Shale, which you see on the right hand side of the slide, along with the adjacent Bluestone assets. This area has been a source of significant growth in recent years, and continues to see expansion opportunities. So I want to focus on that, and in addition, I want to focus on the NEXUS pipeline, in yellow on the slide, which is positioned to play a similar role in the Utica Shale in the years ahead.

Moving on to slide 19, I'm going to start with an update on the NEXUS pipeline. And I'll start by saying that, as things have emerged, NEXUS is arguably positioned to tap the best gas reserve geology in North America. The dry gas well results in the region directly adjacent to our NEXUS pipeline are staggering. When industry observers rank shale plays, this region of the Utica shows up at the very front of the industry cost curve, highly competitive. And so as the gas industry rationalizes supply across basins, which it needs to do, everything suggests that the Utica will be a winner and that investment will concentrate there. And as a result, we believe very strongly in the fundamentals that support this pipe.

Development of the NEXUS project continues to move along. So we completed our FERC filing late last year. The pipe's about two-thirds contracted. A significant portion of that volume is with utilities including the Ontario operations of Spectra and Enbridge in late last year. The Ontario Energy Board approved their off-take positions. We're also in what I characterize as advanced discussions with additional counterparties interested in positions on the pipe. And importantly, we have signed interconnect agreements in Northern Ohio, which is the root (22:18) of this pipe totaling 1.4 Bcf per day with gas LDCs, power plants and industrials, which should provide additional demand for NEXUS over time.

Now, we are watching and managing dynamics in the E&P sector closely. But as I said earlier, we really do believe that as the sector rationalizes supply, the region served by this pipe is going to benefit. So bottom line, we and our partner, Spectra, continue to move this pipe forward and 2016 will be an important year in its development.

With respect to our Millennium Pipeline, we continue to see strong interest in expansions. So we're pursuing a 200 million cubic foot-a-day expansion currently. We filed our FERC pre-approval a couple of weeks ago and our projected in-service is 2018 on that. That expansion is really to access higher-priced Northeast markets rather than lower-priced Southern markets. We're also building a lateral off of Millennium, the 8-mile Valley Lateral which should go into service next year.

Additionally, we're seeing interest in expanding Millennium from Northeast Utilities, serious interest. And I believe our discussions with them will lead to additional Millennium expansions down the road.

What all this means for earnings in the gas storage and pipeline business is laid out on slide 20. So last year was a big year for earnings growth in this business. Earnings grew by 30% year-over-year to $107 million in 2015. That growth was driven by our activities in the Marcellus tied to our Millennium Pipeline and the Bluestone assets.

This year, the midpoint of our guidance is $110 million, so we're projecting some growth but slower growth obviously than last year after the big pushup. And that's really given the reduced activity level we see by E&P players. I would say that we're also looking carefully for investment or acquisition opportunities that stress in the E&P and MLP spaces might offer us.

Longer term, we do continue to target $170 million in earnings by 2020, and although the current E&P sector dynamics will cause a pause in drilling investment this year, we expect little or no impact long term.

The country needs growing gas supplies. Productions from existing wells decline 15% a year, (25:08) can't wait very long before the drilling has to resume, and our pipes are in the right locations to benefit and grow as that occurs over the next five years. So everybody's watching what happens over the coming months.

But as you look out beyond that, this country is going to have to drill a lot of natural gas wells. Fundamental supply and demand says that. And the Marcellus counties that we're in and the Utica are the places the drilling dollar should go.

I'm going to wrap up my remarks with a few thoughts on our power and industrial business, and then I'll turn things over to Peter. On slide 21, our power and industrial business operates contracted assets at 66 sites across the country in three business lines: industrial energy services, renewable energy and reduced emission fuels, or REF for short.

On slide 22, you see that this business line had earnings of $95 million in 2015, and the midpoint of our guidance for this year is also $95 million. So flat from 2015 to 2016. Two dynamics underlie this guidance. One of our assets that serves the steel industry rolled over its contract last year. You're probably aware the steel industry is in a cyclical downturn right now, so our earnings from that asset declined. But offsetting that dynamic is the fact that we expect our REF earnings to grow. So, $95 million for this year.

And longer term, consistent with what we've communicated previously, our 2020 earnings target is $105 million in this segment. As our REF project sunsets in the early 2020s, we intend to backfill with investments in cogeneration which we're working actively and opportunities on the asset acquisition front.

And with that, Peter, I'm going to turn it over to you for our financial update.

Peter B. Oleksiak {BIO 7535829 <GO>}

Thanks, Gerry, and good morning, everyone. As most of you know, I like to take advantage of having the microphone on this earnings call and give an update on my Detroit Tigers. But now with the Super Bowl over, all the focus can be on the upcoming baseball season. Spring training will be starting soon. I have high hopes for my hometown team. Detroit Tigers (27:27) were ranked number one by mlb.com as the most improved team after all the offseason moves. I won't be making any predictions this year. Let's just say I'm hoping for a playoff run. Enough about the Tigers, I would like to give you a financial update and review of the 2015 earnings before we get your questions starting on slide 24.

And as Gerry mentioned, the DTE Energy 2015 operating earnings came in strong at $4.82 per share. For a detailed breakdown of the EPS by segments, including a reconciliation to GAAP reported earnings, please refer to slide 43 of the appendix.

Slide 24 show the year-over-year operating earnings by segment. First, we're going to focus on the middle column which shows the 2015 results. Let me start first with the total earnings for the growth segments. Earnings for our growth segments were $848 million or $4.73 per share. This is an increase of $52 million or $0.25 per share over 2014. Our largest subsidiary, DTE Electric, earned $562 million. It was up $34 million driven by the implementation of new rates and return to a more normal weather in 2015.

I'll be going over the DTE Electric's earnings results in more detail on the next slide, but let me continue on this page. DTE Gas 2015 earnings of $132 million were $8 million below 2014 earnings, as we returned to a more normal weather in 2015 after one of the coldest winters on record in 2014. The weather impact was partially offset by reinvestment in distribution and transmission assets in 2014. These were not repeated in 2015.

Moving down the page, our gas storage and pipeline segment had a very good year, as Gerry Anderson indicated, with operating earnings of $107 million, which is $25 million higher than 2014. This is a 30% increase in earnings, and it was driven by higher volumes in our Bluestone lateral and gathering assets. Earnings for our power and industrial projects were $95 million or up $5 million from 2014. This increase was driven by strong performance in our renewables business and REF, partially offset by lower earnings in steel.

Earnings for corporate and other was negative $48 million in 2015 or $4 million lower than 2014 driven by higher interest expense. As I mentioned, total operating earnings for growth segments were $848 million or $4.73 per share which is up 5.6% over the 2014 total growth segment EPS. To round out our operating earnings, we included results of our energy trading business.

At energy trading 2015 earnings were $15 million which were down $15 million for (30:02) 2014 driven by a lower realized performance in our gas portfolio. Actually, our trading company had a great year economically. The contribution for 2015 was $54 million which is double our targeted annual level of $20 million to $25 million. As a reminder, slide 42 of the Appendix contains our standard energy trading reconciliation showing both economic and accounting performance.

Turn to page, slide 25, and as I indicated, I want to give a little more detail on our Electric utility performance. DTE Electric's 2015 earnings were $562 million, which was $34 million higher than 2014. There were three significant drivers of this variance. First, the return to more normal weather in 2015, if you recall the summer of 2014 was much colder than normal while this summer was near normal. Second, the new rate implementation midyear to support the capital spend to improve distribution and generation infrastructure. These rates were subsequently approved by the MPSC in December. The rate implementation is partially offset by the costs associated with these investments (31:05) depreciation, property taxes and interest.

And finally, we experienced lower storm activity in 2015. This is a significant decrease when compared to 2014. We saw multiple storms including a storm in September in 2014 that impacted over 400,000 customers which represent about 20% of our electric customers. This lower storm expense was partially offset by 2014 lean initiatives which were not repeated in 2015.

Although not as large of a variance, I did want to touch on the year-over-year of the sales volume effect which was down $6 million. We have provided on the page 41 of the appendix more details on the sales volume by customer class, but let me first start by saying that the underlying economic indicators were our service territory in Michigan are solid. Customer counts have increased, in total, in our residential and our commercial customer classes. This reduction to year-over-year sales was driven by lower volumes in our industrial segment due mainly to the weakness in the steel market. This impact was partially offset as indicated by an uptick in commercial sales. And residential sales are relatively flat, driven by economic and customer growth but also by increased energy efficiency. We continue to see the benefits of our energy efficiency program to help our customer reduce usage and help keep their average bills affordable.

Now, I'd like to review 2016 earnings on slide 26. As Gerry mentioned upfront our guidance range for 2016 is $4.80 per share to $5.05 per share, providing a midpoint of $4.93 per share. Total earnings per share guidance is unchanged from our early outlook, introduced at our Investor Day in September 2015. (32:46) have been refined and our equity issuance target is now reduced to $100 million providing lower total shares outstanding. Compared to 2016 guidance to 2015 actuals, utility earnings are higher due to increased rates supporting our customer-related investment.

Continued strength in our pipeline and gathering platforms drive the increase in the gas storage and pipelines, including a full-year contribution of the (33:09) that took place in 2015. P&I earnings in the 2016 remain strong as increased REF earnings help offset the near-term reduction related to our steel industry assets.

Overall, earnings per share for our growth segments are expected to increase from $4.73 in 2015 to $4.93 a share, giving us a year-over-year growth of 4.2%. When you look back to the initial guidance of 2015 to initial guidance of 2016, the growth is 7%.

Moving onto slide 27, I'd like to touch base on how bonus depreciation extension has impacted our plan. We expect the extension to provide $300 million to $400 million of favorable cash flow over the five-year period. But based on the change as well as other adjustments to our plan, we are now targeting a range of $200 million to $300 million of equity issuance for the 2016 to 2018 period, compared to our previous disclosure of $800 million that you can see on the chart. And as I mentioned, our guidance page, we expect to issue about $100 million of this in 2016.

We mentioned many times in the past that maintaining a strong balance sheet is a priority for us. If you turn to slide 28, you can see key balance sheet metrics, which we target and that we also monitor FFO to debt leverage. This slide show that the projected level for each metric, and as you can see, we are in the targeted range for the next three years.

In 2015, we issued a modest amount of equity, actually needing less than 10% of our capital expenditures to be financed with new equity. The strength of our balance sheet sets us up nicely as we enter a period of historical high capital spend.

Now, let me wrap it up on slide 30, and then we can move to the Q&A, with the summary. 2015 was a very good year, and we are well-positioned to have a successful 2016. DTE has historically delivered on its growth target, and actually have exceeded our growth targets over the recent history. We provide a 6.5% annual EPS growth over the last five years.

As we look forward, we continue to target operating EPS growth of 5% to 6% for our growth segments. And then part of our shareholder value creation is continue to grow our dividends in line with these earnings. We have meaningful investments in our non-utilities which will drive continued growth in those segments. And we have significant utility investments and reliability and generation modernization that provides affordable, clean and reliable service to our customers. The constructive regulatory environment we have in Michigan coupled with our focus on operational excellence and delivering high customer satisfaction, provide a good foundation as we move into an era of replacing and upgrading our aging utility infrastructure.

So, before I actually turn the call over to questions, I'd like to recognize Anastasia Minor. This is Anastasia Minor's last call, so a little shout out to Anastasia. I know many of you received an e-mail yesterday on the announcement, so I am sure I'll hear from you when I'm on the road. But I like to save it now. We're leaving it. (36:18) Anastasia is not leaving the company. She's a key member of our management team and moving to a different role, but we're leaving the job in good hands, Barbara Tuckfield (36:26) is moving into the role, coming up fresh from her gas utility controller assignment.

So, with that, I'd like to thank everyone for joining us this morning. So, Sheevan, we can open up the lines for questions.

Q&A

Operator

Thank you, Mr. Oleksiak. And we will now take our first question from Dan Eggers of Credit Suisse.

Q - Daniel L. Eggers {BIO 3764121 <GO>}

Hey. Good morning, guys.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Hi, Dan.

Q - Daniel L. Eggers {BIO 3764121 <GO>}

Yeah, Gerry. I think a lot of the legislation discussion has been, in part, addressing the energy policy, but in part kind of trying to get ahead of the CPP a little bit. With the legislation having taken a lot longer than anybody would have expected. Do you see this as a reason or a cause for legislation to slow down again, or a reevaluation of kind of some of these priorities would seem to be focused on addressing CPP issues?

A - Gerard M. Anderson {BIO 1391607 <GO>}

I don't think Mike Nofs will see any reason to slow down. I think he understands that we've got a lot to take care of on the energy front over the next 10 years to 15 years, and that things come and go in terms of regulation, legislation and policy. As I said, I'm not here to speak for Consumers, but they've got a bunch of plants retiring in the near term. We do also, we've been pretty visible with the older plants that are going to be coming offline. So both companies and the state will need to backfill those with investments. And this legislation is – really recognizes that we're headed into that period. So, there may be people who really don't like the Clean Power Plan who'd say slow down, stop, but Mike Nofs won't be one of them, nor will we.

Q - Daniel L. Eggers {BIO 3764121 <GO>}

Okay. And I guess just on the NEXUS front, with two-thirds contracted at this point in time. What is your feeling for when you guys might fill in more of that to get to a fully comfortable position on the pipe? And can you just remind us how much of that is maybe percentage wise covered by utilities rather than producers?

A - Gerard M. Anderson {BIO 1391607 <GO>}

About half of that is utilities and half is producers. And I'd say a couple of things, and then I'll ask Jerry Norcia, who's here and President of the group, to add his thoughts to mine. But I mentioned during my comments that we have very active discussions with other parties interested in the pipe. So we're hopeful that those will play out this year. The other thing I'd say is, we and Spectra both continue to evaluate this pipe, and the fundamentals of it are just so strong. When you look at the fact that it arguably runs into the very best dry gas region in North America, and then connects that to the largest storage hub, market storage hub in the Midwest-Northeast and supplies into Ontario, Michigan, and the Chicago markets via the pipeline networks, that we really are strong believers in the fundamentals.

Get back to the original question, we would think that we'll bring additional demand on this year from some of the discussions we have under way. And then that 1.4 Bcf of interconnection across Northern Ohio, we think, will add demand over time beyond that.

Jerry, any thoughts you'd add in addition to this?

A - Gerardo Norcia {BIO 15233490 <GO>}

Well, Gerry, you said it extremely well, so, again, I just – really to summarize, pipeline with great market access to Ontario, Michigan, and really supported by LDCs, and I think that really distinguishes this pipe from other pipes. I mean, I think you're seeing that other pipes are somewhat struggling with routing issues out of this basin, as well as market issues. And I think the fact that we've got a strong LDC base distinguished this pipe when we first proposed it, and now it's even a greater distinguishing factor.

So we're still very supportive, moving forward. Everything is on schedule from a FERC perspective. The feedback we're getting from FERC is that we've submitted a high-quality product. We've got a great partner in Spectra, that's very experienced in executing these type of projects. So we're feeling real good about where we're at right now with our market, as well as our supply.

Q - Daniel L. Eggers {BIO 3764121 <GO>}

Got it. Very good. Thank you guys.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you, Dan.

Operator

And we will take our next question now from Neel Mitra from Tudor, Pickering.

Q - Neel Mitra {BIO 16431920 <GO>}

Hi. Good morning.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Good morning, Neel.

Q - Neel Mitra {BIO 16431920 <GO>}

I had a follow-up question on NEXUS. It seems like, on the demand side, it's really strong. How are you – generally, how are you viewing the discussions with the producers right now on the upstream side? Obviously, a lot of guys are feeling pain. Is there any discussion on delaying the pipe, or do you feel strong from that perspective?

A - Gerard M. Anderson {BIO 1391607 <GO>}

It's a really good question, and sometimes (42:06) developments and there's stress in the sector, you have people approaching you, trying to restructure or retime things, and we are just not getting that. And I think it's because of the quality of the assets in the region. So, we continue to get strong support and no waiver from the participants in the project, either producer, and obviously not utility. That answer the question?

Q - Neel Mitra {BIO 16431920 <GO>}

Yes. That's great. Thank you. And then, on the power and industrial segment, in your Analyst Day, you brought up the steel customer. Could you just talk about the general appetite from industrial customers, given that there's some concern over an industrial recession coming up, and specifically how that relates to you in your conversations?

A - Gerard M. Anderson {BIO 1391607 <GO>}

So the projects in that industrial portfolio are contracted, but they do roll over. So I think our average duration is seven years or so, but that means every seven years, some of your assets on average are going to roll. But in between, they don't have volume or commodity price sensitivity. So we're not worried about the balance of the portfolio. This one was a coke battery. It rolled at a time when pricing was down, and so we had to roll with the market when we re-contracted. And so, that took some earnings out of that segment, but we had growth elsewhere and we're able to – the segment is not growing this year, but we're able to hold performance. So those are the dynamics. We don't have any other important contracts that have exposure to industrial weakness here.

Q - Neel Mitra {BIO 16431920 <GO>}

Okay. Great. Thank you very much.

A - Gerard M. Anderson {BIO 1391607 <GO>}

You're welcome.

Operator

And our next question is from Julien Dumoulin-Smith from UBS. Thank you.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Hey, Julien.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Hi. Good morning.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

So, perhaps to follow up on the legislative question, just wanted to make sure I am hearing you right. Are you feeling comfortable about the outlook for earnings growth, sort of even if the legislation is delayed beyond this year, or if it just simply doesn't happen? I just wanted to get a sense of the puts and takes in your budget and your comfort within it. Obviously, you work with a certain amount of "white space." How are you feeling about it?

A - Gerard M. Anderson {BIO 1391607 <GO>}

I guess I would say, I don't think the implementation of the legislation, if you were to try to draw a direct link between that and earnings, there really isn't one. The legislation was targeted at two things. One is, if we're going to remake our generation infrastructure, we should have a good planning process for doing that. So the legislation focuses on an IRP process, and having a process where a variety of parties can get their oar on the water to talk about what the mix of generation should be. And I still think we need to do that.

The second one was really focused on fairness which was around retail open access. If we're going to be investing in generation, everybody should participate economically in those investments. So, that's a fairness question. But if you try to move from those two things, a good planning process and fairness to our earnings, there really isn't a link between the two. We think the legislation is important to have a really well-defined and fair process for moving forward, but we're going to move on with the distribution investments and the power plant retirements and so forth. Either way, we really have to.

Some of these power plants are just old. I'll give you an example. We got one I can see from where we're doing the call here that just had a major component failure. That unit's not going to run, and we think it's highly likely and the reason is it's just old enough and marginal enough that we've got to move on. And so, we've got numerous assets in that sort of position where we really are evaluating just how much longer it makes sense to invest versus move on. And some of the plants that are from the 1950s and 1960s, it's time to move on. So, when I said earlier, I don't see the early years of the Clean Power Plan, maybe the first half of it being affected much, that's why.

Now, when you move on into the later years close to the 2027, 2030, then you'll start to get into some of our larger somewhat newer assets. They could be affected, but I'll tell you, there's a lot to happen between now and then. So there's continued action on NOx and mercury and other fronts, water, that will be thrown into the mix in terms of how we evaluate those plants and their lives. So I think it's really early to talk too much about what this stay might mean for both our earnings and really for the Clean Power Plan because it's very possible that they'll send it down to have a couple of specific issues reconsidered or reconfigured. The EPL address those and then things move on. Or it could be more fundamental than that. And we really don't know right now. So, hopefully, that gives you some help in the way we're thinking about it.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Great. And just to follow up on the white space question. I'd be curious, in the slide deck, it seems that you haven't included the white space CapEx. Again, is there anything to read between the lines on that? How are you feeling about particularly the midstream side of the equation when it comes to the ability to execute the upside here? Is there something we should be reading from the slides here?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Were you talking specifically GSP or were you talking in the utilities?

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

Well, I was thinking – well, I mean, you tell me on the white space, either way, with the Michigan legislation and/or what's going on in midstream, if that has kind of come in on you? I suppose the question was more specific to the midstream side, and I'm thinking more on the gathering potentially, but more broadly. Is there ability still to execute on the upside here?

A - Gerard M. Anderson {BIO 1391607 <GO>}

I'll address both. So I think we previously have talked and I mentioned earlier that particularly in the distribution side of the electric utility, there's a lot of demand for investment there. So we've got the $6.5 billion in our base plan. I said that if you look at the fundamentals of the aging of that infrastructure and the reliability needs, the constraining factor is not how much demand there is for investment. There's a lot of investment needed. So we're really metering that tied to customer affordability. And that has not changed since we talked about it at the Analyst Day in the fall. It's very much the same picture.

On the midstream side, nothing has changed in terms of, if you look out over the five-year period, what we think is going to happen in the Marcellus and Utica regions and the amount of activity there.

I mentioned the gas sector is very, very different from the power sector. Put gas wells on the ground and a year later the average decline is 15%. So you've just got to continually drill in order to meet the growing demand for natural gas.

And in doing that, I think one of the messages we've seen out of the stress in the E&P sector is it needs to rationalize, and people are going to rationalize it to the very best drilling locations. And I'm not blowing smoke when I say that the Susquehanna County and the Marcellus and the area of the Utica that NEXUS serves are the very best dry gas geology in the country.

And so, through simple common sense, you come back to say, these are going to be very high-activity areas over the next five years. And so our continued sense is NEXUS is a good project and that there'll be more development and expansion of Millennium are tied to those factors.

In the very near term this year, does the E&P sector need to work some things out? Obviously. We're watching that closely, we're managing it, but I think long-term fundamentals, you get down the road a number of years, this will be in the rearview mirror.

Q - Julien Dumoulin-Smith {BIO 15955666 <GO>}

All right. Great. Well, thank you very much.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you. Appreciate it.

Operator

And our next question comes from Greg Gordon from Evercore ISI.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Hey, Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Good morning, guys.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning.

Q - Greg Gordon {BIO 1506687 <GO>}

So it looks to me like you guys just tried to sort of evolve your slide deck a little bit. One of the other – I apologize if you've answered this already. Slide 14, you no longer have the upside case of $10 billion and change for potential spend in the utilities. I am not assuming that you're signaling the bet's off the table. You just kind of modified your slide a little bit. Is that fair?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Yeah. It's analogous to the last question (51:25) There's no change in plan or need. We just got the base case shown here. But I think it was in the Analyst Day we showed that if you talk about what's in our plan at $6.5 billion, you talk about what we look at as fundamental demand for renewed infrastructure. It's more or like $10.5 billion. And how we walk between those two really has to do with demands of customers for reliability versus affordability. And what we've got in the base plan of $6.5 billion, we think is a good walk between the two. That make sense or answers the question? I think it gets that where you were asking.

Q - Greg Gordon {BIO 1506687 <GO>}

Yeah, 100%. Second question, you always talk about your internal planning is for sort of 7% to 8% overall operating earnings growth, and then after share issuance and contingency, you seek to be in or at the high end or above your 5% to 6% earnings growth target. So your share issuance number now over the next several years is obviously going to be a lower number because of bonus depreciation. But should we assume that if you were to theoretically update that slide, the operating earnings growth rate would be slightly lower but the share issuance would be slightly lower, and you'd be in the same place because of bonus?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Yeah. Peter, you might want to just take the topic of bonus and the way it impacts us as a company because it's a little different from the way it may impact some other companies. I'll let Peter answer that and see if it gets at your question. If it doesn't, we'll pick it up from there.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Hey, Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Thank you.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Let me first – I'll first start with the bonus. And first I was happy to see a five-year plan. Every year, we went in guessing what would happen with bonus the following year. So I was actually happy to see that. And we have looked at it and we're going to be maximizing the bonus benefits, great for customers in terms of affordability and for us as a great cash benefit and we're in an equity issuance mode. So, actually, the EPS impact is minimal on the go-forward basis. So we are down from the $800 million to $200 million to $300 million of equity issuance. So that's how we're thinking about bonus. Also, to compare us to other companies, we are less than others. We're already in an AMT position and we have tax credit and tax planning that puts us there. So our 20% rate versus 35% rate gives us a little bit of a lower end benefit. And also from a tax planning, we are in a position of tax NOL, so near-term benefit is also pushed off because of that.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Does that answer...

Q - Greg Gordon {BIO 1506687 <GO>}

Got you. Yeah. So if I were to summarize, if you were – if I go to page 12 of your December business update, you give a bar (54:13) that says we aspire to grow operating earnings 7% to 8% and then after share issuance and contingency we're at 5% to 6%. Theoretically, 7% to 8% is slightly lower but the share issuance is also lower and net-net, you're still in that 5% to 6% range. Is that fair?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Yeah. That's a good way. And if you look at the remix of the guidance from the early outlook, we did temper down the Electric segment a bit because of the rate case from the ROE. We did temper down a little bit as we refined the impact of the contract in the power and industrial segment. So that was offset by the reduced share issuance to hold us at the point of the early outlook.

A - Gerard M. Anderson {BIO 1391607 <GO>}

And then I think more broadly, your take is right that given our combination of our tax position and equity issuance, when you – bonus does affect growth in the utility side because it's effectively zero return cost of capital. But it's very minimal impact on EPS, given the dilution offset we have. So it doesn't turn out for us to be a material factor.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. Thanks, guys.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

Operator

And our next question comes from Jonathan Arnold from Deutsche Bank.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Hi. Good morning, guys.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Good morning.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning, Jonathan.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Gerry, one comment you made was that you see opportunities in the face of market dislocation in the pipeline space. Can you be a little more specific about what kinds of things you might be alluding to, how significant they could potentially be and how close you are – we are, you think, to the point where something might actually materialize? How do you manage the sort of quality bias in the portfolio through something like that?

A - Gerard M. Anderson {BIO 1391607 <GO>}

A couple of comments. So you've been watching the sector and there are obviously companies stressed. Now, companies tend to first hold on and then try to push out assets that they really don't want. They really don't want them; we don't either, generally speaking. We've had some people approach us with assets of interest. I wouldn't say we're close on those, but I think we got to watch across the balance of the year as companies continue to deal with pressures, and I think there will be asset sales that result from that.

Our cost of capital is much better positioned than it was a year ago to look at those. So we don't have anything built into our plan right now tied to this. We're simply signaling that the environment is pretty different than it was a year ago. We think there are going to be assets to change hands, and we're open to that, if the right one comes along. That said, we're not going to do things that aren't strategic or that we don't feel good about. No sense buying things that really don't have much upside or strategic value to you. So we're working our way through it, and we'll see what comes of it.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Could you talk a little more there about what you would see as being particularly, strategically interesting? Is it more pipe, is it storage? Is it...

A - Gerard M. Anderson {BIO 1391607 <GO>}

It would be pipe, potentially gathering, but I'll let Jerry Norcia comment on that as President of the union.

A - Gerardo Norcia {BIO 15233490 <GO>}

Yes. So we got a handful of conversations underway where we're looking at say – I would say, primarily assets that are tied to gathering and transmission to main lines. I think as we see producers under a lot of stress, they are looking to monetize assets. And I think as Gerry said, we're being very selective. Some of the first opportunities that we've seen are perhaps not as strategic as we would like, but like I said, we continue with a handful of conversations that we're hopeful would yield some value for us here.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Okay, great. Thank you. Just one another topic, we were slightly surprised that you filed your electric case so soon after the last one. We thought you would kind of try to leave a little bit more time. But any comments about what drove the timing there, something we should – some context we could put around it.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Well, I think a couple of things. One, it had been a very long time since our prior rate case. So there was a lot that we were addressing in the rate case directly proceeding. And then, if you simply look at the pace of capital expenditure last year and projected this year and the forward test year, it's a significant spend that we have underway, and we need a rate case to deal with that.

So I think historically, we've tried to spread our rate cases out and have been pretty successful in doing that. Our prior case had been four years since the preceding case. That won't be the case in the future, given where things stand. We're investing in both distribution and generation at a healthy enough pace that we're going to need to be in every year, year-and-a-half.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

I think, just even to add on that, to give you a perspective, the case we just filed is $1 billion rate base increase, on final order we just received. To just give you the sense of, I'd say, the pace of capital spend that we have over and above depreciation.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

(59:59) so that comment you just made, every year to 18 months, is kind of the new expectation.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Yeah, I think it is.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

I would say, probably in every calendar year, at some point in that year, we'll be filing.

Q - Jonathan Philip Arnold {BIO 1505843 <GO>}

Okay. Great. Thank you, guys.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

Operator

And our next question is from Mr. Paul Ridzon of KeyBanc.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Good morning.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Good morning, Paul.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Did you talk about the earnings impact of bonus depreciation?

A - Gerard M. Anderson {BIO 1391607 <GO>}

We did. Generally said that, given the share issuance effect, the combination of the two makes it a very modest impact for us. So it's not a significant player in our plan (1:00:45) pulls our share issuance down fundamentally. Does have some impact in utility earnings, but the two heavily offset each other.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Can you quantify the impact before the dilution offset?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Yeah, we did revise down our Electric segment a bit. Just to reiterate what Gerry said, there is minimal impact. I'd say it's relatively small in terms of the earnings growth, but there is a bit of the utility growth that's taken off just because of the bonus depreciation being used versus equity. But there's an offset corporately on the earnings per share. It's pretty minimal.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

That lower utility earnings is all bonus depreciation?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

There is bonus depreciation, and for the Electric segment, there was a fine tuning of the ROE (1:01:37)

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Can you – I was surprised to see gas segment earnings up in the fourth quarter. Can you give a little more finer detail around what drove that?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Which gas segment are you talking, the...

Q - Paul T. Ridzon {BIO 1984100 <GO>}

I'm sorry, DTE Gas, the LDC.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Yeah, the combination of that is, we knew going into the fourth quarter some of the weather impact, so we did go in a bit of a lean mode in that fourth quarter, so that helped the earnings out, and there was also some timing of taxes that played out in between the years.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

But we did not have new rates. Is that correct?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

That's correct. And the other, as I was mentioning in my speaking notes, 2014, we had a really strong weather year. So we had a reinvestment plan, a lot of it took place in the fourth quarter of 2014. So you're seeing investment that occurred in 2014 and then a lean that offset, went the other way, in 2015.

A - Gerard M. Anderson {BIO 1391607 <GO>}

So put differently, we started talking about El Niño in like July, and we knew it was a distinct possibility. So we had plans lined up for our gas utility that, if it reared its head, we'd implement lean late in the fourth quarter, and we did. And it turned out – we're glad we did, because it turned out to be an incredibly warm December. We had the opposite, the flip a year before. Coming off that really cold winter, we invested ahead. But we invested ahead in 2014 to enable something like we ran into in 2015. And that's kind of the way we do things, that we invest in stronger years to give you the flexibility to do the opposite in years when you need to, and you can do that without affecting the quality of your assets, as long as you keep that evenhanded.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Thank you. And then lastly, at gas storage and pipes, as you look at your counterparties, or potential counterparties, are there any parties out there that are causing a little bit of credit concern?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Well, I think, if you look at the whole sector, there is quite a few that – whose share prices have come down fundamentally and are sub investment grade. So we're watching those. But as I said earlier, we don't – so they are sub investment grade, but we aren't picking up, in our counterparties, kind of the scramble to rework timing or rework commitments. In fact, on one of our pipe positions, we had credit requirements that caused them to post collateral, and they went ahead and did it, because the position is important to them, and so they want to continue on. So we'd be silly not to be watching our counterparties carefully, but we haven't seen any yet that have tilted into the mode where we think there's something near term.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Okay. Thank you very much.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Thanks.

Operator

And our next question comes from Andrew Weisel of Macquarie Capital.

Q - Andrew M. Weisel {BIO 15194095 <GO>}

Hey. Good morning, everybody.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Good morning, Andrew.

Q - Andrew M. Weisel {BIO 15194095 <GO>}

Just one quick one. One quick one here. As I look at the past few years of EPS growth versus DPS growth, your earnings have been growing by about almost 100 basis points faster. Obviously, that's going to be putting downward pressure on the payout ratio. Any thoughts on potentially increasing the dividend growth rate going forward? Obviously, you're still planning 5% to 6% earnings growth, as you talked about, but in order to catch up the payout ratio, any thoughts on maybe accelerating the dividend growth?

A - Gerard M. Anderson {BIO 1391607 <GO>}

We've been working that payout ratio. So we have a stated payout ratio. And what we've generally done is, push it up into the middle of the payout range, and it falls back to the front end, and we push it back up to the middle. So that pattern is probably what you can expect in the future. You're right. We've grown earnings a bit faster than we have dividend, so we'll keep an eye on what you suggested.

Q - Andrew M. Weisel {BIO 15194095 <GO>}

Okay. Thank you. That's all I had.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Thank you.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Thanks.

Operator

And our final question comes from Paul Patterson of Glenrock Associates.

Q - Paul Patterson {BIO 1821718 <GO>}

Good morning.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Good morning.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

Just very quickly. I think you've answered most of my questions. So, basically, if I'm to understand it, you see turmoil, you're monitoring it in the E&P and other energy sector, commodity sectors, but you really see no potential or significant potential, at least in the near term, of anybody not being able to meet their commitments as a counterparty or as a partner or anything like that, correct?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Right. We don't see any evidence of that. And...

Q - Paul Patterson {BIO 1821718 <GO>}

Okay.

A - Gerard M. Anderson {BIO 1391607 <GO>}

We have the chance to deal with counterparties across a lot of fronts, including our utility. So generally, when somebody's in that position, they start to dance on commitments, and we're just not seeing that.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Great. And then just finally on the legislation, how should we think about the delays and stuff? I mean, what are the sticking points, if there are any? Is there any particular issue that seems to be sort of holding it up or causing more of a problem in terms of sort of nailing it down?

A - Gerard M. Anderson {BIO 1391607 <GO>}

Well, I think there was – there were – predictably, there are some parties on the retail open access (1:07:42) do prefer the things simply stay the way they are. So there was some noise about that. I think the key to that would be putting together, I mentioned a coalition, and Senator Nofs is working on a coalition. I think the key is to get a business coalition that comes together and says, actually, these are the right things to do. It's the right future direction for the state and it's fair. And I think we'll be able to put that business coalition together.

So, you can probably imagine who it was saying that retail open access is fine just the way it is. It was some alternative providers and a few people that they were backing. But I do think we'll be able to deal with that issue.

Beyond that, there are – I'd say there's some back and forth on exactly what the IRP process should look like, but I don't think that will be a hold up.

Q - Paul Patterson {BIO 1821718 <GO>}

Okay. Great. Thanks a lot.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Okay. Thank you.

Operator

As there are no further questions in the queue, I would like to turn the call back to our speakers and presenters today for any additional or closing remarks. Thank you.

A - Gerard M. Anderson {BIO 1391607 <GO>}

Well, we don't really have any additional information for you. I'll just say that we appreciate you being with us this morning and your support and look forward to any follow-up questions that you have. Thanks very much for joining us. We look forward to a good 2016.

Operator

That will conclude today's conference call, ladies and gentlemen. Thank you, all, for your participation. You may now disconnect.