Q1 2024 Earnings Call

Company Participants

- Barbara Tuckfield, Director of Investor Relations
- David Ruud, Executive Vice President and Chief Financial Officer
- Jerry Norcia, Chairman and Chief Executive Officer
- Joi Harris, President and Chief Operating Officer

Other Participants

- Andrew Weisel, Analyst, Scotiabank
- Angie Storozynski, Analyst, Seaport
- David Arcaro, Analyst, Morgan Stanley
- Durgesh Chopra, Analyst, Evercore ISI
- Jeremy Tonet, Analyst, JPMorgan
- Michael Sullivan, Analyst, Wolfe Research
- Nick Campanella, Analyst, Barclays
- Shar Pourreza, Analyst, Guggenheim Partners
- Sophie Karp, Analyst, KeyBanc
- Travis Miller, Analyst, Morningstar

Presentation

Operator

Thank you for standing by. My name is Eric, and I will be your conference operator today. At this time, I would like to welcome everyone to the DTE Energy Q1 2024 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions) Thank you.

I would now like to turn the call over to Barbara Tuckfield, Director of Investor Relations. Please go ahead.

Barbara Tuckfield {BIO 19701481 <GO>}

Thank you, and good morning, everyone. 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 references to operating earnings, which is a non-GAAP financial measure. Please refer to the reconciliation of GAAP earnings to operating earnings provided in the appendix.

With us this morning are Jerry Norcia, Chairman and CEO; Joi Harris, President and COO; and Dave Ruud, Executive Vice President and CFO.

And now, I'll turn it over to Jerry to start the call this morning.

Jerry Norcia {BIO 15233490 <GO>}

Thanks, Barb, and good morning, everyone, and thanks for joining us. I hope everyone is having a healthy and safe year so far. This morning, I will discuss the achievements we have made so far this year as we continue to deliver for all of our key stakeholders and we continue to achieve successes across all of our businesses. Given that Joi is in charge of operations, she will highlight our significant customer-focused investment agenda to build the grid of the future, maintain reliability and transition to cleaner generation, while continuing to focus on customer affordability. And Dave will provide a financial update and wrap things up before we take your questions.

Let me start on Slide 4. We are off to a strong start in 2024 and well-positioned to deliver on our targets this year. The success that DTE has achieved continues to be the result of our focused and engaged team for our customers and communities. Our team continues to achieve improved health and well-being and cultivate deeper employee engagement, which results in being able to deliver service excellence for our customers and our communities. The engagement of our team at DTE was recognized with another Gallup Great Workplace Award. I am extremely proud of our team for receiving this award 12 years in a row.

We continue to deliver for our customers. In fact, at DTE Gas, we have been delivering for our customers for nearly two centuries. Our gas company celebrates its 175th anniversary this year. We have been providing safe, reliable and affordable natural gas to customers in Michigan since 1849. Two[ph] years before gaslights even appeared on Detroit city streets. We have come a long way over the years, but the focus on customers has never wavered. An important part of serving customers is to provide energy efficiency opportunities.

DTE was recently awarded the Energy Star Partner of the Year award by the EPA. The award is the highest-level of recognition achieved from the EPA, recognizing programs that demonstrate organization-wide energy savings and best practices. We have demonstrated our commitment to help customers identify options to reduce their energy bills without sacrificing performance. This is the third consecutive year DTE has received this award. And again, I am extremely proud of this recognition. We continue to invest in the communities where we live and serve.

DTE invested $2.7 billion with Michigan businesses in 2023, creating and sustaining more than 12,000 jobs across the state. Last year, DTE also invested nearly $1 billion with diverse suppliers and nearly $900 million with companies based in the City of Detroit. We continue to be a leader in driving Michigan's economy at all levels.

As I said at the start of my remarks, we are having a strong start to the year and we are well-positioned to deliver our 2024 targets. Our long-term EPS growth rate remains at 6% to 8% with 2023 original guidance as the basis for this growth. And our 2024 annualized dividend of $4.08 per share is consistent with our practice of growing dividends in line with operating EPS. Importantly, we will continue to have a strong balance sheet and investment-grade credit ratings to support this customer-focused capital investment plan. We remain committed to deliver premium shareholder returns that our investors have come to expect and that we will deliver.

As DTE Gas celebrates the 175-year milestone, DTE Energy is also celebrating a milestone with 2024 marking the 115th year of continuous listing on the New York Stock Exchange. In fact, DTE's tenure is the 16th longest of any company on the exchange. So I guess these milestones are just another way of saying we have been doing this successfully for a very long time. And I am very excited about the opportunities ahead of us for many years to come.

Let's turn to Slide 5 to highlight some of the achievements across our portfolio. We have made strong progress across the company in the early part of this year. Starting at DTE Electric, we received approval to construct a 220-megawatt battery energy storage system at the site of the former Trenton Channel power plant. This investment will be approximately $0.5 billion. This project is expected to be operational in 2026 and will be the largest standalone battery energy storage project in the Great Lakes region. And it initiates an important investment area in our transition to cleaner generation.

Last month, we filed an electric rate case that outlines the investments we need to build a smarter, stronger, more resilient electric grid of the future for our customers and further our transition to cleaner generation. Joi will go over the filing in more detail and how it underpins an important step in our long-term investment in grid reliability and cleaner generation transformation while remaining focused on customer affordability.

At DTE Gas, we are targeting over 200 miles of main renewal in 2024 as we continue to modernize the gas transmission system. Last year, we hit an important milestone where we completed almost 50% of our main renewal program. In January, we filed a rate case at DTE Gas to support important investments necessary to continue to renew our gas infrastructure, which will minimize leaks and reduce cost.

At DTE Vantage, we continue to advance custom energy solutions projects, RNG projects and carbon capture and sequestration projects.

One project I highlight is the Ford Motor Company Custom Energy Solutions project that is scheduled to go into operation later this year, and is underpinned by a long-term fixed fee contract with no commodity risk.

So to wrap-up my comments, I'll just say I'm feeling extremely positive about our start in 2024 and how we are well-positioned to continue to deliver now and into the future for our customers, communities and investors.

Now, I'll turn it over to Joi to give some highlights on our investment agenda and reliability improvements. Joi, over to you.

Joi Harris {BIO 20564803 <GO>}

Thanks, Jerry, and good morning, everyone. I'm happy to be here today with all of you. I will provide more detail on our capital investment agenda and our reliability plans to improve our customers' experience.

Our investment plan is focused on building the grid of the future, improving reliability and transitioning to cleaner generation. We have a robust agenda of $25 billion over the next five years with about 95% of the investments at our utilities. Our five-year utility investment plan was increased by $2 billion over the previous plan, driven by investments in cleaner generation that is supported by the IRP, the energy legislation that passed last November, and our voluntary renewables program. The distribution plan filed last year outlines our path to building this grid of the future and includes the transition to a smart grid with full automation within five years, resulting in less frequent and shorter outages for our customers.

We are investing $9 billion in distribution infrastructure and targeting significant reliability improvements over the next five years. As Jerry mentioned, we filed an electric rate case last month that represents an important step in our customer-focused investment agenda. This filing addresses our continued infrastructure investments designed to improve reliability and generation investments to bring cleaner energy faster to the state. We will continue to invest in our infrastructure and are focused on improving reliability for our customers, reducing power outages by 30% and cutting outage time in half in the next five years.

We have already made significant progress on this front, and we can see the work that we're doing is having tangible results. For example, an important part of our grid modernization plan is the replacement of our 4.8 kV system. We are making great strides on this front, as the work is progressing across our service territory. And in communities where DTE has completed the conversion work, customers are experiencing a 90% improvement in reliability.

We are also making great progress on our restoration initiatives. We did experience a large storm in January, and our team came together and achieved one of the fastest restorations for such a large storm. I'm extremely proud of the team, given their effort toward the goal of restoring all customers in 48 hours after a storm. So these investments are working and we have a healthy portfolio of opportunities to invest in our system to greatly improve the customer experience. We are committed to modernizing our electric infrastructure to be more reliable and resilient, given increasingly severe weather, while also delivering cleaner energy to meet our aggressive carbon reduction goals and Michigan's clean energy legislation, consistent with our most recent IRP.

Let's move to Slide 7. The electric rate case represents an important step in achieving our reliability commitment, as we continue to build a more resilient and cleaner grid of the future. We are focused on reducing power outages by 30% and outage times by 50% over the next five years. We are planning to accelerate the deployment of technology and the transition to a smart grid, upgrade existing infrastructure with equipment like stronger poles and fiberglass crossarms, which can better withstand extreme weather, rebuild significant portions of the grid and continue to trim trees as they account for 50% of the time customers are without power.

Our goal is to improve reliability to surpass the peer average by 2029. And not only does this improved reliability enhance the customer experience, it has the potential to unlock significant economic value for the state and customers. While we are executing on our efforts to improve reliability, we remain focused on the important transition to cleaner energy while keeping customer impact on bills low. Our current plan involves ceasing coal use at the Belle River power plant in 2026 and converting it to a 1,300 megawatt natural gas peaking resource.

At our remaining Monroe coal plant, we are ceasing coal use at two units in 2028 and the remaining two units in 2032. We are studying a range of possible replacement technologies for the two units of this plant. As Jerry mentioned, we received approval from the MPSC to repurpose the former Trenton Channel power plant into a battery energy storage system project, which will come online in 2026. Battery storage will be an important investment area to support our clean energy transition, consistent with the recent energy legislation and our integrated resource plan.

We have a great plan ahead of us here at DTE, as we transition to cleaner energy resources and remain on track to cease the use of coal in 2032. At DTE, we are focused on continuous improvement and finding ways to improve efficiency in our processes to maintain customer affordability. Based on our recent rate case filing, the forecasted average annual growth of our residential electric bill will likely be less than half the national average. I'm very excited about the opportunities we have in front of us and I'm confident that we will execute on our plan to improve reliability while we continue our clean energy transition and maintain customer affordability.

Now, I'll turn it over to Dave to give you a financial update.

David Ruud {BIO 16089859 <GO>}

Thanks, Joi, and good morning, everyone. Let me start on Slide 8 to review our first quarter financial results. Operating earnings for the quarter were $346 million. This translates into $1.67 per share. You can find a detailed breakdown of EPS by segment, including a reconciliation to GAAP reported earnings in the appendix. I'll start the review at the top of the page with our utilities.

DTE Electric earnings were $194 million for the quarter. This is $93 million higher than the first quarter of 2023. The main drivers of the earnings variance were lower storm costs and rate implementation, partially offset by higher rate base costs and the one-time O&M cost reductions we implemented in 2023.

Moving on to DTE Gas, operating earnings were $160 million, $11 million lower than the first quarter of 2023. The earnings variance was driven by warmer winter weather, higher rate base costs and the one-time O&M cost reductions we implemented in 2023, partially offset by higher IRM revenue in 2024. If you remember, we had a very warm winter last year and this year was even a little warmer than last year and was the fourth warmest on record.

Let's move to DTE Vantage on the third row. Operating earnings were $8 million for the first quarter of 2024. This is a $19 million decrease from 2023 due to an outage at one of our renewable plants in 2024 as well as the timing of RNG project earnings and steel-related sales. We continue to be confident in our full-year guidance for Vantage as the shape of earnings will be notably higher in the back half of the year, driven by the timing of earnings for some key projects in our custom energy solutions and renewable portfolios.

On the next row, you can see Energy Trading finished the quarter with earnings of $5 million. The favorability to 2023 is primarily driven by performance of the physical gas portfolio, which was higher in 2024, as well as continued stronger margins in our physical power portfolio. With these stronger contracted margins, we could experience some upside, though maybe not to the same magnitude as last year.

Finally, Corporate & Other was unfavorable by $22 million quarter-over-quarter, due to the timing of taxes.

Overall, DTE earned $1.67 per share in the first quarter of 2024. While we have faced some unfavorable weather through the first quarter, we remain confident in achieving our annual operating EPS guidance range as we continue to plan conservatively and we are not facing the additional $200 million of incremental headwinds that we were facing from a less than optimal regulatory outcome in the large ice storm in the first quarter of 2023. Our planning for warm weather coming into the year and our efforts to rebuild headroom after experiencing the warm weather this quarter leave us in a strong position to achieve our EPS goals for this year.

Let's move to Slide 9 to highlight our strong balance sheet and credit profile. Going forward, we will continue to invest heavily into our utilities. This customer-focused investment is supported by our robust cash from operations, which is shown on our cash and capital guidance slide in the appendix. Due to these strong cash flows, DTE has minimal equity issuances in our plan targeting annual issuances of zero to $100 million through 2026.

Our long-term financial plan incorporates debt refinancing and new issuances to fund our capital investment plan and is consistent with our 6% to 8% operating EPS growth target. As we came into the year, we had parent company debt financing in our plan. To date, we have hedged or issued about 80% of the debt financing and we did it at all-in rates below what we had in our plan, making us confident that our full-year 2024 debt financing plan will be completed within our conservative planning assumptions.

We continue to manage future issuances through an active hedging program and other opportunities that mitigate interest rate variability consistent with our five-year plan. We continue to focus on maintaining our strong investment-grade credit rating and solid balance sheet metrics, and we target an FFO to debt ratio of 15% to 16%.

Let me wrap up on Slide 10, and then we'll open the line for questions. Our team continues our commitment to deliver for all of our stakeholders. Our robust capital plan supports our customers as we execute on the critical investments that we need to make to improve reliability and transition to cleaner generation while focusing on customer affordability. The 2024 operating EPS guidance midpoint provides 7% growth over the 2023 original guidance midpoint. And we continue to target long-term operating EPS growth of 6% to 8%. DTE continues to be well-positioned to deliver the premium total shareholder returns that our investors have come to expect with a strong balance sheet that supports our future capital investment plan.

With that, I thank you for joining us today and we can open the line for questions.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Shar Pourreza with Guggenheim Partners. Please go ahead.

Q - Shar Pourreza

Hey guys. Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Shar.

A - David Ruud {BIO 16089859 <GO>}

Hi, Shar.

Q - Shar Pourreza

Good morning, Jerry. Good morning, guys. I guess first off is, I guess, how are you sort of thinking about the cadence of maybe CapEx updates in light of the kind of the new legislation? Could we see some adjustments to generation plan CapEx kind of in the near term to align closer to the new construct, or is this kind of further out? And is 3Q or maybe EEI kind of the right cadence for any updates as we're thinking about this new construct? Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

So I'll start and maybe Dave can add to it, Shar. But we did update our capital plan that reflected our IRP settlement from last summer and also the legislation that passed in the fall. So when we updated our five-year plan, much of that capital was included and that created a $2 billion increase that we rolled out. Now I will say that as we get to the last part of that plan and we roll things up for the next five-year period, we do anticipate that the IRP and legislation will create an incremental investment opportunity.

Dave, do you want to add to that?

A - David Ruud {BIO 16089859 <GO>}

Actually, I think that's exactly right. We'll -- our five-year plan was consistent with the IRP. The legislation and the IRP were really close to each other in this five-year period, but they will give us some additional opportunity as we look beyond that.

Q - Shar Pourreza

Yeah. And that was actually more referencing the -- as you kind of roll forward, right? Okay. And then just on -- I guess, on just funding that incremental CapEx as we're thinking about rolling forward, you have that up to $100 million figure through '26. I guess, how do we -- Dave, how do we think about the incremental equity on every dollar that you could increase? Should we be assuming kind of that 50-50 cap structure? Or is there still some avenues to monetize assets like maybe DTE Vantage projects, RNG, or is that kind of off the table at this point? Thanks.

A - David Ruud {BIO 16089859 <GO>}

Well, I'll say that our strong cash flow generation and our strong balance sheet allow us to do this capital investment with that minimal equity. And we've said that zero to 100 kind of fits throughout our five-year plan, the zero to 100 on equity. And a lot of that was because of the IRA and we have a lot of cash coming in from the IRA and the tax credits from the IRA. So we're confident in the capital we have in the plan that we're going to be able to stay within the -- in the equity that we've talked about as well as keep our FFO to debt at that 15% to 16%.

Q - Shar Pourreza

Okay.

A - Jerry Norcia {BIO 15233490 <GO>}

And Shar -- I'm sorry, Shar, go ahead.

Q - Shar Pourreza

No. You go, Jerry. Sorry about that.

A - Jerry Norcia {BIO 15233490 <GO>}

I was going to say in -- in terms of Vantage, certainly we like that business, but if the opportunity presented itself where we could deploy some recycling of capital and create incremental shareholder value, then we're always looking for those opportunities, Shar. So if equity needs were to change, it may make it more impactful, if you will, at the rotation[ph] efforts, but we don't -- but we don't see that right now.

Q - Shar Pourreza

Okay. Perfect, Jerry. That's what I was trying to ask. Thank you so much guys. Appreciate it.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Shar.

Operator

Your next question comes from the line of Nick Campanella with Barclays. Please go ahead.

Q - Nick Campanella {BIO 20250003 <GO>}

Hey. Good morning, everyone. Thanks for taking my questions.

A - Jerry Norcia {BIO 15233490 <GO>}

Good Morning, Nick.

A - David Ruud {BIO 16089859 <GO>}

Hey, Nick. Good morning.

A - Joi Harris {BIO 20564803 <GO>}

Good morning, Nick.

Q - Nick Campanella {BIO 20250003 <GO>}

So I guess you're kind of back to your normal course business plan now that we move past '23. I know you have some execution items out there on the rate case side, but just how do you kind of feel about being able to kind of derisk '25 and beyond here with O&M and otherwise?

A - Jerry Norcia {BIO 15233490 <GO>}

Maybe I'll start again, and my team can add to it. But we've started in a much stronger position this year with the absence of $200 million of headwinds -- the incremental headwinds that we experienced last year. And we are deep in the planning for 2025. And what we're looking to do is really try to create opportunities to improve the levels of headroom for 2025. I mean, this is our typical planning process when we start to feel really good about the current year, we go deep into the prompt year. And I can tell you we're deep into it.

We're starting to feel real good about '25 and putting that together as far as key milestones, both the gas rate case and electric rate case that come late this year and early next year. These rate cases are pretty straightforward in the sense that they're all about capital -- capital deployment and really continuing to rebuild and enhance both the gas infrastructure and our electric infrastructure to be more reliable and cleaner. So much of what we're requesting from our customers is to support those investments. And we've seen support for that in the past. So we feel pretty confident about our 2025 year plan coming together nicely.

Q - Nick Campanella {BIO 20250003 <GO>}

I appreciate that. And then I guess, I know Vantage, you kind of have this 15 million a year growth cadence in the plan, but it does seem that there are some tailwinds to that business from tax credits and then just stronger cash returns in general. Is there just any way to isolate how large that strength is relative to that assumption that you've had in there? And I guess, how would you kind of describe where it puts you overall in the business at the midpoint of that 6% to 8% range? Can you be above that range in certain years? And how should we kind of think about that?

A - David Ruud {BIO 16089859 <GO>}

Yeah, Nick, we -- as you said, there are some good tailwinds in our Vantage business that we're seeing from tax credits related both RNG and to our Custom Energy Solutions business. And also, we have some good growth in that area as well. When we get to the end of the year, we'll talk more about '25 and beyond and how some of those tax credits will come into our plan. But what we do see is that it does give us some more flexibility and some additional confidence in the 6% to 8% as we go through these years. And then as we get beyond some -- still some really good confidence in the long term 6% to 8%.

Q - Nick Campanella {BIO 20250003 <GO>}

All right. I appreciate it. Have a great day.

A - David Ruud {BIO 16089859 <GO>}

Thanks, Nick.

A - Jerry Norcia {BIO 15233490 <GO>}

Thanks, Nick.

Operator

Your next question comes from the line of Jeremy Tonet with JPMorgan. Please go ahead.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Just want to come back to the comments as you laid out with regards to Vantage and the RNG assets and the potential for portfolio rotation there should the opportunity present itself. And just curious, I guess the driver to these comments, have others approached you on these assets or just trying to get a sense for what you see or how that the market is for those type of assets right now?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So Jeremy, I'll just start by saying, look, we like those assets that created extraordinary returns for us and great cash flows and we still see a strong pipeline of growth. And as we -- we're in the market all the time talking about value. And I can tell you that at this point in time, based on our long-term plan for value creation, we don't see the opportunity to create incremental value above what we could expect. Now the assets are extremely accretive, but we always look to create incremental value over our long-term plan. And we don't see that opportunity just yet. But if it presents itself, we will -- we will exercise that opportunity, I assure you. And again, we're in conversations all the time with the market. There's obviously lots of dialogue that happens in this type of marketplace.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful there. Thank you. And then I just want to come back and kind of -- on the back of some of your earlier comments here, talking about the renewable energy plan, just wondering if you might be able to peel back a little bit more of the details here, what we should be expecting, what you're focused on for the upcoming renewable energy plan?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, what I would say that is our voluntary plan continues. I'll just replay this that we have one of the largest voluntary renewable development plans in the country based on the size of our company. And that continues to exceed our expectations. We currently have about 2,400 megawatts signed and 2,500 megawatt goal for the next five years. So you can see that we're getting very close to having to update that plan. So I would say that's one update that we will provide as we roll forward the next five-year plan. In addition to that, the IRP becomes more aggressive as we move forward beyond the current five-year plan. So I think we'll see some tailwinds from that in the plan as well as we roll it together. So those are the opportunities that we see longer term and near term in the renewable energy development plan.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. Thank you for that. I'll leave it there.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question comes from the line of David Arcaro with Morgan Stanley. Please go ahead.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, David.

Q - David Arcaro {BIO 20757284 <GO>}

Hey, good morning. Thanks so much.

A - David Ruud {BIO 16089859 <GO>}

Hi, David.

Q - David Arcaro {BIO 20757284 <GO>}

One more Vantage question here. I was curious, are data centers a customer class that you go after? I'm thinking with custom energy solutions. Just wondering if there's any emerging growth opportunities there.

A - Jerry Norcia {BIO 15233490 <GO>}

So the short answer is yes, but maybe I'll describe this in sort of more global perspective for DTE. I would say both our utility -- electric utility and vantage are well-positioned to pursue these opportunities with data centers here just right here in our backyard and also with Vantage beyond our backyard. But in Michigan, let me focus on Michigan for a minute. We have great access to water, favorable climate conditions and power plant sites with large land positions and grid access that I think will be very attractive and is very attractive to the suitors that we are having conversations with.

We're seeing significant interest and we're engaged in discussions. But I will say there's much changes on the legislation that exempts the sales and use tax. And as you know, you may recall that the House here in Michigan approved the bills in a bipartisan way. They're awaiting approval by the Senate and the Governor has indicated a great willingness to sign those bills if they come to her desk. So I believe then that we're well-positioned in Michigan with both the electric utility and Vantage that could provide on-site energy services. So we're having those conversations. They're early, but the opportunity is sizable.

Q - David Arcaro {BIO 20757284 <GO>}

Great, thanks. That's helpful color. And then I was wondering if, let's see, pivoting to the rate case -- the electric rate case, I was wondering if you could maybe help contextualize some of the Attorney General's comments that were out there on the -- on the size of the request and maybe any early indications or early thoughts on whether you think a settlement could be something that you go after and could be acceptable in this rate case.

A - Joi Harris {BIO 20564803 <GO>}

Yeah. I think the Attorney General -- and good morning -- Attorney General pretty much is on par with things that we expected. We are really -- this rate case, as you know, is really all about our capital. And the capital we're deploying is targeting the distribution infrastructure and we're looking to improve reliability and certainly continue our journey to transition to cleaner energy sources faster for the state. And with respect to the distribution infrastructure, we're looking to reduce power outages by 30% and cut our outage time in half over the next five years.

So the case is going as we had planned, we just filed it. We do know the pre-hearing is scheduled for tomorrow, and we'll start to know this and understand the schedule and then start to get feedback from the interveners and from the staff. So I guess what's in the case in general, aside from the investments that we have in our infrastructure, there's also a storm tracker. The storm tracker is about $65 million. It's based on the five-year average and it's a two-way tracker with a 50-50 sharing of anything above and below rates. So that's really what's in the case, investments that we have in our infrastructure to drive reliability improvements and certainly cleaner generation. You know that the revenue requirement is about $466 million. And we're targeting an ROE of 10.5% with a 50-50 cap structure.

A - Jerry Norcia {BIO 15233490 <GO>}

In terms of prospects for settlement, David, we've got a lot of interveners in this case and we will do all we can to settle. But again, as Joi said, since this case is really primarily about capital deployment and well-understood and well-known agendas for capital deployment, we're confident that even if it goes to its full course in terms of litigation that we will get a supportive outcome. I think the commission has a strong track record in that way and also the administration supports these investments and knows that they're extremely important for the state to pursue economic development and also provide more value to our customers and our citizens here in the state of Michigan. So, we're feeling pretty good about how it's progressing.

Q - David Arcaro {BIO 20757284 <GO>}

Okay, great. Appreciate that. Thanks so much.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question comes from the line of Durgesh Chopra with Evercore ISI. Please go ahead.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey. Good morning, team. Thanks for taking my questions.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Durgesh.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Good morning, Jerry. Jerry and Joi, just on the discussion around on the electric rate case settlement, you guys have discussed or in the past have talked about potentially a partial settlement with some parties and not unanimously. Is that something that you could pursue with this electric rate case?

A - Jerry Norcia {BIO 15233490 <GO>}

We could, Durgesh, and certainly we will. Again, I don't want to hinge too many hopes on a settlement. We will do all we can to settle. I think -- but as we saw in our last rate case, we weren't able to bring all the parties together for various reasons and sometimes that happens. But our opening position and our desire is to settle. But we're also confident that we will get supportive outcomes in the event that there is not a settlement.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Understood. Thanks for that. And then maybe just one question on 2024. Obviously, you expressed a lot of confidence here in hitting numbers. Maybe can you just frame for us what level of contingency, if any, you might have used? I know you go into the year with a healthy level of contingency, but you had milder weather in 1Q. So maybe just frame for us how much of that contingency bucket is still left?

A - David Ruud {BIO 16089859 <GO>}

Hey, Durgesh, this is Dave. How are you? As we came into the year, we did have some contingency for weather. And then we did see weather in the first quarter, as you can see. But as we see that weather, we work right away to rebuild what we can to make sure we're in a good position for the summer. And then -- so we've done that. And then we also have our lean and invest where we saw last year we can go -- we can go deeper if we need to and doing things that we will need to do to make it. So we're in a -- we're in a fine position going into this -- into the summer, and that's when the real weather will happen for us.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Excellent. I appreciate it. High confidence in 2024 is what I hear. Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes.

Operator

Your next question comes from the line of Andrew Weisel with Scotiabank. Please go ahead.

Q - Andrew Weisel {BIO 15194095 <GO>}

Thank you. Good morning, everybody.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Andrew Weisel {BIO 15194095 <GO>}

If I could first -- if I could first ask that O&M question a little bit differently. You were pretty aggressive last year as soon as the year started, given the rate case and the mild winter weather. And obviously, some of that is partly reversed in the first quarter. I guess, the way I would word it is, would you say you're back to normal O&M levels, or are you still sort of catching up from last year? Or again, the[ph] last question asked, are you in lean mode already, given the mild winter 2024?

A - Jerry Norcia {BIO 15233490 <GO>}

Andrew, I'll start by saying this year feels a lot different than last year. We had -- we had weather last year too, but we also had the storm in the first quarter and the rate case. So, we were in a very different position this year. And we did a lot across the company to achieve what we needed to do last year. Some of those reductions continue naturally into this year. But for the most part, those were all one-time savings from last year. So we're back into what I would say is our normal efforts on productivity and efficiency improvement putting into place our lean and invest as needed as we continue to manage affordability and ensure we're going to deliver for our customers. So I'd say it's more into the normal DTE mode of productivity and efficiency improvements.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay, great. Good to hear. And then one very small one. The negative earnings at Corporate and Other, and you have a note that there's a -- it's related to the timing of taxes. Was that in line with your expectations when you gave the full year guidance? And should that fully offset as the year goes on, or is that trending a little differently than you had budgeted?

A - David Ruud {BIO 16089859 <GO>}

That is all consistent with what we budgeted, and it will all reverse by the end of the year, too.

Q - Andrew Weisel {BIO 15194095 <GO>}

Great to hear. Thank you very much.

Operator

Your next question comes from the line of Michael Sullivan with Wolfe Research. Please go ahead.

Q - Michael Sullivan {BIO 20455557 <GO>}

Hey. Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Michael.

Q - Michael Sullivan {BIO 20455557 <GO>}

Hey. I wanted to maybe dive a little deeper on the rate case and some of the kind of non-traditional aspects of it. I guess on the storm cost tracker, what do you think chances are that, that goes through or does this need to iterate through a couple more cases? If you had that in place last year, would that have been enough to put you in a position to have hit the original guide? And then on the IRM, how much is that ramping up from the last case? And do you think that can help space out cases in the future? Sorry, that was a bunch there, but any color would help.

A - Joi Harris {BIO 20564803 <GO>}

Yeah. So your first question around the storm tracker, the $65 million. If that were in place last year, yeah, that would have been helpful, certainly given the cost that we experienced in the first quarter and then throughout the balance of the year. And do I think that we'll get some support for it? I think there's a lot of conversation that happened early on. There is a good chance that we'll get the support. I think we're aligned with consumers and pursuing this type of tracker. And more will come in by way of testimony. We'll know here shortly, once the schedule is set and we start to see the intervener and staff testimony how much support we actually get.

In terms of the IRM, what's in the IRM? For 2026, the IRM includes $530 million worth of capital. And then for 2027, it's $720 million worth of capital. Previously, we had filed for $62 million in 2024 and $290 million in 2025. And we're well-positioned to execute on our '24 plan and we certainly have plans for '26 and '27. Do I think that it will keep us out of future rate cases? I think it will have to continue to grow in order for us to achieve, I think, a delay in the rate case cadence that we have right now. And that will take us several years to arrive at I think that ramp.

Q - Michael Sullivan {BIO 20455557 <GO>}

Okay, great. Yeah, you hit all of them. Thank you for that. And then just one quick one. The renewable plant outage advantage in Q1, was that planned or unplanned? And is it -- if it was unplanned, is it resolved?

A - David Ruud {BIO 16089859 <GO>}

It was unplanned. It actually started last year, and it is resolved. So it's coming -- it's back online for the rest of the year.

Q - Michael Sullivan {BIO 20455557 <GO>}

Great. Thanks, Dave. Appreciate it.

Operator

Your next question comes from the line of Sophie Karp with KeyBanc. Please go ahead.

Q - Sophie Karp {BIO 19699392 <GO>}

Hi. Good morning. Thank you for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Sophie.

Q - Sophie Karp {BIO 19699392 <GO>}

I was just wondering if you could maybe talk a little bit big picture, right, with a pretty -- pretty impressive investment plan that you have over the next few years, right? And I'm sure there's going to be more rate cases coming to kind of account for that. Longer term, what do you see as an offsetting factor, I guess to customer bill increases here? Is that maybe industrial load that's growing and including data centers or some of the other material[ph] automation you're putting in would cut on OpEx? Like if you could give us some sense on kind of like big picture, how would you, I guess, offset customer bill pressures with that?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, I would say -- Sophie, thanks for the question. I mean, we are undertaking a historic transformation here at DTE. As we think about the way we deliver energy, our wires business, the way we're transforming, the way we produce power over the next five years. And as you can see in our capital plan, we have $25 billion in our five-year capital plan with 90 -- more than 90% of it directed at our two utilities. And we also continue to transform the way we deliver natural gas, and that's well underway.

Now in terms of the affordability perspective, you can see we're extremely well-positioned with our bills to our residential customers being well below the national average. Our goal is to maintain that position. And the way we maintain that position is, as you described, a lot of these investments are pointed at assets that will reduce cost. For example, as we continue to improve reliability in the electric wires business, we'll start to see our trouble costs and storm costs that fundamentally will start to decline. And that will help finance this as well. And that's just one example. Even the transition from coal to natural gas and renewables, that's creating significant cost reductions, operating cost reductions. So a lot of our CapEx will yield lower operating costs, which will obviously be transferred to the benefit of our customers.

In terms of revenue growth, we see several of opportunities as we look forward, a lot of discussion in the industry about data centers. Certainly that will help as we start to land those, and we need enabling legislation to get that done. We also see EVs even though they've slowed down a bit, we're still connecting 1,000 EVs a month or more, which is encouraging. And we see that growing and we see the big three here working heavily to bring new models to bear. And as a matter of fact, just quickly here, I was on a video call with the President of

General Motors and he was testing a new EV on their track here at Milford. So lots of development activity still on new EVs and bringing those to market. So I think we'll see that help finance some of these investments.

So I would say two things just to summarize, very significant capital agenda, $25 billion over the next five years, $50 billion over the next 10 years. So if you're an investor of DTE, you should be really excited about long-term investment opportunities and the fact that a lot of this investment will help moderate bills over time.

Q - Sophie Karp {BIO 19699392 <GO>}

Thank you. That's very helpful. I also wanted to ask you a quick question on Vantage, right? So I guess to the extent you keep in this business, how should we think about the size of it relative to the utility businesses that you have? Is there a certain kind of like contribution to earnings that you want to keep it under and not let them grow beyond? Like what is your thinking there?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah. Our investment thesis there is that we want to pursue high-quality investments with low-risk and high returns. And we've been doing that, and that's working out quite well. But we want to keep it at less than 10% -- at 10% or less of earnings contribution as we look forward. And our utilities are growing so quickly that it does give us the opportunity to continue to grow Vantage as well.

Q - Sophie Karp {BIO 19699392 <GO>}

All right. Thank you so much. That's all for me.

A - Jerry Norcia {BIO 15233490 <GO>}

Thanks.

Operator

Your next question comes from the line of Angie Storozynski with Seaport. Please go ahead.

Q - Angie Storozynski {BIO 15115714 <GO>}

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Angie.

A - David Ruud {BIO 16089859 <GO>}

Hi, Angie.

Q - Angie Storozynski {BIO 15115714 <GO>}

Good morning. So just wondering, in the past, I remember there was always this discussion about your approach to co-planned retirements and reliance on the grid versus self-generation. I was always of an impression that you guys were long power. I hope that's still the case. So just two things. As the load growth accelerates and as we are more cognizant of the importance of dispatchable resources and -- is there a chance that you're going to make any changes to generate (Technical Difficulty).

And number two, and as I said, I'm assuming you're a long power and that could sort of attract data centers. Would that simply improve affordability of electric bills for existing customers, or would it be actually incremental to earnings? Again, I feel like we're seeing this pickup in the load growth at our utilities without any necessarily commensurate increase in earnings. And so, I'm just wondering how you envision it, given your generation footprint.

A - Jerry Norcia {BIO 15233490 <GO>}

Great questions, Angie, and I'll take them one at a time. So in terms of reserve margins at DTE, when we filed our last IRP, we filed that with adequate reserve margins as we move through our coal plant retirements. And as you know, we've built a state-of-the-art combined cycle facility that's up in operation as part of our coal plant retirement plan. We are converting the Belle River power plant from coal to natural gas, which will be a dispatchable -- continue to be a dispatchable plant. That will happen in the '25 and '26 time frame.

In addition to that, we've embarked on battery storage, which will provide us short-term dispatchability. So all of that fits into a portfolio between now and 2028 that works extremely well. As we near the end of that -- near the next phase of the IRP plan when we want to exit coal completely by 2032, we will need to build more dispatchable generation. And what we're pursuing there is current technology where we can use natural gas with carbon capture and storage. And we highlighted that in our IRP. So we do see more dispatchable generation in our future, as we continue our exit from coal. That plant will also be available to burn hydrogen, should hydrogen present itself as a viable resource and fuel resource.

In terms of growth, very good question. What we see there is if some of this growth accelerates, we will need to build and the growth that we're looking at like data centers, for example, our 24/7 operations, that will need generation that cannot be -- and power that cannot be interrupted. And so, we will need 24/7 dispatchable -- more 24/7 dispatchable generation and renewable resources. So again, it will be a mix. It does have the potential for accelerating our next IRP should such demand present itself.

In terms of impact to customers, we expect that those investments will pay for themselves and actually provide a benefit to customer bills to some degree. So that's our going-in position and we see that as very possible. And it will also add value to our investors because those investments will be in rate base and they'll attract the typical returns. I think it's a win-win all-around.

Q - Angie Storozynski {BIO 15115714 <GO>}

And based on your discussions, when -- when would this incremental load potentially materialize? Are we talking like 2028 and beyond? I'm just wondering how soon we could see the earnings impact?

A - Jerry Norcia {BIO 15233490 <GO>}

Angie, it's too early to tell. These conversations, as I mentioned earlier, are very early. They are sizable conversations in terms of the load that we're talking about. And again, we're really well-positioned. But in terms of timing, we haven't gotten that far just yet, but I think that will come. I think the key catalyst here in Michigan will be this legislation that needs to pass on the sales and use tax. That's a big deal for the data centers that are considering Michigan and considering investing at some of the sites that we put in front of them.

Q - Angie Storozynski {BIO 15115714 <GO>}

Good. Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

That should happen. We expect that to happen hopefully this summer. But with an election year, it's -- it is a volatile year, as you know.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. Thank you.

Operator

Your next question comes from the line of Travis Miller with Morningstar. Please go ahead.

Q - Travis Miller {BIO 15260606 <GO>}

Thank you. Good morning, everyone.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Travis.

Q - Travis Miller {BIO 15260606 <GO>}

You answered most of my questions and discussed most of the topics I was hoping to hit. So just real quick, I saw residential commercial demand. Looks like it was up. I know this is a small -- relatively small quarter for that, but anything there either relative to plan or notable where you're seeing residential commercial demand pick up a little bit?

A - David Ruud {BIO 16089859 <GO>}

Yeah. We did see a residential up quarter-over-quarter. I would say though for the year, it's -- we're expecting it to come in on plan and probably pretty well consistent with last year. We have a lot of energy efficiency we do and that -- and the growth kind of work together and will be fairly flat to last year.

Q - Travis Miller {BIO 15260606 <GO>}

Okay. That's all I have. I'll leave it there. Thanks a lot.

A - David Ruud {BIO 16089859 <GO>}

Thanks, Travis.

Operator

I will now turn the call back over to Jerry Norcia for closing remarks. Please go ahead.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, thank you everyone for joining us today. And I'll close by saying that we're feeling really confident about 2024 and of course, our long-term plan beyond that in terms of providing value for our customers and for our investors. Have a great morning. Stay healthy and stay safe.

Operator

Ladies and gentlemen, that concludes today's call. Thank you all for joining, and you may now disconnect your lines.