# Q4 2017 Earnings Call

## Company Participants

- Barbara Tuckfield, Director - Investor Relations
- Gerard M. Anderson, Chairman and Chief Executive Officer
- Jerry Norcia, President and COO
- Peter Oleksiak, Senior Vice President and Chief Financial Officer
- Unidentified Speaker

## Other Participants

- Angie Storozynski, Analyst, Macquarie
- Charles Fishman, Analyst, Morningstar
- Jonathan Arnold, Analyst, Deutsche Bank
- Michael Weinstein, Analyst, Credit Suisse
- Paul Ridzon, Analyst, KeyBanc Capital Markets
- Shahriar Pourreza, Analyst, Guggenheim Securities
- Steve Fleishman, Analyst, Wolfe Research
- Unidentified Participant

## Presentation

### Operator

Good day and welcome to the DTE Energy Year End 2017 Earnings Call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Barbara Tuckfield. Please go ahead, ma'am.

### Barbara Tuckfield {BIO 19701481 <GO>}

Thank you, Alicia and good morning everyone. Before we get started, I would like to remind everyone to read the Safe Harbor statement on page two of the presentation. 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 of today's presentation.

With us are Gerry Anderson, Chairman and CEO; Jerry Norcia, President and COO; and Peter Oleksiak, Senior Vice President and CFO. We also have members of the management team to call on during the Q&A.

Now, I'll turn the call over to Gerry.

## Gerard M. Anderson {BIO 1391607 <GO>}

All right. Well, thank you, Barb, and good morning everyone. Thanks for joining us. So this morning, I am going to give you a quick recap of our performance in 2017 as well as an updated preview of our performance in 2018 updated versus EEI last year. I will also describe our tax reform impacts DTE and our customers and then I'll turn it over to Peter, who will review our financial highlights and provide a bit more detail on the impact of tax reform on our 2018 guidance. And then finally Jerry Norcia, will provide an update on our long-term growth plan and he'll wrap things up before Q&A.

So we have a lot to be proud of as we look back on 2017 not only financially but on many other fronts, as well. And as I think will become clear to you, my confidence is high that we are very well-positioned for success in 2018. So I'll start with a quick recap of our accomplishments in 2017, beginning on slide five. I think that those of you who have talked with me over the years know that I strongly believe that the company's success is ultimately determined by the strength of its culture. Well, the culture of DTE is very healthy and that bodes well for the future. In 2017, our employee engagement was in the top 4% of Gallup's worldwide database and that's the highest employee engagement score we have ever achieved in our 20 years of tracking engagement here at the company through Gallup.

Early in 2017, we earned our fifth consecutive Gallup Great Workplace Award. We remain the only utility ever to receive it and we hope we're positioned to receive our sixth consecutive award early this year. We also had one of the safest years in the company's history. We receive the American Gas Association Safety Achievement Award for the second year in a row. Safety is a priority for obvious reasons. But it's also a great indicator of your employees' level of focus and their discipline. We produce some very strong results for our customers in 2017 as well. Both our electric and gas companies were ranked highest in customer satisfaction with business customers in the Midwest in J.D. Power's 2017 study. It is first time in our history that we've held down two J.D. Power number one trophies simultaneously.

Additionally, we ranked second in overall satisfaction with electric and gas residential customers in the Midwest. And our combined ranking of number 1, 1, 2, 2 is the best overall customer satisfaction outcome in DTE's history. We continue to target improvements in these results and the customer satisfaction results. And as we've said before, our biggest lever for achieving those improvements remains modernizing our grid and improving electric reliability. And with that in mind, we have made significant investments in recent years, including last year to improve reliability. I really feel those investments are paying off.

And during 2017, our grid reliability was tested by the most damaging windstorm in our history with near hurricane force winds gusting to 70 miles an hour leaving nearly 40% of our electric customers without power. And during a massive restoration effort, we restored about 70% of our customers in two days and over 95% in four days and that storm restoration effort earned us EEI's Emergency Recovery Award.

And as I look back on last year, this storm restoration effort is one of the things of which I'm proudest. I think you know that historic storms can bring companies in our industry to their knees and put them in the penalty box with regulators and customers and we have the opposite experience last year. We achieved the highest customer satisfaction ratings in our history in the wake of this event and that is the product of tireless effort of our employees to restore our communities as quickly as possible.

Storm is also a testament to our continuous improvement practices. We put a lot of effort into revamping our storm restoration processes and it made a difference and we're focusing those same CI disciplines and productivity and cost containment and efficiency. And the results of those efforts is our ability to have O&M growth that is among the lowest in the industry, which is helping to keep customer bills at levels that work.

I am also proud moving on to slide six, of our efforts to be a force for growth in the communities we serve. So these efforts earned us the number one ranking in the Midwest for corporate citizenship by J.D. Power. And we are making significant investments in Michigan. We spent $1.7 billion with Michigan-based companies in 2017, which exceeded our commitment to the Pure Michigan Business Connect, local supplier initiative.

As I look back to 2010, when we started all of this, we were spending less than $0.5 billion a year with Michigan suppliers. So, it's been a great effort and our seven-year effort to increase spending with those suppliers has created nearly 16,000 jobs in our state. We also announced a broad sustainability initiative in 2017 that will reduce the company's carbon emissions by more than 80% by 2015.

Setting in the process the long-term strategic direction for our power generation fleet and providing leadership and what I consider to be a vital public policy issue. What we've always said that if you serve your customers well and if you manage your costs and rates well and if you're a positive force in your community, your odds of having constructive regulation are a lot higher.

And Michigan's regulatory environment continues to be constructive. That said I will say our commission has a lot on its plate right now. In 2017 Michigan began implementing the energy legislation that passed in 2016, which has significantly added to the workload of our commission. That's essentially added a second job on top of the many cases and issues that they normally work through, and our job is to keep working constructively with them to define good policy outcomes for Michigan.

And in that vein in 2018, we have a few key priorities on the regulatory front. The first is working through how our customers will get a break on their bills from tax reform, which will provide a significant boost to our efforts to maintain customer affordability, as we continue to invest heavily in modernizing aging infrastructure. Those tax reductions to bills are priority one. The second is that we need to finalize the Certificate of Necessity for our 1,100MW new combined cycle plant. So this plant along with our renewable power investments is the way that we will backfill the retirement of three end-of-life coal plants totaling over 2,000 MW that will come offline in the early 2020s. And this Gas plant is also an essential step in the carbon reduction plan that I just mentioned a minute ago.

And then finally, we need to achieve a reasonable rate case outcomes -- outcomes that allow us to continue to upgrade and modernize our infrastructure and invest in the cleaner generation I've just described and improve reliability for our customers. So, I know you all follow our rate case proceedings closely and as is often the case, there are other filed positions out there, but we do remain confident that we're in a position to get good constructive outcomes in these cases that are consistent with our plan.

Now moving on to growth and value creation. As I already mentioned, we continued to invest in renewing our utility Infrastructure in 2017 and that will continue this year. Our non-utility businesses had a number of big wins in 2017. So on our Gas Storage & Pipelines business, our Bluestone Pipeline achieved a 1 Bcf per day delivery milestone with additional expansions on the horizon. We made significant progress on the NEXUS pipeline and its construction and we remain on track for in-service late in the third quarter this year. We also initiated three new projects at our Power and Industrial business including a sizable Energy service project with Ford Motor Company, where we will build on and operate a host of advanced Energy Systems to power Ford's research and engineering center helping them to achieve a nearly 50% energy use reduction.

Power and Industrial also close to RNG or renewable natural gas acquisitions in 2017, which will produce renewable gas to be used in vehicle fleets to meet carbon reduction goals. In 2018, of P&I, we have a number of promising initiatives underway and the same is true for GSP and Jerry will touch on those a bit more later.

So now let's turn over to slide seven to talk about our 2017 financial results and our guidance for 2018. So, operating earnings per share in 2017 were $5.59, marking the ninth consecutive year that we have exceeded our original guidance. And for the first time in company history, we exceeded a $1 billion in operating earnings.

In 2018, tax reform is allowing us to reduce customer rates, which I'll detail a bit further in a minute. Tax reform will also benefit our shareholders, so we've increased our 2018 guidance by $0.10 per share versus the EPS guidance that we provided at the EEI conference last November. This increased guidance to $5.78 is also the new base for our 5% to 7% earnings per share growth projections and it is a 9% increase from the original 2017 EPS guidance that we provided a year ago.

So we'll provide additional color on how the tax bills affect individual business units down the road but that's said, $0.10 per share -- the $0.10 per share increase in our guidance is wholly tied to the non-utility businesses in the early years of the plan. The utilities will begin to contribute to the increase in the latter part of the five-year plan as the rate base funding at the utilities transitions from deferred taxes to a higher mix of equity and debt. So in the latter portion of our five-year plan, EPS accretion from tax reform actually grows to in the range of $0.13 per share.

And then finally, as we mentioned at EEI, we will continue to target dividend increases of 7% through 2020 and the goal there is to get our payout ratio in line with our peer average and then, we'll continue to grow dividends in line with earnings after that.

So before I talk about the impacts of tax reform further, I want to highlight our efforts to maintain customer affordability and I do that on slide eight. So, as mentioned earlier, we're well-positioned among our peers in our cost control efforts, and this is evidenced by our ability to continue to lower customer bills and business rates over the past five years. So average annual residential electric bills have decreased by 5% over the last five years. Gas bills down 9% over the same period, industrial electric rates have declined by 14% through 2017, while gas rates have degrees decreased by 17%. So we've used our CI disciplines to drive these productivity increases, but we are also increasingly doing this work through technology deployment and the modernization of aging infrastructure and then added to those declining gas prices have certainly helped on the affordability front as well.

So this focus along with substantial savings from tax reform that will accrue to customers will go a long way toward maintaining the customer affordability we want. And speaking of tax reform, I'm going to move on to slide nine to provide a little more color on that topic. So, plain and simple, tax reform is good for our customers and it's good for our shareholders.

So let me frame up how it affects each. First, this is a good thing for our utility customers. We plan to pass a 190 million in savings on to our customers, tied to the reduction in current tax expense. And then additionally, we anticipate refunding on the order of 70 million annually as a result of the remeasurement of deferred taxes at the two utilities in future rate proceedings. We're working closely with our regulators right now to determine how we'll flow these tax savings back to our customers.

So the second point I'll make in tax reform is that it's good for our shareholders. As I mentioned earlier, it's $0.10 accretive beginning immediately in 2018 and our 5% to 7% growth builds from this higher 2018 guidance. Operating earnings grow at our utilities over time. For our non-utility businesses, the tax benefit will accrue immediately to us on existing contracts. And I might mention that our existing contracts at GSP have very little exposure to lower FERC recourse rates, the exposures on the order of a $1 million, maybe 2.

With respect to future non-utility business contracts, every project and every negotiation has its own dynamics and includes a lot of variables and depending on the nature of the competition, the tax benefit may accrue to us. If there's higher competition, may accrue to our customer or as I expect will often be the case, we may share the upside the tax changes have created.

With respect of -- with respect to the impact to tax reform on our balance sheet, we rolled out a plan at EEI last fall, the call for an incremental $3 billion in capital and that plan calls for 500 million of equity over the next three years. So as a result of tax reform, we see the need for a modest additional 300 million. So I put the two together 800 million over the next three years. We're doing that because we're committed to maintaining balance sheet metrics that support our current credit ratings and maintaining balance sheet flexibility. That said you know, we always look for ways to minimize equity issuances by strengthening cash flows and we've often been successful in doing just that in the past.

Now, I am going to turn things over to Peter Oleksiak to talk a bit more about our financial results. Peter, over to you

## Peter Oleksiak {BIO 7535829 <GO>}

Yeah. Thanks, Gerry. Before I get into the financial, just one comment on my Detroit Tigers -- never really an offseason in baseball, even though there is no other ground here in Detroit, spring training is on full motion, down in Florida and there's hope springs eternal for my Tigers to beat the odds in 2018. Even with the financials, I'll start on slide 11. As Gerry mentioned 2017 came in strong with earnings of a 1 billion or $5.59 per share. For reference, our reported earnings were 1.1 billion or $6.32 per share. And you can find a detailed breakdown of the earnings by segment including a reconciliation to GAAP reported earnings in the appendix. Overall, our growth segments operating earnings were $981 million or $5.48 per share.

Now, let me touch on each segment in details, starting at the top with our electric utility. DTE Electric operating earnings for the year was $617 million or 5 million over 2016 primarily driven by the cooler weather and higher storm expenses offset by the implementation of new rates. For more detailed year-over-year earnings variance for our DTE Electric segment, you can find that in our appendix. DTE GAAP operating earnings were 149 million or 11 million higher than 2016. This increase was driven primarily by new rate implementation offset by higher depreciation expenses and property taxes related to capital.

Our Gas Storage and Pipeline business operating earnings were 160 million or 33 million higher than 2016. This increase was due to a full year of link earnings and pipeline and gathering growth. Operating earnings for the power industrial businesses were 124 million or 29 million higher than 2016. It's primarily due to both incremental REF sites and volumes and higher steel-related earnings in 2017.

Rounding out our growth segments is the Corporate and Other segment, which is 10 million unfavorable, compared to 2016, mainly due to higher interest expense. Energy Trading had operating earnings at 20 million in 2017, down 5 million. Our trading company contributed 29 million of economic income in 2017, which is aligned with target levels. The Appendix contains our standard energy trading reconciliation on both economic and accounting performance. The overall DTE earned $5.59 per share $0.31 higher per share than 2016 EPS.

Now, I'll switch over to 2018 guidance on slide 12. Gerry mentioned due to tax reform, we are increasing our operating earnings guidance from the early outlook we provided you at EEI. There is no change in 2018 to the guidance for the two utilities, but over time changes in our capital structure will increase earnings as more utility rate basis funded with equity and so the deferred taxes. That's how utility equity will grow faster than rate base growth. Our EPS guidance range is now $5.57 or $5.99 up from a range of $5.48 to $5.88. The $0.10 per share increase from the early outlook guidance, this point is driven by our non-utility businesses. The GSP and P&I businesses see immediate earnings benefit from the lower tax rate of 35% to 21% contributing an incremental 30 million at GSP and 15 million at P&I. Corporate and Other earnings will decrease by 26 million due to the lower tax yield on interest expense.

Energy Trading will also benefit tax reform but we'll have the low end of guidance (inaudible) to how do we conservatively plan and forecast the earnings for Energy Trading. Gerry mentioned earlier the $0.10 EPS accretion we see here in 2018, will grow to $0.13 by 2022 driven by utility earnings growth. So the non-utilities of $0.13 assumes tax benefit on existing contracts only. So we share some of the tax benefits going forward and new deals that could help achieve our long-term non-utility growth targets or potentially provide upside. Our cash and capital guidance for 2018 can be found in the Appendix.

Now I would like to move the balance sheet metrics on slide 13. We've been consistent in our messaging over the years that maintaining a strong balance sheet is a priority. As one of the companies that initiative the benefits from tax reform, we're able to deliver EPS accretion same time maintaining a strong balance sheet metrics. What I know that is benefiting cash in near term is the way that the AMT credits will work. We'll get a cash refund of 300 million over four years, which partially offsets lower cash flows of utilities.

At EEI, we announced 500 million of equity needs through 2020 to fund the increase in our investment plan. As Jerry described as a result of tax reform, we will be issuing at additional 300 million over the next three years. For the calendar year 2018, our plan is to issue 300 million of equity using internal mechanism. One way to think about it is that there is an additional $100 million that is due to the tax reform embedded within that 300 million.

We're committed to maintaining a strong balance sheet and we will target FFO to debt of 18% to 19%, which is in line with metrics needed to support our current credit ratings. For the next several years, our pension will be fully funded, which creates some additional flexibility in our FFO to debt targets and keep this well within the range of our current ratings. We look for ways to limit the amount of equity needed over the next three years but under any outcome tax reform is good for utility customers and good for shareholders.

I like to turn over to Jerry Norcia, who will go over the long-term plan for producing this earnings and dividend growth.

## Jerry Norcia {BIO 15233490 <GO>}

Thank you, Peter. Those of you who have listened to our calls in the past heard us talk about the transformation of our utility assets over time, a transformation that aims to produce excellent customer outcomes while also achieving substantially higher productivity levels. This will occur over the next 10 years and will be driven by significant investments and infrastructure for our customers.

We're defining customer operational productivity goals to guide this transformation. And as Gerry mentioned earlier, we filed a Certificate of Necessity with the MPSC to build a 1,100 MW natural gas-fired power plant. That planned along with renewable investments will backfill the retirement of the three coal plants in the early 2020s.

The nearly $1 billion project is scheduled to break ground in 2019 and will create hundreds of Michigan jobs during construction. Natural gas-fired plants will be an important complement to our renewable power investments in the decades ahead as natural gas offers an affordable, abundant, low carbon domestic fuel source and is a reliable 24/7 power source for our electric customers. We're also planning to construct up to 4,000 MW of additional renewable energy capacity over time. The next major renewable investment for both wind farms will occur in 2018 and 2020. In fact, we have just finalized our plans for $260 million wind investment this year.

Other electric company will also continue to invest heavily in grid hardening and grid automation. As the infrastructure ages, there is an ongoing need to invest in modernizing the system. As we invest in the distribution system, we will be very focused on ensuring affordability for our customers. And we will do this through substantial productivity increases over the next decade.

At DTE Gas, we continue to focus on accelerating the replacement of our aging cast iron and unprotected steel pipe. In our last gas rate case, we propose accelerating from a 25-year main renewal cycle to a 15-year cycle. At the same time, we continue to work to automate our gas meters and move them outside to reduce costs. Finally, we will continue to invest in pipeline integrity to harden the system and ensure a very high standard of public safety.

Now I'll move on to the non-utility businesses on slide 16. As Gerry mentioned, we had many accomplishments at our non-utility businesses last year. At Gas Storage and Pipelines, much of our focus over the next few years will center expanding our two newest growth platforms Nexus and the Link pipeline. In 2017, we saw NEXUS pipeline construction advancing and on track for a late third quarter in-service date, we are progressing on pipe construction, right-of-way clearing, compressor station work and some horizontal directional drills this winter. In 2018, we are seeing continued progress of both NEXUS and Link. NEXUS is finalizing agreements to construct laterals to two new large industrial customers.

We also told you late last year that we're in discussions with several producers about NEXUS capacity. The discussions continue to advance and we are now exchanging proposals with producers to fill additional open capacity, giving us great confidence on our plan for this asset and continue to be pleased with the interest in NEXUS as well as the construction milestones we are achieving. We consistently said that the intensity of discussions around the remaining NEXUS capacity ratchet up as the pipe moved in construction and that's what we're seeing play out. Since we are under strict confidentiality agreements on these deals, we won't able to provide any additional details at this point. As the deals become final, we will provide more information.

So moving onto our Link asset, we recently doubled capacity with an existing customer at an attractive rate. At our Bluestone asset in Pennsylvania, we achieved a 1 Bcf per day delivery capacity milestone in 2017. It's pretty exciting given that this pipeline started with a 0.3 Bcf per day capacity. We are expanding by an additional 0.1 Bcf per day in 2018. We also have a newly signed precedent agreement with APV Renaissance for new lateral pipeline to connect to their power plant. So all in all, I feel very good about the progress we made at our GSP business and I continue to feel we are on track to achieve our future goals.

I'll talk about progress with our power industrial business on slide 17. We have already talked about the new projects that we originated in 2017. In November at EEI, we told you that we needed to originate $45 million of net growth by 2022, and that was to achieve an income target of 65 million in 2022. 15 million or one-third of that growth was originated last year including a state-of-the-art central energy plant and two renewable natural gas projects that Gerry mentioned. We also feel we have a good line of sight on the next $15 million in 2018 and we are well advanced with that with projects in late-stage discussions. So we could have two-thirds of that 22 growth target originated by the end of this year.

Tax reform may also help with this P&I growth given that we may share the benefit with our customers on future projects. Back in November, we also told you about five cogeneration sites we are in advanced discussions with as well as four renewable natural gas projects that we are pursuing. Now I am pleased to tell you that we are finalizing negotiations on those new RNG projects. We're also firming up agreements for a new large-scale energy project. Given this start to 2018 and the fact that we have additional projects, I feel good about how P&I is positioned for the future growth. Now I'll turn over to slide 18 to wrap up.

Once again our strong 2017 extended a track record of exceeding original guidance. We're one of the companies in our industry for whom tax reform provides benefits for our customers, while also benefiting investors. We increased our 2018 operating EPS guidance by midpoint by $0.10 per share, which will serve as a new base for our 5% to 7% operating EPS growth target through 2022. Strength of our utilities and the growth of our non-utility businesses and a strong balance sheet, along with an annualized dividend growth target of 7% gives me confidence that we'll continue to deliver premium shareholder returns.

And with that I'd like to thank everyone for joining us this morning. So Alicia, you can open up the line for questions.

# Questions And Answers

## Operator

Thank you, sir. (Operator Instructions) We'll go first to Julien Dumoulin-Smith of Bank of America Merrill Lynch.

## Q - Unidentified Participant

Good morning, everyone. It's Josephine here. How are you all?

## A - Unidentified Speaker

Good morning.

Good morning.

## Q - Unidentified Participant

Just a few questions here this morning. First, on the utility side, as you're thinking about the upcoming RFP and the five-year distribution plan, are there any additional CapEx opportunities that could develop from that. And then secondly, are there any regulatory mechanisms that you're looking for under that plan to ensure more current recovery of the spend?

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

So I'll start with the distribution plan. We are working very closely with the Public Service Commission Staff right now. In fact wrapping up a process, where we've been laying out the distribution system needs over the next five years. It's been a really healthy open process. And I think what that is going to do is essentially lay the logic for the capital expenditures that we have in the plan that we've laid out for you.

And then on the IRP front, I think the IRP is consistent with -- with what we have said before that we're going to retire -- if you look over the next five years or so, retire those two coal plants, we need this gas plant to backfill those. We will continue to add renewables, both up through 2021 when the state target is 15% but really beyond that as well. I fully expect that we'll continue to add additional renewables as the price on those continues to go down and some of our customers want us to do. So as far as additional CapEx to be honest, I think the plan we've laid out as one that's -- it's got a healthy amount of work to renew our utility Infrastructure and that's what we're focused on executing.

## A - Peter Oleksiak {BIO 7535829 <GO>}

I think -- this is Peter, Josephine -- I think you also asked about a recovery mechanism. This definitely will lay the potential groundwork for that and that we are in some early discussions with the staff and the commission on that.

## Q - Unidentified Participant

Awesome. Great. And then on the P&I side, I'm curious if you could just give a little bit more color on the guidance increase. Is that just tax reform or does that also include volumetric and efficiency improvements?

## A - Peter Oleksiak {BIO 7535829 <GO>}

It is just tax reform.

## Q - Unidentified Participant

Just tax reform, okay. Awesome. And then just one last question for GSP, as you're earning AFUDC on NEXUS right now and then the project moves into service, how are you thinking about the return profile on the project? Is there going to be any shift there in the earnings from NEXUS?

## A - Peter Oleksiak {BIO 7535829 <GO>}

The AFUDC is earned over time as you're doing your capital spend. So when you look at a year-over-year, there's not going to be a material change between the two and as we put in service, it gives them just the negotiator rates we have and it's a healthy targeted cost of capital, we have on the project right now. More than anything, it really lays the groundwork for additional expansions and investments around that platform.

## Q - Unidentified Participant

Awesome. That's all at my end. Thank you very much.

## Operator

We'll go next to Michael Weinstein of Credit Suisse.

## Q - Michael Weinstein {BIO 19894768 <GO>}

Hi, good morning.

## A - Unidentified Speaker

Good morning, Michael.

## Q - Michael Weinstein {BIO 19894768 <GO>}

Could you just remind us the extra equity -- the 300 million of incremental equity and in addition to this 500 million at EEI. What's the method for that, is it secondary or is it ATM?

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

So we expect this year that it will be internal mechanisms. We have capacity for about 300 million in internal mechanisms although it varies year-by-year due to pension contributions and other things. But I think for the foreseeable future, we expect a vast majority would play out that way.

## Q - Michael Weinstein {BIO 19894768 <GO>}

Even the incremental amount?

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

Yeah, yeah.

## Q - Michael Weinstein {BIO 19894768 <GO>}

Okay. Got you. And on the P&I side, I think you said that -- the two-thirds by the end of this year towards the goal?

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

That's right, towards that goal.

## Q - Michael Weinstein {BIO 19894768 <GO>}

And what -- how long do you think it will be before you actually finish it completely?

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

Well, our forecast is to originate the 45 million by 2022. So I would say we are well in progress, if -- with having two-thirds completed this year and we'll have to revisit our targets the end of this year to see if there's any potential upside to that.

## A - Unidentified Speaker

Yeah. We've been -- gotten a fast start on it. So we said last year 45 million incremental needed, but we really think at the end of this year we will be about 30 million into the 45, two years into the five years. So we'll just keep evaluating if the market keeps offering us opportunities at that pace as Gerry said there could be some upside to what we talked about.

## Q - Michael Weinstein {BIO 19894768 <GO>}

Okay. And maybe you could just remind everybody, look what you're -- what your thoughts are on M&A these days. There's a lot of activity going on in your region, a lot of speculation, I'm just wondering what your thoughts are on M&A in the industry as a whole right now is based on. Especially now and with rates starting to rise and the valuation of the group as a whole, how do you view things?

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

I view it pretty much the same way we always have. So we put a high bar out there for something that we think would actually be additive to what we think is a good strong plan that we have. And so we look, but I think the characteristics you need are something that actually genuinely brings efficiency and cost reduction, and maybe a handful that could do that, but as you know you can't pay some of these really high premiums for that or all of that is given away and more. So if we ever found one that was great for our customers through efficiency and could be done at low premium, maybe. But just say, we put a high bar out there for it, and don't see it at the forefront of our strategy, right now.

## Q - Michael Weinstein {BIO 19894768 <GO>}

Okay. Thank you very much.

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

Thank you.

## Operator

We'll go next to Shahriar Pourreza of Guggenheim Partners.

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

Good morning, Shahriar.

## A - Unidentified Speaker

Good morning, Shahriar.

## Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning guys. How are you doing? So you guys have never been capital constrained, right? Rates have always sort of been the governor. 3% reduction in rates from tax reform is somewhat material. So does this sort of provide an opportunity for you guys to accelerate some spending opportunities, or asked differently, many utilities seem to be submitting plans, to give back the tax savings through time, and they seem to be getting some preliminary support from the various commissioners. So why not retain some more of the savings and redeploy into sort of infrastructure needs, since you sort of have the opportunities to do so?

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

When you say retain some of the savings, what do you mean Shahriar? Just unclear on the question you are asking?

## Q - Shahriar Pourreza {BIO 15145095 <GO>}

Well, sort of subsidized additional opportunities to accelerate some of the infrastructure needs that you have?

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

Yeah, I guess our reaction to this is that, we are actually very happy to have this reduction go back to customers and to have it go back quickly. Because as you said, the thing that we worry most about, as we go through this, having infrastructure renewal cycle, is keeping it affordable. I think the one thing that differentiates, and actually if you look back over time, companies that do well, as you go through a heavy investment cycle versus those that don't, is how they manage it for the customers, whether their customers and regulators remain supportive. And a lot of that is tied to how affordable it remains. And so when we saw this, our reaction was good, it helps us achieve our targets for rates and rate levels.

Now I think what in the end that's going to do is make feasible in a way that works for everybody, the capital plan that we have laid out here over the next five years, which is we have been saying, that's some very heavy infrastructure investments embedded in it. So that's the way we are thinking about it, and when we generally get asked about upside as a result of this, we are trying to retain some of the tax savings for upside. That's not the way we are thinking about it, we are really thinking that it's a really helpful aid to the plan we have laid out, in terms of keeping things affordable.

## Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. So supportive of the plan, but not in any way to accelerate the plan. Got it. And then just on NEXUS, Jerry, I appreciate the sensitivity of the discussions. But on sort of the conversations you are having on the demand pull and supply push sides, can you at least sort of disclose if these opportunities are enough to finally fully subscribe the pipe?

## A - Jerry Norcia {BIO 15233490 <GO>}

They certainly are. The size of the volumes that we are discussing would fill the pipe.

## Q - Shahriar Pourreza {BIO 15145095 <GO>}

Oversubscribe the pipe or just fill the pipe?

## A - Jerry Norcia {BIO 15233490 <GO>}

We will start with fill it first.

## Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay, great. Thanks guys.

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

Thank you.

## Q - Shahriar Pourreza {BIO 15145095 <GO>}

Thanks, sir.

## Operator

We will go next to Jonathan Arnold of Deutsche Bank.

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

Morning, Jonathan.

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

Yeah. Good morning guys. You just answered my first question, so moving to some of the P&I tax uplifts. Could you just unpack the mechanics behind that a little bit, given the proportion of the earnings coming out of REF, just how we get -- where the uplift is coming from?

## A - Peter Oleksiak {BIO 7535829 <GO>}

Yes, Jonathan, this is Peter. A portion of our facilities we have there, we essentially have sold down from a partnership perspective. So we have current kind of cash and earnings related to that, that's where the uplift is coming from.

Now as we mentioned, the $0.10 accretion here will go to $0.13 to essentially, that managed utility, and that REF will be replaced by utility accretion at the back end of the plan.

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

So effectively the incremental coming, because you have to make up if the REF piece steps down?

## A - Peter Oleksiak {BIO 7535829 <GO>}

Right, REF -- there is some tax benefit from REF, just because -- with those facilities that we have partners with.

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

Okay. But that's what's driving the uplift in 2018 (inaudible) in the partnership?

## A - Peter Oleksiak {BIO 7535829 <GO>}

One way to think about it, by 2022, that is gone. But that's fully replaced and then some by utilities.

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

Right. Less than being $0.03 incremental, it's actually more than that.

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

So its -- just to add there, obviously there on the partnership positions, there is some tax savings. We also have that are in REF, where there's obviously tax benefits as well on your current contracts. And other point Peter is making is, we go through the transition Jerry Norcia was describing is we had RNG projects and industrial projects and so forth and current projects of that type, we have benefit on future projects. I expect it'll be a shared benefit, where some of that goes to the customer and some of that comes to us.

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

Okay, great. Thank you. And then just another -- a little tax detail. So, I think you mentioned that you have assumed, it's 190 million upfront for the reduced tax charge, and then an assumption at $70 million a year on deferred excess flowing back. Can you just unpack that between protected and unprotected, and then what sort of time frame you assumed on each?

## A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah. There -- but maybe I will give you the broad context. There's going to be three different proceedings. One is going to be on the current, which is the 190 you mentioned. So there'll be proceedings in terms of how do we give that back to customers. So maybe a little bit different for each of our utilities, because where they are at in terms of the rate case cycles. There will also be a portion on that current, that will catch up from January 1, and then on the deferred, as you were talking about, there is going to be a separate proceeding second half of the year. There is -- good majority of it is to protect the depreciation, probably two-thirds of it, some of it isn't. But we have history and precedents around all of that being normalized. So we expect all that could play out in the proceeding in the back half of this year.

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

And then, in your 70 million, what do you assume about the one-third that's not protected?

## A - Peter Oleksiak {BIO 7535829 <GO>}

It will be normalized -- it's part of the 70 million, we have 1.4 billion roughly at electric company, 300 million at the gas, so combined 1.7 billion that we are going to need to give back to customers over time -- that includes both protected and unprotected.

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

A third of which is unprotected and for the time being, you are assuming that's also normalized. Am I getting that right?

## A - Peter Oleksiak {BIO 7535829 <GO>}

Yes. And there was precedents around that back in 1986 when we did this with the commission.

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

Great. Okay. Thanks guys.

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

Thank you.

## Operator

We will go next to Paul Ridzon of KeyBanc.

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

Good morning, Paul.

## Q - Paul Ridzon {BIO 1984100 <GO>}

Good morning. I think you just answered my question. But the $0.13 is inclusive of the $0.10 at unreg, is that correct?

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

Correct.

## Q - Paul Ridzon {BIO 1984100 <GO>}

Okay.

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

Yeah, that's correct. So we get an immediate $0.10 and then a slow build to $0.13, as we play through the five years.

## Q - Paul Ridzon {BIO 1984100 <GO>}

Slow build from $0.10 to $0.13?

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

Correct.

## Q - Paul Ridzon {BIO 1984100 <GO>}

And then, looking forward, when you report first quarter earnings, if there is no resolution of tax issues at the commission, how should we think about you'll just -- at the utilities, just strip that out, it's -- like kind of reserved revenues?

## A - Peter Oleksiak {BIO 7535829 <GO>}

That is correct. It's a regulatory liability from an accounting perspective. So we will be putting that on the balance sheet to get back to our customers through these various proceedings that I described earlier.

## Q - Paul Ridzon {BIO 1984100 <GO>}

Congratulations on a solid year and raising guidance, and that's all I have. Thanks.

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

Thank you.

## Operator

We will go next to Steve Fleishman of Wolfe Research.

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

Hey, Steve.

## A - Unidentified Speaker

Hey, Steve.

## Q - Steve Fleishman {BIO 1512318 <GO>}

Hey, Gerry. Everyone, good morning. So first question, just in clarifying the growth rate guidance. The 5% to 7% off of the 5.78% in 2018, so that number obviously includes trading. So I assume you are kind of giving -- when you are giving that, you are including trading kind of throughout the period. And if you want to exclude that, we just take that out and grow 5 to 7?

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

But we do include it. So we are growing up the total number, trading for a couple of percent of our total, so.

## Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. So I guess, and -- it's a small thing, but in theory, it's in fact -- you are probably not assuming that growth and the businesses ex-trading are probably growing a little quicker?

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

Could be or we might see a little growth in trading. I mean, when do you do the math, it's a few million dollars, so it just doesn't swing much in the growth.

## Q - Steve Fleishman {BIO 1512318 <GO>}

Okay.

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

So we're looking for them to do what they've done , it's 25 million to 30 million of cash a year that we can use to reduce equity. That's the rule.

## Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then just to clarify, the bullet in the slide on tax on the improvement in the economics, future non-utility projects may be shared with customers. Is this mainly in the P&I segment?

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

I think it's both. If you think logically about it, every project has lots of variables that come into determining your return on capital. But one of them is competitive dynamics, and how many opportunities -- they are competing for the opportunity. And so if there is low competition presumably, and you really are the one best suited to serve the need, you might have a higher share. If high competition, the share might be lower. And then I think a lot of cases that we play out in, will see a split of that value. So we try to be conservative and not play a lot of that future tax value on future projects into our projections. But I think we're going to -- I think we will see it, and will help us in our achievement.

## Q - Steve Fleishman {BIO 1512318 <GO>}

But you are not talking to an impact on kind of current non-utility projects, will you share some?

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

The ones that are already existing are in hand with negotiated contracts in place, will obviously get the benefit of that.

## Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah. Okay. And then, can you just talk a little bit to the ALJ and your electric case? And I think they came out with like a 9.6 ROE, which was not only down a decent amount from where you have been, but also lower than CMS like, what is the explanation for that, and how are you feeling about the outcome?

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

So you know we are in an active case, Steve, so I am probably going to leave most of our commentary for that venue. But that said if you have watched our ROE proceedings and our rate case proceedings over the year, it's not unusual to see positions out there that are lower than what we have or what we've filed for. But when you set back from all of that, I feel we are going to get a constructive set of outcomes in our Electric and Gas cases, and constructive on the ROE front that will support the plan we put out for the year or so.

## Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then last question, just is on -- in the Midstream business, just high level, maybe you could talk to trends that you are seeing. Obviously we have a lot more gas production, we have demand increasing, but bottlenecks starting to get -- slowly get resolved. Just what are you thinking strategically next for the business? Are you worried about pricing and too much supply, or do you still see a lot of opportunity to grow the business?

## A - Jerry Norcia {BIO 15233490 <GO>}

Certainly, with our current slate of assets tied to the Marcellus and the Utica, I kind of see a world-class resource connected to very proximal markets on the East Coast as well as Midwest, and markets in Midwest, which is what our NEXUS pipeline is pointed to, you are going to see a fundamental shift from coal use to natural gas use over time, as these plants age out, as you can see from our own sort of plants for generation.

So I see very strong supply growth as well as strong demand growth in the regions that we are going to serve with NEXUS. And I think that will bode well for additional bolt-on projects for NEXUS, as well as our Link asset, which is already connected to the NEXUS. So I see a really strong story in our future. I think also, the evolution of the export market in the natural gas industry, I think will be an outlet for what continues to be a growing supply of natural gas in North America.

So overall, I feel our Midstream business with its sphere of influence if you will, in the Great Lakes region, is well positioned to capture that growth, both supply and demand.

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

Steve, just to add on to that, our position in Pennsylvania, Bluestone and Millennium, we hit a record production level last year, and as we mentioned, we got pulled for more there, down on our Link assets. We just had a producer there double their position with us.

And if you come up to NEXUS, one of the interesting things there is to, I think in a region where output is growing rapidly, the producers are definitely scaling up operations there. And NEXUS is, for the next couple of years, likely to be the only path out with any capacity. Now, we're working to make sure that capacity doesn't exist for very long, as we fill up the pipe. But we are an option out of the region, or out of that zone right now, as it scales up production.

## Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Thank you.

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

Thank you.

## Operator

We will go next to Angie Storozynski of Macquarie.

## Q - Angie Storozynski {BIO 15115714 <GO>}

Thank you. I actually wanted to follow up on NEXUS. So I heard your explanation, thank you. Now the contracts with Industrial customers are for the facility existing capacity or for expansions of NEXUS?

## A - Peter Oleksiak {BIO 7535829 <GO>}

They will be both.

## Q - Angie Storozynski {BIO 15115714 <GO>}

And can you give me a sense what type of industry this is, that would be willing to sign contracts for gas?

## A - Peter Oleksiak {BIO 7535829 <GO>}

Angie, once we execute the agreements, I'd be happy to disclose that. But at this moment, we can't.

## Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And so -- and separately on the drillers' demand for -- from capacity on your pipe. It seems like Rover is still not fully subscribed, so and again, it seems like Rover's pricing is a little bit lower than yours. So what would be the advantage for a driller to choose your pipe versus Rover?

## A - Jerry Norcia {BIO 15233490 <GO>}

Well, let me be clear, Rover's rates are not lower than ours. And I think you and I have had this conversation before that, our rates are very competitive with Rover. So we are happy with our position in the market that way. And in addition to that, we've got much greater significant -- or much more significant market access along the pipeline. And we've got 13 interconnects that we are building immediately, and all of those interconnects with large demand centers, are already starting to play into some of the discussions that we are having with counterparties. So we feel very good about filling this pipe.

## Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And then lastly, when you show us the net income range for '18 for the GSP segment, does it account for the incremental long-term contract, or is basically the delta year-over-year largely filled by short-term contracts?

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

Are you asking about long-term contracts on NEXUS or other pipes?

## Q - Angie Storozynski {BIO 15115714 <GO>}

I mean, other pipes as well. I mean, will they materialize between now and the end of the year, and to contribute to '18 net income?

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

So NEXUS not materially, since it goes into service so late in the year. So it's really not relevant for '18. And the other pipes do have growing positions. So for example, we mentioned Link in a growing position there. Now that will take a little time to come into, but could contribute, some are going to be growing over the Bluestone. So the projections we have for both '18 and future years are taking that sort of growth and those sorts of contracts into account. But the contracts on NEXUS, just isn't enough time in 2018 for those to really be material.

## Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. Thank you.

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

(inaudible).

## Operator

We will go next to Charles Fishman of Morningstar.

## Q - Charles Fishman {BIO 4772353 <GO>}

Good morning.

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

Good morning.

## Q - Charles Fishman {BIO 4772353 <GO>}

I am assuming that, since I didn't hear any comments towards this, the timing of the REF phase-outs has not changed with tax reform?

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

That's true.

## A - Peter Oleksiak {BIO 7535829 <GO>}

It has not, it has not.

## Q - Charles Fishman {BIO 4772353 <GO>}

Okay, that is what I was -- and then second question on the P&I, getting to two-thirds of the way to your goal by the end of the year, did you say that's an expansion of the forward agreement or is that a new project you intend to announce?

## A - Jerry Norcia {BIO 15233490 <GO>}

Well, these are -- the one project that we are looking to finalize agreement -- we're very close to finalizing agreements with an R&D project currently, and we are looking at other industrial energy projects in the region.

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

We have a number of cogen projects for example, and one of the discussions with an industrial counterparty is -- I guess we'd just say very late-stage development. So I guess the likelihood of them going forward is high. I mean, we were a year ago forward at this point, it's the way that project (inaudible). So we've got one of those, we have got an RNG that's -- that we think about finalized. And then more of each of those behind those two projects.

## Q - Charles Fishman {BIO 4772353 <GO>}

But the -- so there is a project in the mix, and there are still these projects coming out that are similar to Ford, where you build a co-generation facility for a big Industrial complex?

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

That's correct.

## Q - Charles Fishman {BIO 4772353 <GO>}

Okay, that's all I have. Thank you.

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

Thank you.

## Operator

That is all the time we have for questions. At this time, I would like to turn the call back over to our speakers for any additional or closing comments.

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

Well, look, thanks very much for joining us this morning. Hope you feel that the way we wrapped up '17 was positive. And as I said at the outset, I feel great about our position for 2018. I think we are lined up for another really good year this year. And we look forward to describing all of that to you in future discussions. Thanks for joining us.

## Operator

That does conclude our conference for today. We thank you for your participation.