Q2 2019 Earnings Call

Company Participants

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

Other Participants

- Andrew Weisel, Analyst, Scotia Howard Weil
- Constantine Lednev, Analyst, Guggenheim Partners
- David Fishman, Analyst, Goldman Sachs
- Gregg Orill, Analyst, from UBS
- Michael Weinstein, Analyst, Credit Suisse
- Paul Patterson, Analyst, from Glenrock Associates
- Praful Mehta, Analys, Citigroup

Presentation

Operator

Good day, and welcome to the Q2 2019 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Barbara Tuckfield. Please go ahead.

Barbara Tuckfield {BIO 19701481 <GO>}

Thank you, Christian. 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, 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 of today's presentation.

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

And now I'll turn it over to Gerry Anderson to start our call.

Gerard M. Anderson {BIO 1391607 <GO>}

Well, thank you, Barb. And good morning, everyone. So I think you're all aware that I turned over the CEO role to Jerry Norcia effective July 1st. So I have long believed that one of the most important responsibilities that I had as CEO was to, at some point, hand off the job to a great successor at the right time, and I am fully confident that I am doing that. Now, one of the characteristics of strong healthy companies is that they execute seamless leadership transitions, transitions that don't involve a lot of drama or sharp shifts in strategy. We've been preparing for this transition for years literally, almost since the day I took over. And back in December of 2018, I told the Board that July 1st of this year felt right to me.

So it's been a real honor to be DTE's CEO for the last nine years. I'm extremely proud of what the company accomplished for you during my tenure, but DTE now has a great new CEO, and I am confident that he'll do great work for you and continue our pattern of outperformance. Jerry and I have worked closely together for more than 15 years. He is a great business leader. He also has a big heart for the people of DTE and for the communities we serve. He brings great experience to the role. He led our Gas Storage & Pipeline business as its President, and then was President of our gas utility, our electric utility, and then eventually played the role of President and COO of DTE. He is a strong businessman. I think those of you who've met him know that. He also has the right values to lead this company. And so the CEO role will be in good hands as Jerry continues executing the vision that we share together for DTE.

That said, I'm not leaving DTE Energy. Moving forward, I'm going to serve as the Company's Executive Chairman, and in that position, I'll act as an advisor to Jerry and business and strategic issues. So he and I will remain in close contact, but I'll bring a particular focus to DTE's community, state, federal, and broader industry roles. One of the most important things an energy company can have for its success is a positive context within which to operate, a context within which your community leaders and state legislators and regulators and federal players view you as a good company trying to do the right things, and understand that you actually are doing that, and therefore, want to see you succeed. And I continue to focus on that. I'll continue to be a strong advocate for DTE's success, but I'm going to step back from many of the day-to-day roles I played as CEO. That's Jerry's work now, and I'm fully confident that he will do it very well. It's been a pleasure working with and for all of you over the years, and I look forward to continuing to see many of you from time-to-time on the road, at IR events.

And with that, I am going to turn things over to Jerry Norcia.

Jerry Norcia {BIO 15233490 <GO>}

Well, thanks, Gerry. And good morning, everyone. I'm very grateful for the confidence that Gerry and the Board have in me to lead this company through what I believe is such an exciting and transformative time in the energy industry. DTE's top priorities remain the same; to be a great energy company, continue to foster a world-class employee engagement culture, to drive customer service excellence, to be a force for good in our communities, and to deliver distinctive shareholder returns.

Also, I want to thank Gerry for his mentorship and support since I joined DTE Energy. In his tenure leading DTE, Gerry led the transformation of our culture, drove a highly successful growth agenda and put us on a path to reduce carbon emissions more than 80% in a way that also supports customer liability and affordability. He readied DTE for long-term success and I look forward to building on a strong foundation that he set. I'm very optimistic and excited about the future of DTE because of our best-in-class team of employees as well as the historic opportunity to reinvent the way we produce and deliver energy for our customers. I am honored to be leading this great family we call DTE now and into the future.

This morning, I'm going to give you a recap of our performance for the second quarter of 2019 as well as an update on our long-term growth plan. Then I'll turn it over to Peter, who'll provide a financial review of the quarter and wrap things up.

So let me start on slide four. We continue to make great progress on several key fronts. Our second quarter financial results are solidly on track with our plan. With one half of 2019 behind us, I'm confident that DTE is well positioned to raise our EPS guidance midpoint by $0.05. This guidance raise is mainly based on colder winter weather at the gas company and warmer late June and July weather at the electric company.

This increase takes into consideration the significant storms we experienced this past weekend, and in total, 600,000 customers were impacted. It all should be restored by the end of the day. We've made really good progress on this front. I want to express my gratitude to our employees, contractors, and nearly 900 workers from as far as Georgia and New York leading our restoration efforts. In total, we had well over 2,000 people deployed in the fields and many more in our operation centers working around the clock to get service restored to our customers.

Longer term, we continue to target a 5% to 7% operating EPS growth rate through 2023 with 2019 original guidance as a starting point for this growth. All of our business have accomplishments to note this quarter, and I will give you a brief overview when we go into more detail on the following slides.

So back in May, DTE Electric received a constructor rate order from the Michigan Public Service Commission that supports the modernization and automation of our grid. It also supports an aggressive tree trim program, both of which will result in significant improvements in the service reliability to our customers. Included this order was approval for Charging Forward, which is our new program for electric vehicles. This program will bring the benefits of EVs to more Michigan residents and businesses through incentives, customer education, and charging infrastructure growth. We also filed a new rate case in July at the electric company and we recently received approval for the purchase of three new Michigan wind parks.

At DTE Gas, we have a number of projects we are progressing nicely including our accelerated main renewal program and additional transmission system improvements. At our Gas Storage & Pipeline business, we acquired an additional 30% of Link, bringing our total ownership to 85%. This additional stake in Link complements our existing midstream business that's supported by solid underlying resources. This acquisition is organic in nature and stems from assets that we are already very familiar with. Link's performance has been better than pro forma since we acquired it in 2016, and we expect it to continue to perform well into the future.

Moving on to our Power & Industrial business, we are pleased to announce three new cogeneration projects. These are in addition to the RNG projects mentioned on the first quarter call. We are very excited of our involvement within the industrial energy services space. As you all know, our REF earnings will sunset in 2020 and 2022. The long-term plan for P&I is to replace these earnings as we move forward toward our 2023 earnings target range of $125 million to $135 million. We are ahead of plan to originate approximately $50 million earnings per year to reach this target. As you know, we successfully originated projects that achieved that growth target in 2017 with the Ford Motor Company project and two RNG projects in 2017, and in 2018, with two additional RNG projects.

We feel great that halfway through 2019, we have secured three cogeneration and two RNG projects, which gets us to our origination target for 2019. I'll provide more details on these P&I developments on the following slides.

But first, I want to highlight several significant achievements of both utilities on slide five. As I mentioned earlier, the electric company received a constructive rate case order in May. We continue to have very constructive working relationships with the Michigan Public Service Commission, and look forward to working with the newly appointed commissioner Tremaine Phillips. We're approved for a total rate base of $17 billion, to continue to harden our system and make necessary improvements for our customers. We are also given the opportunity to surge our tree trim efforts, which will serve our customers well, most of our damage over the past weekend was related to trees. So I believe that the surge will certainly drive significant improvement in the performance of our system. And we're grateful for that.

In early July, DTE Electric filed a new rate case. In this filing, we requested that the MPSC approve a $1.3 billion rate base increase driven by continued infrastructure investments to ensure generation availability and improve distribution reliability. This continued reliability will be achieved through upgrading our circuits. The filing also requested the redesigning of substations to avoid system overload, and adding more remote operating capabilities to detect and restore outages more quickly. The rate case filing includes a 50:50 debt equity capital structure and a low income renewable pilot program that will better enable low income customers to participate in our MIGreenPower voluntary renewables program. We expect the final order on this case next May.

As Michigan's leading producer of renewable energy, we received approval for the purchase of three new Michigan wind parks, which qualify for a 100% federal tax credit resulting in savings that will benefit our customers. Through the projects, totaling 383 MW are located in mid-Michigan will be the largest clean energy projects in the state, as well as the largest renewable energy projects in DTE's portfolio. The third project is a 72 MW park in Michigan's Upper Peninsula, which may alternatively be used to support additional sales on Michigan -- under the MIGreenPower program, which is our voluntary renewables program. These products will increase the Company's renewable energy portfolio nearly 50% furthering DTE's commitment to providing clean, affordable, reliable power to its customers.

Investing in the renewable energy is a key part of our commitment to reduce carbon emissions by at least 80% by 2040. Adding these new wind parks to our portfolio will help us meet the clean energy needs of our largest customers who have chosen MIGreenPower. We have aggressive plans to expand our voluntary renewable energy programs, enabling more customers to reduce our carbon footprint and meet personal or business sustainability goals. We are proud of the environmental and economic benefits these projects will bring to

Michigan. DTE's renewable projects not only benefit the environment, they are also helping drive Michigan's economy. DTE has driven investment of more than $2.8 billion in renewables since 2009 and will invest in addition $2 billion over the next five years. DTE's renewable energy projects have created or sustained more than 4,000 Michigan jobs or powering an equivalent of more than 500,000 homes with clean energy.

As I mentioned earlier, DTE Electric also launched our Charging Forward program, which is our new initiative for electric vehicles. We will provide a rebate of up to $500 to residential customer who purchases or leases a new or used EV, installs our qualified charger, and enrolls in a special rate beneficial for EV charging. DTE's business customers can also receive incentives on our EV charging equipment. We are thankful for the support of both the Michigan Public Service Commission as well as our auto industry partners and environmental advocacy groups in supporting our EV program.

Also in late June, along with CMS, we renewed the license for our Ludington Hydroelectric Plant, the pump storage plant is the second largest in the US with a capacity of over 2000 MW and takes advantage of the unique geography we enjoy here in Michigan. We are investing in $800 million to upgrade Ludington, which will add 300 MW of capacity and prepared for a long-term future. The upgrades are all -- are on schedule to be completed in 2020. The plant generates hydroelectric power and supports our renewables generation, because it acts like a giant battery that can be tapped when renewable output drops.

The plant pumps water from Lake Michigan uphill through a 27 billion gallon reservoir at low demand times and releases the stored water and energy downhill through the turbines to generate electricity when energy demand is higher. Ludington can ramp up to peak output in just 30 minutes and provide sustainable, clean, reliable energy source. It also helps to keep energy bills lower because it allows DTE Energy to avoid having to buy expensive out-of-state electricity when demand peaks. Our new Blue Water Energy Center is also progressing on plan, we broke ground last year and received all the necessary permits. The plant is a little over 20% complete with an expected spring 2022 in service date.

A significant amount of civil work has been completed and we expect the turbines to arrive on site later this year. Six days a week, workers are representing numerous trades around the site to support the $950 million project. Moving on to our gas company, I mentioned we are progressing on several fronts. Our accelerated distribution main renewal program is on track. We have completed 48 miles this year, and complete 178 miles by year-end. Over the past several years, we have replaced over 650 miles, with plans to replace an additional 3500 miles by 2035. We're also developing plans -- invest an additional system improvements, including a transmission of renewable program following our risk-based approach to support the growth, integrity and reliability of our gas transmission system inside our utility.

We are utilizing our risk model to prioritize upgrading or replacing approximately 100 miles of transmission lines by 2037 and compression in the range of 81,000 horsepower by 2035. We'll be working with our regulators and demonstrate reasonableness and prudency of these programs. Together these programs showcased the great things that are going on here in Michigan.

Now I'll turn to our non-utilities on slide 6. Starting with our Gas Storage & Pipeline business, we feel great about the progress year-to-date as well as the outlook for the rest of 2019 and beyond. The second half of the year, GSP earnings will increase from the first half of the year for a number of reasons, including the acquisition of an additional 30% of Link. Also, as you remember, we are acquiring the Generation Pipeline, which is consistent with the strategic growth plans DTE and Enbridge for NEXUS. The acquisition is progressing through regulatory proceedings as it is on track to close in the second half of this year. Additionally, replace Millennium's Eastern system lateral upgrade and service late in the first quarter of this year. Finally, the Link expansion is progressing quite well, we're expanding the system and connecting new gathering resources. Due to all these factors, we expect GSP to have a very solid finish in 2019.

Next, I'll walk through our Power & Industrial business. This quarter a number of deals, we've had in the works came to fruition. We are finalizing three new cogeneration projects. First, we finalize a development agreement with Stelco, developed a strategic cogeneration project at their Lake Erie steel facility in Ontario. DTE's experience in a cogeneration space will enable Stelco to reduce its energy cost by utilizing excess industrial gases and reducing exposure to peak electricity pricing.

Also we are purchasing a CHP plant to serve as a commercial customer. This project provides hot and chilled water to the facility, fits well within our gross strategy to provide on-site energy for large commercial and industrial customers. Both of these investments are underpinned by long-term off-take agreements. Finally, we will also operate a CHP plant here in Detroit at the Wayne County Criminal Justice Center. P&I will design, build and operate county owned central utility plant, and provide hot and chilled water and backup power. The justice center is on track to begin operations in 2022.

On the RNG front, we have closed on two greenfield projects we mentioned on the first quarter call. Both projects are located in Wisconsin, where we have built a strong RNG presence, based on our extensive experience there. For competitive reasons, we don't discuss the returns on these non-utility assets but I can tell you that they get better than utility returns and the capital investment for all the projects I just discussed is in excess of $300 million.

As I mentioned earlier, we feel great about our recent project developments and how they fit into our plan to replace our REF earnings, which will sunset in the near future. And with that I'm going to turn it over to Peter to share our financial results.

Peter Oleksiak {BIO 7535829 <GO>}

Thanks, Jerry. And good morning everyone. Before I get into financials, as you know, I would like to give an update on the Detroit Tigers. At this point in our rebuild process, the eye is definitely on the future in the farm system. At this one point, Casey Mize was our number one pick last year to pitch a no-hitter this year in the minors. So the present is currently dark but the future is looking bright. And the financials are consistently bright here at DTE, as let me turn your attention to the financial results, now I'll start the review on slide 7.

Total earnings for the second quarter were $183 million. This translates into $0.99 per share for the quarter. You can find a detailed breakdown of EPS by segment including our reconciliation to GAAP reported earnings in the appendix. Earnings for the quarter are lower than the second quarter last year primarily due to unfavorable weather this year. Let me start my review at the top of the page with our utilities.

DTE Electric earnings were $134 million for the quarter. This was lower than 2018, largely due to cooler weather and rate based growth cost, offset by the impact of new rates implemented in May. DTE Gas at second quarter 2019, operating earnings of $4 million and this is $10 million lower than the second quarter of 2018. The earnings decrease is driven primarily by the $10 million tax timing item I mentioned on the first quarter call that is reversing this quarter. As well as less weather favorability in 2019. And this was offset by the impact of new rates implemented late last year.

Let's move down the page to the third row to our Gas Storage & Pipeline business. Operating earnings for our GSP segment were $50 million for the quarter. Last year, we had one-time positive earnings related to AFUDC at NEXUS and higher than planned volumes across the portfolio. This year we have normalized earnings at NEXUS and volumes are on plan. As a result, this quarter is down $10 million versus the second quarter of 2018. GSP is performing according to plan through the second quarter, and we will see the benefit in the second half of the year from the volumes on Link that continue to ramp up. And we also see the full impact of the Millennium expansion and recent acquisitions.

On the next row, you can see our Power & Industrial business segment operating earnings were $29 million. Earnings are $14 million lower than the second quarter of 2018 and this decrease is due mainly to the REF tax equity transactions that occurred in the fourth quarter of 2018. And as we communicated previously, we entered into equity partnerships in our REF units to accelerate cash flows around $100 million per year for the next three years to support growth projects. This lowers earnings this year around $40 million versus 2018. Also, I would like to note that most of the new projects originated over the last few years will start adding to earnings later this year and early next year.

Our Energy Trading business had an accounting operating loss of $2 million. Earnings are lower this quarter compared to the second quarter last year due to the lower gas portfolio earnings and timing of realized economic earnings. Our trading company is having another solid year. Year-to-date economic earnings are on plan and in line with guidance. The appendix contains our standard Energy Trading reconciliation, showing both economic and accounting performance. And finally, Corporate & Other was favorable at $9 million this year compared to the second quarter of last year and this was due primarily to the timing of taxes. So overall, DTE earned $0.99 per share in the second quarter of 2019.

Now on to slide eight. Given the strong start to the year for both our utilities driven by favorable winter weather at our gas company and favorable July weather at our electric company, we are increasing the 2019 operating EPS guidance midpoint by $0.05 to $6.20. The earnings were lower than the first half of last year. This was contemplated in our original guidance. And as you know, DTE enters each year with contingency and this year was no exception. We mentioned on the first quarter call, we've built additional contingency with the winter weather at our gas utility and our electric company has had a strong first half of the year with additional weather related earnings coming here in July. The weather favorability over and above our increased guidance will be held for reinvestment and storm expenses associated with this warmer than normal weather. This sort of planning has been one of the keys to our success in providing predictable results every year.

Now I'll wrap up on slide nine and then we'll open it up for questions. In summary, I feel confident in achieving our increased 2019 guidance, keeping us on track to beat our original guidance for the 11th consecutive year. For the past 10 years, we beat original guidance by an average of $0.25 per share. We are also well positioned to continue our 5% to 7% operating EPS growth in the years to come. The utilities continue to focus on necessary infrastructure investments, specifically for investments to improve reliability and the customer experience. Our non-utilities continue to position us for long-term growth. Finally, I feel very good about our ability to continue to deliver the premium total shareholder returns that we have delivered over the past decade.

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

Questions And Answers

Operator

Thank you, sir. (Operator Instructions) We will now take our first question from Praful Mehta from Citigroup. Please go ahead. Your line is...

Q - Praful Mehta {BIO 19410175 <GO>}

Thanks so much. Hi, guys.

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

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Praful Mehta {BIO 19410175 <GO>}

Good morning and congratulations, Jerry.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you very much, Praful.

Q - Praful Mehta {BIO 19410175 <GO>}

All right. So maybe the first question on the quarter. The weather clearly impacted the electric side. Just wanted to understand, when you highlighted the lower performance of Q2 '19 versus '18, you highlighted weather and rate based growth costs. Could you clarify a little bit exactly how much was weather and what exactly is rate based growth costs and what was the impact of that part of it?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah. The weather favorability that we have in the appendix, as well the actual amount, we did have a cooler -- $44 million for the quarter. So it's been relatively significant from a weather perspective. We had a hot weather last year in the second quarter. First part of June was sort of actually relatively cold for us. So a good portion of that decline that you're seeing there is weather related. Now, the term rate based related costs, that is depreciation, interest expense, property tax related to the rate base, now that is more than offset by the new rates that were deployed in our last rate case.

Q - Praful Mehta {BIO 19410175 <GO>}

I got you. Great, helpful. Thank you. And then in terms of the increased guidance for 2019, it sounds like the benefit from what you saw in July is flowing in there as well. How much of that benefit was a part of like the $0.05 increase that you've had for the 2019 guidance?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah. We can't really -- I can't really give exactly the number yet for July, but I can tell you that July is one of the hotter Julys we've had here in recent history. So I'd say a good portion of that that was related to that. Now, we did hold back some of that weather favorability here in July. Some of that is for the storm that we've experienced, Gerard mentioned that. We do traditionally give back a portion when you have the extreme weather we had in July, two storms. So we're going to be funding that as well as holding back for reinvestment. We'd like to do that as well especially with the customer-centric and facing projects.

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

Yeah. One of the things I'll add is that the contingency levels that we have in all our business units feels quite strong at this point in time, and that's why we felt comfortable with raising guidance at this point. So we still continue to hold a significant amount of contingency in our plans for the balance of the year.

Q - Praful Mehta {BIO 19410175 <GO>}

Great, that's super helpful. And just finally in terms of the equity issuance, any clarity on timing of how we should think about the equity between '19 and '21?

A - Peter Oleksiak {BIO 7535829 <GO>}

Well, we did mention and we wanted the $1 billion to $1.5 billion over the next three years, $250 million of that this year. We've done already $165 million for this year. So $250 million target this year. We'll give an update at EEI for our plan for next year. And let you know, our goal would be to be at the lower end of that $1 billion range. And if we do that with continued strong performance like we're seeing this year and we do hope contingency, we don't need that contingency to be at the lower end of the range, but we'll give a fuller update here in the fall.

Q - Praful Mehta {BIO 19410175 <GO>}

Got it. Very helpful, thank you guys.

Operator

Thank you. We will now take our next question from Shahriar Pourreza from Guggenheim Partners. Please go ahead. Your line is open.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Shahriar.

Q - Constantine Lednev {BIO 20113787 <GO>}

Hi, good morning, sorry, it's actually Constantine here, I was on mute for a second. Just a quick question on the expectations for future acquisitions and kind of capital that's getting deployed in the GS&P segment. How is that tracking versus the prior guidance that you provided? I think it was roughly $4 billion to $5 billion over the course of the plan and just curious to see how kind of with the current acquisitions and the expansion that's going?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So we mentioned the four organic investments that were -- are progressing quite nicely this year. The Link expansion, the Millennium expansion, which is complete. The Link expansion will be complete later this year. We completed the Link acquisition, the bolt-on acquisition, and we're also looking to complete the Generation Pipeline acquisition. All of that feeds quite nicely into our '19 plans and 2020 plans. So we feel like we're aligning up growth quite nicely for that platform over the next two years. We are looking at acquisitions, we always do. The market has actually become -- starting to bring a lot of opportunities forward as we see some midstream companies under severe stress from a balance sheet perspective as well as we see producers redirecting capital towards our drill bit. We're starting to see opportunities kind of float our way and we're being very selective and very disciplined about how we look at those. So feeling pretty good about the prospects of that business line right now.

Q - Constantine Lednev {BIO 20113787 <GO>}

Okay, perfect. And just one quick follow-up, just a housekeeping item on kind of the -- to go for the rest of the year, the raise in the utilities guidance, the earnings contributions there is mostly going to be driven by rate cases and reinvestment, is that correct?

A - Jerry Norcia {BIO 15233490 <GO>}

That's correct.

Q - Constantine Lednev {BIO 20113787 <GO>}

Okay, perfect. Perfect, thanks.

Operator

Thank you. We will now take our next question, it comes from Michael Weinstein from Credit Suisse. Please go ahead, your line is open.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Michael.

Operator

Your line is now open.

Q - Michael Weinstein {BIO 19894768 <GO>}

Sorry about that, I was on mute. Hey congratulations to both Jerrys.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Michael.

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

Thank you.

Q - Michael Weinstein {BIO 19894768 <GO>}

And first question I had is about the delays in other pipelines throughout the country, such as you know Atlantic Coast Pipeline, and Mountain Valley pipeline. I am wondering if that's -- what kind of opportunities that may be giving you guys for long-term contracts at NEXUS, if any, are you seeing any difference there?

A - Jerry Norcia {BIO 15233490 <GO>}

We're starting to feel that for sure. I mean with these projects being delayed and uncertainty developing in those projects certainly there is a lot more interest in some of our pipeline platforms to move the growing Appalachian basin. Just to give you a feel for the basin grew about 13% year-over-year from a production volume perspective. So we're still of the view that this basin will go short pipe capacity over the next year or two. And that's going to play in our opinion very favorably and our assets are positioned to take advantage of that especially NEXUS.

Q - Michael Weinstein {BIO 19894768 <GO>}

And also the company has a history with the fuel cell industry a long time ago, and I'm just wondering if there is any potential opportunity at P&I to maybe pursue that once again at some point in the future as the technology starts to improve?

A - Jerry Norcia {BIO 15233490 <GO>}

We haven't looked at that lately, I mean, we're really focused on our cogeneration and renewable natural gas. Those are the two primary business lines, but we have not looked at that in some time.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay, thank you very much.

Operator

Thank you. We will now take our next question from Andrew Weisel from Scotia Howard Weil. Please go ahead, your line is open.

Q - Andrew Weisel {BIO 15194095 <GO>}

Hey, good morning everyone. And again, just want to echo congratulations to both Jerry's outstanding work and looking forward to the next chapter.

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

Thank you Andrew.

Q - Andrew Weisel {BIO 15194095 <GO>}

My first question is on the wind farm acquisitions, you gave the IRP out in March and talked about the plans to grow your renewables. My question is does this change simply the timing as far as accelerating when the wind capacity will grow? Or would this be more incremental renewables in the mix? And the impact the timing of coal plant retirements.

A - Jerry Norcia {BIO 15233490 <GO>}

Well the renewables that we -- renewable parks that we're acquiring and building out are part of our plan and included in our current forecast. And I think that's really it. Does that answer your question?

Q - Andrew Weisel {BIO 15194095 <GO>}

Yeah, I guess, so in other words, this doesn't change the outlook for the mix, it just gives better visibility. Is that a fair way to put it?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah. We had filed this some time ago as part of our renewables build-out program to meet the 2016 energy legislation goals would be in at 15% by 2021. So this 455 MW accomplishes that plus also gives us the opportunity to sell into the voluntary renewables markets.

A - Peter Oleksiak {BIO 7535829 <GO>}

And Andrew, this is Peter. Just to further add to Jerry. At EEI, we mentioned, we had 600 MW of voluntary renewable, so this help support that as well as our compliance with our state, state plan.

Q - Andrew Weisel {BIO 15194095 <GO>}

All right, great. As good as that. Then my other question on midstream you briefly talked about the Appalachian gross -- gas production recently though the activity has really been moving down with the commodity. The rig count is down about 25% or so since April and probably continuing to fall. Does this change your outlook at all as far as activity in the basin or utilization of your system?

A - Jerry Norcia {BIO 15233490 <GO>}

We watch activity in and around our pipelines very closely, producer activity that is. And what the producers said they were going to do this year, they are doing in terms of drilling and connecting wells to our system. So we're seeing volumes right on top of our forecast, actually, that also plays well into next year as they drill wells this year also feeds our growth for next year. So we're seeing them do what they said they're going to do. I think the one thing we are seeing is more companies coming forward and looking to sell some of their midstream assets, which I think will make it pretty interesting for us going forward to look at some of those. So we feel really good about where we sit right now and I did mention that the basin grew about 13% year-over-year in terms of production volumes. We're forecasting about a 5% to 6% growth rate going forward. So we are forecasting what we would call a slight slowdown, but that's built into our forward-looking view for this business line.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay, very good. And lastly, you just mentioned some midstream M&A, we've seen some activity recently with the assets that have passed out. Were there any specific characteristics you didn't like or is it more a function of price discipline?

A - Jerry Norcia {BIO 15233490 <GO>}

We look at assets that won great value for us obviously and secondly that are either early or mid cycle growth. We don't like buying assets that are very mature and they will provide us with upside opportunity. And then we also look at the resource base, that's the third thing we look at it there, gathering related type assets. And we do a pretty hard scrub on resource base because that's really what drives the opportunity for growth and value in the future. So that's the criteria that we use. So if we pass on assets, that likely doesn't meet one of those three criterias.

Q - Andrew Weisel {BIO 15194095 <GO>}

Thank you very much.

Operator

Thank you. We will now take our next question from David Fishman from Goldman Sachs. Please go ahead. Your line is open.

Q - David Fishman {BIO 20818121 <GO>}

Hi, congrats to both Jerrys again.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, David.

Q - David Fishman {BIO 20818121 <GO>}

So just kind of continuing on that theme, I think you did a good job of outlining those three points. But do you guys, when you think about adding value for your system, does this -- do you usually focus more on opportunities that would connect to an existing portfolio and kind of smaller bolt-on or is this really going to be more just opportunistic for somewhere that you see growth kind of in the future? So I'm thinking about Generation Pipeline or SGG those have the potential to connect your system and grow from there.

A - Jerry Norcia {BIO 15233490 <GO>}

All of our growth in this business line has been in the Great Lakes region. So we'll continue that, and will be our primary focus, to continue focusing on the Great Lakes region. If an asset opportunity did present itself outside of the region that we understood, or would create value, we would be open to that, but our primary focus is in the Great Lakes region.

Q - David Fishman {BIO 20818121 <GO>}

Okay that makes sense. And then just one quick follow-up on the regulated guidance, I know you mentioned very favorable weather in July so far. Have you guys gotten a bit of a sense of what the storm impact might look like over the past weekend and just curious if you guys have insurance or how you think about some of the leverage there?

A - Jerry Norcia {BIO 15233490 <GO>}

So you know these kind of storms usually come with a really, really hot weather and I can tell you that the hot weather far outstrips the expense for this storm, so we're net ahead and that's why we feel comfortable that we're actually building contingency in the electric business line even with the guidance raise, and the answer on insurance is, no, we don't carry insurance for storms.

Q - David Fishman {BIO 20818121 <GO>}

Okay that makes sense. And then one last question, just on cogeneration and kind of how you think about the opportunities set there and how maybe from our standpoint, we should think about where the opportunities might lie. Do you typically, is this something where you'd contract with more newer facilities? Are those going through kind of transformative investment plans, kind of like Ford, Dearborn with a 10 year plan. Stelco they have two facilities but naturally you went with kind of the newer one. As we just think of the new exposure to Toledo corridor, should we be looking for new facilities, specifically as the potential opportunity sets?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah, so the criteria that we use is, of course we examine the site that we're investing against in the business that we're investing against very carefully. So we look at the long-term viability and prosperity of the site that we're going to invest against as a cogeneration investor. And so that analysis is something that we do in a great level of detail. And once we get comfortable with that, then it's really about negotiating a return that is more attractive than our utility returns before we deploy capital. And so that's how we look at those types of investments of the site and the business on a site is really important.

In terms of the Toledo corridor, we are seeing a lot of action, mostly combined cycle plants that are building up in and around the NEXUS pipeline. So we're excited about that and we're actively pursuing, connecting some of those assets for the NEXUS pipeline. So that's what we're seeing in that -- in the Ohio Corridor that we are most -- that we can most influence results there.

Q - David Fishman {BIO 20818121 <GO>}

Okay, that's very helpful color. Thank you.

Operator

Thank you. Our next question comes from Gregg Orill from UBS. Please go ahead, your line is open.

Q - Gregg Orill

Yes, thank you and congratulations.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Gregg.

Q - Gregg Orill

So the 50 just to maybe reconfirm on the origination goal at the P&I business of $50 million a year, you said --

A - Peter Oleksiak {BIO 7535829 <GO>}

It's 15.

Q - Gregg Orill

Sorry.

A - Peter Oleksiak {BIO 7535829 <GO>}

I'm sorry I just said it's $15 million, yeah. That's correct.

Q - Gregg Orill

Okay and you reached the goal for 2019, is that what you were saying?

A - Peter Oleksiak {BIO 7535829 <GO>}

That's correct. We feel, actually, we may have exceeded it somewhat as well.

Q - Gregg Orill

Okay.

A - Peter Oleksiak {BIO 7535829 <GO>}

With the pilot projects.

Q - Gregg Orill

How much do you think a project is contributing?

A - Jerry Norcia {BIO 15233490 <GO>}

We really don't disclose how much each project contributes. But I can tell you that the -- where we that -- five projects that we're talking about will generate about $200 million of capital investment and that those returns are in excess of our utility returns. So that might give you a feel for what kind of income is being generated.

Q - Gregg Orill

Yes, thank you.

Operator

Thank you. Our next question comes from Paul Patterson from Glenrock Associates. Please go ahead, your line is open.

Q - Paul Patterson {BIO 1821718 <GO>}

Congratulations guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you, Paul.

Q - Paul Patterson {BIO 1821718 <GO>}

It's been quite a road and well congratulations. And I guess the question I have for you is and this is a special inspection for Fermi, and I think we're going to get a report like in 30 days or something like that.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes.

Q - Paul Patterson {BIO 1821718 <GO>}

But I was just wondering sort of given how nuclear economics are challenged around the country and of course the special inspection just maybe think generically, what is the long-term plan for Fermi? And are there any opportunities maybe to replace this? Or just how are you guys thinking about that?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, Paul, it's a great question. I, we view Fermi in a very positive light and let me explain why. One it is a regulated asset. So we don't operate in the merchant market where everything trades towards variable cost. And the price that we can produce carbon free energy from that plant and the amount of power that we can produce from in a carbon free way. I don't think any other renewable resource can touch it. So I feel like it's is a bit of a jewel in terms of our future and provides us great options in the future to produce highly economic and carbon free power. So we see a long future for Fermi

Q - Paul Patterson {BIO 1821718 <GO>}

Okay.

A - Jerry Norcia {BIO 15233490 <GO>}

And then I think the issue that you referred to as a something that's existed at the plant for 30 years we've managed it well with the regulator and we're working with the regulator to move that issue to a good conclusion. And of course as you know, we will always do the right thing at a nuclear plant.

Q - Paul Patterson {BIO 1821718 <GO>}

Yes. Once again, congratulations.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Thank you. As there are no further questions in the phone queue at this time, I would like to hand the call back over to you, Mr. Norcia for any additional or closing remarks.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, thank you, Christian. And with that, I'll wrap up by thanking everyone for joining the call. We've had a great first half of the year as evidenced by our increased guidance and I feel really good about the position we are in to continue our solid track record of delivering premium results. I look forward to providing you with updates as we move through the year. Thanks again for joining us. We appreciate the questions and we'll talk to you all soon. Have a great day.

Operator

This will conclude today's conference. Thank you all for your participation. You may now disconnect.