Q3 2018 Earnings Call

Company Participants

- Barbara Tuckfield, Investor Relations
- Gerard Anderson, Chairman and Chief Executive Officer
- Gerry Anderson, Chairman and CEO
- Jerry Norcia, President and Chief Operating Officer
- Peter Oleksiak, Senior Vice President and Chief Financial Officer

Other Participants

- Andrew Weisel, Analyst, Scotia Howard Weil
- Greg Gordon, Evercore ISI
- Gregg Orrill, Analyst, UBS
- Jonathan Arnold, Analyst, Deutsche Bank
- Julien Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Michael Weinstein, Credit Suisse
- Paul Ridzon, Analyst, KeyBanc Capital Markets
- Praful Mehta, Analyst, Citigroup
- Shar Pourreza, Analyst, Guggenheim first

Presentation

Operator

Good day and welcome to the DTE Energy 2018 Third Quarter Earnings Call. Today's conference is being recorded.

At this time I'd like to turn the conference over to Barbara Tuckfield. Please go ahead.

Barbara Tuckfield {BIO 19701481 <GO>}

Thank you Espie and good morning everyone. 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, Chairman and CEO; Jerry Norcia, President and COO; and Peter Oleksiak, Senior Vice President and CFO. We also have members of our management team with us for the Q&A session. And now I'll turn it over to Gerry to start the call this morning.

Gerard Anderson {BIO 1391607 <GO>}

Well thank you Barb and good morning everyone. Thanks for joining us today. So before I dive into the presentation, I want to point out that EEI is right around the corner, and it's at that conference that we're going to share the details of our long-term strategy and long-term growth plans. So given that I'd ask that you hold your longer-term strategy questions until we see you at EEI and can lay that out in detail.

What we want to do this morning is provide a recap of our performance in the third quarter, update our guidance for 2018 and spend some time discussing our 2019 early outlook. I'll do that and then I'll hand it over to Peter, who will provide a financial review of the third quarter, some additional color around our increased earnings guidance for this year and segment detail for the early outlook for next year. And then finally Jerry Norcia will provide an investment and business development update at our utilities and our nonutility businesses. And then I'll wrap up by taking your questions.

So moving on to slide five. On the second quarter call, I told you that we were having an exceptional year. And with three quarters of 2018 now logged, that description is still on the mark. On the second quarter call, we significantly increased earnings forecast for both GSP and our Power and Industrial business. And that resulted in a $0.35 a share guidance increase on the midyear call. Since then we've had one of the warmest, if not the warmest summer on record which was clearly a huge boost to electric company revenues. And our Energy Trading business has turned in a strong performance. And so given this we're increasing our 2018 operating EPS guidance midpoint by $0.17 to $6.30 which is our second significant guidance increase in as many quarters.

We also had some notable operational and regulatory successes in the third quarter. Back in April, we received MPSC approval for our new roughly $1 billion Blue Water Energy Center which is a natural gas combined cycle power plant. And in August, we broke ground and began construction.The Blue Water will help us to meet our goal of reducing carbon emissions by more than 80%. In fact the plant will represent our single-largest step in reducing carbon emissions to date as we retire three older coal-fired plants and start up what will be the most efficient power plant in Michigan and do all that simultaneously in the early 2020s.

Another notable success occurred in September when we received a constructive order in our gas rate case. So Jerry Norcia, will provide some additional details on that order but, I'll just say that importantly it will allow us to accelerate the replacement and strengthening of our gas distribution system. Now we spend a lot of time working with the MPSC staff on our gas main replacement plan. And I think we landed via the order in a place that we both feel good about and feel is appropriate.

Moving on to our nonutility businesses. At GSP in early October, we received FERC approval to place NEXUS in service. So we began construction of NEXUS in October of last year, so essentially a year, and construction went very smoothly, and NEXUS is now flowing gas. And this is a significant milestone for us. It creates another platform to grow around. As we have for example on the Bluestone platform and the Millennium platform. And those platforms provide low-cost high-return investments that have made GSP a successful growth engine for the company over the past decade. And we're confident that NEXUS and the NEXUS platform will play that role in the decade ahead.

Our P&I business continues to make progress in replacing the REF earnings that sunset in 2019 and 2021. Most recently this progress is in the renewable natural gas space. So this year we started construction on an additional RNG project and completed the acquisition of another project. And so we now have a total of seven RNG projects throughout the U.S. that supply pipeline-quality renewable natural gas to markets to comply with a number of fuel standards including those at the federal level, in the state of California, as well as the European standard. So we're going to review the details of P& I's long-term earnings plan at EEI in a few weeks, but I'll just say we're seeing a lot of growth potential in this area.

One thing I will say about our overall long-term growth prior to EEI is that we will be confirming and reiterating our 5% to 7% operating EPS growth rate at the conference. So over the next few slides I'll provide a high-level explanation of both our guidance increase for 2018 and our early outlook for 2019. And as I mentioned, Peter will then provide additional details on both of those in a few minutes.

So turning onto slide six, as I said at the outset, 2018 has been an exceptional year. You can see our increased guidance in the green bar on this page at $6.30 a share, an increase as I said earlier of $0.17 from the prior guidance midpoint, and that's over and above the $0.35 increase we communicated on the second quarter call. So looking at the $6.30 EPS forecast from a historical perspective, our revised guidance provides a 9% compound annual growth rate over the past five years and an 8% growth rate over the past decade and 12. 5% growth versus 2017 which is essentially two years of growth in a single year. And it continues our pattern of meeting or exceeding the guidance that we provide you.

We have several items that are driving this third quarter guidance increase and contributing to the strong year overall. So as I said the Electric company experienced an extremely hot third quarter.We discussed warm weather on the second quarter call, but since then, as I said we've had one of the hottest years on record if not the hottest. We came into 2018 planning for normal weather as we always do. And on top of that we developed both lean and invest plans in order to be able to respond to the weather. We've had such favorable weather that we implemented our invest plan in the electric business, and those investments are reflected in our full year guidance for 2018.

Moving on to our nonutility businesses, GSP has had strong favorability across all platforms this year. And additionally, accelerated producer drilling drove additional gathering and transport volumes at Bluestone, delivering to us growth in 2018 that we expected would really show up in 2019. We also had AFUDC returns at NEXUS prior to its transition into service. And additionally our P&I group has continued to see high volumes at our REF sites. So given all of that, 2018 is shaping up to be a fantastic year at DTE, and that is something we feel great about as the year begins to wind to a close.

Moving on to slide seven, I want to provide you an overview of our 2019 early outlook, before Peter takes you through the details. So the early outlook for 2019 is $6.15 a share. The $6.15 is set to provide 6% compound annual growth over the last five years, so between 2014 and 2019 which is the midpoint of our 5% to 7% long-term earnings growth range. It also provides 6.4% growth versus the 2018 original guidance.

Now obviously the $6.15 early outlook is below the $6.30 revised guidance for this year. And there are a couple of straightforward reasons for that. So first, we've mentioned a number of times on previous calls that we're working on tax equity transactions for our REF business. And we expected transaction will be executed soon. And it will accelerate cash flows by about $100 million a year for the next three years and is clearly NPV positive for the company. That transaction will also lower earnings by about $40 million a year or over $0.20 a share for the company. And in the process of doing this we're beginning to glide path toward 2022, when the REF earnings will have sunset. Now obviously without the tax equity transaction our guidance would be over $6.35 a share. But the transaction is cash and value accretive, so it's just the right move for us to make.

Additionally 2018 was an exceptionally strong year and our GSP business as I've said and that was true in essentially every platform there. And we wish every year could be that way, but we're not coming into 2019 counting on that to repeat. So we're -- our plan, envisions us transitioning to more normal gathering of transport volumes. In addition we have NEXUS transitioning from AFUDC earnings to operating earnings and that typically involves a step down in year one. But underlying all of this is healthy growth in investments on each of our GSP platforms which Peter and Jerry will talk about here in a few minutes.

We're also in our 2019 plan anticipating that DTE Electric will return to normal weather after a very warm 2018. As Peter will discuss both utilities the electric and gas utilities will grow substantially in 2019 including growth from distribution and generation asset investments at DTE Electric and growth from NEXUS related assets and the main renewal program at DTE Gas. And as Jerry Norcia is going to discuss both GSP and P&I continue to work on very good growth opportunities and healthy project queues. So overall I feel good about our 2019 outlook and that it keeps us squarely on our 5% to 7% long-term growth path. As you'd expect we do have contingency built into our 2019 plans. And if events enable us to preserve that contingency, perhaps we'll be able to provide you upside to the $6.15 early outlook as we have typically in recent years.

And with that I'm going to turn things over to Peter Oleksiak for a financial update. Peter over to you.

Peter Oleksiak {BIO 7535829 <GO>}

Yeah. Thanks Gerry, and good morning everyone. I'd like to start on slide nine. Before I get into the quarter, just a quick update on my Detroit Tigers. I'll make this brief as the baseball world is looking at the Red Sox and Dodgers at the moment. Now we did make -- failed to make the playoffs again this year and finishing below 500, but we did end up in third place and we are one season closer now to a winning record. But on that something a little more positive, let me talk about DTE. DTE had a great third quarter, driven mainly by hot weather here in Michigan.

Slide nine is our standard quarter-over-quarter operating earnings page, and DTE operating earnings of $388 million in the quarter. I just want to remind you that you can find a detailed breakdown of EPS by segment, including a reconciliation to GAAP reported earnings on the appendix. So let me start at the top of the page with our utilities. DTE Electric earnings of $304 million this quarter and this is $82 million higher than the third quarter last year. This increase is driven largely by hot summer in 2018 as well as rate implementation. This year's hot summer does allow for fourth quarter reinvestment to system reliability, which will benefit our customers. A more detailed year-over-year earnings guidance for DTE Electric can be found on the appendix.

Moving down the page, DTE Gas operating earnings were unfavorable at $15 million compared to last year. This earnings change was driven primarily by timing of O&M expenses, as well as rate base growth in 2018. Our gas utility typically has an operating loss in the third quarter. On a year-to-date basis our DTE Gas is right on track.

Moving down the page towards the Gas Storage & Pipelines business. Operating earnings were $64 million in the third quarter. The earnings this quarter were $28 million higher than last year. This increase is due to a lower corporate tax rate and favorability across all platforms. And as we mentioned on the second quarter call, we are seeing GSP growth in 2018 that was expected to play out in 2019.

On the next row you can see the operating earnings for the Power and Industrial business were $63 million. This quarter's earnings were $19 million higher than last year. Now this increase is due mainly to the higher REF volumes at existing sites and moving some of the units to larger sites where they can achieve higher volumes. Our energy and trading business had a very strong quarter with operating earnings of $15 million. This is up $25 million from last year. And finally in the page Corporate and Other was $50 million unfavorable compared to last year, driven by tax reform and higher interest expense. Now in summary DTE earned $2.13 per share in the third quarter of 2018 up from $1.48 per share in the third quarter of last year.

Now let's move on to our 2018 guidance update on slide number 10. Gerry mentioned in his upfront remarks we are increasing our 2018 earnings guidance for the second time this year. The rate revision operates due primarily to the weather favorability at our Electric company as well as strong performance at Energy Trading. Let me start first with DTE Electric. The second quarter we guided to the middle of the original guidance range with a favorable weather we experienced this quarter, we are raising both our earnings guidance for the segment and we'll be reinvesting a significant amount of this weather upside focused on greater reliability and our customer satisfaction.

For DTE Gas segment, we feel comfortable with the current guidance range for 2018. Transitioning to the nonutilities you may remember that on the second quarter call we raised GSP midpoint of guidance by $40 million and the P&I midpoint by $38 million. We feel comfortable with the current guidance ranges for both of these segments. As I mentioned in prior page Energy Trading had earnings of $15 million in the third quarter is on track to have another solid year. The increase in the range to $20 million to $30 million to reflect the strong performance. Overall we feel really good about achieving our new operating EPS guidance range this year of $6.12 to $6.48 with a midpoint of $6.30.

Now I'll transition to 2019 on slide 11 to discuss our early outlook and touch on each segments comparison to our revised 2018 guidance. As Gerry mentioned, we are providing a 2019 EPS early outlook midpoint is $6.15 per share. This EPS outlook provides a 6.4% growth from our original 2018 guidance that we gave you on the year-end call.

On the next two slides I'll be going over the early outlook for our largest business units, before I move onto that slide, I'll mention Energy Trading's earnings range of $15 million to $25 million. We typically target $25 million of economic contribution per year from this business. Our Corporate and Other segment is relatively flat year-over-year.

So now let me move on to slide 12, and let me start first on the left-hand side of the page. Our DTE Electric segment, 2019 early outlook midpoint is $705 million. You can see on the page our 2018 original guidance midpoint was $655 million and our current revised guidance midpoint is $637 million -- $673 million, excuse me. The 2019 early outlook for our Electric segment provides earnings growth of 7.6% over 2018 original guidance. Now compared to 2018 revised guidance the early outlook includes distribution and generation investment growth. Offset by the fact, we normalize for both the return to normal weather and the significant reinvestment that will be occurring in 2018.

Moving on to the right side of the page at our DTE Gas segment, the 2019 early outlook midpoint is $175 million. As a reminder the 2018 guidance midpoint is $156 million which is unchanged from our original guidance. The early outlook provides earnings growth of 12.2% over the 2018 guidance. That growth rate is higher than typical since it includes growth from the NEXUS related assets within the LDC. The impact of the NEXUS-related growth is close to half of the overall growth. It benefits our gas customers by helping to lower their rates.

Now I'll move to slide 13 to review the early outlook for our nonutilities. Let me start again on the left side of the page with our Gas Storage and Pipeline business. As we said in the second quarter call 2018 is shaping up to be an exceptional year for our GSP across the board. Original guidance for this segment was $190 million and with the current guidance of $230 million this represents an increase of 20%. That increase is due to the strength and essentially every GSP platform. Our 2019 early outlook for earnings at GSP is $213 million up 12. 5% from the original guide -- this year's original guidance but down from our revised guidance. This outlook anticipates more normal volumes across GSP asset base. It also accounts for the transition that NEXUS from principal AFUDC earnings in 2018 to operating earnings in 2019. That impact is approximately $10 million which is pretty typically for a pipe like this that transitions into service. NEXUS will then be positioned to grow from that level in two, three years.

Now moving to the right side of the page we show P&I's 2019 early outlook midpoint of $127 million compared to the current 2018 guidance. On the second quarter call we raised P&I 2018 guidance to a midpoint of $163 million. You should recall that this guidance increase was due to primarily the strong earnings that resulted from higher REF volumes. As we communicated previously we are in the process of entering tax equity partnerships. The goal to accelerate around $100 million per year of cash flows to support the growth projects of our company, which as Gerry described will lower 2019 earnings around $40 million from 2018.

Also note that most of the projects that Power and Industrial originated or have under construction will start adding earnings late next year. That wraps up my session and 2018 earnings guidance and the 2019 early outlook.

Now I'd like to turn it over to Jerry Norcia to give a business update.

Jerry Norcia {BIO 15233490 <GO>}

Thank you Peter. I'm very excited about the progress that we have made on important projects across all of our business lines. So we have a lot of positive momentum to discuss with both our utilities as well as our nonutility businesses. I'll start that conversation on slide 15 with an update on our utilities beginning with the Electric company.

We announced back in August that we broke ground on our new Blue Water Energy Center. This is a 1100 megawatt natural gas power plant we are building in a cost of just under $1 billion. The plant is essential to preserve reliability as we continue to add renewables and move toward the retirement of three of our coal plants. We expect the plant to go into service in 2022. As I mentioned on the second quarter call, our Electric company submitted our renewable energy plan with MPSC in March. We're planning to double our renewable capacity to 2000 megawatts by 2022 which involves investing $1.7 billion in wind and solar over this time frame.

As part of this program we are adding 300 megawatts of new wind capacity to supply volunteer renewable energy program for large industrial customers and institutional customers who are looking to reduce carbon emissions. We believe we have the opportunity to expand that voluntary renewable plant by an incremental 300 megawatts, so that's taking it from 300 megawatts to 600 megawatts based on strong interest in the program. At EEI we will discuss what this will mean to our long-term plan for the Electric company.

Moving on to DTE Gas. We received the constructive rate order in September. We received next rised ROE of 10%. We also received approval to accelerate the phase of main renewal. Aligned for investment -- additional investment was approximately $450 million over the next five years within the infrastructure recovery mechanism or what we call our IRM. This reduces the time frame to complete the main replacement program from 25 years to about 18 years. I'm very pleased with the progress of this program as safety and reliability continue to be top priorities for us.

Now let's move to slide 16 to provide an update on our nonutility businesses. I'd like to start with an update on our NEXUS pipeline. It feels great to have NEXUS in-service and flowing gas. This is an important milestone for the company. We have been working on this project for a long time and its startup speaks to the perseverance and the determination of the entire midstream organization. So I want to take a moment and say thank you to all of our employees and contractors who worked tirelessly to bring this project online, safely and on budget.

NEXUS is an important new investment platform that will help us to grow this business segment for many years to come. Pipe has been flown around $350 million a day of short-term contracts since coming online and will start flowing our long-term anchor shipper contract volumes in early November. So we feel really good about NEXUS and how it positions us for future growth at GSP.

With respect to other development projects at GSP, we'll provide you a lot more detail at EEI but I can tell you that our development queue remains strong.

Now I would like to move on to our Power & Industrial business. Our P&I business continues to see progress in the development of both industrial energy projects and renewable natural gas projects. Two RNG projects we started in 2017 continue to perform well. In 2018 we closed on two additional RNG projects. These two projects are under construction and will come online over the next year to start contributing to earnings in 2020. They're very active area for project development and we'll give you additional details at EEI.

In the cogeneration space, the Ford project is under construction and we expect this to come online in late 2019. As is the case for GSP, our P&I queue of projects is very strong and we'll update you on what that means to our long-term growth plans at EEI.

Now I'll wrap it up on slide 17 and then we'll open it up for questions. All-in-all I feel great about the position we are in to deliver another strong year in 2018 and continue to grow our growth profile in the years to come. We have posted a strong third quarter and year-to-date results allowing us to raise earnings guidance for the second time this year, as well as significantly increased our electric reliability investment plans for the remainder of the year. 2019 early outlook we shared provide 6.4% growth from our 2018 original guidance. Our utilities continue to focus on necessary infrastructure investments to improve reliability and customer experience.

NEXUS is now in-service and flowing gas to customers. Our nonutility development queues are very healthy. And given this I am confident that we are on track to deliver 5% to 7% EPS growth and the associated dividend growth that drives premium total shareholder returns. Finally I'd like to remind everyone that Gerry Anderson will be giving a presentation at the upcoming EEI Conference on November 13, where he will be providing an update on our long-term growth plan.

With that I'd like to thank everyone for joining us this morning and I will turn it over to Espie to open the line for questions.

Questions And Answers

Operator

(Operator Instructions) We'll take Shar Pourreza with Guggenheim, first.

Q - Shar Pourreza

Guys.

A - Gerard Anderson {BIO 1391607 <GO>}

Good morning Shar.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning Shar.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning Shar.

Q - Shar Pourreza

Just on the -- just real quick on the incremental REF tax equity transactions. In prior deals you've announced, you've obviously tempered your equity needs. Then so curious on this incremental $100 million you're getting. Does that sort of further tamper your viewpoints on your needs for equity at least in the near term?

A - Peter Oleksiak {BIO 7535829 <GO>}

Shar that was contemplated in our guidance that we have in our long-range plan. We would not amortizing and hitting this cash flow in.

Q - Shar Pourreza

Okay got it. And then just real quick on sort of links. It's obviously missing from the slides and appreciate the update that you guys gave us on NEXUS. Can you just give like a little top-level view on sort of how that projects going expansion? Is it tracking ahead? And should we assume is that obviously going to be a big update on this given the fact that it's missing from your slides?

A - Jerry Norcia {BIO 15233490 <GO>}

Shar this is Jerry. Link is performing very well, as I mentioned in my comments, all of our platforms are performing better than expected and Link would fall into that category as well. You asked about expansions, those are progressing well. So we're really good about that asset at this point in time.

Q - Shar Pourreza

Are you within your $0.10 accretion targets for '19? Or should we assume there are some upside there?

A - Jerry Norcia {BIO 15233490 <GO>}

I think as I mentioned in some of our prior calls we -- our pro forma internally was higher than that $0.10. And we're performing -- we're meeting our internal performance. So we're doing better than the $0.10.

Q - Shar Pourreza

Okay, got it. And then just lastly on on-site generation. Do you expect to provide some updates there incremental to the Ford deal at EEI?

A - Gerard Anderson {BIO 1391607 <GO>}

Yes. We'll give you an update on both the co-generation project queue and developments and how that feels as well as the RNG projects at EEI. And really the overall P&I earnings forecast for 2023. So we had that $70 million number out a couple years ago. We told you that's obsolete. It's going to be higher and we'll pin down a forecast for you when we're together at EEI.

Q - Shar Pourreza

Great. It's good to see you guys, you're back-filling the REF earnings. Congrats. Thanks guys.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thank you.

A - Gerard Anderson {BIO 1391607 <GO>}

Thanks Shar.

Operator

And we'll take our next question from Michael Weinstein from Credit Suisse.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi. Good morning guys.

A - Gerard Anderson {BIO 1391607 <GO>}

Hi Michael.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning.

Q - Michael Weinstein {BIO 19894768 <GO>}

Glad to see the -- taking the long view of Detroit Tigers with a winning record anyway. That's good. On the REF earnings, the REF projects I guess you announced there were two projects closed in 2018 under construction. Does this put you still on track for $45 million by the end of the second year I guess to fill another $15 million this year with three to four projects?

A - Gerard Anderson {BIO 1391607 <GO>}

Those are -- you said REF but you meant RNG projects.

Q - Michael Weinstein {BIO 19894768 <GO>}

I mean RNG. I mean RNG, yeah.

A - Gerard Anderson {BIO 1391607 <GO>}

Yes. It puts us at least on track to that. So two years in we would have hit that number but I think what we communicated is that that $45 million number is sort of obsolete at this point. We're fully expect to go well by that.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got you. And on NEXUS the two-thirds are contracted still or is there any progress on the remaining third?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, we've got $350 million a day approximately flowing today on short-term contracts. And our long-term contracts going about $840 million a day start to flow in around November 1. So we're feeling pretty good about how the pipe's filling up.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got you. And on regulatory progress for the next I guess the distribution enhancement plans and also the next rate case filings. How's that going at the utilities?

A - Jerry Norcia {BIO 15233490 <GO>}

The -- at the Electric company, the gas case we completed and we got an acceleration of our gas main renewal program from a 25-year program to a 18-year program. So that was very positive. On the Electric case, we filed for an introduction renewal mechanism as well. That covers about $1 billion a year of CapEx and that's connected to reliability and modernization investments in our distribution business. It also covers the build of our new combined cycle plant and some investments in our nuclear facility. So we're -- had lots of conversation with the commission staff about that and we filed something that we hope will help us to do two things.

One is reduce rate case frequency. So it's a three-year IRM that we filed at the Electric company. And it'll also allow us to gain a lot of efficiencies for our customers because when we can create certainty around what our investment plans will be, which usually drive a lot of costs out of our investment plans.

Q - Michael Weinstein {BIO 19894768 <GO>}

What are you assuming in the 2019 early outlook? I guess the 7.6% growth for the Electric and 12.2% for Gas, is that -- what does that assume in terms of rate case outcomes?

A - Gerry Anderson {BIO 1391607 <GO>}

We'll give you an update on that at EEI in terms of our assumptions. I think in terms of investment level in the business and what that would imply.

Q - Michael Weinstein {BIO 19894768 <GO>}

Got you. Okay. Thank you very much.

A - Gerard Anderson {BIO 1391607 <GO>}

You bet.

Operator

And we'll take our next question from Julien Dumoulin-Smith with Bank of America.

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

Hey, good morning everyone.

A - Gerard Anderson {BIO 1391607 <GO>}

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning Julien.

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

Excellent. So I wanted to follow-up on a couple of details. First, just wanted to clarify on the '19 early guide for NEXUS. What's assumed in terms of volumetric fill-up just as it goes through the course of the year?

A - Jerry Norcia {BIO 15233490 <GO>}

Right now we haven't really disclosed what the exact volumes going to be, but we expect the pipe to essentially fill with our long-term contracts and short-term contracts. That's what's in our forecast.

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

Okay. All right. Fair enough. I mean or maybe asked a little bit differently, what kind of ROE are you assuming?

A - Gerard Anderson {BIO 1391607 <GO>}

Yeah. Julien we don't go asset-by-asset in our portfolios and talk. Returns ROE for obvious reasons which is throughout interacting with counterparties on transactions. But I think what we've said is the pipes got healthy actually, volumes flown right now before we get into any of the long-term shippers which is encouraging. And we expect that to continue next year. And then next year is the year where we will transition those short-term volumes into longer-term contracts. And the ultimate plan, of course, is for this to behave like; Link is behaving; like Bluestone has behaved; like Millennium has behaved, that real juice in these comes from all the add-on investments and expansions and other opportunities that a platform creates. And we are seeing those begin to evolve through and we'll give you some color on that at EEI.

A - Jerry Norcia {BIO 15233490 <GO>}

The other thing Julien that I would say is a lot of these platforms like Millennium and Vector, we enter the investments just north of our cost of capital, and as we expand and develop new markets and connecting markets to those pipes, we see that drive well north of our cost of capital. I mean we saw that happen with Vector; our Millennium assets; our Bluestone assets as well as Link and we expect very much the same with our NEXUS asset.

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

Got it. And since you bring it up, I mean, how are you thinking about adding complementary assets to this plan. I know that that have been brought up earlier in the year?

A - Jerry Norcia {BIO 15233490 <GO>}

We're working on that. I think you may hear more about that if we got some of this done when we get to EEI. But we are looking at connecting neighboring assets, laterals and expanding our deliveries to customers along the path. So lots of good things cooking on NEXUS. And as they evolve we can update you.

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

Got it. And then separately again this might be preempting things a tad bit. But on the voluntary renewables that it seems like about 600 megawatts give or take, I mean, what's the pace, the cadence of that coming into service? I mean presumably it's within the time frame that the PPC is rolling off. And then separately as you talk about having seen a surprising amount of demand on that front can you elaborate a little bit on what the latest conversations? Have you largely tapped it out of at this point in your mind at least through the existing PPC window? Or is there still an opportunity to run out there and grab some market share, while the tax credits exist?

A - Gerard Anderson {BIO 1391607 <GO>}

So the 300 megawatts that we talked about initially I think a lot of that demand is in late-stage discussions I'd say and feels very good. But we have additional demand beyond that which is why we're going for 600 megawatts. And in terms of the tax credits as you would expect there are -- both we and others have preserved the ability to use tax credits at project sites. So those are what are coming forward. So we have -- we've done in the past and we'll do in the future these to build-on transfer projects with developers whose real business is to go out and develop sites and perhaps pin down through equipment commitments, the tax credit viability and we then work with them to bring those sites to fruition. So that's what we're doing. And yeah, we've been encouraged by the level of interest from industrials and institutionalists in carbon emission reduction. And so we're going to -- we'll try to knock down the 300 megawatts, work our way into the 600 megawatts and there may be more beyond that. We'll see.

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

Last one detail on the trading side. Just can you clarify is there a locked-in level that you're looking at '19? Just obviously it's up from the '18 levels as you expected initially.

A - Gerard Anderson {BIO 1391607 <GO>}

Well we'll talk about -- we can talk about trading at EEI as well I think. But one thing I would say is it's just been a very consistent performer in recent years. So what we're essentially doing with this guidance is putting it in line with reality. And so that's what you see in the guidance for next year.

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

Got it. All right. Thank you very much.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you.

Operator

And we'll take our next question from Greg Gordon with Evercore ISI.

A - Gerard Anderson {BIO 1391607 <GO>}

Hi Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Good morning. Really remarkable track record you guys are building here. Very impressive. Couple questions. Could you please elaborate more on what the volume situation has been this year on your system and that you do have an assumed decline in the earnings contribution next year on GSNP, given I presume I guess normalization of volumes. Does that have to do with Atlantic Sunrise or other pipes coming online that are now producers are now moving off your system, that they perhaps needed to be on your system on an interim basis? Anything you can do to help us understand the flows would be much appreciated?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. We saw increased throughput on a discretionary basis across all our platforms. That would include like Vector which is our Chicago, the Dawn pipe. Even our storage assets performed better than expected in terms of market value and volumes. Millennium performed above target and Bluestone and our Susquehanna gathering was a huge contributor as well. And then our Link assets performed better than we expected. So it was across all the platforms and it was for various reasons. I think one of them you touched on people looking for other places to send their gas, use some of our platforms to do so. But we also saw market conditions evolve in different markets that drove the need for incremental throughput. So we thought that to be what we would consider a higher than expected --

A - Gerard Anderson {BIO 1391607 <GO>}

IT's an all cylinders here. I mean weather was there too. Lot of flow to me. Some are weather demand. It was strong -- certainly stronger than we have projected, since we projected normal weather. I think we told you that we have producer drilling that was more progressive than we thought it would be. And so we're not projecting that sort of aggressive drilling next year. It may come, but we just don't think it's prudent to build plans around, repeated aggressive drilling, repeated warm weather, storage outperformance, volume outperformance and various platforms. I wouldn't say it's -- we aren't pinpointing it to other pipes coming on or anything like that. It was more of these conditions asset-by-asset that was better than we expected.

Q - Greg Gordon {BIO 1506687 <GO>}

So would it be fair to say Gerry as you talked about the idea of contingency across the business that there's a contingency built in here as well?

A - Gerard Anderson {BIO 1391607 <GO>}

Well we told you we try in every business and the company overall to come into the year with contingency. We -- and I just have a philosophy, it's hard to deliver anything that has uncertainty in the future if you don't have some room for things to go wrong. So yes, we do, and I hope conditions emerge so that that contingency will accrue to you. That's been typical in recent years, but time will tell.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. One last question. You mentioned and I'm sure you'll give us an update in due course about expansion opportunities on the system. You didn't explicitly mention the potential for additional gathering and processing. But should I assume that that is part of what you might consider at the right value proposition?

A - Gerard Anderson {BIO 1391607 <GO>}

If we get the right deal we'll certainly look at those. So yes, I'd say the investments that we're looking at GSP, across the board, mainline lateral, smaller extensions out to gathering platforms and potentially the gathering itself.

Q - Greg Gordon {BIO 1506687 <GO>}

And then processing assets or no?

A - Gerard Anderson {BIO 1391607 <GO>}

Processing if need be. So we are very familiar with those. We've done them in Michigan for many decades. It hasn't been a focus of ours, but if needed by one of the producers we'd certainly take it on.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. Thanks. Looking forward to seeing you at EEI.

A - Gerard Anderson {BIO 1391607 <GO>}

Thanks. You as well.

Operator

And we'll take our next question from Praful Mehta with Citigroup.

Q - Praful Mehta {BIO 19410175 <GO>}

Hi guys. Congrats on a good quarter.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you. I aprreciate it.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Praful Mehta {BIO 19410175 <GO>}

Good morning. So maybe start with the tax equity piece. Just wanted to understand that what is your cash flow profile if you didn't do the tax equity deal, how early could you utilize that tax attribute? So I guess how early have you pulled forward the cash flows related to this tax equity deal and what kind of returns are generally are you seeing for these investors who are buying this tax equity kind of product?

A - Peter Oleksiak {BIO 7535829 <GO>}

This is Peter. The cash flows that we would have seen from these if you would have kept the credits on counterparty, I'd say by the decade away by 20s. So it really made sense for us to pull that cash forward.

A - Gerard Anderson {BIO 1391607 <GO>}

We've been -- as you know we've had a number of these projects around for a while. So as we get deeper into the -- deeper into our ownership, the use of the credits goes from current -- quite current to being pushed out which is why it makes sense not for us now to monetize and pull them forward.

Q - Praful Mehta {BIO 19410175 <GO>}

Yeah I know that sounds like it makes complete sense. So in terms of the tax equity deal, it did not reduce your equity needs because thay you had already contemplated in your plan. Is that right?

A - Peter Oleksiak {BIO 7535829 <GO>}

That is correct.

Q - Praful Mehta {BIO 19410175 <GO>}

I got you.

A - Gerard Anderson {BIO 1391607 <GO>}

Yeah, we knew these -- we anticipated that we would do these and planned to do the tax equity transaction. So I think we have been signaling that across this year that we were working on them, so we're now getting very close.

Q - Praful Mehta {BIO 19410175 <GO>}

Fair enough. And then in terms of the acquisitions I know you'd mentioned earlier that potential acquisitions you would look at on the GSP side. Is that still something that you have on your radar? Or now do you have the platform with NEXUS that you're looking at that as the build-out opportunity or is M&A on the plate as well?

A - Gerard Anderson {BIO 1391607 <GO>}

No, M&A is on the plate. In fact we have a couple of assets that we're looking at with great interest right now. So we'll provide you with updates as soon as we can on those, and what we can at EEI if we're able. I will say that on the second quarter call I think a couple of you sensed there was something that might have been quite close. There was. We had a sizable transaction that we were well along on, kind of entering deep due diligence. But as we got deep into the due diligence on that when we found that the geology just wasn't strong enough for us to be confident in it the underlying geology and so I was really proud of our team. I came back and said 'Look this deal has constructed. It doesn't fit our investment discipline. And we got to look at other assets. And if we can get it at a lower price great, but not at this price.' And so we did move on from that one. But there are probably more assets out there than are visible to the public. I'll just put it that way and we're looking at a couple of interesting ones.

Q - Praful Mehta {BIO 19410175 <GO>}

That's very interesting. Good color and glad to hear of the discipline. Thanks so much guys.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you.

Operator

And we'll take our next question from Paul Ridzon with KeyBanc.

Q - Paul Ridzon {BIO 1984100 <GO>}

Good morning guys.

A - Gerard Anderson {BIO 1391607 <GO>}

Good morning Paul.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning Paul.

Q - Paul Ridzon {BIO 1984100 <GO>}

Congratulations on the quarter. Peter at least somebody in Detroit can hit out of the park. Can you just refresh our memories? What is your forecast for filling up the one-third capacity at NEXUS?

A - Jerry Norcia {BIO 15233490 <GO>}

Right now we're well on our way with the short-term contracts. As I mentioned we've got about $350 million a day in short-term contracts already flowing in the pipe as we speak. And our long-term contracts which total about $840 million a day will start to flow in and around the 1st of November.

Q - Paul Ridzon {BIO 1984100 <GO>}

But kind of longer term what's your -- what do you see the split between kind of excess capacity and 100%.?

A - Jerry Norcia {BIO 15233490 <GO>}

Well we're -- they'll all be firm contracts with the exception of a very small amount to our total capacity at 15. So whether they're short term in nature or long term in nature there will be firm contracts that we'll deliver on. And I think what will evolve over time is we'll do two things: one is move some of those short-term contracts and the long-term contracts and also start to expand the pipe.

A - Gerard Anderson {BIO 1391607 <GO>}

So we've said on prior calls and there's really no new news on this that we expect the pipe to really fill up and in significant measure with short-term flows and we're seeing that. In fact we expect those short-term volumes will increase as the upstream feed to the pipe increases as assets are put in service to deliver our long-term shippers. And then the process of transitioning those short volumes to longer-term contracts, a lot of that is expected to play out over the next year as we said on the midyear call. And our team and the Enbridge team will work that together.

Q - Paul Ridzon {BIO 1984100 <GO>}

Because these flows are mostly pushed rather than market pull. It should be little seasonality?

A - Gerard Anderson {BIO 1391607 <GO>}

Well I don't know if I'd characterize it that way. There's actually there is a very healthy spread to Michigan right now from the producing regions which just says that it's an attractive market and given that the volumes are flowing.

Q - Paul Ridzon {BIO 1984100 <GO>}

And then just clarification. What is the base of the 5% to 7%? You threw out a lot of numbers.

A - Gerard Anderson {BIO 1391607 <GO>}

So you can take it off of our early outlook for 2019.

Q - Paul Ridzon {BIO 1984100 <GO>}

Thank you very much.

A - Gerard Anderson {BIO 1391607 <GO>}

You're welcome.

Operator

And we'll take our next question from Jonathan Arnold with Deutsche Bank.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Good morning, guys.

A - Gerard Anderson {BIO 1391607 <GO>}

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning, Jonathan.

Q - Jonathan Arnold {BIO 1505843 <GO>}

As you told yourself my main question but just coming back on NEXUS, when you say short-term contracts what are we -- what term are we talking about? Because I know your longer-term ones are 15 years if I'm not wrong. So I'm just kind of curious when you say short-term is that very short-term or is that something in the middle?

A - Jerry Norcia {BIO 15233490 <GO>}

I think the range our short-term contracts Jonathan are range from very short-term to medium short-term. So it'll be some could be months some could be years. So I think it will be combination of -- that's what we consider short term. That's what will help fill the pipe in the near term and then we'll transition those to multiyear contracts as we move forward.

A - Gerard Anderson {BIO 1391607 <GO>}

Is the basin -- we talked previously the basin is projected to go short capacity in the 2020-2021 time frame. And it's when you approach those both we and producers both want to line up then. And so next year is 2019 and that's why we think it's going to be an active year of discussions about those longer-term contracts. I mean some could be as long as the anchor shippers. But generally you bring your anchor shippers into 15 to 20, you bring your other shippers in, you could get some 5 and 7. Some might push out longer than that. And then as

Jerry said you may have some of that's transacting in the short-term market on top of that. So, but I think next year will be an active year in the flows that we've seen immediately come into the pipe being transitioned to multiyear-term contracts that's what I just described.

Q - Jonathan Arnold {BIO 1505843 <GO>}

I mean, last quarter if I'm not wrong you were pretty adamant that you didn't want to go shorter than the 15-year term and that you thought that you would close out the rest of the pipe with long-term contracts in late '18 or early '19. So I'm just trying to understand what shifted in the environment that you do seem to be changing what you're saying here.

A - Gerard Anderson {BIO 1391607 <GO>}

Actually I don't think we said that we do 15 or 20-year contracts on the balance. That's not typical. What's typical is you come in with term but you look for your anchor -- underlying anchor shippers to prior that. We may get it if the basin tightens substantially, but 15 to 20 years would be pretty long for people who are coming in after the anchor shippers.

On the other hand we do expect -- we don't expect it to be in the very short-term market. We expect it to be in that five perhaps three's, five's, seven's, 10s those sorts of things. That's typical for a pipe as it build out it's portfolio.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. Can I just lastly clarify around -- on the M&A side in GSP. When you were talking last quarter you talked about opportunities on a similar I think scale to Link. And I heard you say that those didn't come to pass but now you're looking at other things. Are they also on that type of scale? Or are they in a different kind of scale?

A - Gerard Anderson {BIO 1391607 <GO>}

Yes the one we passed on was very analogous to Link. But the two we're looking at now one is smaller and one is analogous to Link.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. Thank you very much.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you.

Operator

And we'll take our next question from Andrew Weisel with Scotia Howard Weil.

Q - Andrew Weisel {BIO 15194095 <GO>}

Thanks. Good morning guys.

A - Gerard Anderson {BIO 1391607 <GO>}

Good morning.

Q - Andrew Weisel {BIO 15194095 <GO>}

Quick question on the Electric guidance. If I look at the original guidance plus $100 million of weather, that suggest number is much higher than $673 million. You're obviously accelerating O&M as you often do. But anything else to call out there? I'm seeing a delta of about $80 million which seems big for your investments.

A - Jerry Norcia {BIO 15233490 <GO>}

About half of that $50 million pretax were pull-forwards and investment in our operations. And I would say the other half was due to what sometimes comes with hot weather. We had incremental storm expense as well as we continued to invest in our customer systems to improve service from that new system that we installed.

A - Gerard Anderson {BIO 1391607 <GO>}

So pull-forwards, storms and we have some called customer 360, we're in the first year of those and typical when you bring in a big new customer platform, your expenses rise some and then fall away and we've seen that as expected here.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. Then also in the electric side, how would you describe the discussions so far around the five-year distribution plan that you filed at the start of this year?

A - Gerard Anderson {BIO 1391607 <GO>}

We met extensively with both the commissioners with the commission staff in particular. Our people were up there working in detail about future plans and future investment levels and the rationale for those. And so it's really on that basis that the three-year IRM filing was made. I'd describe it this way.

I think the commission would like to be off the every year rate case cycle because -- and the reason for that is there is a lot of waste in that. It's driven entirely because capital expenditures and reinvestment in the system is high, but the forces that we look at everything on an annual basis. And there are a lot of things that are more sensibly looked at every two or three years. So it is a lot of work that is really unnecessary if you know that you're investing in this power plant or you're going to invest in your distribution system or you're going to make investments that are necessary in your nuclear plant, while drive rate cases with those known items.

And so I think there's a mutual goal to rationalize the rate case filing process and frequency. And we've done our best to work hard with the staff to get a position in front of them that makes sense to us and makes sense to them, and so we're hopeful that we'll land on a spot that meets both needs.

Q - Andrew Weisel {BIO 15194095 <GO>}

Very good. And then lastly, earlier in the year you quantify the tax reform benefits for 2018. Fair to assume that you show the year-over-year growth from '18 to '19 using the original '18 guidance. Would it be fair to say that the 2019 tax reform benefits would be comparable, adjusted for the underlying growth in the nonutility businesses and therefore may be would be a wash with the REF tax equity transaction EPS impact?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yes. Andrew maybe I didn't understand your question a bit more but our '18 original guidance was at the year-end call which we put in the tax reform effect on that, so that was baked into that the original guidance. So that is comparable the '19 -- early outlook to the original guidance is comparable in terms of both reflecting tax reform. But I'm not sure if that was the nature of your question.

Q - Andrew Weisel {BIO 15194095 <GO>}

Yes, it was. Thank you.

Operator

And we'll take our final question from Gregg Orrill with UBS.

Q - Gregg Orrill {BIO 1532939 <GO>}

Yes. Thank you. Mostly asked and answered. But if you could comment on the details around the 1100 megawatt plant that you're building at DTE Electric, just technology and efficiency and anything else that you think is important there?

A - Jerry Norcia {BIO 15233490 <GO>}

I'd say combined cycle natural gas power plant about 1100 megawatts will be located where our Belle River and St. Clair existing coal units are. So it's going to be in that location. We're receiving great support from the local community. In addition to that in terms of efficiencies it's around at 6000 heat rate on our latest GE turbines. So it is a GE turbine. So those are the high-level details.

Q - Gregg Orrill {BIO 1532939 <GO>}

Okay. Thank you.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you. And that I am understanding it is our last question. So I'll just reiterate, really appreciate everybody being on the call. We had a great year this year and I think our two guidance increases indicate that. I also feel really good about the position we're in to continue the performance that we've been able to deliver you in recent years, really over the past 11 years. And we look forward to providing you updates on our five-year plan at EEI and the investments at our utilities and our nonutility businesses that will undergo that plan. So we will see you all in San Francisco and thanks for joining the call.

Operator

And that concludes today's presentation. We thank you for your participation. You may now disconnect.