Q1 2019 Earnings Call

Company Participants

- Barbara Tuckfield, DTE Energy
- Gerard M Anderson, Chairman and Chief Executive Officer - DTE Energy
- Jerry Norcia, President and Chief Operating Officer - DTE Energy
- Peter Oleksiak, Senior Vice President and Chief Financial Officer - DTE Energy

Other Participants

- Andrew Weisel, Scotia Howard
- Constantine Lednev, Guggenheim Partners
- David Fishman, Goldman Sachs
- Greg Gordon, Evercore ISI
- Jonathan Arnold, Deutsche Bank
- Julien Dumoulin-Smith, Bank of America
- Michael Weinstein, Credit Suisse
- Praful Mehta, Citi

Presentation

Operator

Good day, and welcome to Q1 2019Earnings 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, ma'am.

Barbara Tuckfield {BIO 19701481 <GO>}

Thank you, Rachel and good morning, everyone. Before we get started, I would like to remind everyone to read the Safe Harbor statement on page 2 of the presentation, including the reference to forward-looking statements. Our presentation also includes references to operating earnings, which is a non- GAAP financial measure. Please refer to the reconciliation of GAAP earnings to operating earnings provided in the appendix 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 to call on during the Q&A session. Now, I will turn it over to Jerry to start the call.

Gerard M Anderson {BIO 1391607 <GO>}

Thanks Barb, and good morning, everyone. Thanks for joining us today. So this morning, I will give you a quick recap of our performance in the first quarter, and then I will turn it over to Peter to provide a financial review and then Jerry Norcia will take you through some of our investment activities to bear on our long-term growth and then we'll take your questions.

So I'm going to start on Slide 4. So we continue to make good progress on several key fronts. First of all I'll just start by saying that our first quarter financial results were strong and they added materially to the contingency that we have for the balance of the year So we came into the year with contingency and we added to that in the first quarter, and given that with a quarter behind us in 2019, I am really confident that we're well positioned to deliver on our financial plans this year, and extend our streak of being able to meet our commitments to you.

Longer term as you know, we continue to target 5% to 7% operating EPS growth through 2023. And just as a reminder, our initial guidance for 2019 is the starting point for that growth. So a big part of consistently reaching our financial goals is our workforce and our company's culture. And I'm pleased to say that just about a month ago, we received Gallup's Great Workplace award for the seventh consecutive year.

Gallup has been in this business for a long time decades. And over that time period, only 10 other companies in their global database have ever gotten seven of those awards in a row. So, it says a lot about sort of the focus and mindset of our people, and I am really proud of that accomplishments for our people.

So as we look forward to the next five years, and we continue to invest heavily in our capital plan, we also remain committed to a strong balance sheet. Our plans call for us to issue $1 billion to $1.5 billion in equity over the next three years with up to $250 million of that this year. Peter will talk a bit more about that in a few minutes.

I think most of you are also aware, that the state of Michigan is in the midst of a fundamental transformation in the way we generate electricity. And in line with that last month, we filed an integrated resource plan, in which we laid out our thoughts on how we will generate electricity in the future. The IRP, which was submitted to the Public Service Commission on March 29th outlined the steps that we will take over the next five years and beyond to transform to a cleaner generation mix. And we'll do that by adding substantially more renewables, by increasing our energy efficiency investments, and by retiring our coal plants sooner than we had previously announced. So for context, in early 2017, so two years ago, we were one of the first energy companies in the industry to voluntarily commit to reducing carbon emissions 80% by 2050.

Well our plan over the last two years has evolved, and we've accelerated that commitment by a decade, so our IRP lays out that we will reduce carbon emissions 80% by 2040. And nearer term, we've committed to a 50% carbon emissions reduction by 2030, and a one third reduction by 2023.

I'll talk a little more about our IRP in just a minute. In our gas utility, DTE Gas, we're accelerating the pace of gas main renewal. So, that will have us investing an additional $450 million in capital over the next five years, and that will happen within our infrastructure recovery mechanism, and that reduces the time frame to complete the main replacement program from 25 years to 18 . So, with the weather having broken here, our team is fast at work, beginning to take on a spring and summer and fall of gas main replacement activity.

In our gas storage and pipeline business, we're moving toward the completion of our acquisition of the generation pipeline, which should be finalized in the second half of this year. So, the acquisition of the generation pipeline is fully consistent with the strategic growth plans that we have for Nexus, and fits very well with Nexus' goals like customers in Ohio, especially, in Northern Ohio, as well as Michigan, Chicago, Ontario and other markets, with Marcellus and Utica gas as, those resources continue to grow.

And in our power and industrial business, we continue to see progress in the development of both industrial energy services projects and new renewable natural gas or RNG projects. So, we are finalizing agreements for two new RNG projects, so being (ph) incremental to the project, we've developed in recent years. And beyond that, we continue advanced discussions to secure additional RNG projects later this year.

We also expect our Ford Motor Company cogen project to be operational in the fourth quarter of this year. So construction is sort of moving ahead at a fast clip on that project. And we're also finalizing the acquisition of a new cogeneration project and Jerry Norcia will describe that in a few minutes.

So moving on to Slide 5, I mentioned the IRP earlier, and we submitted that. And the IRP lays out. The plan you can see on the left hand side of Slide 30(ph), between now and 2030 and you can see, I mentioned the fundamental transformation in our generation well the-- the next decade alone, brings a very marketed shift in the way that we generate power. And I think ensures that Michigan will continue to be a leader in the transition of cleaner energy sources, nationally.

So, the plan our IRP provides a very well defined and specific strategy for powering our homes and businesses over the next five years, so between now and 2024. as well as what I'd call a flexible plan for the 2025 to 2040 period and we're flexible longer-term, because as you know technologies, as well as the markets we serve, and the MISO marketplace more broadly are all going to continue to evolve in ways that are hard to predict long-term, and so, we need a flexible plan to take account of that. So, we're quite specific for the next five years and then introduce more flexibility longer-term. What is a fixed marker though is the plan to reduce carbon emissions 50% by 2030 and 80% by 2040. And that plan is as we model it is not only achievable, it's achievable in a way that works for both affordability and reliability for our customers.

Now, it will require substantial investments. So, to achieve the goal, we will be aggressively investing in renewables. And the next five years call for us to invest approximately $2 billion in renewables to more than double our renewable production capacity by 2024. Those investments are going to target primarily wind over the next few years, because wind is still more cost-effective in Michigan than is solar. But we do anticipate a shift to solar in the 2024 time frame, because solar costs continue to become more competitive here in the state.

We are also expanding our voluntary renewable program and this has been really interesting in recent months. The voluntary program offers homes and businesses, the opportunity to buy more clean energy, and in the process accelerate our state's transition to overall carbon reductions and sustainability goals. This also allows individual companies to meet their ESG goals. And we've seen this play out in a significant way in the first quarter of this year, when we announced partnerships with Ford General Motors and the University of Michigan for sizable transactions.

Together, these three customers have signed contracts that we will be supplying by investing in over 350 megawatts of additional wind production. So, that's over and above what we will be investing in to meet our utility goals. and we'll be investing over $600 million of capital to pull that off. So, big moves on the voluntary front in the first quarter and we expect more contracts like these down the road.

We're also moving our previously announced retirements of the Trenton channel power plant and the St. Clair power plant, both coal fire power plants. We're moving the closure of those plants up a year to 2022. The River Rouge plant will be coming off in 2022 as well. So, we have three substantial coal plants coming off in just a few years. And the key factor that allows us to close those plants in 2022 is the fact that the blue water energy center, our new natural gas combined cycle plant is proceeding through construction well, and we're now confident that it will come online in 2023 to help backfill for those three coal plants that will come offline.

Blue water is key to our system reliability as we take off about 20% of our peak capacity production with those coal plants. Because it will be there when we see the normal fluctuations in renewable power, when wind isn't blowing or the sun isn't shining. But the construction on blue water has come along very well. and-- so we are able to accelerate the retirement of a couple of those coal plants. So with that, I am going to turn things over to Peter to give you a little more detail on our financial results. Peter, over to you.

Peter Oleksiak {BIO 7535829 <GO>}

Yeah. Thanks, Gerry. Good morning, everyone. Before I get into financials as you know, I would like to give an update on Detroit Tigers. And if you hear a smile on my voice here that's because we won both games of a doubleheader. Yesterday, against the Red Sox we are above about 500. Been an exciting start to the season and hopefully, we can build on the wins we've had here in April.

Let me turn the attention now to the financial results for DTE I'll start with a (ph) review on Slide 6. Now the first quarter came in strong with earnings of $374 million. This translates to $2.05 per share for the quarter. You can find a detailed breakdown of EPS by segment, including a reconciliation to GAAP reported earnings in the appendix. Let me start my review at the top of the page with our utilities. Both utilities benefited from a cold start of the year versus last year. On the first row are the results of our electric utility.

DTE Electric earnings were $147 million for the quarter, and this is $5 million higher than the first quarter of last year. This increase was driven primarily by colder weather and the impact of new rates implemented last year. Our electric business also had higher O&M and increased depreciation and other expense related items to rate base growth. DTE gas had first quarter

2019 operating earnings of $151 million and this is a $40 million increase from the first quarter of 2018. The earnings increase is driven primarily by the impact of new rates implemented late last year and colder weather.

There is also approximately $10 million related tax timing item that we reversed in the second quarter of 2019. Let's move down the page to the third row to our gas storage and pipeline business. Operating earnings for GSP segment were $48 million for the quarter. The quarter results are also in line with our 2019 full year guidance. Last year, we had one-time positive earnings related to AFUDC earnings at NEXUS as well returned to normal gathering volumes this year. Last year we had a very strong year across all of our platforms. As a result, this quarter is down $14 million versus 2018 first quarter, but in line with this year's annual guidance.

On the next row, you can see our power and industrial business segment. Operating earnings were $26 million, earnings are $16 million lower than the first quarter of 2018. This decrease is due mainly to the REF tax equity transactions that occurred in the fourth quarter of 2018. As we've communicated previously, we entered into equity partnerships in our REF units and accelerated cash flows of around $100 million per year for the next three years to support other growth projects. This lowered earnings this year around $ 40 million versus 2018.

Also like to note that most of our new projects P&I originated will start adding to earnings late this year and early next year. Our energy trading business had operating earnings of $5 million and earnings are up $4 million from last year. Our trading segment had a particularly strong quarter with its power portfolio.

Economic contribution was up significantly quarter-over-quarter. The appendix contains our standard energy trading reconciliations showing both economic and accounting performance. And finally corporate and other was $13 million favorable compared to the first quarter last year, due to the timing of taxes. Overall, DTE earned $2.05 per share in the first quarter of 2019, and this is $0.14 higher than the first quarter of last year.

Let's move to our balance sheet on Slide 7. We expect to issue between $1 billion and $1.5 billion of equity over the next three years, including 250 million this year. This year year-to-date we've already issued $150 million mainly with the contribution of equity into our pension plan in the month of March. Our credit metrics are well within the targeted ranges set by the rating agencies. So, we continue to maintain a strong balance sheet which supports of capital investment program and growth plans and positions the company to continue a strong investment grade credit rating.

With that, I'll turn it over to Jerry Norcia, who'll go over our utility and non- utility growth projects.

Jerry Norcia {BIO 15233490 <GO>}

Thanks, Peter. As Gerry mentioned, DTE had a strong start for the year. And we continue to build on our solid long-term plan that we laid out at EEI last fall(ph). I want to highlight several significant achievements in both our utility and non-utility businesses. So, I'll start on Slide 8.

In January, the Michigan Public Service Commission approved DTE's proposal to expand our Michigan green power program, of the businesses and industrials companies Michigan Greenpower is the voluntary renewable program that Gerry was describing. This program is now available to all DTE customers. (Technical Difficulty) residential, commercial and Industrial customers. And then (Technical Difficulty) operating Wind Park in Michigan as well as DTE's most cost-effective wind project to date with 65 turbines we will provide enough clean energy to power more than 50,000 homes. Last summer, we broke ground on our blue water energy center, our natural gas combined cycle power plant that will help meet our goal of producing carbon emissions.

Gerry highlighted the fact that Michigan is undergoing an energy transformation and how our recent IRP filings define how we will be moving our generation fleet to cleaner energy. That plan provides the necessary homegrown 24/7 power, for times when renewable resources are unavailable while also aggressively, as we've heard growing our renewable energy portfolio.

So, moving on to our gas utility. DTE gas has begun to implement elements (inaudible) to improve rate order, including our accelerated main renewal program. I'm very pleased with the progress of this program, which will ramp up significantly now that the weather has broken. Additionally, we announced plans to reduce methane emissions, from our gas utility by more than 80% by 2040. We have made good progress on this efforts so far from our baseline levels, achieving a 20% reduction through 2018.

We are also leading an industry coalition through EEI and AGA aimed at reducing methane emissions and the supply chain of pipes and producers.

Now I would like to move on to our non-utility business. I'll start with an update on growth opportunities at our gas storage and pipeline business. On our year-end call, we announced that NEXUS is acquiring generation pipelined, owned in a 50/50 partnership with Enbridge. This is an example of an add-on business that fits directly within GSP's long-term growth strategies.

Our Millennium pipeline complete our 0.2 Bcf per day expansion, in the first quarter which now brings the pipe to 1.2 Bcf per day. We have numerous additional expansion opportunities within our current gathering and transport platforms.

Moving on to NEXUS and Link, they continued to perform well, NEXUS has contracted to approximately 900 million a day with long-term contracts, it is flowing approximately 1.2 Bcf a day and the balance of those contracts are short-term contracts. Link asset has been performing very well, I would say better than planned.

Next, I will walk through our power and industrial business. As Gerry mentioned, our P&I business continued to see progress in the development of both industrial energy project and renewable natural gas. We feel the RNG market is poised to continue its growth trajectory into the future. In addition to the project we secured in 2017 and 2018, we are finalizing agreements on two new greenfield RNG projects, and we continue advance discussions to secure an additional RNG -- secure additional RNG projects in 2018.

On the industrial energy side, we're focusing on our cogeneration business along with our Ford Motor project we are in late-stage negotiations on additional cogeneration project. We will provide details as this progresses and moves toward close. Along with these projects, our P&I queue continues to be very strong.

Now, I'll wrap up on Slide 9, and then we will open it up for questions. To sum it up, I feel great about our first quarter results and our position to continue our growth in the years to come. Our utilities continue to focus on necessary infrastructure investments, basically(ph) investments in clean generation and investments to improve reliability and the customer experience.

Our non-utility businesses continue to position us for growth. Our balance sheet is strong and we have solid credit ratings. I'm confident that we are on track to continue to deliver on our long-term 5% to 7% operating EPS growth rate, and I feel very good about our ability to continue to deliver the premium total shareholder returns that we have delivered over the past decade.

With that, I'd like to thank everyone for joining us this morning. And Rachel, you can open it up for questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions). we will now take our first question from Shar Pourreza of Guggenheim Partners. Please go ahead. Your line is open.

Q - Constantine Lednev {BIO 20877967 <GO>}

Hi. Good morning, guys. It's actually Constantine for Shar, he had to hop on another call. Congratulations for good earnings.

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

Good morning.

Q - Constantine Lednev {BIO 20877967 <GO>}

Just one kind of quick question you've -- Gerry thanks for going over to the business growth at GSP So, one other thing that I wanted to ask was you mentioned that there's kind of a mix o, kind of greenfield and gathering opportunities, and some potential strategic acquisitions in the future. In terms of thinking about how you're going to deploy capital into that business, what's the mix there and how are you thinking about it?

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

Our first order is always organic growth. What we're seeing right now is significant opportunities, organic opportunities in our existing platforms, and generation pipeline is an example of that as we close that and then move to connect with the NEXUS It'll be a great market sync for that pipeline. We also have several other opportunities across all our platforms that we're pursuing that we feel real good about and those are organic in nature, either connectors or expansions. And in addition to that, we do see opportunities for strategic asset acquisitions that connect to these platforms we will look hard at those.

Q - Constantine Lednev {BIO 20877967 <GO>}

And magnitude wise, do you think it's going to be closer to something like generation or slightly bigger, just thinking about the overall kind of $4 billion to $5 billion number over the five years?

A - Peter Oleksiak {BIO 7535829 <GO>}

Right. I think we're -- right now we're focused on building out that opportunity set and I can tell you that we're I would say we're in line with our guidance this year, in terms of growth capital for both P&I and GSP, and feeling really good about that opportunity pipeline, and we continue to secure -- as we secure those we're securing EPS growth for the future.

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

But I would say in addition to that things, we've looked at for acquisitions have ranged anywhere from the scale of generation pipeline to the scale of Link and lots of things in between. The other thing I'd say on our capital numbers is we're a lot more focused on value and accretion than we are a capital number and earnings number.

And the organic things tend to come in harder with better returns, less capital, some of the acquisitions that set you up for more of that, maybe larger capital numbers, but at least at the outset a little bit lower accretion, so to continue growing we need a mix of those things, and we're looking at a series of first of organic and then see the range of things we've seen for potential acquisition is all over the map from pretty small bolt on to things that are a bit larger on the scale like Link.

Q - Constantine Lednev {BIO 20877967 <GO>}

Okay. And just a quick follow-up on also on the GSP business. You mentioned kind of a mix of shorter-term contracts on NEXUS. Is there a plan to fill that with longer-term contract or is the kind of economics working favorably right now on keeping it the way that it is?

A - Jerry Norcia {BIO 15233490 <GO>}

So short certainly the answer is yes, we're looking to move the balance of the capacity to longer term contracts. We feel some of the tailwinds there are that the basin that we're operating and continues to grow, we expect 5% to 6% a year, which is significant. It's producing about 28 Bcf a day, a day now. And so we view that as a sort of strong tailwind. In addition to that we're seeing some other pipelines face strong headwinds, if you will, in terms of going into service. We find ourselves in a pretty good position with available long-term capacity that we can place when we see the prices being right and the term being right. And that's what we're really working toward just trying to get the right price and the right term for these contracts, long term contracts. So we're happy to take the short-term contracts in the meantime.

Q - Constantine Lednev {BIO 20877967 <GO>}

Okay.

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

And I would say that we're consistent with what we've really been saying for about a year, which is, we see the basin going short takeaway in the early 2020s, 2021, 2020 time frame. And that's what producers will be targeting. Of course, if some of the pipes in the region delay or don't get built, it intensifies that dynamic.

Q - Constantine Lednev {BIO 20877967 <GO>}

Great. That's really great color. And just one kind of last one on a little bit more of a strategic end, as you kind of mentioned the 25, 75 kind of non-regulated to regulated business mix. Is that kind of target going forward for the next five years?

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

Yeah. as model forward that's where we keep landing.

Q - Constantine Lednev {BIO 20877967 <GO>}

Okay. And kind of the IRP, I guess supports some of that growth on the regulated front?

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

Yeah, that's right. IRP, voluntary renewables and -- as you know, we're in a heavy capital replacement program in both distribution or operations as well, gas and electric. So yeah, that's what keeps the mix even though we're growing the other businesses keeps the mix at that 75, 25 roughly.

Q - Constantine Lednev {BIO 20877967 <GO>}

Okay. Perfect. Thanks. That's it for me.

Operator

We will now take our next question from Praful Mehta of Citi Group. Please go ahead. Your line is open.

Q - Praful Mehta {BIO 19410175 <GO>}

Thanks so much. Hi guys.

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

Good morning.

Q - Praful Mehta {BIO 19410175 <GO>}

Good morning. So, maybe just touching on the IRP and the whole retirement of coal plants. I wanted to understand from an economic perspective most utilities almost have a benefit on customer bill that these are diamonds.(ph) How do you -- how are you seeing that play out in your IRP? Do you see customer bill impacting positive, flat or bills going up? How do you see that playing out in your IRP plan?

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

So what we've talked about on our bills overall is that our goal is to keep as we invest both in distribution and generation, keep our rate increases to low single digits and we think we'll be able to do that. In some regimes, if you get into the Great Plains where wind may come in at $0.02, you can displace fuel costs in a way that you may see benefits to bills. We're trying to get our renewable additions in with modest increases and that's what we're seeing. So there's enough capital here and we bring say wind in today at $0.045.

So we have good wind regime in Michigan, but it's not the best in the country. Certainly a long way from the worst too, it's a good regime, but not quite as strong as you might see in the Great Plains. So I'd say, we're bringing it out in a way that works for customers and is going to keep our overall bill increases affordable and workable.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. So as not as good at benefit, but it is manageable within the current plan?

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

Yeah, I mean we wouldn't be out saying we can go down 50 and 80, if we hadn't modeled that this is workable from a price and reliability perspective. We spent a lot of time studying that, and absolutely is workable. And generally speaking, I think technology is going to continue to evolve in ways that make this more workable and probably make things happen faster than people anticipate today.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you, interesting. And the other interesting point you brought up on the voluntary contracts, is that something you expect would push the process of this transformation sooner? And how does that then play into bills? Do these people who sign up the voluntary contracts bear an incremental burden for the transition for those particular contracts?

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

Well, the contracts are signed up with customers. So the balance of the customers don't pay for those. So GM is paying for their renewables, Ford, UM And so what that means is at the utility we have said that we will have at least 25% of our supply from renewables by 2030. This voluntary could push us up to the range of 30% for the state, with some of that being utility commitments and some of it being individual customer commitments. So the RECs for these projects are assigned to those specific customers and retired by those customers, and in the name of those customers. So we can't use it for utility compliance. It accrues specifically to GM, Ford and the University of Michigan.

Q - Praful Mehta {BIO 19410175 <GO>}

Got it. Okay, that makes sense, thanks for that. And then just finally, just a simple clarification question, when you talk about the gas business, Q1 '19, versus '18, the $40 million uplift that you experienced in '19, only partly is explained through weather and the one-time, I think the tax impact that Peter also talked about.

What else is driving the improvement and why doesn't that show up on an annual basis in terms of an uplift for the gas side? It seems like the annual number is still the same. So just trying to understand and reconcile how Q1 performance doesn't kind of flow through?

A - Peter Oleksiak {BIO 7535829 <GO>}

We've had a very strong start to the year. You mentioned some of the items. We have some of them that are kind of one-time more in nature. We have weather variability this year and we also have some tax items. Last year, we booked some accruals related to tax reform where we gave significant benefits back to customers.

That's about half of that $40 million, we look at the weather and tax timing year-over-year. The other is more permanent. We have a new rate case, last year, we have new orders, new rates coming in. We do see a disproportionate amount of that coming into the first quarter just because half the volumes for the year play out in the first quarter. So we see a lot of capability with the new rates coming in as well as we have NEXUS related revenue coming in with NEXUS in service, that's the other half.

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

In NEXUS, we had investments in the utility to enable NEXUS Those actually benefit the utility customers. I think they see a benefit, but there are earnings tied to that. So, between the new rate case which internalized new capital into rate base and the NEXUS impacts, that's an equivalent impact of what the weather and timing items were.

A - Peter Oleksiak {BIO 7535829 <GO>}

It's a very strong start and Gerry Anderson did mention in his opening remarks around continuously we're building this year and we do have some contingency we are building with the gas utility.

Q - Praful Mehta {BIO 19410175 <GO>}

Got it. Well, thanks so much guys. Appreciate the color.

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

Thank you.

Operator

We'll then take our next question from Julien Dumoulin-Smith of Bank of America Merrill Lynch. Please go ahead. Your line is open.

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

Thank you. Good morning, everyone.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning.

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

Good morning, Julien.

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

So I just wanted to follow-up on the IRP discussion. First, just to be exceptionally clear about what's reflected in your CapEx budget today, obviously, the gas plant is, but with respect to generation investment on a longer dated side, how does that reconcile with some of the updated and accelerated timelines that you propose in the IRP?

And then secondly, and related, obviously, we've seen some developments on consumer energy's IRP of late and some specific settlement terms. How do you think about the ability to settle your own IRP, and I know, again, I appreciate it's early, but some of the critical pieces, such as recovery on PPAs, and again, more broadly with respect to PURPA, if you can comment, at least initially as you see it?

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

Yeah, so the IRP, as I said, is very specific for the first five years. And then after that, we actually proposed a range of scenarios that may play out depending on how technology and other factors evolve. And when you look at the first five years, they're very consistent with the plan that we laid out at EEI last year. So Blue Water is in there, as expected. The renewables that we need to build to meet the 2021 commitment that we have under the RPS are all in there. We do have voluntary renewables in the plan, we have 600 megawatts in. But we are only one quarter into that plan, and we signed up 350 megawatts. So we're feeling awfully good about being over halfway. only a quarter into the first year of the five years in.

I do think there'll be more of that, as other companies continue to look hard at what they need to commit to their investors and their customers, So that's going well. So I would say, on the whole, the IRP is entirely consistent with plan that we laid out at EEI and makes feel really good that we're on track to achieve it from that perspective. Concerning CMS and their settlement, I think you'd probably be better to direct questions of settlement and terms and so forth around that to them.

We could settle, although, I don't know that I anticipate that. Ours is a pretty early in the process. And then I think it's a pretty straightforward IRP in the sense that most of the discussion that's specific is near term and it's all things that have been out there for the commission to see for a long time. So wouldn't think the first five years would be controversial.

On PURPA, we actually got a staff order on our PURPA case today that, I think continues to evolve that policy in the right direction in a positive way. In our case, couple of specifics where that they found that we had no capacity need, no need for capacity. So any PURPA projects would be attached with energy only prices and if the day does come that we're determined to have a capacity need, they set the price at the Blue Water Energy center price which is in the $0.045 range, which is pretty consistent with the renewables that we're bringing on, as I mentioned earlier.

So the new assets that we're bringing on are in the $0.045 range. And so that's where -- roughly where they've set the price, which is a good evolution from -- I'd say the -- some of the early thinking on how PURPA pricing might be handled. So we feel positive about all of that.

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

Got it. Understood. And then separately, just to clarify this voluntary renewables, I know you mentioned it already, but is there a timeline on getting the balance of the 300 megawatts to 600 megawatts resolved?

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

Yeah, I mean, within five years is that -- it's in our five year plan, so we've had a really fast start to the effort. I mean, we -- be looking to bring in 250 megawatts more over the remaining four years and three quarters.

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

Excellent. And then lastly, anything quickly on replacing the remainder of the midstream acquisition plays held there?

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

I think we answered that earlier with we're looking at a whole range of potential or both organic and sizes on acquisitions if we execute those. So I don't know that there's more to say than that.

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

Okay, fair enough. Just maybe wanted to be crystal clear. Thank you very much.

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

Thank you.

Operator

We will now take our next question from -- just a moment there, sorry, from David Fishman of Goldman Sachs. Please go ahead. Your line is open.

Q - David Fishman {BIO 20818121 <GO>}

Hi, good morning. Another follow-up on the IRP As you guys already mentioned, the filing of one more wind capacity up front, far less solar heavy, relative to some others in Michigan, largely due to cost -- competitiveness. But when you think about the mix between DTE Electric owning versus PPA in this capacity, and how other dockets have progressed. Does wind present a more compelling utility own proposition relative to solar over the next five years in Michigan? Or they're not really material differences between owning and PPI if it's wind versus solar?

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

Well, look, one of the reasons that the legislation in 2016, that was passed in '16 evolved to enable companies to own 100% is between 2008 and 2016, when there was a 50-50 split, there just was no compelling evidence that third parties were bringing in wind capacity or renewable capacity more cheaply. In fact, we were always, DTE was always at or below the third-party.

So the legislation in '16 enabled utilities to own the renewable capacity. And that's what our plan calls for. We think we can absolutely do that at or below what third-parties can. And as you said, near-term that means wind, but long-term, we're convinced we can do the same on solar, and that we will be bringing solar on at or below what third-parties can, and that's our plan.

Q - David Fishman {BIO 20818121 <GO>}

Okay. Thanks. And then one follow-up on P&I, I know we talked about RNG projects in the past, I mean, you announced acquiring cogeneration projects. Are there any kind of incremental insights you can provide on kind of returns, contract duration, and maybe how late in the cycle that cogeneration project is? Is it already developed or are you just kind of buying the rights?

A - Jerry Norcia {BIO 15233490 <GO>}

We are -- the contracts are long-term on the cogeneration projects that -- cogeneration project that we're looking at, that we're in the final stages of discussion on. So I can say that.

Q - David Fishman {BIO 20818121 <GO>}

Okay. But are -- so is this a completed kind of cogen project that you're just acquiring once it's done? Or is this something where you'll be having an organic aspect to it?

A - Jerry Norcia {BIO 15233490 <GO>}

The one that we're in final stages on is an existing facility -- operating facility.

Q - David Fishman {BIO 20818121 <GO>}

Okay. And then the high level, are there much competitive advantages with buying an existing cogeneration project? Are you able to bring gas from the S&P or anything like that?

A - Jerry Norcia {BIO 15233490 <GO>}

But I can tell you that the returns are favorable and north of typical utility returns with a long term contract. So we feel good about our position there.

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

I'd also say that our group who does that, probably does have operating cost advantages over other operators. Like any business, you can do a really good tight job of running assets or you can mess it up. And they've got, I don't know, 20 years of experience running these projects. So really understand how to do it efficiently.

A - Jerry Norcia {BIO 15233490 <GO>}

And the asset is critical to the operation of the facility that it's connected to. And so operating experience and expertise is fundamental and certainly a competitive advantage.

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

Okay. The other one is -- the other one is being finalized, so we can't say too much specific about -- much more specific about it and until perhaps it's done in public. But I will say the combination of that plus the two RNG projects we mentioned, get you a long way down the road toward the $15 million that we can got that business targeting this year for incremental earnings growth. But there's as Jerry mentioned, the significant amount more in the queue that's very active behind those three projects. So he and I continue to feel like the opportunity set is, is good.

Q - David Fishman {BIO 20818121 <GO>}

All right. Great. Thank you. Congrats again on a good quarter.

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

Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Okay. Thank you.

Operator

We will now take our next question from Michael Weinstein of Credit Suisse. Please go ahead. Your line is open.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi, guys, how are you doing?

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

Good.

A - Jerry Norcia {BIO 15233490 <GO>}

Hi Michael.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hey. A couple of questions on the -- in the electric rate case, the infrastructure recovery mechanism. Is that -- if that isn't approved, what happens with the next filings over the next few years? How does it change things?

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

One proposal they've made is that we set up a work group to work out the details on the IRM rather than use the rate case to finalize that. And that would be fine, if it's the way it plays out. I think there -- Jerry, you talk. But on my sense, is there continues to be a real interest in the mechanism but a desire to work through the details.

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah, we spent a lot of time with commission staff creating an understanding of our investment profile over the next five years. And I would say there's been really strong support, as we invest in reliability and modernization of the grid as well as our generation fleet, modernizing and transforming that fleet. So there's good visibility into our plan.

So there is the opportunity to have an infrastructure renewal mechanism to sort of accommodate well understood capital. But I think as Gerry said, it's going to take some time to work through the details with the staff and the commission. And so our expectation is it is likely not going to happen in this rate case.

And the consequence of that is it will be in for more regular rate cases. And I think if we can get one done the benefit is that we can lock in long-term investment plans and drive efficiency into those plans for our customers. So we see value there as well as reducing the frequency of rate cases that are pretty straight forward.

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

The staff proposal was to set up a work group to continue to work through the details.

Q - Michael Weinstein {BIO 19894768 <GO>}

And working group is better than a rejection. So, on gathering and processing, can you talk about volume growth and what you expect that to be over the next few years?

What it's been this year and specifically on Link, what's the capacity utilization rate on the Link system at this point during Q1?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, what I can tell you is that, we expect the Appalachian basin which most of our assets, all of our assets are really connected to grow at 5% to 6% over the next 10 years or so.

That's very positive. I mean, it has grown faster in the past, but I think as the basin matures, as well as you know capital discipline has entered into the production, capital markets. we see -- we project a 5 % to 6% growth. And we think that our assets, Link, Bluestone, Millennium, NEXUS are well positioned to competitively attach that volume growth.

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

So and you asked specifically about Link, Link continues to perform, as Jerry mentioned earlier, ahead of the pro forma that we had for it. We mentioned last year a new gathering contract, we are in the middle of building that out. The drilling that we see around Link is proceeding kind of exactly as we anticipated, actually, in this year's plan. So there is talk of producers not getting out over their skis with capital they spend to chase resources.

But in terms of the drilling we're seeing around our gathering assets, it's right in line with what we expected and right in line with our plan for this year. So that, I guess, domain you'd say is proceeding well for us in 2019.

Q - Michael Weinstein {BIO 19894768 <GO>}

I think you've had -- last update was that its 80% contracted. Is that still over the latest you're willing to talk about or is there an update to that?

A - Jerry Norcia {BIO 15233490 <GO>}

I don't think, we've--

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

I don't think we've talked about contracting levels. It's certainly rising. We're growing into it in. There are various components of the pipe too, so there's a Southern Leg and a Northern Leg and each of them have their own dynamics. So it's not like a point to point pipe like Millennium is it's quite as easy to sum up that way, but

A - Jerry Norcia {BIO 15233490 <GO>}

Like we've said in the past that there's significant amount of expandability that we could secure on a pipe. And as matter of fact, they are under construction right now with a significant expansion on that pipe, to support a customer need with long term contract. So we're in expansion mode right now on Link.

Q - Michael Weinstein {BIO 19894768 <GO>}

Great. And on P&I, are you guys ahead of plan for $15 million a year of growth? I mean, it sounds like there's -- it sounds like you're doing better than you expected. Is that fair?

A - Jerry Norcia {BIO 15233490 <GO>}

Certainly -- yeah, doing better than we expected at this point in time in a year. I mean, we have approximately most of our growth locked in that we expected the lock in this year and with the very strong queue behind it. So we expect more good news in P&I as we go forward.

Q - Michael Weinstein {BIO 19894768 <GO>}

Great. And I had one final question on just the equity share account. Do you -- are you guys including the Link conversion, the equity conversion, in this year's guidance for share count and also in this quarterly numbers?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, we are including that. My disclosures I gave on the call, which is a $1 billion to $1.5 billion to $250 million (ph) this year, does not include it. And what we can disclose the share count it doesn't really.

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

Yeah. So, it's not -- we've got $1 billion to $1.5 billion plus the converts that will come in as equity. And of course, those are all in our EPS forecasts and the five year plan that's been -- we've been forecasting that convert for years now. That the $1 billion to $1.5 billion would be over and above that.

Q - Michael Weinstein {BIO 19894768 <GO>}

Make sense. Okay. Thank you.

Operator

We'll now take our next question from Greg Gordon of Evercore ISI Please go ahead. Your line is open.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Good morning.

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

Good morning.

Q - Greg Gordon {BIO 1506687 <GO>}

When you look at the first quarter results in GS&P and the decline in overall earnings associated with coming back to more normal volumes, I know that the fiscal year guidance was for overall --lower overall. But is that sort of in line with your expectations and reflective mainly of the Atlantic Sunrise pipeline coming online and those volumes being diverted to that pipe?

A - Peter Oleksiak {BIO 7535829 <GO>}

Hi, Greg, this is Peter. First of all, last year we indicated that we had a really strong year $62 million first quarter last year, $48 million this year. So that's the $14 million decline from $62 million last year (inaudible) AFUDC accounting for NEXUS also hit all of our platforms (inaudible). So that $14 million is the combination of the returning from AFUDC accounting as well as normal volumes. When you look at the $48 million you annualize that and also you take a look at the growth we have for the year as Jerry Norcia was mentioning the Link.

On the last question we're feeling really comfortable with this year's guidance. And we're not anticipating any other pipelines not coming in service and volumes coming from that. It's really just contracted growth that we're already constructing that's going to help us get our annual guidance.

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

Put another way the first quarter results were right in line with our plan for the year so we're just fine..

Q - Greg Gordon {BIO 1506687 <GO>}

Got it. You guys didn't call out earlier the flip from AFUDC, so I didn't recall that. So it's a combination of the AFUDC and volumes normalizing, but still down the fairway of how you had thought it would play out so that good.

The second question I have, a little off the beat and track, when I look at your IRP, as I recall and I did it review it recently I didn't see any call out specifically for a significant commitment to battery storage.

Can you talk about that and what type of technology or vendor you might decide to partner with? Just reading recently that for instance Arizona Public Service down in the Southwest has deployed a fairly significant chunk of battery source and recently had a major equipment failure from a large vendor and I was wondering as you look at that landscape how are you thinking about that?

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

One thing that's unique to Michigan is that we have a massive battery that's existed in the state for a long time known as the Ludington pumped storage facility. So that things we've been investing along with consumers, over $800 million in that facility in recent years. And it takes it up over 2,000 megawatts. That's the fourth biggest pump storage facility in the world, a couple in China and one here in the US that are larger. And so we (inaudible) actually do some modeling recently on forward needs for storage, as we build out our renewable assets in the state and they just don't show much of a need because a lot of the short term fluctuations that renewables will introduce in Michigan can be handled by Ludington.

So what we see for batteries is more niche investments for example at substations to offset investments on our distribution systems. So we will have some but, for the reasons I just described I think the big dollars will be in the renewable assets themselves versus storage within Michigan.

Q - Greg Gordon {BIO 1506687 <GO>}

Excellent, I've been to that facility. It's really an impressive site. Thank you. Take care.

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

Thank you.

Operator

We will now take our next question from Jonathan Arnold of Deutsche Bank. Please go ahead. Your line is open.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Good morning, guys.

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

Good morning.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Just coming back to the new cogen acquisition and previously you'd been talking about the plan in that business that would focus on developing new opportunities. I thought is this -- are you still on that track and this was an opportunistic--opportunity that came along or is this a shift in focus?

A - Jerry Norcia {BIO 15233490 <GO>}

I think your assessment is accurate Jonathan. We are focused on developing Greenfields in this space and we have several of those opportunities under way that are addressing quite well actually. This was an opportunistic acquisition opportunity.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Do you see others?

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

We have for example a Greenfield that I'd say It's an advanced development quite interesting. That would be a new build, would be the next one we're looking at behind this. So if we see these come along as an acquisition opportunity, a bolt-on that fits our return and skills we're happy to do it, but we do continue to develop Greenfield actively as well.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great. And then just on RNG, you said, you were finalizing these two last quarter as well. So I'm just curious is that of -- is that something that's come up that's making this take longer, is it just the process, what's the kind of update on getting those over the finish line?

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

Well the deals are done on those two, really we're in a due diligence phase from a development perspective, make sure that we're happy with everything that we're closing in on from an economic perspective, but we feel really good about it we expect them to go forward.

Q - Jonathan Arnold {BIO 1505843 <GO>}

So is that you are just still in due diligence and you were in due diligence couple of months ago, and do you think that any of these will close?

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

Just to be specific, we were in late development a few months ago. The contractual terms are agreed to now, but you always have once you've agreed on terms conditions et cetera in a definitive way you always have a period of final due diligence where you make sure the assets you're buying, fit the description and so forth. So they're working way through that but they're very late in that process.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay, so since you last updated us, you've gone to terms and moving forward effectively.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes, I fully expect we'll move forward on these two RNG deals.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great. I think that's it. Thank you guys.

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

Thank you.

Operator

We will now take our next question from Andrew Weisel of Scotia Howard Weil. Please go ahead. Your line is open.

Q - Andrew Weisel {BIO 15194095 <GO>}

Hi, good morning. Thanks for squeezing me in at the end of the hour here. First, just a couple questions on wind. For the voluntary renewables program, I just want to be clear would those assets sit in the rate base or outside of it, notwithstanding the dedicated recs(ph) that you mentioned. Are rates negotiated or would it be a cost plus with something like a 10% ROE?

And going forward given the size of Ford and GM, would most of the growth tend to come from residential and commercial customers or industrial? And does that matter from a rate to margin perspective?

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

The contracts are signed with the individual customers. and they are five year term. We expect them to evergreen, because a lot of these companies have long term commitments they've made. They -- if they, any individual customer didn't renew they do revert into rate base. So they behave just like a rate based investment.

They essentially are utility asset that behaves like rate base. And in terms of returns, those are negotiated with individual customers to work for us and work for them. I think he can think of them as pretty much rate based assets.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay, so the returns will be comparable to the rate base ROE, right, is that that what you said?

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

Yes.

Q - Andrew Weisel {BIO 15194095 <GO>}

Perfect. Okay, great. Then just one last one on midstream. You mentioned that you're expecting that tightness in takeaway capacity for Appalachian Gas in the next, say, two years. Others might be less confident thinking that there could be sufficient availability for a while, especially if people assume a slower rate of production growth than you do. So just to be clear, would you need to see that market tightness to hit your 2023 operating income targets? Or would that represent upside here to your plan?

A - Peter Oleksiak {BIO 7535829 <GO>}

Well, we look to -- I mean NEXUS is running full from a contractual perspective, based on available capacity, what we'd like to see is turning out those revenues and at favorable pricing. So I -- we still are pretty confident that we're going to achieve long term contracting on this pipe and move our short term contracts to long term. The basin is growing. I mean, last year it grew 18% year-over-year. We are forecasting what we believe a pretty conservative growth profile of 5% to 6% going forward and that's what's built into our five year plans.

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

The discussions that we're having now with producers are very consistent with what we've been telling you for some time. They're active. And we still do see that tightness coming in the early 2020s. I've been telling investors, this capital discipline that people talk about, I think it's a short term phenomenon in the sense that demand five years from now is what demand five years from now is. And the fact that producers are being more disciplined about not getting way out ahead of it and producing a surplus, it makes sense for producers, but it really doesn't affect what the demand is in 2022 or 2023. And all the modeling that we see on fulfilling long term demand continues to see substantial growth out of the Appalachian base broadly. But then as you get into some of the stronger sub markets within the Appalachian bases, they grow beyond the pace of that 5% to 6% that Jerry mentioned. So you're well exposed to the right theology, you not only see growth, you'll see more than your fair share.

Q - Andrew Weisel {BIO 15194095 <GO>}

Alright. Thank you very much.

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

Thank you.

Operator

There are no further questions at this time. I'd like to hand the call back to our hosts.

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

All right. Well look I want to thank everybody for joining the call. As I said at the outset we're off to a really good start to 2019. We're in a strong position to have a year.

We've I think increased certainty of outcome for 2019. And so we're feeling like we can add 2019 to a decade worth of meeting our forecasts and earnings commitments for you. Look forward to giving you further updates mid-year and beyond, the host of investment opportunities that we've laid out for year as well. Thanks again and look forward to talking to you soon.