Q2 2016 Earnings Call

Company Participants

- Barbara Tuckfield
- Don M. Stanczak
- Gerard M. Anderson
- Gerardo Norcia
- Peter B. Oleksiak

Other Participants

- Brian Chin, Bank of America Merrill Lynch
- Gregg Orrill, Barclays Capital, Inc.
- Neel Mitra, Tudor, Pickering, Holt & Co. Securities, Inc.
- Paul T. Ridzon, KeyBanc Capital Markets, Inc.
- Shahriar Pourreza, Guggenheim Securities LLC
- Steve Fleishman, Wolfe Research LLC

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to today's DTE Energy Second Quarter 2016 Earnings Release Conference Call. Today's conference is being recorded. At this time, I would like to hand the conference over to Barb Tuckfield. Please go ahead.

Barbara Tuckfield {BIO 19701481 <GO>}

Thank you, Stephie and good morning, everyone. Before we get started, I would like to remind you 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 earning which is a non-GAAP financial measure. Please refer to the reconciliation of GAAP net income to operating cost provided in the appendix of today's presentation. With us this morning are Gerry Anderson, our Chairman and CEO; Jerry Norcia, our President and COO; and Peter Oleksiak, our Senior Vice President and CFO. We also have members of the management team with us to call on during the Q&A session.

And now, I'll turn it over to Gerry to start this morning's call.

Gerard M. Anderson {BIO 1391607 <GO>}

Well, thank you, Barb, and good morning, everybody. Thanks very much for joining us. I'm going to start with an overview of our results in the second quarter, as well as some key developments of the company over the past quarter. Then, I'm going to turn things over to Peter for a financial update. Then we'll wrap up and take some Q&A.

So moving on to slide five, we continue to make good progress on a number of fronts this year. So with a successful first half of the year under our belt, I feel really good about our year-to-date financial results. And based upon those strong results, we're increasing our operating earnings per share guidance. We'll talk a bit more about that in a minute. We also recently increased our dividend for the seventh consecutive year, which continues the over 100-year history of issuing dividends as a company.

Rachael Eubanks was appointed by Governor Snyder to serve the remainder of John Quackenbush's six-year term that expires about a year from now, July 2, 2017. Her experience is in the area of finance, so it includes project finance, municipal bond refinancing, credit-enhanced financing, variable and auction rate transactions and so forth. She also, over her career, has provided investment banking support on financial advisory and investment engagements for state government, government authorities, municipalities and non-profit organizations.

So as we look forward in Michigan to a really heavy period of investment in our infrastructure, I think that her understanding of finance will be a good complement to the skills of the current commissioners. And we certainly will have somebody there who understands cash flows, balance sheet issues and so forth as a company that goes through heavy investment period. Thanks to the hard work of our employees. For the third consecutive year, DTE was ranked second in the Midwest by J.D. Power in overall Electric Residential Customer Satisfaction, that's in the large utility category. And this was our sixth consecutive year of being in the top quartile of that survey.

We also achieved our best safety record in the company's history in the first six months, and that was by a wide margin, which I'm particularly proud of. I think it says something about where our employees' heads are, and if we can keep this performance, we may just be the safest company in the industry this year. And earlier this year, we won our fourth consecutive Gallup Great Workplace Award, and our results placed us in the top 12% of companies worldwide in terms of employee engagement. On the NEXUS front, that pipeline continues to progress. The project reached another important regulatory milestone, which sets us up nicely, to meet our in-service fee late next year. So I'll talk a bit more about NEXUS and those developments in a few minutes.

So I'm going to move on to slide six and give you some color on our second quarter financial results. So in the second quarter, we built upon what were really positive first quarter results. We delivered second quarter earnings per share of $0.98, which I feel great about. As you know, we came into this year expecting warm weather, we planned for it, and that played during our first quarter results. And we, based on the first and second quarters, come out of the first half of the year, very well positioned. And we now have the potential to reinvest some of the weather-related favorability that may occur in the third quarter.

We're seeing a hot July. And there's a warm August projected as well. So given the strong results of the first half of the year, we're increasing the midpoint of our guidance by $0.12 from $4.93 to $5.05. And given that, we now have a solid path to achieving our 10th consecutive year of meeting or beating our earnings targets. We've also been growing our dividend along with earnings. And we just recently increased the dividend by $0.16 per share. And our balance sheet continues to be in great shape. So bottom line, I feel really good about our financial position as we head into the second half of 2016.

So moving on to slide seven for a little more color on earnings and dividend. We talked for years to investors about delivering 5% to 6% annual earnings per share growth, and then pairing that with healthy dividend growth. Now, on the right-hand side of the slide, in the ovals, you can see that our actual earnings per share growth over the past five years or so has been 6.5%. So really 1% above that 5% to 6%. And we have grown our dividends at 5% to 6% rate.

I also mentioned a minute ago that we're increasing guidance, from a midpoint of $4.93 to $5.05. Fundamentally, this is driven by a strong performance in our Electric business and in our Gas Storage & Pipelines business, as well as a very solid first half in our Energy Trading operations.

As I stated a minute ago, in keeping with the commitment to grow dividends with earnings, we increased our dividend per share from $2.92 to $3.08, which was a 5.5% increase.

So I'm going to move on to slide eight now, and discuss a significant development related to our power plant fleet that occurred in the second quarter. So in June, we announced closure plans for eight coal-fired-generating units. And this announcement, combined with our decision to cease operation at three coal-fired plants, which happened in April, means that we will replace 11 aging coal-fired generation units at three sites, totaling 2.5 gigawatts, on or before 2023.

Much of this coal baseload generation will be replaced with natural gas generation. But we also intend to continue to invest in wind and solar to ensure that we keep the mix in our portfolio that we want. This portion of what is a longer-term transition plan for our fleet will require about $3 billion of investment. By 2030, we'd expect to retire an additional 1 gigawatt of coal-fired generation, which would bring total retirements to 3.5 gigawatts. And in doing that, our reliance on coal would decline by about 60%. And we'd expect to roughly double our current 10% renewable capacity, and to use more gas-fired generation in a baseload role (8:26). Obviously, emissions through 2030 will be down fundamentally as well. So CO_2, we project, would be down about 40% versus 2005 levels, and our conventional emissions would be down sharply as well.

Moving on to slide nine, NEXUS continues to move forward and make good progress. So NEXUS received its FERC Notice of Schedule on May 17 of this year. The project also recently received a favorable Draft Environmental Impact report, or EIS, from the FERC. We expect the final EIS by the end of November. And that would allow for a certificate of construction by the end of February of 2017, which would set us up nicely for the November in service date next year. We're progressing on right of way acquisitions and detailed engineering plans, and we continue to work constructively with FERC and other regulatory agencies.

In addition, in June, we received a letter of support for the NEXUS project from the Michigan Agency for Energy. So the Michigan Agency for Energy takes the lead on energy policy for the administration. We also received a letter of support from the Michigan Economic Development Corporation, which is the state's primary economic development agency. In addition, a recent Michigan Public Service Commission staff brief on our electric power cost recovery case, that's our fuel cost case, stated, and I quote, staff believes that DTE Electric's participation in the NEXUS pipeline project is reasonable as proposed in DTE Electric's application, its testimony, and its exhibits in this case. So we were gratified to have staff weigh in saying they think this project would benefit customers and benefit the state.

In addition, we had letters of support offered by both Senator Nofs and Representative Nesbitt, they are the Chairs of the Senate and House Energy Committees. So there's a lot of support in the state of Michigan for this pipeline moving forward. So look, we really believe in the fundamentals of this pipe. It serves arguably the best dry gas production geology in the country. It connects that geology directly to growing markets in Michigan and Ontario. And then, VR Vector pipeline connects into Chicago and Wisconsin as well. The pipe also connects directly to the largest collection of market area storage in the country in Michigan and in Western Ontario. The pipe has three strong utility sponsors, and up to 1.75 Bcf of signed interconnect agreements in Northern Ohio. And the pipe remains on schedule even as many other pipes serving the Utica region struggle with delays. And given this, we continue to think that NEXUS is going to be a valuable addition to our Gas Storage & Pipelines portfolio.

And with that, I am going to turn things over to Peter Oleksiak to cover our financial results in more details. Peter, over to you.

Peter B. Oleksiak {BIO 7535829 <GO>}

Thanks, Gerry, and good morning to everyone. I'd like to start with slide 11. Gerry mentioned DTE's operating earnings for the second quarter were $0.98 per share, and for reference, reported earnings were $0.84 per share. For a detailed breakdown of EPS by segment, including a reconciliation to GAAP reported earnings, please refer to slide 24, in the appendix.

Slide 11 shows our quarter-over-quarter operating earnings by segment starting at the top of the page with the two utilities. Now, we experienced unusual weather this quarter which gave a boost to both utilities. April was colder than normal, while May and June were warmer than normal. Now, this unusual weather in the quarter created both heating and cooling load causing earnings for both utilities to be up quarter-over-quarter. DTE Electric's earnings were $135 million for the second quarter of this year, compared to $111 million last year. Offsetting the weather in last year's rate case, DTE Electric's earnings were lower due to the absence of the revenue decoupling mechanism amortization in 2016.

You may recall, this revenue decoupling amortization was part of our strategy that extended the timeframe in between rate cases by four years. We've increased guidance for this segment given the warm weather through June. A further breakdown of DTE Electric's quarter-over-quarter results can be found in the appendix on slide 19. For DTE Gas, earnings for the second quarter were $13 million compared to a loss of $7 million last year. The variance was due to cooler weather in April of this year, increased revenue related to our infrastructure replacement program, and planned initiatives in response to the warm weather we experienced in the first quarter.

As we discussed in our first quarter call, we entered (13:32) the year anticipating warmer than normal weather for the winter, and we planned for it. With this advanced planning, we were able to stay on track to meet guidance. Moving down the page, Gas Storage & Pipelines earnings were $35 million for the quarter. Earnings for the quarter were up $10 million over last year due to higher pipeline and gathering earnings from production that came online in the second half of 2015. We continue to see strength in this segment even in current conditions. We've adjusted the midpoint of guidance upwards for this segment, which I will discuss in a minute.

Moving further down the slide, earnings for our Power & Industrial Projects was $17 million for the quarter, down $1 million from the second quarter last year. This decrease is primarily driven by lower earnings in the steel sector offset by REF volumes from additional projects that came online in the fourth quarter of last year. Earnings for Corporate & Other were negative $23 million for the second quarter of this year, $10 million favorable over last year due to the timing of taxes. So earnings were $177 million for growth segments of the second quarter or $0.98 per share, compared to the $134 million or $0.75 per share last year.

To round out our operating earnings, we include the results of our Energy Trading business. At Energy Trading, the accounting earnings were zero, down $3 million from the second quarter last year, driven by lower realized power performance. Trading's economic contribution for the second quarter of 2016 was $12 million. Trading is having another strong economic year, or actually $30 million year-to-date economic contribution. A portion of the year-to-date economic performance will flow through the total year operating income results. I will talk more in a minute on the new guidance for our Trading segment. Slide 22 of the appendix contains our standard Energy Trading reconciliation showing both economic and accounting performance.

Let me now turn to slide 12 on the EPS guidance for the year. As Gerry Anderson mentioned at the start of the call, based on our financial results in the first half of the year, we are increasing our midpoint of the 2016 EPS guidance by $0.12 from $4.93 to $5.05 for DTE Energy. Our EPS guidance range for DTE Energy is now $4.91 to $5.19 and $4.85 to $5.08 for our growth segments. Our guidance increase for growth segments is driven by strong start to the year at our DTE Electric and Gas Storage & Pipelines segments. The warmer than normal weather continues for the remainder of the summer, we will initiate and invest plan at our DTE Electric to put the incremental revenue in cash back into customer-centric assets and activities.

For our GSP segment, the new drilling plants to Southwestern announced by (16:13) region may provide upside to 2016, and sets us up nicely for 2017. Operating earnings guidance for these segments increased from a midpoint of $592 million to $597 million at DTE Electric, and $110 million to $130 million at the Gas Storage & Pipelines segment. As I just mentioned on the prior page, our DTE Energy's business is off to a strong economic start. We've raised our earnings guidance from zero to a range of $10 million to $20 million up for this year. Energy Trading is not part of our growth segments, and we let the business be opportunistic versus setting a defined operating earnings target.

So we conservatively set the original guidance at zero, and typically update earnings guidance as we set the results for the first two quarters after we (16:56) recover operating cost. Given the strong results in the first half of this year, we are increasing the guidance for Energy Trading. We'll give another guidance update in the third quarter based on economic results for the first three quarters. Moving on to slide 13; in addition to solid earnings results for the year, our cash flow and balance sheet remained strong and will continue to provide the foundation for our long-term growth plans. This slide lays out our cash flow and CapEx to the first half of the year. Cash from operations was $1.3 billion. We saw strong performance across several business units, which is driving the increase over the same period last year, and puts us a little ahead of our plan this year.

We invested $1 billion of CapEx to the second quarter. And on the right side of the page, you can see the breakout by business units. DTE Electric CapEx decrease was due to the timing of operational investments, and lower new generation spend with the acquisition of large gas taker (17:52) back in the first quarter of 2015. And now utilities are higher than last year, driven by the timing of projects with particularly in our Gas Storage & Pipelines segment. To fund this CapEx program and refinance maturing debt, we have issued $600 million in long-term debt financing this year. We've been consistent in our messaging over the years that maintaining a strong balance sheet is a priority.

Slide 14 provides the key balance sheet metrics we target and monitor, which is FFO to debt and leverage. This slide shows the projected level for each metric. Our 2016 financing plan is on track and we plan to issue up to a $100 million of equity this year. Now, however, given the strong strength of the cash flows we have experienced to-date, we are looking at the possibility of deferring equity issuance in the next two years. Our three-year projected equity needs remain at the $200 million to $300 million level, which is just a small fraction of the total capital spend over that timeframe. Our disciplined approach to maintaining a strong balance sheet across the years has proven to be valuable. It sets us up nicely as we enter a period of incremental infrastructure improvements, and investments at our utilities, and funding the growth plans at our nine utility businesses.

Let me wrap-up on slide 16, and then we can move to questions-and-answers. We've had a very good quarter as well as the first half of the year. We are able to upgrade (19:17) our EPS guidance, setting up nicely to extend our streak to 10 consecutive years of meeting or exceeding our initial EPS guidance. This will be the 7th consecutive year that we've increased our dividend. This quarter, we announced coal plant retirements that will bring cleaner energy to our customers and considerable investments to our Electric utility. Maintaining a strong balance sheet will allow us to invest in the utilities and pursue growth opportunities at our nine utility businesses.

Before I open up to Q&A, our call would not be complete without a quick update on my hometown Detroit Tigers. The good news is that we won 50 games so far this year. The bad news is that we've lost about as many games as well. Justin Verlander is looking better recently, actually won last night in Boston, but Miguel Cabrera's bat needs to heat up for us to have a chance. So a lot of season left, so I'm remaining optimistic.

With that, I'd like to thank everyone for joining us this morning. So Stephie, you can open the lines up for questions.

Q&A

Operator

Certainly. Thank you. We will now take our first question from Michael Weinstein (20:48) from Credit Suisse. Please go ahead.

Hey. Go Tigers. Good morning.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning.

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

Good morning.

Q - Operator

First question is about the $3 billion of additional investment from the retirement of coal generation by 2023. That's correct?

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

Yeah. The timeframe – so we're going to work through (21:11) process and work through, with our regulators, the phasing of both the retirements and the investment, but we do expect that to play out by 2023. Yes.

Q - Operator

Is that part of the $18 billion that you had previously announced for 10 years?

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

Yes.

Q - Operator

Okay. So that number of $18 billion doesn't change?

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

That's correct.

Q - Operator

Okay. And on NEXUS, I just wanted to – I think you mentioned this, but could you reiterate the level of interconnect agreements versus the capacity of the pipeline, and also how those interconnect agreements are being converted over to full contracts?

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

Yeah. The pipeline is 1.5 Bcf, and the interconnect agreements are 1.75 Bcf. Those interconnects are independent of what we already have contracted on the pipeline (22:00). Maybe I'll hand it over to Jerry Norcia to talk about – probably the process and timing for converting those to contracts.

A - Gerardo Norcia {BIO 15233490 <GO>}

Sure. Thanks, Gerry. So right now, the pipe is two-thirds full, and the environment, as we see it, is starting to improve significantly in that region, in the production region that NEXUS serves our gas pipes (22:21). So we're seeing renewed interest in terms of discussions from the producers, as well as, we're progressing a series of conversations along the pipeline in Ohio and in Michigan and other markets – in Ontario, as well as other parts of the Midwest, where customers are interested in (22:43) capacity. So we're confident that by the time the pipe goes into service, we will have more market commitment for this pipe (22:50).

Q - Operator

Okay. Thanks. And now, hey, one last question. You're going to – you mentioned that you might push off the equity raise this year, but I noticed in the guidance, the share count isn't different. That's obviously just for convention, or...?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Yeah. We are still planning on the $100 million, but we're really monitoring that the summer regular the (23:14) weather, we get additional revenue, also the cash flow is coming into the year. So we are looking at potentially deferring it, the material right now does reflect the $100 million (23:23).

Q - Operator

All right. Thank you very much.

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

Thank you.

Operator

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

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning, everyone.

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

Good morning, Shar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

So just on the NEXUS, the additional conversations you're sort of having in the Midwest, can you just maybe disclose whether that's with shippers or additional LDC or electric demand?

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

I guess, primarily with other LDCs.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Yeah.

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

(24:00) Ohio also involves power producers as well.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. Got it. And it's too early to figure out whether this thing can be upsized to a little over 2 Bcf?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Correct.

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

Yeah. That will be later. I think step one is, bring it in, get it well contracted for current capacity. And step two then is to take on expansions. And expansions, as we've talked in the past, they always bring good economic value.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

One of the things that we're finding, that I'll add, is the – a lot of the pipelines that are greenfield pipelines, that are proposing to take gas out of this region, are facing significant delays and oppositions. And right now, our pipe is not faced with that. So we feel that we may be one of the first greenfield pipes to the market.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. That's helpful. And then, just on the coal retirements; is there any more upside to that retirement, because even if you shift to the latter part of the decade, you'll still have a little over 3.5 gigawatts of coal, or is that sort of you see that envision within the portfolio?

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

So by the end of 2030, I think we'll have everything retired at our Monroe plant. The Monroe plant is the one plant that we invested in scrubbers and SCRs. It's a big plant, it's 3,000 megawatts. But that will be what remains, and essentially all the other coal will be retired and replaced through that plan of renewables and gas that I described.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay. That's helpful. And then just lastly, on the growth trajectory, on the earnings standpoint, how should we think about it off the higher base of $5.05? Is it sort of supportive? Are you comfortable at 5% to 6% growth off of $5.05, or still within that $4.93 is the base?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

We're indicating at this point it's off the original guidance. We'll continue to assess 2017 and beyond. But at this point, it's off the original guidance.

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

So that's been pretty much our pattern, is that our original guidance, if we exceed, we grow earnings off the original guidance than the prior year. But I guess, I'd just keep pulling you back to actual performance, which has been 6.5%. So I think, our pattern is pretty well established at this point.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Thanks. Solid results. Congrats.

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

Thank you. I appreciate it.

Operator

Thank you. We will now move on to our next question from Neel Mitra from Tudor Securities. Please go ahead.

Q - Neel Mitra {BIO 16431920 <GO>}

Hi. Good morning.

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

Good morning, Neel.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning, Neel.

Q - Neel Mitra {BIO 16431920 <GO>}

I had another question on the NEXUS pipeline. You expressed that there had been a lot of support from Michigan, (26:48) Attorney General come out with some opposition. Can you just remind us the process? Does the commission ultimately have to rule on the utility contracts, and when would that be?

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

So let me comment on the Attorney General first. If you watch sort of energy discussions and dynamics in Michigan, our rate cases and most things, it gets filed around energy. There's usually a challenge of some sort or another, put out by the Attorney General. You just need to understand whether or not the challenge really is fundamental. But it's still – that's just the way of saying not unusual or surprised (27:32) dynamics. Don, maybe you can talk about timeframe for inclusion. Don Stanczak is here with us. He heads our Regulatory Affairs. He can talk about how the inclusion of NEXUS would play out at the utility (27:46).

A - Don M. Stanczak {BIO 21339606 <GO>}

So as Gerry indicated in his comments earlier, we've already put NEXUS in our PSCR cost recovery plan. I think it covers a five-year period, and of course, the first cost will actually incur within (28:02) 2017. So the real key will be our PSCR plan in 2017 and the reconciliation where we actually get recovery of those costs.

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

And that was a case being reviewed, that I quoted from earlier, where the staff was (28:20) their comments.

Q - Neel Mitra {BIO 16431920 <GO>}

Got it. Okay. And then my second question. Could you just generally comment on what's going on in the Power & Industrial segment? Is it seasonality, because right now, I guess, you're at $38 million of earnings versus $90 million to $100 million for the full-year, and then in the presentation, you commented on maybe some weaker steel offset by more positive REF earnings?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Neel, there's two dynamics happening. Now, one of them you mentioned was the seasonality that will occur with our REF units, actually the first quarter with a little bit lower volumes given the warm weather, winter we're seeing actually reverse coming here in the summer with a hot weather we're experiencing. (29:08) there is back-end loading that will occur with our REF units. We did have some planned maintenance outages. We have wood waste renewable plant so that those planned outages did occur this year in the second quarter. So there is seasonality related to those earnings as well for the planned maintenance outages. We came into the year understanding the depressed steel market (29:32) into plan, and the onset was the REF units, and the volume related to REF, and that's playing out as designed.

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

I guess, one comment would be that, just as in the E&P sector, you're beginning to feel the turn there. Same in steel, that there you're beginning to feel the turn in the steel sector. So I think it begins to bode well for 2017 and 2018 as that sector gets some win behind it.

Q - Neel Mitra {BIO 16431920 <GO>}

Okay. Great. Thank you.

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

Thank you.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Thank you.

Operator

Thank you. We will now move on to our next question from Paul Ridzon from KeyBanc.

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

Hey, Paul.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Good morning. Congratulations on a solid quarter.

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

Thank you.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Just kind of pick up at DTE Gas. Just wondering how much of that is kind of leaning out the business in response to the first quarter?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

It is. It is basically all of that. You look at the year-to-date results, year-over-year they're relatively flat. We knew going into the year, we're going to have a warm first quarter that did play out, and we plan for the rest of the year to make it up. And the second quarter, the O&M levels, in particular, were down quite a bit that helped offset those first quarter earnings. One thing we're looking at right now given the strength in our Electric utility, and we always like to manage typically on combined utility bases that we essentially will start investing back into the gas utility and getting those O&M levels back to normal levels.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

So if we look for the balance of the year at gas, as far as O&M, have you caught up kind of where you want to be?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

We still have some investment we're going to making for the balance of the year. We are still committed to the guidance range as well for that segment.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

And then, if you were to expand NEXUS from 1.5 Bcf to 2 Bcf, that's just incremental compression. What would that involve and what's the capital opportunity?

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

Jerry, you want to take that?

A - Gerardo Norcia {BIO 15233490 <GO>}

Sure. It would involve, to get to 2 Bcf a day, would involve some compression and some looping (31:41) on the 36-inch pipe.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

And any sense of the capital?

A - Gerardo Norcia {BIO 15233490 <GO>}

Not yet. That's something that we haven't worked out quite yet. We're trying to get to the 1.5 Bcf first, and then, I think, we'll quickly move to that 1.75 Bcf once the pipeline gets built, and people starts to get interested in more economic expansions.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

And then lastly, is there anything going on behind the scenes in Lansing with regards to energy policy and legislation?

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

So we continue to work this summer with some of the principles. I think what's likely come fall is that there will be activity again in the Senate. Kind of running out of time there with all the dynamics in the legislature between plants and roads and Detroit schools and things. So I think, there will be activity in the Senate. And then there'll be a chance that something could get passed in the Senate in the session in September, but we'll see. And then, I think, everybody will watch the election, and see what the election dynamics mean for the Michigan legislature, with the possibility that we would pick back up and pass legislation in the lame duck session at the end of the year. So if legislation is going to pass this year, would be in the lame duck. I guess I'd keep reminding folks that this is not so much a financial discussion, in fact it's not a financial discussion, really doesn't affect our five-year plan. But it is an energy reliability discussion. And at some point or another, we need to get – we need to be clear on who is building power plants for 10% of the market, and right now the answer is, nobody. And until we get policy in place that ensures that somebody does it, there's risk of reliability issues for the state. So if it doesn't happen this year, it'll happen at some point when it becomes clear that we need to take care of that.

Q - Paul T. Ridzon {BIO 1984100 <GO>}

Thank you for the update.

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

You're welcome.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Thanks, Paul.

Operator

Thank you. Ladies and gentlemen, we'll now take our next question from Steve Fleishman from Wolfe Research. Please proceed.

Q - Steve Fleishman {BIO 22027192 <GO>}

Yeah. Hi. Good morning. The higher guidance for 2016 for the midstream segment, I might have missed this, but can you just explain what's driving that for the full year guidance?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Some of that – we are seeing a strong earnings coming across the multiple segments and sub-segments in it, and projects within that. It's tightening the guidance, pulling up that bottom end of the range. So we are seeing strong results for the year, and so we're feeling comfortable now of pulling up that bottom end of the range.

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

What it doesn't include, Steve, is the increased drilling activity that we now expect. So I think (34:38) for example (34:40) calls, they're now back drilling again. They have been completing ducks (34:45) and they continue that, but we'll be drilling again in our region. And so that has the potential to help with some strength for the balance of the year. But as Peter said earlier, and particularly – it particularly sets up well for next year.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay. But, you noted that it does not include Southwest most recent announcement.

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

Correct.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

(35:13) would be upside to this year.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay. And then, one of the areas you've talked about for growth at P&I is co-generation. So I'm wondering if there's any update on new opportunities there.

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

I would say that the portfolio discussions there on co-generation is as full and interesting as it's been in years. And we don't have one to tell you about that's popped yet, but I think we all feel that, out of that portfolio discussions, we're going to have some that do play through. So we hope to be able to give you a positive update sometime over the next six months.

Q - Steve Fleishman {BIO 22027192 <GO>}

Okay. Thank you.

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

Thank you, Steve. I appreciate it.

Operator

Thank you. We move on to our next question now from Brian Chin from Bank of America. Please go ahead.

Q - Brian Chin {BIO 6608875 <GO>}

Hi. Good morning.

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

Hey, Brian.

A - Peter B. Oleksiak {BIO 7535829 <GO>}

Good morning, Brian.

Q - Brian Chin {BIO 6608875 <GO>}

Just piggybacking off, the Swinn (36:17) question. Is there a sense of sensitivity that you can give? We've seen how many rig announcements Southwestern has announced over the last few days here. But is there a sense of sensitivity that you might be able to help us calibrate a little bit?

A - Gerardo Norcia {BIO 15233490 <GO>}

We've seen two rigs move into the area that we're operating with Southwestern. So that's a very encouraging sign. So our expectation is that they'll continue to complete the ducks, as well as drill new wells with those two rigs.

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

And when you say sensitivity, you're talking about upside this year and what it means for next year. Is that what I'm hearing?

Q - Brian Chin {BIO 6608875 <GO>}

That would be helpful. Yes.

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

Yeah. I think that what we probably ought to do is, let our team get a better sense for kind of the pace of completions, and what we're seeing there put a fence over that (37:10). Maybe we can be clear about what we see in terms of impacts this year and next, maybe on the next call.

Q - Brian Chin {BIO 6608875 <GO>}

Great. And then, just going back to the...

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

(37:20) I don't think we played it all the way through.

Q - Brian Chin {BIO 6608875 <GO>}

Understood. And then, just going back to the equity issuance question. So you gave a little bit more clarity on the equity issuance thoughts this time. Can you talk about, for the $200 million to $300 million equity issuance for the next two years to three years, should we be marginally shading our thought process on 2017 and 2018 as well, or do you still feel comfortable with the $200 million to $300 million in equity issuance over the next two years to three years?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

I'm still feeling comfortable with the $200 million to $300 million in the next two years to three years. It really does relate to the amount of capital spend we're spending at both our utilities and our non-utility business. So (38:05) we really want to maintain the strong balance sheet, thus set us up nicely. It's good even in this period of time having a strong balance sheet, so it's $200 million to $300 million until we see other way.

Q - Brian Chin {BIO 6608875 <GO>}

Excellent. Thank you very much.

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

Thank you.

Operator

Thank you. As there are no further questions in the queue, I will hand back to the speaker for any additional or closing remarks. Thank you.

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

We had Gregg Orrill. Did he sign off? We had heard Gregg wanted to come in with a question.

Operator

He removed himself from the queue. Thank you.

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

Removed himself. Well, great. Well then, we're out of questions.

Operator

Sorry for that. He just came back. Sorry for that. He just moved back to the queue. I will take his question now if you wish.

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

Pretty good.

Operator

Perfect.

Q - Gregg Orrill {BIO 1532939 <GO>}

Thanks Gerry.

Operator

(38:59) is open, please.

Q - Gregg Orrill {BIO 1532939 <GO>}

Two quick ones. On the DTE Electric variance analysis for the quarter, there was a negative $8 million around rate base and other. What was that, was that bonus depreciation?

A - Peter B. Oleksiak {BIO 7535829 <GO>}

No, it's standard actually (39:21) depreciation on the new capital spend come again in property tax (39:27).

Q - Gregg Orrill {BIO 1532939 <GO>}

I got it. Okay. And then on the PSCR, when are you looking for the outcome on that? And are there any other – I guess, we've talked about the drivers in general. Is there anything else that you would point out that's noteworthy there?

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

On the PSCR case?

Q - Gregg Orrill {BIO 1532939 <GO>}

Yeah.

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

Okay. I'll have Don answer that as well in terms of when that will play out.

A - Don M. Stanczak {BIO 21339606 <GO>}

So in terms of the timing, I'd expect the commission order later this year, split (39:58) into next year. And again, as Gerry indicated earlier, having support from Michigan Agency for Energy and committee chairs of the legislature, all that bodes well for a good result (40:18).

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

We've spent a lot of time talking to the Energy committee chairs, the MEDC, the Michigan Economic Development Corporation, and the agent, the administration, about NEXUS. So they kind of get how it fits into the gas supply picture here in the state is the state (40:35). Both we and consumers are transitioning off a lot of fuel supply from coal to gas. So they've taken the time to understand it. I think the letters of support, the statements of support are really based upon their belief that this is good for the customers, most importantly good for economic development and the state as well.

Q - Gregg Orrill {BIO 1532939 <GO>}

Okay. Thank you.

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

Thank you.

I think, with that, we are done with questions. So I would just reiterate what I said at the outset. Six months in we're off to a really good start financially and otherwise. So we look forward to giving you another positive update in three months. And thanks very much for joining us this morning.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference call. Thank you for participating. You may now disconnect.