Q4 2018 Earnings Call

Company Participants

- Barbara Tuckfield, Director, Investor Relations
- David E. Meador, Vice Chairman and Chief Administrative Officer
- Gerard Anderson, Chairman & Chief Executive Officer
- Jerry Norcia, President and Chief Operating Officer
- Peter Oleksiak, Senior Vice President and Chief Financial Officer

Other Participants

- Andrew Weisel, Analyst, Scotia Howard Weil
- Angie Storozynski, Analyst, Macquarie
- David Fishman, Analyst, Goldman Sachs
- Greg Gordon, Analyst, Evercore ISI
- Julien Dumoulin-Smith, Analyst, Bank of America Merrill Lynch
- Michael Weinstein, Analyst, Credit Suisse
- Paul Ridzon, Analyst, KeyBanc
- Praful Mehta, Analyst, Citigroup
- Shar Pourreza, Analyst, Guggenheim Partners
- Steve Fleishman, Analyst, Wolfe Research

Presentation

Operator

Good day, and welcome to the 2018 Year-End Earnings Conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Barbara Tuckfield. Please go ahead.

Barbara Tuckfield {BIO 19701481 <GO>}

Thank you, Tracy, and good morning, everyone. Before we get started, I would like to remind everyone to read the Safe Harbor statement on page two of the presentation, including the reference to forward-looking statements. Our presentation also includes references to operating earnings, which is a non-GAAP financial measure. Please refer to the reconciliation of GAAP earnings to operating earnings provided in the appendix of today's presentation.

With us this morning are Gerry Anderson, Chairman and CEO; Jerry Norcia, President and COO; and Peter Oleksiak, Senior Vice President and CFO. We also have members of the management to call on during the question-and-answer period.

And now, I'll turn it over to Gerry to start the call.

Gerard Anderson {BIO 1391607 <GO>}

Thanks, Barb, and good morning, everyone. Thanks for joining us today. So this morning, I'm going to give you a recap of our 2018 performance and then I will turn it over to Peter, who will provide financial highlights and thoughts on our 2019 guidance, which we will reaffirm. And then finally, Jerry Norcia will provide an update on our long-term growth plan business unit by business unit, and he'll wrap things up and open it up for Q&A.

So turning to our 2018 accomplishments, and starting on slide four, we have a lot to be proud of as we look back on 2018 at DTE. We logged another strong financial year at DTE and made great progress on many other fronts as well. Our operating EPS was $6.30, that's 13% higher than 2017 and it's 9% higher than our original 2018 guidance. This is the 10th consecutive year that we've exceeded our earnings guidance. Our cash flow came in 500 million above our plan, which sets us up nicely for 2019, providing a lot of balance sheet flexibility. We also increased the dividend by 7% and are coming into this year and we'll target 7% dividend growth through 2020. We certainly recognize the importance of that sort of dividend growth in delivering premium shareholder returns to you.

Our employee and customer and community initiatives also achieved strong results in 2018, and I'll touch on those in a bit more detail in few minutes. With the new year underway, I'm also confident that we are set up well for success in 2019, I feel really good about the plan that we put together for the year and a month in, I feel good about how 2019 is starting for us. For example, NEXUS announced that it has signed an agreement to acquire Generation Pipeline, which is a 355 million cubic feet a day pipeline that provides future growth opportunities for NEXUS in the area around Toledo in Northern Ohio. This is a great fit for our GSP business and it's representative of the bolt-on asset acquisitions that are available to NEXUS, and Jerry Norcia will provide more details on that transaction in a few minutes.

Another accomplishment to kick off 2019 is the signing of definitive agreements for voluntary renewables with two large industrial customers totaling 280 megawatts, and there is likely a third large contract that will follow in the near future. Also last fall, we told you that voluntary renewables would become an important new area of investment for us. And these transactions are our first concrete moves in that direction.

Another item I'd like to mention is the recent severe cold snap that we experienced here in Michigan. In January, we saw record breaking temperatures in our state. And our gas and electric teams did a great job and our assets performed well, and of course, the weather produced strong demand, which will give our two utilities a solid start to the year.

So let's move on to slide five now to discuss some of the employee and customer and community successes from 2018, and I'm really proud of these accomplishments. So for those of you who've listened to our calls in the past, you know how strongly I believe that if you want to be a great company and continue to achieve great results for your customers, your communities and your investors, the people need to bring great energy and focus to their work, it's that simple.

And based on the results of our Gallup engagement survey in the fall of 2018, I certainly feel good about our employees energy. We scored in the top 3% of all companies in Gallup's worldwide database, the highest level we've ever achieved at DTE, which is a great way to enter 2019. Earlier in 2018, we earned our six consecutive Gallup Great Workplace Award, we remain the only utility company ever to receive that award and we hope we are on track to our 7th consecutive award here in 2019.

Now onto one of the most important areas we focus on a DTE and that's employee safety. And I'm proud to say that 2018 was one of our maybe the safest years in our company's history. So we placed in the top 2% of the National Safety Council's safety culture survey and we ranked at the top of our industry and key metrics. In fact our -- what's known as our DART rate, that's a measure of injuries that have some severity. That rate was the lowest in our industry. So our company had the best performance on that of all companies in our industry. The safety is a big deal in our culture, but it's also a great indicator of employees level of focus and level of discipline. So having highly engaged and safe employees usually translates into serving our customers well and because of this customer focus our gas company ranked highest in customer satisfaction with business customers in the Midwest in J.D. Power study for 2018. Additionally, our electric and gas companies, both ranked second in the Midwest for overall residential customer satisfaction. So look, we continue to target improvements in customer satisfaction results. And I think our biggest lever for achieving that goal remains continued modernization of our grid and improvements in electric reliability that will come with that. And since we had one of the warmest years on record in 2018, we had the opportunity to reinvest significant revenue on the system to that end.

Moving on to slide six, we're also very explicit at DTE about our desire to be a force for good in the communities where we live and serve. And we don't take that as a slogan or something that we take lightly. Our work in this area receives the same focus and the same discipline that our other key priorities get. So for example, we pushed our employee volunteerism to new heights in 2018, with over 50% of our employees involved in company volunteerism efforts. We also invested $1.7 billion in Michigan-based and Detroit-based businesses last year, and that's been a huge initiative for us. Since we made our original pledge to this effort in 2010, we've increased our annual spend with Michigan companies from 450 million per year to 1.7 billion per year. And we've invested over $9 billion with state-owned companies over that timeframe, which has helped to create and support an estimated 16,000 sustainable jobs, more jobs than we have at DTE actually.

The significant investments we're making in Michigan businesses are paralleled by the investments we're making in our communities. And this work at our communities is getting noticed. So Points of Light made DTE one of its Civic 50, the top 50 most civic minded companies in the nation, recognizing the community and customer-focused approach that we take to our work. DTE was the only Michigan company to be named and was acknowledged as the leading energy company nationally. J.D. Power also has chosen DTE as the number one energy company in corporate citizenship.

Now, the work I've just described on behalf of our customers and our communities helps to shape the broader context in which we operate in Michigan, and that's really important work. And part of that context is our regulatory and political environment. And you all know how important earning a constructive regulatory environment is for a company like ours, especially when you're investing heavily in the transformation of utility infrastructure, which we are. We've always said that, if you serve your customers well, manage your costs and rates well and if you're positive force in your communities, your odds of having effective regulation are a lot higher. Our Michigan currently earns a Tier 1 ranking, the regulatory environment. And that regulatory construct in Michigan has some important features as we work our way through a period of heavy investments, including a special recovery mechanism for renewables, which allows for timely recovery of those investments. And infrastructure recovery mechanism at our gas utility, which leads to timely recovery of gas investments and decreased rate case frequency, and there is a similar mechanism under discussion for our electric business. Along with our constructive regulatory environment, we also have a new governor, and she will have the opportunity to appoint two new commissioners this year. We congratulate Governor Gretchen Whitmer, and look forward to working with her and the new commissioners.

Finally, I'd like to highlight some of the 2018 accomplishments in the area of growth and value creation. The NEXUS pipeline was placed in service in the fourth quarter, on schedule and on budget. I don't have to tell you that in the current environment, this is no small feat. We also completed expansions at both Link and Millennium in 2018. Last year, our P&I team acquired two new RNG projects and positioned us for further growth in this area this year. They also broke ground on the central energy plant at Ford Motor Company, which is a significant project for us. So along with the significant investments underway at our two utilities, these non-utility successes undergird our 5% to 7% long-term earnings per share growth rate.

And with that, I'll turn it over to Peter to talk about our 2018 financial results and our guidance for 2019. Peter, over to you.

Peter Oleksiak {BIO 7535829 <GO>}

Thanks, Gerry, and good morning, everyone. Before I get into financials, I always like to give an update on my Detroit Tigers. Even though it's cold here in Michigan, it's warm in Florida. Spring training will be in full swing in less than two weeks. And I'm feeling really good about the Tigers in 2019 and beyond, where we're building the right way, we have some of the best pitching prospects in the game, actually four of our pitchers in the top 100 prospects of Major League Baseball.

Now back to the business at hand, turning now to the financial results, I will start on slide seven. DTE had a great year in 2018, across all of our business lines. DTE had operating earnings of $1.14 billion, this translates to $6.30 per share, a new high for the company. EPS performance is a strong beat to our original guidance, and you can find a detailed breakdown of EPS by segments, including our reconciliation to GAAP reported earnings in the appendix.

Let me start my review at the top of the page with our utilities. The utilities great financial performance was driven by an extremely hot summer and a colder than normal winter. DTE Electric earnings were $669 million for the year, and this is $52 million higher than 2017. This increase was driven largely by a hot summer as well as new rates implemented. We invested a good portion of this favorable weather back into the operations to improve customer reliability. A more detailed year-over-year earnings variance walk for DTE Electric can be found in the appendix.

DTE Gas operating earnings were $159 million, and this is an increase of $10 million versus 2017. The earnings increase is driven primarily by cooler winter weather, offset by increased O&M expense.

Now let's move down the page to the third row to our Gas Storage and Pipeline business, GSP operating earnings were $233 million for the year. This is $73 million higher than prior year. The increase is due to lower corporate tax rate and favorability across all platforms. And the next row, you can see that our Power and Industrial business operating earnings were $163 million, earnings of $39 million higher than in 2017. This increase is due mainly to higher REF volumes and steel-related earnings.

Our Energy Trading business also had a strong year producing $40 million of operating earnings. Earnings were up $20 million versus 2017, our Trading segment had a particularly strong economic year and as gas portfolio, the $40 million of operating earnings this year is consistent with our average economic income over the past five years, and it's also consistent with our EEI disclosures or expectations from the segment in our five-year outlook.

And finally, our Corporate and Other was $53 million unfavorable compared to last year due to the lower tax rate, higher interest expense and a significant one-time item in 2018. Inside the $122 million loss for this segment in 2018, it's a sizable contribution to foundations -- our foundation and other charitable causes. This will enable us to continue to be a force for growth and communities for years to come. Overall, DTE had a great 2018 earning $6.30 per share.

Let's move to our 2019 guidance on slide eight. Gerry mentioned in his opening remarks, we are reaffirming our 2019 operating earnings guidance from the early outlook we provided on the third quarter call. Our 2019 operating EPS guidance range is $5.97 to $6.33 or the midpoint of the range at $6.15, this is 6.4% higher than our 2018 original guidance. We are also reiterating our 5% to 7% EPS growth rate from this 2019 guidance. We are projecting another strong year for cash flows in 2019, which will help fund our robust capital investment plans. The details of our cash and capital guidance for 2019 are included in the appendix.

Before I turn the presentation over to Jerry Norcia, I'd like to mention that our one and three year equity issuance plan has not changed from the one we provided you at EEI. This year we plan an issuance up to $250 million using internal mechanisms. We plan to issue $1 billion to $1.5 billion of equity from 2019 to 2021.

Now, I will turn it over to Jerry Norcia to discuss the growth and investment opportunities in our business lines.

Jerry Norcia {BIO 15233490 <GO>}

Thanks, Peter. As Gerry mentioned, we made a lot of progress in 2018, which gives us positive momentum going into 2019 at our utilities as well as our non-utilities.

I'll start on slide nine with our utility businesses. And I'll begin with the electric company. In 2019, we will continue to move along the path to deliver 50% clean energy by 2030 and reduce carbon emissions by more than 80% by 2050. We're on track to achieve our interim goal of a

30% reduction by the early 2020s. Wind energy will be instrumental in achieving this interim goal, our wind fleet wrapped up 2018 with its best operating year ever generating 1.4 million megawatt hours of clean energy, and finishing up in the top quartile for fleet availability in North America. When the fleet performance well, it plays a key role in providing cleaner energy to our customers while helping us maintain reliability and affordability.

We expect our megawatt hours to increase significantly in 2019, as we expect to commission Pine River wind park in the first quarter of this year. Pine River is the largest energy producing wind park in Michigan, and it's the most cost effective wind park in DTE's fleet. Our electric company also received Michigan Public Service Commission approval for our voluntary renewable energy plan, this plan includes adding 300 megawatts of new wind capacity to supply a voluntary renewable energy program for large industrial customers who are looking to reduce carbon emissions.

As Gerry mentioned, we have already signed up two large industrial customers for 280 megawatts, our third large contract is pending, and based on current levels of interest, we believe we can expand this voluntary renewable plan by an additional 300 megawatts in the future.

Last year, we received a certificate of need to build a new gas combined cycle plant, we broke ground in August and we expect operations to begin in 2022. Along with renewable energy and natural gas, it will be a critical part of our power generation capacity in the decades ahead. In March, we will be filing our Integrated Resource Plan or IRP with the MPSC, covering the next 20 years with very specific plans for the first five years. The IRP will help to guide energy resource mix decisions, which are necessary to meet future demand for clean, reliable and affordable electricity. We used an integrated cost-based system planning process that accounts for demand, reliability, resource diversity and our environmental goals. As markets of technologies continue to evolve rapidly, we expect our IRP recommendations to be quite specific in the early years that present a range of options for the later years of our plan, as we continue to retire coal plants and understand market dynamics more deeply.

Moving on to our Gas Utility, DTE Gas received a constructive rate order in September, accelerating over $450 million of main renewal capital over the next five years, allowing us to shorten the pace of this renewal program from 25 years to 18 years. I'm very pleased with the progress of this program. Additionally, we announced our plans to reduce methane emissions by more than 80% by 2040, made good progress on this effort so far, and our accelerated gas main replacement plan will help this initiative as well.

Now, I'd like to move on to our non-utility businesses. Turning to slide 10, I'll start with an update on the growth opportunities at our Gas Storage and Pipeline business. The left side of the slide lays out the core geography of which GSP is active in and pursuing growth. We are always on a look out for potential organic buildouts or acquisitions that would support our position in this geography as our assets are strategically positioned to connect high quality markets to world class geology. In the third quarter call, we told you the NEXUS was placed in service, which was a huge milestone for our company. The completion of NEXUS along with the progress at our other platforms setting us up nicely for growth in this segment. I told you that NEXUS provides us with additional opportunity to expand our footprint, and one opportunity is the NEXUS acquisition of Generation Pipeline owned in a 50-50 partnership with Enbridge. Generation

Pipeline is in the core of the Northern industrial route in Ohio, it will likely present additional opportunities for supplying natural gas to power and industrial customers in that area.

The 23-mile, 24-inch pipe is fully contracted has a purchase price between $150 million to $200 million, and it's located 4 miles north of NEXUS and interconnection with ANR and Panhandle Eastern Pipelines as well. With potential future interconnections to NEXUS, this acquisition provides direct access to the Toledo industrial corridor. We expect both NEXUS and Link respond an array of organic and bolt-on acquisition opportunities of this sort. Growth plans and our other assets are on track, we completed expansions on our Link and Millennium assets, as Jerry mentioned, and our assets are performing extremely well. During this polar vortex, Vector was flowing both -- was flowing full in both directions to Canada and in the Chicago. And we expect Vector to see increasing opportunities serving markets in Chicago and Wisconsin. So I feel very good about the position we are in at GSP giving me confidence that we'll continue to execute on opportunities that support our growth targets.

Now, I'd like to move on to slide 11 for a look at our Power and Industrial business. Our P&I business continues to see progress in the development of both industrial energy projects and renewable natural gas or RNG. As we discussed at EEI, the RNG market is the one that we have done business in for over 15 years. But in recent years, demand for RNG has surged and we feel the market is poised for strong -- for strong growth trajectory in the future. We now have five operating RNG sites and three under construction. We're also finalizing agreements on two new RNG projects and we continue to advance discussions to secure additional RNG projects in 2019.

On the industrial energy side, we are focusing on our cogeneration business, cogeneration projects will enable our customers to improve their environmental footprint and lower their energy costs. We continue to construct our most recent project at Ford and it will go into operations later this year. And we expect that a series of similar cogeneration projects over the next five years. As mentioned at EEI our P&I queue of development opportunities was very strong and that certainly continues to be the case.

Now, I'll wrap up on slide 12, then we'll open it up for questions. All in all, I feel great of our -- of 2018 results and our positioning for continued growth in the years to come. We exceeded our original operating EPS guidance for the 10th consecutive year in 2018. Additionally, our annualized total shareholder return has consistently beat the S&P 500 Utility Index by a large margin over a decade. Our utilities continue to focus on necessary infrastructure investments tied to clean generation, improved reliability and enhanced customer experience. NEXUS is now in service and flowing gas to customers and is acquiring the Generation Pipeline. And our P&I business unit is working to secure additional RNG and cogen projects. It sets us up well to continue to deliver strong EPS and dividend growth. We increased our dividend by 7% for 2019 and anticipate the same increase in 2020. Our goal is to use our disciplined approach to operations and investment to continue to deliver premium total shareholder returns in the future.

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

Questions And Answers

Operator

Thank you, sir. (Operator Instructions) We will now take our first question from Shar Pourreza from Guggenheim Partners. Please go ahead.

Q - Shar Pourreza

Hey, good morning, guys.

A - Gerard Anderson {BIO 1391607 <GO>}

Good morning, Shar.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Shar.

Q - Shar Pourreza

So just real quick on the Generation Pipeline, could we talk a little bit on returns even in general terms and what sort of accretion we can expect sort of from this deal? How should we think about it relative to your plan? And kind of more important, when do you sort of expect to decide on the lateral off of NEXUS and could this sort of change your current assumption on the mix of short-term versus long-term contracts?

A - Gerard Anderson {BIO 1391607 <GO>}

Hi, we'll have Jerry Norcia dive into that one for you, Shar.

A - Jerry Norcia {BIO 15233490 <GO>}

So we expect that certainly to be accretive, it does meet our returns thresholds for this business. So we're happy with the returns. In terms of strategic value, it is 4 miles off of the NEXUS pipeline and our plan is to interconnect NEXUS to this pipeline and that will provide significant market access for the NEXUS pipeline of over 300 million a day and growing as we attach new customers on that line and will create value for our shippers in the future.

Q - Shar Pourreza

Okay.

A - Gerard Anderson {BIO 1391607 <GO>}

So it's significant [ph], I'd say 350 million with the potential to expand that is a really nice interconnection of market area load for this pipe. We've always said that the route across Northern Ohio, which allow -- we had interconnection points all along that pipe we -- that from early on that we expected those to play out over time with load addition opportunities and we had struck a couple of those earlier. But this is one we really like. And so as Jerry mentioned, the deal itself, which is fully contracted is accretive. But we think there's upside opportunity to this as we pursue growth in that area and it also has opportunity for NEXUS clearly as we interconnected.

Q - Shar Pourreza

Do you think you'll be in a position to sort of update on that incremental growth opportunities as we head into EEI?

A - Gerard Anderson {BIO 1391607 <GO>}

In the fall?

Q - Shar Pourreza

Yeah.

A - Gerard Anderson {BIO 1391607 <GO>}

Yeah, I think we could -- we'll probably have the acquisition, obviously, clearly in hand and we will probably have our thinking advanced about potential timing of interconnection and things like that. So we'll give you what we can additional at EEI.

Q - Shar Pourreza

Excellent. And then just lastly on the RNG deals that were just announced. Can you just -- what's the structure of the deals sort of the tenure of the contracts, the returns? And should we just for modeling purposes assume they start to contribute in the second half of this year?

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah, the deals that we closed just in the recent past will be tied to -- we use various contracting methods to secure revenues, there is ability to hedge the product. There's also ability to have long term contracts. So we're in the process of making all that happened right now.

A - Gerard Anderson {BIO 1391607 <GO>}

So without getting into -- not wanting to reveal stuff that's confidential to the business, I would say that we always have the offtake of these locked up. And then you can do fixed price contracts, so sometimes fixed price contracts if you do or may not have the return that you get when you hedge them. So we got some that are fixed price, some that are hedged and you could take some of these open in the short term too if you like the short-term price dynamics and then hedge them later. So, I think we'll end up with, Shar, as a portfolio that we manage in that way with offtakes clearly locked down and then prices managed through contracts and hedging to make sure that we like the predictability of it.

Q - Shar Pourreza

Thanks, guys. I'll jump in the queue. Congrats on the execution.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you.

Operator

We will now take our next question from Julien Dumoulin-Smith from Bank of America. Please go ahead.

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

Hey, good morning.

A - Gerard Anderson {BIO 1391607 <GO>}

Good morning.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning.

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

Hey. So just to follow-up a little bit on Shar's question if you can. Obviously, 150 million to 200 million for this first transaction. Can you elaborate a little bit further on how you're thinking about filling up the remainder of potential even white space for acquisitions here in the GSP side? I suppose there is ample latitude in the capital budget bill for further such deals and to the extent to which you are looking at them. Are we looking at sort of more platforms? Or we looking at more simple bolt-ons in Link and NEXUS more narrowly?

A - Jerry Norcia {BIO 15233490 <GO>}

Julien, I would say our first order dispatch, we have a series of organic development opportunities that we're pursuing. So that will be our first order dispatch for capital. And, yes, we do have additional flexibility in our capital plan to accommodate the organic developments. In addition, we're always surveying in the market for potential bolt-ons in and around our platform. We'd like for them to be contiguous just like the most recent one will become contiguous over time. So the order dispatches organic development, which we see the highest return potential from and then acquisitions that have growth potential in them.

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

Got it. But you aren't necessarily saying whether it would be more bolt-on versus larger platform acquisitions at this point?

A - Jerry Norcia {BIO 15233490 <GO>}

No, we -- Julien, we judge all that by the merits of the returns and economics. So I think we told investors last year that we were looking prior to the -- an acquisition and eventually concluded didn't meet our return requirements, didn't create value for us. So we walked away from it. This one we liked. And we like the future growth potential. So this one probably turn out to be an acquisition that's then followed by organic growth, which usually leads to really good result and dollars spent on acquisitions is not nearly as good a measure as value created through often organic upside, which is sort of high-value EPS growth and we love that sort of stuff. So if we can do more like the one we just did, we love to; there are good opportunities, the scale that's comfortable with upside, those are -- those produce really good value.

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

Excellent. Then if I can just quickly complementing that speaking of organic growth. What is reflected in your current plan with respect to the voluntary renewable expansion? So you talked about 280 megawatts is being signed up, a third one on the way, and then an additional 300 megawatt in total. So out of that, almost 600 megawatt what's reflected in your outlook in advance?

A - Gerard Anderson {BIO 1391607 <GO>}

Yeah, we have 300 megawatts in the plan that we laid out for you at EEI, but we did talk at that time about the potential to go up. So I think with 280 megawatts signed up with another contract waiting in the queue. We're sort of through the first 300 megawatts and working our way into the next 300 megawatts. And this is an area we like, it's obviously for filling a need for our customers they want it. But it also is a way to move the state forward in terms of additions of renewable capacity, but do it in a way that isn't rate base, doesn't work its way through rate cases, it works its way through this approved tariffs. And so we really like this area and we're going to continue to work with customers who have the goal to help accelerate things here in Michigan and to -- there is obvious value for these customers in terms of their own profile and what they can communicate to their customer basis. So it's a good area for us to work and we're into the second 300 megawatts now. And you know, as we look forward, I think there's maybe upside to that as we continue to -- we're working with our very largest customers, but -- we have a lot of customers. So we're thinking now about how to make more of this.

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

Excellent. Thank you all.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you.

Operator

We will now take our next question from Michael Weinstein from Credit Suisse. Please go ahead.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hi, guys. Thanks for taking my question.

A - Gerard Anderson {BIO 1391607 <GO>}

Michael, are you there?

Q - Michael Weinstein {BIO 19894768 <GO>}

Sorry about that. Thanks for taking my question. I just wanted to find out about the equity issuance. Recently, the $250 million of internal funding, at what point do you think you'll have to complete the complete plan with the block issuance at some point?

A - Peter Oleksiak {BIO 7535829 <GO>}

We are in early stages of looking at that right now. We still do have some room in our pension plan to get equity, we're at about 85% funded level in our pension plan. And I'd say within the three-year window part of the back half of that. And we're probably looking at more ATMs attributables versus the big block equity issuance.

Q - Michael Weinstein {BIO 19894768 <GO>}

Right. And on the Generation Pipeline, one question I had is, are you anticipating expansion through compression in addition to the lateral as part of the value proposition to that?

A - Peter Oleksiak {BIO 7535829 <GO>}

Right now our first order business is to look to connect that pipeline to the NEXUS, it does have the fact that NEXUS carries a very high pressure as it helps create some potential.

A - Gerard Anderson {BIO 1391607 <GO>}

So that's one of the values NEXUS can bring to this pipe is that itself is very high pressure and that can create -- that can create expansion capability and growth capability for this pipe alone.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay. And I've got a lot of questions about the Link asset and what is the contracted status there? And then also what are the expansion opportunities that you're looking at? And what's the plan for expansion down there?

A - Gerard Anderson {BIO 1391607 <GO>}

We had planned expansions and those are progressing as scheduled. So those will continue into this year for one of our large clients on that pipeline. The status of the pipe is that it's performing better than the performance that we had described to our investors. So we feel really good about that asset and its dynamics.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay and thank you very much.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thank you.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you, Michael.

Operator

We will now take our next question from Angie Storozynski from Macquarie. Please go ahead.

Q - Angie Storozynski {BIO 15115714 <GO>}

Good morning. Just finishing the M&A topic in the GSP sector, so last year you guys were preparing as in the sense for some acquisitions seemingly in that sector. At least for 2019, do you think that you are done with this Generation Pipeline deal?

A - Gerard Anderson {BIO 1391607 <GO>}

You know, Angie, it's -- I think in M&A to say you're done or not done probably wouldn't be smart on our part because totally depends upon whether there is an opportunity with really good value. I mean, if we look at a handful of them this year and there's no value, we don't do any. And if we look at them or as we do continue to scan the environment and we find one that we really like, we could do on this year. So it's completely I'd say market and opportunity dependent.

Q - Angie Storozynski {BIO 15115714 <GO>}

Okay. And changing topics on your regulated electric utility. So, last year, we were hoping to see a CapEx rider on the electric side. We saw the CMS's rate case, they didn't get the rider.

Could you give us an update, what are your thoughts about that and when such a rider would be achievable?

A - Gerard Anderson {BIO 1391607 <GO>}

You know, in our case, it's in our rate case that that discussion is playing out. So, last year, we did introduce the idea of it because we were filing the case. And if you look at the staff reactions to our case, I think you'll find the commentary around the infrastructure recovery mechanism is positive, although they suggest that perhaps finalizing, it should be done outside of a rate case. So with the opportunity for more definition of the details, I guess you'd say, that could be the case. It's possible that the commissioners will feel they have enough information on record to establish it. So that really we will see through the finalization of the case. But if you're asking how do we feel about continued quality of discussions around this at the commission, we feel good. We feel that there has been constructive engagement with the staff and prior to the case with the commissioners on this. And that it's set up for continued discussion. I think they just want to get it right. We have one other gas company, it's operated very well. So that shows that well-designed mechanism can work well here in Michigan. And so I think the process we're in now is getting the design right and get getting both sides comfortable that we're ready to move forward with this.

Q - Angie Storozynski {BIO 15115714 <GO>}

Great. Thank you.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you.

Operator

We will now take our next question from Praful Mehta from Citi. Please go ahead.

Q - Praful Mehta {BIO 19410175 <GO>}

Thanks so much. Hi, guys.

A - Gerard Anderson {BIO 1391607 <GO>}

Hello.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning.

Q - Praful Mehta {BIO 19410175 <GO>}

Hi. So, just following up on Angie's question on the regulation and the rate case, given the new Governor and new Commissioners, how do you see that playing out? Do you see that impacting the process and what kind of regulatory kind of sentiment, or more do you see going forward with the environment in Michigan?

A - Gerard Anderson {BIO 1391607 <GO>}

So we have -- we do have two sitting Commissioners that we've worked with for quite some time now. And they obviously can keep the commission flowing and active in the near term. That said, we do expect one appointment to play out shorter-term and then the other would come after July when -- no, I'm sorry, will retire. And wouldn't make any sense to be speculating or commenting on specific Commissioners. But I would just say that we've had inflow and outflow of commissioners and governors across many years here at DTE including the 10 that we mentioned earlier where our financial performance has been strong and steady. And our job is to work really well with the Commissioners that the Governor appoints.

We know the governor well, worked with her through the long career in the Michigan Legislature and since then and we work closely with her on the agenda that she has for the state moving forward. And I think she understands that the appointments to this sector, it's big sector with heavy investment in the state, I think she understands how important these appointments are. So I'm confident we'll get a competent person.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Thank you. And then maybe just a specific question on this -- on the results and on the Corporate and Other segment. The 122 negative versus 100 to 110 range, you said there was a specific one-time item that kind of drove that. Could you provide any -- little bit more color around what kind of drove that Corporate and Other segment impact?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah. This is Peter Oleksiak, we had a contribution to our DTE foundation and other charitable causes. This is part of our strategy to be a force for growth and good in our communities that really sets us up nicely, and as we have strong results for the year we like to do that. So this year we did -- in 2018 we did roughly about 20 million after-tax between the two.

Q - Praful Mehta {BIO 19410175 <GO>}

I got you and that was incremental to the plan. So that was something you plan to -- you hadn't planned for, but then kind of did at the very end in 2018.

A - Peter Oleksiak {BIO 7535829 <GO>}

It was incremental to plan. So if you adjust 2018 results for that, you'll see it's in line with our 2019 guidance for that segment.

Q - Praful Mehta {BIO 19410175 <GO>}

Got you. Understood. And then finally quickly, just back to Generation Pipeline acquisition. Just wanted to understand, why the range of 150 to 200, if you have a deal, is that range to kind of not provide more specifics, so that you kind of keep the economics a little vague, or is there anything specific around the range of the price?

A - Peter Oleksiak {BIO 7535829 <GO>}

We're -- the deal is finalized and we do have confidentiality agreements in place and this is what our counterparty is comfortable with at this point in time.

Q - Praful Mehta {BIO 19410175 <GO>}

I got you.

A - Peter Oleksiak {BIO 7535829 <GO>}

So you did ask about revealing the specific number and they just didn't want to do that. And you can understand that is they are active in the marketplace maybe in another positions, they want to keep their hand a little vague. So this was the agreement we reached with them.

Q - Praful Mehta {BIO 19410175 <GO>}

I got you. But there is no specific term in the contract that would change the price, the price is fixed. There isn't earn-out or anything else that kind of drives the price -- drives any change in the price going forward?

A - Peter Oleksiak {BIO 7535829 <GO>}

The price is fixed.

Q - Praful Mehta {BIO 19410175 <GO>}

The price is fixed. Thank you.

A - Gerard Anderson {BIO 1391607 <GO>}

Price is fixed. We still want to be clear about it. We are happy to be clear, they weren't. So it is what it is.

Q - Praful Mehta {BIO 19410175 <GO>}

No. Understood. You've seen that in the past and understandable from their perspective. So, appreciate the color, guys. Thank you.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you.

Operator

We will now take our next question from Greg Gordon from Evercore ISI. Please go ahead.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks. Good morning. I think you pretty much answered, just answered my question. So at some point in the future, we'll get more specific purchase price financing and expected EBITDA contribution of the pipe, but for now you're just limited is what you can say, fair?

A - Gerard Anderson {BIO 1391607 <GO>}

Yeah, I think, certainly we're limited and what we can say and we may find that the seller is okay with us down the road, being more specific and if that's the case, we will be.

Q - Greg Gordon {BIO 1506687 <GO>}

I see that the owner is Generation Pipeline LLC. Do we know -- can you disclose to us who owns Generation Pipeline LLC?

A - Gerard Anderson {BIO 1391607 <GO>}

No, that's under CAL so.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. And then one other. But you did say that going in day one, the investment hits your traditional cost of capital hurdles for a pipeline investment and that over time as you integrate it into the NEXUS system you expect that to expand?

A - Gerard Anderson {BIO 1391607 <GO>}

Yes, I mean, I'll be honest with you, if we never improve the pipe a bit, we're happy with the returns. But value, we always say, the -- the value and heat in these sorts of investments is what you can do with them once they become part of your portfolio. So, yes, happy with the returns from the contracts that are in place for the pipe. We have the belief that there is good value to create beyond that.

Q - Greg Gordon {BIO 1506687 <GO>}

Yeah, I was able to find a map -- a detailed map of the pipelines route online, and it does look like it goes through some pretty densely -- dense industrial areas. Some -- the assumption being once you build that lateral that you'll be able to boost the volumes and maybe boost the contracted volumes on NEXUS by serving those customers, is that the obvious synergy from this?

A - Gerard Anderson {BIO 1391607 <GO>}

Yes, absolutely. I think that's exactly our plan.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. And one other --

A - Peter Oleksiak {BIO 7535829 <GO>}

So that part of Toledo is where heavy industry plays out. So it's an area where I think there's an opportunity to -- for our producers tied to NEXUS to be able to deliver into that base over time through this pipeline. So be good for that industrial community and good for us too.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. One final question, and maybe it's semantics. But on the -- in the EEI deck, you said very specifically you're targeting 5% to 7% operating EPS growth through 2023, I think your language was slightly different in your script today, but is that still your commitment?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yeah, it was slightly different. It wasn't meant to be. It's exactly what we said at EEI 5% to 7% operating EPS.

Q - Greg Gordon {BIO 1506687 <GO>}

I just wanted to make sure that that was on the record guys. Thanks.

A - Gerard Anderson {BIO 1391607 <GO>}

Yeah, you bet.

Q - Greg Gordon {BIO 1506687 <GO>}

Have a good morning.

A - Gerard Anderson {BIO 1391607 <GO>}

You too.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thanks, Greg.

Operator

We will now take our next question from Paul Ridzon from KeyBanc. Please go ahead.

Q - Paul Ridzon {BIO 1984100 <GO>}

Thank you. Just on the returns on the generation pipeline, kind of how do we think about your hurdle rates for that segment kind of a little bit north of utility hurdle rates?

A - Gerard Anderson {BIO 1391607 <GO>}

Yes. That's where we like to start. But I think what's proved out over time is if you can buy and start there -- either construct and start there or buy and start there, the value comes from the options that it presents down the road or upside.

Q - Paul Ridzon {BIO 1984100 <GO>}

I think you've already said this, but you're already there, correct?

A - Gerard Anderson {BIO 1391607 <GO>}

Yeah. Correct.

Q - Paul Ridzon {BIO 1984100 <GO>}

And what kind of capital structure should we assume on that accretive analysis?

A - Gerard Anderson {BIO 1391607 <GO>}

It's 50-50.

A - Peter Oleksiak {BIO 7535829 <GO>}

It's 50-50, Paul.

Q - Paul Ridzon {BIO 1984100 <GO>}

And then getting an IRM on the electric side is not legislative, that's all before the commission, I think you said that earlier?

A - Gerard Anderson {BIO 1391607 <GO>}

That's correct.

Q - Paul Ridzon {BIO 1984100 <GO>}

Okay. Thank you very much.

A - Gerard Anderson {BIO 1391607 <GO>}

The other positive thing in our current regular rate cases that the commission has been very supportive of the capital that we're planning to invest in the electric utility.

Q - Paul Ridzon {BIO 1984100 <GO>}

Thank you very much and congratulations on the year. Appreciate it. Thank you.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thanks, Paul.

Operator

We'll now take our next question from Andrew Weisel from Scotia Howard. Go ahead.

Q - Andrew Weisel {BIO 15194095 <GO>}

Thank you. Good morning, guys. First question, this also similar to Greg. It might just be semantics, but I want to clarify. The EEI slide deck, you said you were targeting strong investment-grade credit ratings. Now it looks like targeting changed to maintaining. Is there anything to that? I mean, are the metrics where you want them to be and particularly after this acquisition?

A - Gerard Anderson {BIO 1391607 <GO>}

Yeah, there's nothing -- nothing meant through that. Peter, if you want to say more?

A - Peter Oleksiak {BIO 7535829 <GO>}

No, we definitely are committed to our ratings and we are targeting to have a strong credit ratings that we have today. It gives us a lot of flexibility to have a strong balance sheet and it's been proven out over the years.

A - Gerard Anderson {BIO 1391607 <GO>}

Actually, our FFO results for the last year played out stronger because of the cash flow and earnings. So we had good strong FFO-to-debt and when you do that, it builds in some strength or flexibility forward. So we're probably in a better position than we were when we to you at EEI.

Q - Andrew Weisel {BIO 15194095 <GO>}

Got it. Just wanted to make sure you weren't changing the messaging. Next question is relative to the last week's cold snap. How would you describe the utility natural gas supply that's going into this snap? And how are you positioned for the rest of the winter?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, we are positioned really well going into it. I'll just describe the day for you. We did hit design conditions on our -- during those peak conditions, and we moved about 4.5 billion cubic feet of gas through the gas utility that day, of which 2.5 billion was destined for our in-franchise customers and 2 billion we were exporting to other interstate pipelines that served markets as far as New York, Wisconsin, Chicago. So we were extremely well positioned to move gas in that day.

A - Gerard Anderson {BIO 1391607 <GO>}

Does that answer the question or --?

Q - Andrew Weisel {BIO 15194095 <GO>}

Yes, just wondering how you're positioned going forward. If we have another coal stretch, is that going to be trouble?

A - Jerry Norcia {BIO 15233490 <GO>}

We welcome it. We're well positioned for it.

Q - Andrew Weisel {BIO 15194095 <GO>}

Good. Next question on the electric side. The weather normalized sales were flat for the year, obviously, given the extreme weather this past summer. It's hard to do math on that. But my question is, what's your estimate of the impact of energy efficiency these days? And what's embedded in your guidance for 2019 and beyond?

A - Peter Oleksiak {BIO 7535829 <GO>}

Andrew, we did have flat sales 2018 versus 2017. When you look at the residential sector in particular, we had flat usage. But we have customer count, it's very healthy 0.7% increase on customer counts. So, really there is an awful energy efficiencies. Energy efficiency definitely helping our customers. We do have targeted energy efficiency programs there.

Q - Andrew Weisel {BIO 15194095 <GO>}

And what can be the outlook?

A - Gerard Anderson {BIO 1391607 <GO>}

So what we're building into forward plans is very flat. There just isn't growth. We aren't counting on it. Frankly, we -- I don't want to sound the wrong way, but we don't want it. We want these energy efficiency programs to really bite through our customers, because it helps manage their bills and their affordability at a time when we're making significant investments at capital. And that's the whole trick here is to help customers, keep their energy cost affordable, while we really fundamentally reinvest in the assets and our business. And so we're driving that efficiency side hard. Now there are things that are growing, and as Peter said, we're getting customer count additions, we got a lot of construction in the City of Detroit and so on and so forth. So they are healthy signs, but we are working the efficiency side of it hard.

Q - Andrew Weisel {BIO 15194095 <GO>}

I like the strategy. Maybe one last one if I could squeeze it in here. An update on the volumes flowing through NEXUS. And how -- if NEXUS does connect to Generation, how much capacity is there on NEXUS to add that 355 and potentially more?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, first, I'll say that NEXUS is flowing at its current capacity and that will also increase over time as we bring more assets online, as it relates to the upstream portion of NEXUS. In terms of connecting Generation Pipeline, it will provide a significant market outlet and demand source for the pipeline. So we expect that as we make those connections, two things will happen: one is, it will make the pipeline much more attractive for our current shippers and also for our future shippers. And the question of, could we accept all of that on the NEXUS? The answer is yes.

Q - Andrew Weisel {BIO 15194095 <GO>}

Great. Thank you very much.

Operator

We will now take our next question from Steve Fleishman from Wolfe Research. Please go ahead.

Q - Steve Fleishman {BIO 1512318 <GO>}

Yeah. Hi, good morning. So just first on the curious kind of your view on Northeast gas. So we had some of the producers come out and I think the production expectations for this year comment a little bit lower than people expected. So just how are they coming in with kind of what you're planning for this year on your system?

A - Jerry Norcia {BIO 15233490 <GO>}

Good question, Steve. We -- obviously, we've been watching that very closely on our platforms and all of the projections of the producers that we do business with are in line with our current guidance and on our current forecast. So we're feeling really good about it at this point. Also, I think we kind of see this discipline that's entering the market is positive for the long-term with producers and in addition to that, we see this as short-term phenomenon because the demand for the product is there. And I think as producers get healthier, it will help improve the -- I think the price complex for the producers as this discipline sets in.

A - Gerard Anderson {BIO 1391607 <GO>}

So Steve, just to add to that. As Jerry said, I think there's -- producers are being encouraged by investors to show capital discipline and there has been this flip in the market from investors really looking for how fast can you grow production to show me the cash flow, show me the healthy cash flow. And so they're all being encouraged to show capital discipline. And that can wiggle things in the short run. As Jerry just said, we -- it's -- we don't see it for us, it's in line with our plan. But when you think about this longer term, the production is what it is. I mean, the demand will be what it is from the Power and Industrial and LDC sectors and declines in well productivity happen every year and those need to be fulfilled, those need to be backfilled. The clients and the demand growth needs to be met. And so even though there's capital discipline, that's really a short run phenomenon. You get into the medium and long-term and that's just dictated by the realities of supply and demand. And so we continue to see the region that we're serving very well positioned to continue to meet and grow as that plays out.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Great. And then just one question, high level on the equity issuance that you're planning the 1 billion to 1.5 billion. So just to clarify, and I guess this really goes back to EEI. Does that include an assumption of more acquisitions beyond what you said or not? So if you announced a larger one, would that potentially already be embedded in there?

A - Peter Oleksiak {BIO 7535829 <GO>}

It assumes we have -- each of the segments we provided disclosure around the level of capital spend. So it does assume capital spend on each of those platforms and subsidiaries. And as Jerry Norcia mentioned, our first order business is greenfield, but in many cases, instead a greenfield we'll do acquisitions occasionally. I'll just (inaudible) all-in capital spend and that's really what supporting that equity issuance plan.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. Great. That's helpful. Thank you.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thank you.

Operator

We will now take our next question from David Fishman from Goldman Sachs. Please go ahead.

Q - David Fishman {BIO 20818121 <GO>}

Hi, guys, good morning.

A - Gerard Anderson {BIO 1391607 <GO>}

Good morning, David.

Q - David Fishman {BIO 20818121 <GO>}

Thanks. On the Generation Pipeline, this was some quick research, so I apologize. Let me now if I'm wrong here. But it looks like they filed for an Ironville Lateral already that could begin construction as early as Feb 25th. Is this something that was anticipated and expected as part of the purchase price?

A - Gerard Anderson {BIO 1391607 <GO>}

Yes.

Q - Steve Fleishman {BIO 1512318 <GO>}

Okay. And then with those sort of opportunities, especially because this is a little more exposed to Ohio industrials, do you see this as presenting a competitive advantage for P&I as well on maybe the combined heat and gas opportunities in the future?

A - Jerry Norcia {BIO 15233490 <GO>}

We are having some of those conversations, but I wouldn't say any of them are well advanced. But there are potential synergies between the two businesses, for sure.

Q - David Fishman {BIO 20818121 <GO>}

Okay. Thanks guys. Congrats on good year.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thank you.

Operator

We will now take our next question from Michael Weinstein from Credit Suisse. Please go ahead.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hey, guys, just a quick follow up. I just was noticing that the sequentially earnings at the GSP business decline in the fourth quarter versus the first three quarters of the year. Just wondering if you could explain that and what drives the seasonality of that or whatever it is?

A - Gerard Anderson {BIO 1391607 <GO>}

David, Peter, you want to --?

A - Peter Oleksiak {BIO 7535829 <GO>}

No, we can probably get back to Michael. My first sense is that we had strong kind of mid year with the summer and some of the flows gases, some of them may just be some gas volume as it related to some of our pipelines.

A - David E. Meador {BIO 1908612 <GO>}

Peter, this is David. I think this is maybe the timing of how each platform plays over the course of the year.

A - Gerard Anderson {BIO 1391607 <GO>}

I think we can have somebody good here. It was nothing material or anything really that we took notice of. So if you're seeing that we'll -- we can do a tic and tac for you and just tell you what it was. We saw some seasonality there, obviously, because our pipes flow hot and heavy and hard at certain times of the year like they have been this past month, and other parts of the year less so, so that produces some variation.

Q - Michael Weinstein {BIO 19894768 <GO>}

All right. Thanks a lot guys. Have a great day.

A - Gerard Anderson {BIO 1391607 <GO>}

Thank you.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thank you.

Operator

This concludes the question-and-answer session. I would now like to turn the conference back to Gerry Anderson for any additional or closing remarks.

A - Gerard Anderson {BIO 1391607 <GO>}

Well, I want to say thanks again to all you for joining the call and for the good questions. As I said at the beginning of the call, I feel great about the year that we had in 2018, not only financially, but on a lot of other fronts that goes such a long way to keeping the context here in Michigan positive. And I feel really good about the position we're in heading into 2019 both the start of the year and the plan that we have for the balance of the year. I think we're in a really good position to deliver another good year and strong results for you all. And we look forward to providing you updates on all of that as we move forward. Thanks again for joining. We will talk to all of you soon.

Operator

This concludes today's call. Thank you for your participation, ladies and gentlemen. You may now disconnect.