Q4 2019 Earnings Call

Company Participants

- Barbara Tuckfield, Director of Investor Relations
- Jerry Norcia, President & Chief Executive Officer
- Peter Oleksiak, Senior Vice President and Chief Financial Officer

Other Participants

- Christopher Turner, JP Morgan
- David Fishman, Goldman Sachs
- Greg Gordon, Evercore ISI
- Gregg Orrill, UBS
- Jonathan Arnold, Vertical Research
- Julien Dumoulin-Smith, Bank of America Merrill Lynch
- Michael Weinstein, Credit Suisse
- Shahriar Pourreza, Guggenheim Partners

Presentation

Operator

Good day, and welcome to the Q4 2019 Earnings Conference Call. Today's conference is being recorded.

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

Barbara Tuckfield {BIO 19701481 <GO>}

Good morning, everyone. Before we get started, I would like to remind everyone to read the Safe Harbor statement on Page 2 of the presentation including the reference to forward-looking statement. 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 Jerry Norcia, President and CEO, and Peter Oleksiak, Senior Vice President and CFO.

And now, I'll turn it over to Jerry to start the call this morning.

Jerry Norcia {BIO 15233490 <GO>}

Well, thanks, Barb, and good morning, everyone, and thanks for joining us today. This morning, I'm going to give you a recap of our 2019 business performance and provide you highlights on how we are well positioned for future growth. Then I'll turn it over to Peter, who will provide a financial review of the year and wrap things up before we take any questions.

So let's start over on Slide 4. 2019 was another successful year with many great accomplishments including strong operational and financial performance. I'd like to thank all of our employees for the hard work that they contributed to achieving this success. We achieved strong financial results in 2019 with operating EPS of $6.3. We're able to increase our guidance twice in 2019 and still beat our last updated guidance midpoint. 2019 EPS results provided 9% growth from our original 2018 guidance, and 2019 was the 11th consecutive year we exceeded our operating EPS original guidance.

We also increased our dividend by 7% for the fourth year in a row, and we are targeting 7% dividend growth through 2021. When it was announced, and I was taken over as the CEO role, I said that we will continue to sharpen our focus on the priorities that have driven our success. And I'm confident in our ability to continue to focus on an employee engagement culture that drives service excellence which, in turn, helps us deliver distinctive shareholder returns.

On the next slide, I'll turn my focus to 2020 and beyond. With a strong 2019 behind us, I am confident that 2020 is going to be another successful year. Our 2020 guidance provides a 7.5% increase over our 2019 original guidance and includes the benefit of the recent midstream acquisition. Our 2020 EPS guidance pinpoint is $6.61, which would be the base for our 5% to 7% long-term growth. And we continue our commitment to a long-term business mix of 70% to 75% utilities.

We will invest 80% of our capital in our two utilities over the next five years, which will continue to provide our customers with cleaner and more reliable energy and deliver high-quality operating earnings with increased certainty. These goals are attainable with the strong culture we have here at DTE.

As you can see on the next slide, this marks the 11th consecutive year we have exceeded our original EPS guidance. This has not come easily and is a result of a rigorous planning model; I'd like to talk to you about that a little more on Slide 6. As I mentioned, we exceeded our EPS guidance for the 11th consecutive year in 2019. We attribute this continued success through our planning process, which includes the detailed five-year plan with earnings contingency across the portfolio for any number of potential scenarios.

The first two years of the plan are worked in detail, with weekly reviews by the management team. Goal of these weekly meetings, which I chair, is to understand with a high level of detail how we seize opportunities and address challenges in the plan. These reviews provide us real time information to help make plans to allow us to stay on track financially.

As I said, we have contingency across all our business lines while much of the contingency is based on addressing weather conditions at our utilities with our lean and invest plan. We also have contingencies planned at our non-utilities. This allows us to manage the entire DTE portfolio of businesses to react to any number of developments that may occur during the year, and many times over, deliver our financial goals. We have successfully employed this lean and invest approach over the years, allowing us to pull back expenses when needed and to invest back in the business when the opportunity presented itself.

I'll turn it over to Slide 7; I'll talk about our employee, customer, and community successes. Our employee focus on customers and communities makes me proud to be part of the DTE family. A key area of focus here at DTE is safety. And I am proud to say that we had another safe year. For the second time in a row, DTE was ranked in the top 2% and safety culture by the National Safety Council. Safety is a great indicator of employees' level of focus and discipline, resulting in a strong safety culture with engaged employees. This engagement leads to a customer focused environment. Although I would say there's always more we can do to improve employee safety, we are currently driving new leadership competencies and communications in an effort to make another step change and improve the employee safety.

We're ranked in the top 3% of the world's by Gallup for high employee engagement. And every day, I see evidence it is true, the distinctive work our team does around service excellence. You can feel the high energy of our employees at all our facilities in our headquarters, and in our field operations. I'm often approached by employees and told how much they love working at DTE Energy. We also received our seventh consecutive Gallup Great Workplace Award, the only utility company ever to receive this award, and are confident we'll continue our focus to earn our eighth award in 2020.

Our strong focus on service excellence, this shows both of our utilities high in the customer satisfaction rankings. Our electric and gas companies both ranked at in the top quartile of J.D. Powers Residential and customer satisfaction study. DTE is also ranked one of the country's top corporate citizens by Points of Light and J.D. Power. I'm proud of all the accomplishments our team has made this past year, and I'm looking forward to more successes in 2020 and beyond.

Before I turn it over to the business updates, I just want to let you know how the local economy is doing. Michigan's economy remains strong. Unemployment continues to be at the lowest rate since 2000 and the population continues to grow. GM recently announced that it would invest $2.2 billion in Detroit, a plant where it will produce all electric trucks and sport utility vehicles. You may have seen the commercials, the Super Bowl, where they're going to build a new Hummer, electric Hummer here in Detroit, very exciting.

Fiat Chrysler is planning to spend $4.5 billion to update several Detroit plants, allowing the company to start making electric versions of its Jeep models. Ford Motors is converting the abandoned train station in Detroit in North center for autonomous driving and innovation and investing $740 million. All of these are examples of the revitalization of Detroit and Michigan as a whole.

Turning over to the business update, all our businesses achieved successes in 2019, which positions us for continued growth in the years to come. As you remember from last year's EEI, we mentioned that we are going to invest $19 billion between 2020 and 2024 in our utilities and non-utilities with 80% of these investments going into our utilities.

Starting off with DTE Electric on Slide 8 as a leader in the march towards clean energy and more reliable energy, we continue to invest heavily in clean energy, infrastructure renewal, and technology innovation. In 2019, we announced we were accelerating our carbon emissions reduction by a full decade, targeting 80% reduction by 2040 and reaching net zero emissions by 2050. Achieving these milestones will help us shape our environment for all future generations.

Our Blue Water Energy Center, which is a natural gas plant that we're building is also progressing quite well. We're nearly 40% complete with an expected Spring of '22 in service date. It supports our carbon reduction plan by reducing our carbon emissions by 70% compared to the three coal plants that we're retiring.

Early in 2019, DTE Electric received the approval for our charging forward program for electric vehicles. This program is bringing the benefits of EVs to more Michigan residents and businesses through incentives, customer education and charging infrastructure growth. We have also partnered with a number of groups including the City of Detroit and General Motors by installing charging stations near our headquarters here in Detroit. There is a step to promote EVs in Michigan, and it goes hand-in-hand with our charging forward program, so and I'm looking forward to seeing many more charging stations here in the state of Michigan.

Additionally, DTE Electric is progressing on its voluntary renewable program very nicely. In 2019 over 400 megawatts were committed by commercial customers, including Ford, General Motors, The University of Michigan, and that The Detroit Zoo. Additionally about 10,000 residential customers have committed to voluntary renewable power. I can tell you that every day we're enrolling new customers into this program.

We're also upgrading circuits to improve reliability, redesigning substations to avoid overload and enhancing remote monitoring and operating capabilities to detect and resolve outages much more quickly. Few items to note include the completion of two substation upgrade, projects and one new station; and over the next five years, there will be 18 new or upgraded substations that will be planned and built.

The City of Detroit and surrounding areas about a 128 miles overhead lines were upgraded in 2019 with over 1,000 miles planned to be upgraded over the next five years. And we began construction of our new electric system operations center with completion expected in 2021. Overall, our electric utility had a very successful year, and I'm feeling confident we are well positioned for 2020 and beyond.

Moving to Slide 9, I'll talk about some of the accomplishments at our gas company. We made progress with the accelerated main renewal program. In 2019, we renewed 180 miles of bare steel and cast iron. We're looking to complete 200 miles in 2020, keeping on track to replace all cast iron and bare steel over the next 15 years. We're also continuing to develop plans to invest in additional system improvements, including a gas transmission renewal project to be completed in 2021 to support the growth integrity and reliability of our system in Northern Michigan.

This new program along with our main real program, firms our commitments provide safe and reliable service to our customers. Continue to make progress in our commitment to reduce methane emissions from our gas business by 80%, and by 2040. Overall, we are looking forward to another strong year from our gas company.

And now I'll turn it over to our non-utilities on Side 10. Our gas storage and pipeline business completed three acquisitions and two organic expansions in 2019. We significantly increased our ownership in Link, we acquired a generation pipeline and we completed the acquisition of the Blue Union and LEAP pipelines in the Haynesville basin. With Leap construction teams were mobilized in December and are currently clearing the right of way along the pipeline route. And I would say construction is progressing on plan and on schedule. We expect this pipeline to be in service in the third quarter this year. This is a 150 mile, 36 inch pipeline delivering into Southeast interstate systems and the Gulf Coast LNG export markets.

For the Blue Union system, we're on track with our financial goals. As we acquired these assets we discussed how much due diligence was done to confirm, but all of these assets were highly accretive, connected to large demand centers and supported by strong resources, contracts, and credit. These assets provide contracted long-term growth and have delivered compelling value for our shareholders. Along with these acquisitions, we also executed an expansion at Millennium and continue to build-out our Link asset in an accretive way.

Recently, we've been getting questions about the low gas prices and how this will affect us. There has been a softening in the market and we have planned for that in 2020. We also have the benefit of diversification through a portfolio of businesses allowing us to weather different business cycles. Let me reassure you, 85% of GSP's revenues covered by fixed demand based, revenue contracts and flowing gas.

Our producers are significantly hedged in 2020, with attractive pricing. As a matter of fact, our producers are 80% hedged in 2020 at an average price of $2.75. And we review their credit and cash flows weekly and feel good about their condition. Most importantly, we go into every year with contingency and lean and invest plans across our whole portfolio of companies.

The development of these plans has provided us a history of consistent success. This year is no exception to our conservative nature when it comes to planning. Going forward, we have significant contracted growth in the portfolio and are focusing on additional organic growth around these assets.

Now let's talk about our Power and Industrial business on Slide 11. As we mentioned on our earlier calls, we acquired three industrial energy services projects and two RNG projects in 2019. Particularly proud of the progress we've made in the RNG space, one of our RNG projects in Wisconsin was named very daily project of the year by the American Biogas Council. Work is important to continue down the path toward a cleaner environment on multiple fronts.

RNG is an attractive source of pipeline and quality gas and renewable resources that benefits customers and the environment. Along with RNG, cogeneration is the other main focus of our P&I growth. This business is attractive to our customers in times of rising electricity rate and low natural gas costs. We've been successful in growing our co-gen business due to our ability to find and secure long-term projects and contracts with repeat customers. Going forward, we'll continue to develop additional utility like RNG and cogeneration projects.

So I'm feeling great about the progress we're making in all of our business lines. 2019 was strong and we have many successes to be proud of. I sat with my team last Friday as I do every week to review and detail the opportunities and risks in our 2020 plan, and I came away feeling confident that we're going to nail our 2020 goals. And also the quality of our workforce and our leadership team gives me great confidence in our ability to deliver this high growth at our utilities and non-utilities with a goal of 5% to 7% EPS growth or better, and our track record has been better.

And with that, I'm going to turn it over to Peter to share our financial Results.

Peter Oleksiak {BIO 7535829 <GO>}

Thanks, Jerry, and good morning to everyone.

Before I get into the financials, always like to give an update on my Detroit Tigers. First update I'd to give is that this year's winning Super Bowl quarterback was drafted by the Tigers. It gives me hope that the Tigers know how to pick a winner. And as it's been over the past few years, this is the best time of year for my Tigers now with the start of spring training just a few weeks away. Although my Tigers finished in last place this past season, I still have hope for the future. This year will be a turning point in the rebuilding process with top prospects finding their way to the major lead flow. Unlike my Tigers, DTE has been very consistent in delivering strong financials, and 2019 was no exception.

I'll start the 2019 review on Slide 12. Total earnings for the year were $1.166 billion, this translates into $6.3 per share for the year. And you can find a detailed breakdown of the EPS by segment, including our reconciliation to GAAP reported earnings in the appendix.

Let me start my review at the top of the page with our utilities. DTE Electric earnings were $716 million for the year. This was $47 million higher than 2018, largely due to the impact of new rates implemented in May and 2018 items not repeated in 2019. This is partially offset by rate base growth cost and cooler weather in 2019. As you remember we experienced a significant amount of weather favorability in 2018 and much of this favorability was reinvested to stem system reliability. DTE gas operating earnings were $22 million higher in 2019. The earnings increase is driven primarily by the implementation of new rates in the fourth quarter of 2018 and colder weather in 2019. This was partially offset by rate base growth.

Let's move down the page to our gas storage and pipeline business on the third row. Operating earnings for our GSP segment were $213 million for the year, which is right on top of the midpoint of guidance for 2019. In 2018, GSP experienced higher earnings related to AFUDC at NEXUS, and higher than planned volumes across the portfolio. 2019 has normalized earnings at NEXUS and volumes were on plan. As a result, 2019 is down $20 million versus 2018, which was contemplated in our 2019 guidance for this segment.

On the next row, you can see our Power & Industrial business segment, operating earnings were $133 million. Earnings were $30 million lower than 2018, which, like the GSP business was contemplated in our 2019 guidance. This decrease is due mainly to REF tax equity transactions that occurred in the fourth quarter of 2018. As we communicated previously, we entered into equity partnerships in our REF units and accelerated cash flows to support other projects.

On the next row, you can see our operating earnings at our energy trading business were $30 million. Earnings were $10 million lower in 2019 compared to 2018 due to realized results in the gas portfolio. Our trading company had another solid year in 2019 with strong accounting and economic income. The appendix contains our standard energy trading reconciliation showing both economic and accounting performance.

Finally, Corporate and other was favorable $15 million in 2019 compared to 2018 and this was due primarily to lower taxes and one-time items in 2018, offset by higher interest expense. Overall, DTE earned $6.30 per share in 2019.

Now let's go to Slide 13 to wrap up before we open the line for questions. 2019 was a strong year financially and operationally, and we are planning for another strong year in 2020. Going forward, we'll continue to target 5% to 7% EPS growth with 2020 guidance as the base for that growth. Our 7% dividend increase for 2020 demonstrates our confidence in the company's performance and long-term strategic plan.

The 2020 operating EPS midpoint of $6.61 provides 7.5% growth from our 2019 original guidance. This high growth rate is driven by strong performance at all of our business units. Healthy growth at our two utilities, near-term EPS accretion from our GSP acquisitions and organic growth and continued business development at P&I. We're committed to maintaining the strong balance sheet and credit profile that investors have come to expect from DTE.

Finally, we remain committed to a business mix of 70% to 75% utilities. The good portion of our non-utility earnings coming from regulated or long-term contracted businesses.

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

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) Our first question will come from Shar Pourreza with Guggenheim Partners. Please go ahead, with your question.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Good morning, guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Shar.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning, Shar.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

So let me just touch a little bit on the non-utility. The recent acquisition, you guys did kind of highlighted $2 gas is still being economical and obviously would continuing to trend below this. Could we -- could you just get a little bit of a status on your thinking there, given weakening fundamentals. But really more importantly, is there any impact with your prior guidance, like $2 billion to $3 billion incremental accretive growth opportunities you highlighted for this segment in, let's say a prolonged weak gas price environment, especially for sort of the opportunity as you guys highlighted in the past as being in early to mid phases. I mean, could we see some of that capital being diverted to other areas?

A - Jerry Norcia {BIO 15233490 <GO>}

So I'll say this that our -- for 2020, our forecast for Indigo is right on top of our fixed fee charges and demand charges. So we are highly confident delivering 2020. Also, as we mentioned prior our growth on this asset is also contracted at about a 90% level for the first three years. So we're really confident in the growth that we're forecasting with this asset.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Got it. I guess the question is just more of a longer-term. You've allocated some obviously accretive or incremental growth opportunities for just the gathering and storage segment. I'm just curious like the $2 billion to $3 billion that could be incremental opportunities that are sort of in the early phases of spend in a weakening gas price environment, is there a potential that you could redeploy capital somewhere else or even projects that are in the early phase will continue?

A - Jerry Norcia {BIO 15233490 <GO>}

All of the projects that we planned for this year, we're confident they're going to continue Shar. And longer-term, as we look at our assets, multiple platforms, here in the Northeast as well as the Midwest and Louisiana, we feel that we've got a great resource behind those pipelines and extremely well connected to markets. And the one thing that we do know is that supply and demand are currently rebalancing. We saw this happen in 2015 and 2016 and that's happening now. So longer-term with demand growth in the natural gas sector, which continues at a pretty robust cliff, we see that our resources are really or our pipelines are well positioned with these resources and markets to deliver on our growth. So we're not seeing anything right now that long-term would give us pause in terms of growth of our assets in this space.

Q - Shahriar Pourreza {BIO 15145095 <GO>}

Okay, perfect. That was the first question. And then just second, can we just shift to the regulated and talk a little bit about the IRP and sort of the recent ALJ recommendation. How we should sort of think about the generation needs there, may be from a framework perspective?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So I would say that the staff position in the IRP has been quite supportive. But also say that most of our assets are in flight to deliver on our five-year plan. So I would say that the bulk of our renewable asset build has been approved already by the commission and of course, our combined cycle plant has been approved by the commission, it's is well under construction and is 40% complete. In addition to that, the heavy investment that we're making in our wires business is getting very good support from the staff and from the commission in the last rate case and also signals that they're sending with their testimony in this rate case.

Terrific. Thanks guys congrats.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thanks.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Thank you. The next question will come from Michael Weinstein with Credit Suisse. Please go ahead with your question.

Q - Michael Weinstein {BIO 19894768 <GO>}

Hey, guys. Just to follow up with Shar's line of questioning there. I understand 2020 is seems pretty locked in with hedging at Indigo at 275%. But going forward beyond that, how far out are they hedged above $2 or in that $275 million range that could support them, supporting the contracts that they have with you?

A - Jerry Norcia {BIO 15233490 <GO>}

Michael, I would say several things. One is that this is our -- hedged beyond 2020 in a significant way that we're dealing with. In addition to that, our contracts are solid with them in terms of 85% of our contracts moving forward for -- in the five-year time horizon 85% fixed fee and demand charge. So we also look at their credit, and we are monitoring their credit on a regular basis, with basis which we've always done and looking at their liquidity. And we feel, at this point, based on their current hedges that there they've got the ability to furnish on those contracts.

Q - Michael Weinstein {BIO 19894768 <GO>}

Great. And then on the P&I business, the three projects that are under construction for the -- on the RNG side, is that the origination that you need for this year to make the -- to achieve the $15 million? Or with any additional origination?

A - Jerry Norcia {BIO 15233490 <GO>}

We're in the process of originating an incremental $15 million this year and we have some really good prospects. The $15 million you referred to was what we brought in the house last year. So we've got three years in a row now where we've locked in $15 million -- years of net income growth. So we've got a total of about $45 million new net income that's been already originated, and we're looking to originate an incremental $15 million this year, with good prospects in and around the boat, if you will.

Q - Michael Weinstein {BIO 19894768 <GO>}

Great. And the California plan, California's rules that support that program? Is the -- are there any changes contemplated there at all or...?

A - Jerry Norcia {BIO 15233490 <GO>}

That's been a really robust program and we -- there's really high confidence through 2020-'30 in that construct, and it's providing a really solid basis for the unlevered IRRs in the RNG space for us. So we're feeling really good about California. ly

Q - Michael Weinstein {BIO 19894768 <GO>}

Terrific. And also just remind me, when are they supposed to give you a final approval on the IRP?

A - Peter Oleksiak {BIO 7535829 <GO>}

In February. It'll be this month.

A - Jerry Norcia {BIO 15233490 <GO>}

February 20, is a good day we're targeting.

Q - Michael Weinstein {BIO 19894768 <GO>}

Okay, great. Thank you very much.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Thank you for the question. The next question will come from Julian Demulan Smith with Bank of America. Please go ahead.

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

Hey, good morning, team.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning, Julian.

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

Excellent. So I want to come back to some of the earlier utility commentary. You talked about nailing it this year. I suppose coming off of 2 years of strong weather, being at the upper end of the range on 2019. How do you think about trends even within the utilities for 2020? And more specifically, if you think about being able to do some of the O&M work ahead of time given some of the weather trends we've already seen. Just could you elaborate as to sort of the positioning beyond, just folks handling it?

A - Jerry Norcia {BIO 15233490 <GO>}

So Julian, as I mentioned, we look at our financial condition both opportunities and risks every week and we've been doing that for about seven or eight years. So I would say that in early last year, we were already working on building contingency for 2020. And so we entered 2020 with a significant amount of contingency that positions us to deliver on our results. And that's how we deliver on our results each and every year. If we see any of that contingency being threatened, we immediately start to work on tactics to hold that contingency, and deliver it for our shareholders at the end of the year. So when I say nail it that's the reason I feel confident that we're going to nail it, is because of all the work that we do weekly at a very senior level and we walk through every lined item of opportunity and risk. And the goal of those discussions is to seize the opportunity and kill the risks. And we've done that quite well in the past and confident that we're going to do that in the future.

A - Peter Oleksiak {BIO 7535829 <GO>}

If I just expand on what Jerry Norcia is saying, and you mentioned the weather, we are seeing warmer weather here first quarter, but we go into each year with 3 plants. One thing I've learned in my career here is that weather normal usually doesn't happen. So we came in, we have a plan around lean, if weather comes in a little bit lighter. So we've already are deploying those plans as well as we came into the year with good -- really good contingency levels that Jerry Norcia mentioned.

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

All right, excellent. And then a little bit of a cleanup on the last couple of questions, if you don't mind. The non-utility side, just long-term targets unchanged, I know you kept the consolidated numbers you reaffirmed, just want to make sure on the GSP segment that's indeed the case. And then also to elaborate just quickly on the other question on the IRP just the process, if you could elaborate a little bit more on the last question there as well?

A - Peter Oleksiak {BIO 7535829 <GO>}

For the non-utility our capital guidance hasn't changed from EEI. We have -- the whole portfolio of $19 billion, $15 billion of that's going into the utilities, so for $4 billion is going in the non-utilities. And there was questions on the midstream segment to $2 billion or $3 billion, just a reminder, $1 billion of that is tied to the Indigo and the Haynesville acquisition milestone payment as well as building out that system there. So we're still feeling really good with anything in prospects that you tend to add on to the existing platforms in midstream. And as Jerry Norcia mentioned we've been mailing a $15 million per year origination goal in P&I. We're feeling good around continuing to deploy capital in that space as well.

On the integrated resource plan, we are really in the final stages right now. It's really right with the ALJ decision. It's going to be right before an order. And there's a commission meeting on February 20, and that's what we're expecting and we're expecting a constructive outcome actually from that. It has been a great process. Part of the 2016 legislation was to do this. So all the stakeholders got their voice in that process. And as Jerry Norcia mentioned, we don't really have capital tied to this program. It really goes through our renewable energy plan as well as the certificate of need that we had at our gas plant. But we're looking forward to having a constructive order. From our IRP.

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

Excellent. Thank you, all.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thanks.

Operator

Thank you for the question. The next question will come from Greg Gordon with Evercore ISI. Please go ahead.

Q - Greg Gordon {BIO 1506687 <GO>}

My first one is, is it going to be a bounce-back year next year for the red wings, too?

A - Jerry Norcia {BIO 15233490 <GO>}

We hope so with Yzerman in town. We hope so.

A - Peter Oleksiak {BIO 7535829 <GO>}

Yes, Yzerman are feeling good.

Q - Greg Gordon {BIO 1506687 <GO>}

They make the rangers look like Stanley Cup champions, which is hard to do. The -- so I'm sorry to beat a dead horse on the GS&P segment, but it really has been an intense focus for investors. That 2-- first that $275 million number that was across all your counter parties, not just Indigo, when you said -- when you talked about where they're hedged. I just wanted to clear that up?

A - Jerry Norcia {BIO 15233490 <GO>}

That's correct, Greg.

Q - Greg Gordon {BIO 1506687 <GO>}

Okay. And I think you've been pretty clear that the Indigo relationship has not just demand payments, but minimum volume commitments on 90% related to 90% of your expected financial outlook. But I think the concern is also in the Marcellus on the link and Bluestone systems and on throughput on NEXUS. And you talk about, having contractual protection, but do you also have volumetric protection, as you look out past 2020 into 2021 and '22? And if volumes -- if you don't and volumes were to fall short of your baseline forecast given that, Jerry, that you're very proud of how you model for contingencies in your five-year plan, what might be the contingencies you could fall back on to still achieve the remarkable success you've had over the last 10,15 years of being at the high end of your earnings guidance.

A - Peter Oleksiak {BIO 7535829 <GO>}

Well, I'll start with this Greg. So first of all, our fixed fees and demand charges across our whole portfolio for 2020 and beyond are at approximately 85% of our revenues in our plan. So that would give you an indication of the quality of the contracts that we have for the medium-term and long-term on our assets. So that gives us good comfort. And we also in many of our contracts have credit provisions that help secure those payments as well. And as I mentioned, we look at the quality of credit, liquidity on a very regular basis. So we feel real good long-term where we stand with the quality resources that our pipelines are connected to. And of course, we are going through a readjustment between supply and demand. But the last time that happened in '15 and '16 it was about a nine-month process before attrcted itself, and I think we're in the middle of that now. We planned for that for this year conservatively; I think we described that in our past discussions, so I feel really good about 2020. And long-term I feel that our pipes are well-positioned against the resources and the markets that they serve and with the quality of contracts that we have, being 85% fixed fee and demand charges.

Q - Greg Gordon {BIO 1506687 <GO>}

Yes, I get that. But if you're wrong and I'm sure you probably do some contingency planning around what would happen if you were wrong on those assumptions. Are there other areas in the business where you could pivot? I mean, is the RNG business sort of potentially larger than what you're currently budgeting? I mean, where are the opportunities in the plan.

A - Jerry Norcia {BIO 15233490 <GO>}

Well the value...

Q - Greg Gordon {BIO 1506687 <GO>}

They really pair shaped on the E&P side for longer.

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. That's a great question Greg. And the value of our portfolio is that we've got really strong utilities that are -- have very strong growth prospects. And I think we mentioned at EEI. We've got capital sitting on the sidelines that we're working on every day to get into the plan from an affordability perspective. So opportunity there for sure. Our P&I business is also ripe with many opportunities and still feel confident that we've got really strong opportunities inside our GSP business. We're working smaller highly accretive transactions inside GSP each and every day. So when you take our portfolio in total and in addition to our conservative contingency planning each and every year, I feel real confident that we're going to deliver our 5% to 7% going forward.

Q - Greg Gordon {BIO 1506687 <GO>}

Thanks, Jerry.

A - Jerry Norcia {BIO 15233490 <GO>}

Thanks, Greg.

Operator

Thank you. The next question will come from Chris Turner with JP Morgan. Please go ahead.

Q - Christopher Turner {BIO 2246307 <GO>}

Good morning, guys. I know it's a smaller part of your business, but could you give us some color on maybe the end of 2019 performance for the trading business? What you're thinking for your 2020 guidance, kind of what's underlying that? And just remind us of the maybe geographic profile and customer profile of that business?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes, our 3D business had a really solid year. We had performance economic. We really measure that on economic income, so economic income and contribution was $40 million. That translated into $30 million of operating. We do typically target $30 million to $40 of million economic contribution every year. So we're feeling really good with that. And we do plan a bit conservatively in terms of operating guidance that's allowed this. The economic contribution will flow sometimes in the current year, sometimes in future years. So we always come in the year in terms of our guidance being a little more conservative, so we do have a midpoint of guidance of $20 million for 2020.

Q - Christopher Turner {BIO 2246307 <GO>}

Okay. And no color there on the current state of the market and how things have trended in recent years?

A - Jerry Norcia {BIO 15233490 <GO>}

We make our money there across a portfolio of businesses. We have FRS contracts that we do -- I'll show -- the trading company supports our GSP business. In terms of marketing those as well. So we also have a credit renewable business line within that as well. So we have between power and gas renewables and supporting our midstream business. So we have a lot of products to, kind of -- creates some stability of earnings year-on-year out there.

A - Peter Oleksiak {BIO 7535829 <GO>}

Yes we rely on the trading business really for steady cash flow. We generate between $30 million and $50 million a year of cash from that business. And the fact that it supports our pipeline business as well as our RNG business, we view it as strategic in that way, but we don't count on it for growth going forward.

Q - Christopher Turner {BIO 2246307 <GO>}

Okay. And then switching gears to the balance sheet. The $100 million to $300 million of equity this year, I think it's all internal programs, but can you remind us of, how you're thinking about pension contributions here? And then maybe if you're disclosing this with share count or FFO expectation for 2020?

A - Peter Oleksiak {BIO 7535829 <GO>}

Yes, we're going to be issuing out -- our disclosure has not changed in the EEI, so we're going to -- planning and issuing $100 million of $300 million to equity here in 2020, they will be internal sources. A lot of that is through our pension contributions. We are planning on over the next probably three to four years to be fully funded there. Next year $100 million ,to $400 million and that'll probably be a good portion of that through our pension contribution as well. We do target an 18% FFO. That really positions us well, in terms of our current credit ratings, both S&P and Moody's and Fitch.

Q - Christopher Turner {BIO 2246307 <GO>}

Okay. And do you think you can hit that FFO this year? Or is that more of a target into next year?

A - Peter Oleksiak {BIO 7535829 <GO>}

The target, but we do hit even in '19, we achieved 18% FFO. So that's our target and we have been bale to achieve that year in and year out.

Q - Christopher Turner {BIO 2246307 <GO>}

Right. Thank you guys very much.

Operator

Thank you. The next question will come from Jonathan Arnold with Vertical Research. Please go ahead.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Good morning, guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Jonathan.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Quick question on the CapEx guidance for 2020 or you give the $1.2 billion to $1.4 billion for non-utility. Which I think is a new disclosure. Could you break that down a little bit for us between pipelines, I believe, a good chunk of it for the expansion project. And then the P&I?

A - Peter Oleksiak {BIO 7535829 <GO>}

Close to $1 billion of that is GSP and it is tied to the milestone payment. We have a $400 million milestone payment and $600 million of capital to build out the LEAP system as well as the gathering system down there. So good bulk of this is the midstream, then the remaining amount will be on the power and industrial, and it really is tied to the origination of the $15 million per year goal that we have there.

Q - Jonathan Arnold {BIO 1505843 <GO>}

So $1 billion GS&P is the right ballpark?

A - Peter Oleksiak {BIO 7535829 <GO>}

Right. There may be some incremental or one above that maintenance-type of capital, another potential of origination, but the bulk of that is going to be is that the new acquisition, the $1 billion.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Thanks very much, Peter.

A - Peter Oleksiak {BIO 7535829 <GO>}

Thanks.

Operator

Thank you. The next question will come from David Fishman with Goldman Sachs. Please go ahead.

Q - David Fishman {BIO 20818121 <GO>}

Good morning. Thank you for taking my call.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning, David.

Q - David Fishman {BIO 20818121 <GO>}

Sorry, to repeat a little bit here, but I just want to get a little more context. I believe you said a nine month collection process in the natural gas sector. I just wanted to know broadly, what does that look like for the Haynesville or the Northeast in 2020, kind of versus your multi-year production growth expectation?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, the reference, I made to the nine-month process is what we saw happen in 2015 and '16. I mean, every cycle will be different of course and it's hard to predict what it will look like, but the correction has started to happen where we've seen producers start to slow activity. And we think that's the beginning of a correction to better balance supply and demand. Now demand continues to grow as I mentioned. And as it relates specifically to our portfolio 85% of our growth is contracted going forward, and with good contracts good resources strong, resources that will dispatch at the front end of that dispatch stack to bring incremental supply to the market going forward. And we're also connected to really good markets. So I -- that's what gives us confidence in the GSP growth for the long-term.

Q - David Fishman {BIO 20818121 <GO>}

Okay. And then sort of thinking a little bit more longer term and maybe to Haynesville, but I guess, broadly speaking, when you mentioned being the front end of the dispatch stack there. So if Indigo or another producer was un-hedged and you were to have a situation where maybe the Haynesville was flat or even slightly down, would it put a substantial amount of financial distress? Or would it be something that they could do economically to continue to grow in line with the MPSC, even in a situation where the broader basin isn't growing?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, we saw that -- when we looked at their drilling plans for the long-term, I think what we saw was that they had very economic resources at the $2 price range for over a decade and were 15% unlevered returns. And we modeled that as well as three independent reserve consultants that looked at that with us because we got on the inside of what Indigo is able to do. So very high quality resource that's dispatchable, obviously in a significant way at $2 and above with strong contracts, and they also have now a very strong balance sheet. They've met all their commitments to deleverage their balance sheet and there's a significant milestone payment tied to further deleverage, where there'll be one of the -- have one of the best balance sheets in the industry, if you will going forward.

So we feel good about the contracts, feel good about the resource and feel great about the markets that they're connecting to. And one of the advantage they have from a market perspective is their proximity to one of our fastest growing markets, which is the industrial and chemical complex in the Southeast and the Gulf region, as well as the LNG export markets. So the proximity and cost to get to those markets matters and they're in really good position with us to do that.

Q - David Fishman {BIO 20818121 <GO>}

That makes sense. Thank you. And then so as you can see, this is a broader question. I think in the past in 2019, when you'd mentioned, potential opportunities with laterals, with natural gas power plants in the Northeast, Ohio area, I think you've done Pennsylvania in the past. I was just wondering since a number of things have actually changed with Ohio subsidies, the expanded mopar, there's been PJM auction delays and now much cheaper natural gas in the region. I'm just wondered to have some of the conversations with some of these power plant developers may have evolved over the past six months?

A - Jerry Norcia {BIO 15233490 <GO>}

The conversations continue in earnest because natural gas is readily available and really economically priced. There is incentive in the Midwest to convert to natural gas from coal. So we're still seeing continued conversion opportunities in and around all our assets. So that's positive. We were also seeing -- we're working on an expansion, several expansions on our link assets. We're looking at connecting the generation pipeline to NEXUS that's progressing. We're also looking at unique optimization opportunities with our vector asset and our Bluestone asset. So lots of activities all small, but nicely accretive, exactly where we'd like it.

Q - David Fishman {BIO 20818121 <GO>}

Okay. That makes sense. And then sorry, just one more on the regulated side. I was just wondering if you could frame the near-term versus medium-term growth rate, especially when looking at the recent gas rate case filing, where the rate base figure over two years was double-digits, in the context of -- you recently raised from 8% to 9% to 9% net income growth at that segment. How that kind of looks near-term versus the medium term five years?

A - Jerry Norcia {BIO 15233490 <GO>}

Over the next five years, we're highly confident in the growth rates that we projected for both our gas utility and electric utility. The gas utility is in and around 9% income growth and we've got 7% to 8% at our electric company. So there's lots of good capital that will drive improved reliability and efficiencies and safety for our customers all pointed it at that.

A - Peter Oleksiak {BIO 7535829 <GO>}

Yes in near-term, David, I think what you're seeing in electric segment, a little bit higher growth. This year we have a renewable investment significant renewable investment year-over-year 2020. It is close to like $550 million more. There's some new projects that we have coming in and have been pre-approved part of our renewable energy plan. So we are seeing near-term higher growth rate, but we are in the long-term to 7% to 8% electric company and the 9% for gas utility.

Q - David Fishman {BIO 20818121 <GO>}

Okay, great. Thanks.

Operator

Thank you for the question. The next question will come from Greg Orrill with UBS. Please go ahead.

Q - Gregg Orrill {BIO 21090160 <GO>}

Thank you. Good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - Peter Oleksiak {BIO 7535829 <GO>}

Good morning.

Q - Gregg Orrill {BIO 21090160 <GO>}

I was wondering if you could touch a bit more on the development backlog for the RNG business beyond 2020? And how you think about committing capital around that?

A - Peter Oleksiak {BIO 7535829 <GO>}

Sure. We've provided a forecast over to five-years in terms of growth for the RNG space and the co-gens space. So we are seeing a lot of activity on both fronts. So we are looking to originate $15 million in new internet income each and every year going forward. We feel that the last three years, we delivered on that and we've got a nice portfolio of opportunities that gives us confidence to deliver on that for this year. And looking -- obviously every time we deliver $15 million of new net income, that travels across the next five years, and each year, we start -- we continue to bring that forward. Good prospects both in RNG and co-gen with a low gas price environment and electricity rates continuing to March up slightly, across the Midwest and other parts of the U.S. So the co-gen business is very active as well.

Q - Gregg Orrill {BIO 21090160 <GO>}

Thank you.

Operator

Thank you. That is all the time, we have for questions. I'll now turn the call over to Jerry Norcia for closing remarks.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, I'll wrap up by thanking everyone for joining the call. As we already mentioned multiple times, we had a great year in '19. I feel really good about the position we're in to continue our solid track record of delivering premium results for our shareholders. We've got one of the highest historical growth rates in the industry at 7.5%, and we'll deliver a growth rate of 7.5% this year, '19 over '20, and have great confidence that this will continue into the future and deliver at the 5% to 7% EPS growth in the future as well.

So thank you very much. I look forward to providing you updates, as we move through the year, and look forward to talking to you and seeing you soon.

Operator

Thank you, ladies and gentlemen. This concludes today's event. You may now disconnect your lines.