Q1 2023 Earnings Call

Company Participants

- Barbara Tuckfield, Director - Investor Relations
- David Ruud, Senior Vice President and CFO
- Jerry Norcia, Chairman & Chief Executive Officer

Other Participants

- Alex Mortimer, Analyst, Mizuho
- Andrew Weisel, Analyst, Scotiabank
- David Arcaro, Analyst, Morgan Stanley
- Durgesh Chopra, Analyst, Evercore ISI
- Jeremy Tonet, Analyst, J.P. Morgan
- Michael Sullivan, Analyst, Wolfe Research
- Ross Fowler, Analyst, UBS

Presentation

Operator

Thank you for standing by and welcome to the DTE Energy First Quarter 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions). And finally, I would like to advise all participants that this call is being recorded. Thank you.

I'd now like to welcome Barbara Tuckfield, Director of Investor Relations, to begin the conference. Barbara, over to you.

Barbara Tuckfield {BIO 19701481 <GO>}

Thank you and good morning everyone. Before we get started, I would like to remind you to read the safe harbor statement on page 2 of the presentation, including the reference to forward-looking statements. Our presentation also includes references to operating earnings, which is a non-GAAP financial measure. Please refer to the reconciliation of GAAP earnings to operating earnings provided in the appendix. With us, this morning, are Jerry Norcia, Chairman, President and CEO; and Dave Ruud, 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>}

Thanks, Barb and good morning everyone, and thanks for joining us. This morning, I will discuss the achievements we have made so far this year, provide an update on our plans to achieve our 2023 targets and give an overview on robust opportunities in our long-term plan. Dave will provide a financial update and wrap things up before we take your questions.

Let me start on slide 4, to discuss the storms we experienced in the first quarter. Starting with the worst ice storm in nearly 50 years, which was immediately followed by a major snowstorm. We understand the impact to customers during power outages and our team worked around the clock to get the power back on safely. I want to express my appreciation to all of our DTE employees for their tireless efforts along with our labor and community partners and the many others who supported our restoration efforts. It was all hands on deck at DTE for these two large storms. We had our frontline working through dangerous ice and snowstorm conditions restoring power and conducting damage assessments.

We also had our office staff in the field ensuring public safety from down wires. Our gas team was going door-to-door checking on thousands of seniors and vulnerable customers and make sure they were okay. Our call center agents worked tirelessly to provide customers the latest information and escalate emergency matters. I'm really proud and grateful for how our teams showed up for our customers by keeping each other and our communities safe.

Our foundation also showed up in a big way by contributing $3 million to replenish food pantries and reaching out through united way to provide low-income customers with food vouchers at local grocery stores. We remain committed to supporting and delivering for all of our stakeholders, including employees, customers, communities and shareholders. I always say that employee engagement drives our success and is the secret sauce at DTE. And our team continues to operate at top best for engagement levels as measured by the Gallup organization.

I'm excited to say, we were recently recognized for this top engagement by earning the Gallup Great Workplace Award for the 11th consecutive year. In our effort to continue supporting our communities, we partnered with one of the country's largest African-American and woman-owned energy efficiency companies, to launch the Energy Efficiency Academy. The Academy provides training and placement for good-paying jobs, building a pipeline of talent that will help make our customer's homes more energy efficient.

And on the investor front, we are executing on our plan to achieve our 2023 guidance and our long-term financial growth. As you know, we are facing additional headwinds with the warm weather and the severe storms I mentioned. The team has made excellent progress on the cost management work, and we continue to find savings with our continuous improvement efforts and one-time initiatives across our portfolio of businesses. We are well-positioned to continue to deliver a strong performance and premium growth that DTE is known for, with long-term operating EPS growth at 6% to 8%.

Let's turn to slide 5 and discuss the extreme weather events continue to increase in frequency. As you are aware, Michigan's weather has dramatically changed in recent years. The storms that were once considered historic seemingly becoming the new normal. Earlier this year, we experienced the most challenging two-week storm period we've ever faced as a company. The first storm that rolled through was the largest ice storm in our area in 50 years.

It was followed by a heavy, wet snow event the following week. As I mentioned, the ice storm was a very significant event and having 80% to 90% or the vast majority of our system hold-up extremely well through the storm is really attributed to the investments we have made in the grid so far. We've invested $5.5 billion over the last five years to rebuild poles, wires, transformers and substations. We have also invested over $800 million in tree trimming over the last five years, and we see great results from these investments. It is important that we continue to implement our learnings from these storms and we are implementing a plan that will be bolder in our approach to reducing the impact of these more intense weather events.

We need to provide safe, reliable, affordable energy. Our customers expect this from us and we have the same expectation. And this can only be achieved through infrastructure investments. We agree with all of our stakeholders that we must work together to do more and we must do it faster. Having a resilient grid is critical to providing safe and reliable electricity, as well as enabling transportation electrification and achieving state-wide decarbonization as well as promoting economic development.

We have been ramping-up our strategic investments to prepare the system for the challenges and opportunities ahead. We know that the investments are having a positive impact and we are looking at ways to accelerate our efforts, while maintaining customer affordability. In communities where DTE completed some of our most focused work on the grids more challenged infrastructure, customers experienced up to a 70% improvement in reliability. Significant long-term investment is needed to prepare our infrastructure for extreme weather and for increased demand from electrification and economic development. Our focus is to continue to make strategic investments in our grid.

Let's turn to slide 6, to discuss some of these opportunities. We have invested heavily in our electric grid over the years, focusing on hardening infrastructure, replacing aging equipment and completely rebuilding parts of the grid that originated back in early 1900s. You can see from the data that in areas where we make these investments, we see reliability improvements. But to see that type of dramatic improvement we all want across our entire system, we must do more.

We will invest $9 billion in the grid over the next five years to further harden the system through our focused strategy. First, we'll continue to invest in enhanced tree trimming. We know that the majority of customer outages are due to trees contacting wires. We also know that areas where trees are trimmed performed significantly better than those not trimmed. Second, we will continue to preventative maintenance and hardening on the existing infrastructure and continue updating the electric grid. Specifically, poles, wires and other equipment that makes the system more reliable and more resilient.

Third, we will accelerate the complete rebuild of the other sections of our infrastructure. In some instances, it will make sense to pursue the undergrounding of our distribution system. In our most recent rate case, we requested two undergrounding pilots. Since the early 1970s, new construction has been developed with underground wires, with a third of our system now underground. There is a significant opportunity to continue this important work on our electrical system and drive down the cost of undergrounding.

Lastly, we will accelerate our work to achieve the full automation in the electric grid, which will fundamentally reduce the duration of outages. Our distribution plan filed with the MPSC in 2021 envisioned this happening on the same timeline as the grid rebuild, but the automation work must be accelerated to improve the performance of the grid for our customers in the near-term. With our recent investments in the advanced distribution management system and our new system operation center being complete, we can now bring smart grid technologies into the field, which will enable us to more quickly and efficiently isolate outages on a circuit, so the impact of an outage can be minimized.

Our goal is to fully automate the grid within five years to six years. The increasing investment in our system is something we have done consistently over the years. We know how important these investments are to provide clean and reliable power to our customers. And we will continue to evaluate opportunities to accelerate investments while maintaining affordability.

Now, let's turn to slide 7. We are making great progress at each of our business units this year. At DTE Electric, the IRP and rate case proceedings continued to progress. We began settlement discussions on the IRP, which are very constructive, and we continue with the audit and discovery process in the rate case. We recently announced the Meridian wind park is now operational. This is Michigan's largest wind park, spanning three townships. The 225 megawatt wind park has 77 wind turbines and generates enough clean energy to power more than 70,000 homes.

DTE Electric continues its progress on the highly successful voluntary renewables program, with the recent addition of a 20-year contract with Toyota. We are seeing some promising ongoing economic development in the state, which will continue to drive growth in our service territory. Henry Ford Health System is planning a $2.5 billion investment in Detroit for a hospital expansion, research facility and neighborhood redevelopment in Detroit's New Center area. The University of Michigan and Ilitch organization announced a commitment for a $1.5 billion investment for an innovation campus that will bring research and innovation firms together.

These developments will take place across downtown Detroit, including a development adjacent to our headquarters. We also expect to see a meaningful pickup in the potential domestic manufacturing within critical supply chain areas, including solar manufacturing and battery storage in order to comply with and benefit from domestic content requirements under the IRA. Such energy-intensive manufacturing businesses should translate into higher load growth in our service territory.

A recent example of this is our NextEnergy EV battery maker that is located in our service territory. And GM is investing $4 billion to convert its Orion township assembly plant to produce full-size electric pickup trucks. These developments will directly support our ability to deploy more capital, while mitigating customer rate impacts, by bringing a potential increase of 50 MW of new demand on our system. More broadly, this is also a positive for our Vantage business which has expertise in providing customized energy solutions for commercial and industrial customers.

We are seeing increased activity and potential in this business line. Moving to DTE Gas, we completed over 70 miles of main renewal with a target of completing over 200 miles by the end of the year to continue progress in accelerating the modernization of the gas transmission system. Another major accomplishment for our gas company is the completion of the final phase of a major transmission renewal project in Northern Michigan. This project included the installation of new pipe and facilities modification work that provide supply redundancy for a growing market.

DTE Vantage put a new RNG project and a custom energy solutions project in service, and we continue to progress on our growth plan, driven by a strong development pipeline in both RNG conversions and large custom energy solutions projects.

With that, I'll turn it over to Dave to give you a financial update. Dave, over to you.

David Ruud {BIO 16089859 <GO>}

Thanks, Jerry, and good morning everyone. Let me start on slide 8, to review our first quarter financial results. Operating earnings for the quarter were $274 million. This translates into $1.33 per share. You can find a detailed breakdown of EPS by segment including our reconciliation to GAAP reported earnings in the appendix. I'll start the review at the top of the page with our utilities. DTE Electric earnings were $101 million for the quarter. This is $100 million lower than the first quarter of 2022.

The main driver of the earnings variance is a storm restoration expense that we experienced from the significant events that Jerry described. We were also impacted by warmer weather and we experienced lower sales relative to 2022 with the continuation of people returning to work. The sales were consistent with our forecast. We also had higher rate-based cost in the quarter and accelerated deferred tax amortization in 2022. This was all partially offset by the implementation of a one-time O&M cost reductions that we discussed on our year-end call. Moving on to DTE Gas, operating earnings were $171 million, $25 million lower than first quarter of 2022. The warm weather also had a significant impact on earnings at the Gas company resulting in a variance of $40 million quarter-over-quarter due to weather. The earnings decrease was also driven by higher rate-base costs and was partially offset by lower O&M expenses.

Let's move to DTE Vantage on the third row. Operating earnings were $27 million in the first quarter of 2023, this is a $13 million increase from the first quarter last year, primarily due to higher earnings from our renewables plants. On the next row, you can see Energy Trading finished the quarter with a $26 million loss. The first quarter result is consistent with the estimate we provided on the year-end call. As I mentioned then, this is primarily due to the contracts in our power physical business that included revenue-based on fixed prices over the term of the transaction and then these transactions are hedged upon execution.

The recognition of the fixed price revenue we receive for energy in these contracts does not vary month-to-month, while the recognized cost of energy is based on the energy curve, which is higher in January and February. This timing variance will unwind through the remainder of the year. We continue to feel confident about the performance in this segment this year. Finally, corporate and other was favorable $9 million quarter-over-quarter, primarily due to the timing of taxes, offset by higher interest expense. Overall, DTE earned $1.33 per share in the first quarter.

Let's turn to slide 9, to discuss our 2023 guidance. As you can see from the slide, we added a red arrow to show that DTE Electric is experiencing headwinds this year and green arrows to show that we are seeing incremental opportunity in the other business units. Given our strong portfolio of businesses, we have plans in place to achieve our total operating EPS guidance midpoint of $6.25 per share, which provides 7% growth from the 2022 original guidance midpoint.

I'll discuss the drivers for each business unit, starting with DTE Electric. The weather and storms from the first quarter are a headwind to our outlook at DTE Electric. We did have contingency for one standard deviation of weather and we do budget for a certain level of storm activity. Earnings were also supported by the one-time O&M reductions I described during our year end call. As I mentioned, we budget for storm restoration costs and weather variance for the year. The catastrophic storms we've experienced, combined with a warmer-than-normal weather have consumed the budgeted levels at the electric company for storm restoration and unfavorable weather.

For the remainder of the year, we're assuming historical averages for weather and storms. Offsetting the headwinds at DTE Electric are the stronger performance at DTE Gas, Vantage, and Energy Trading. DTE Gas was impacted by the warm weather as well, but we anticipate stronger earnings at this segment for the year given focused one-time initiatives, weather contingency and we're also seeing higher customer sales. For DTE Vantage we mentioned on the year end call, we'll likely see slightly stronger earnings in the back-half of the year as new already secured projects come online.

Additionally, the projected favorability of our projects are supporting stronger performance for this business unit. In Energy Trading, the timing variance experienced in the first quarter will unwind through the remainder of the year as we see favorability in our contracted highly hedged power portfolio that provides additional upside to this business. Overall, we have plans in place to achieve our 2023 guidance as we find opportunities across our portfolio to overcome the weather and storm impacts that we experienced in the first quarter and we remain well-positioned to achieve our long-term growth.

Let me wrap-up on slide 10 and then we will open the line for questions. In summary, through the remainder of the year, DTE will continue to focus our team, customers, communities, and investors. Although we experienced warmer-than-normal weather and severe storms in the first quarter, we are executing on our plan to achieve full-year guidance without jeopardizing safety and reliability. Our robust capital plan supports our strong long-term operating EPS growth as we execute on the critical investments that we need to make for our customers to deliver cleaner generation and increased reliability while focusing on customer affordability. Our near and long-term plan supports our 6% to 8% operating EPS growth rate through 2027, it provides a dividend growing in line with operating EPS.

With that, I thank you for joining us today. And we can open the line for questions.

Questions And Answers

Operator

Thank you, Dave and thank you to all our speakers for the presentation. (Operator Instructions). And your first question comes from the line of Durgesh Chopra from Evercore ISI. Your line is open.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey team. Good morning and thank you for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Hey, good morning, Jerry. Hey Dave, the weather EPS impact is very clearly broken out on the slides. Maybe just can you give us a sense of how much of a headwind storm expenses were this year in the first quarter.

A - David Ruud {BIO 16089859 <GO>}

Sure, yeah, like we said, we did see headwinds in our electric business from -- in the first quarter from both weather and storm and the storm is in there at -- it was $20 million. We also -- this storm was kind of heavy one, where it hit a lot of our wires, so it was a little heavier O&M. So after taxes around $70 million. But again, we see great opportunity in our other businesses through the year to kind of overcome those headwinds and again, all the cost reduction work that we've been doing and kind of focused reductions has really been coming through too. So, we've had these headwinds in the beginning of the year. We see great opportunity still to work through this and with normal weather and storm through the end of the year to be able to reach our guidance.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Got it. And then maybe just, can you comment on, I mean, you guys have pretty good at building up contingency and protecting your plan before the year begins. Can you comment on how much contingency you may have used up and sort of how much room you may have to flex as the year kind of progresses.

A - David Ruud {BIO 16089859 <GO>}

Yeah, the first quarter, the weather and storm we just talked about were pretty impactful. We came into the year with some challenges. So, through the end of the year, we need normal weather and storm along with some management actions to offset some of that, but we'll need normal weather and storm prevail[ph] to hit our guidance.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Perfect, that's very helpful. And maybe just one last one, can you sort of compare and contrast the weather normalized residential sales trends that you're showing on slide 13. How does that compare and contrast to your rate case filing. I mean, that's a pretty steep 4.5% decline quarter over last quarter on the residential sales front (inaudible) initially in the last rate case.

A - David Ruud {BIO 16089859 <GO>}

Yeah. Our sales we're forecasting or that has come in, they are in line with what we had in our budget and they are really close to what we had in the current rate case as well. We did see people returning to work a little quicker in the first quarter than we had expected, but we think that'll bounce off through the end of the year. So it is very consistent with what we saw, what is filed in this rate case and a little -- a little below what we had in our previous rate case events.

Q - Durgesh Chopra {BIO 20053859 <GO>}

Appreciate it guys. Thanks so much again.

Operator

Your next question comes from the line of Jeremy Tonet from J.P. Morgan. Your line is open.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Hi, good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Jeremy.

A - David Ruud {BIO 16089859 <GO>}

Hi, Jeremy.

Q - Jeremy Tonet {BIO 15946844 <GO>}

I just wanted to bring maybe a little bit of a finer point to the question on contingencies here, as you see the balance of the year, you talked about the midpoint is the target for the year for EPS, does that assume kind of you've exhausted contingencies across segments or are there still contingencies in place should something go adverse to plan.

A - David Ruud {BIO 16089859 <GO>}

Well, at our Electric business, we've worked through the contingency for that we have for weather and storm combined, so -- but within our other businesses, we are still seeing favorability that can continue to make up for that as we go through the year.

A - Jerry Norcia {BIO 15233490 <GO>}

The other thing we're seeing, Jeremy, as well as we initiated our continuous improvement efforts and cost reduction efforts, we are seeing some favorability there as well, which will also be helpful. And just to be clear for everybody on the line as we embarked on these cost reduction efforts, which most of them are one-time efforts to move through this year, we are investing at record levels in our distribution grid. This year we will invest about $1.5 billion in our grid. And also, we have not touched our tree trimming budgets, which both of those two combined are the most impactful things that we will do to make our grid more resilient and more reliable.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's helpful. So just to be clear there, outside of Electric, in the other segments there are still contingencies that could -- that are not in plan yet, that could be used should something move adverse to plan at this point.

A - David Ruud {BIO 16089859 <GO>}

Yeah. So, yeah, that's what we've signaled is that there's favorability within those businesses that they can offset other things.

Q - Jeremy Tonet {BIO 15946844 <GO>}

Got it. That's very helpful there. And then just kind of pivoting away, I guess, to the RNG business within Vantage, just wondering if you could talk a bit about how you see the opportunity set there, kind of you see higher competition. Just wondering how you think about returns in opportunities at this point.

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah, primarily our Investment opportunities in RNG are driven by assets that are already under our control, where we're converting existing landfills to produce RNG and so that's what we're seeing opportunities and those are still really nice returns, IRRs that are in sort of north of 10% and into the teens in some instances, unlevered, after tax. So, those feel real good to us. We're also seeing a resurgence in our energy solutions area where we're -- a lot of the sort of repatriation of industrial activity in the United States has given us opportunity to look at incremental investments with some of our large industrial partners. So we're also excited about that line of business.

Q - Jeremy Tonet {BIO 15946844 <GO>}

That's very helpful. I'll leave it there. Thank you.

Operator

Your next question comes from the line of David Arcaro from Morgan Stanley. Your line is open.

Q - David Arcaro {BIO 20757284 <GO>}

Good morning, thanks so much for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

A - David Ruud {BIO 16089859 <GO>}

Hi, David.

Q - David Arcaro {BIO 20757284 <GO>}

I wanted to see just if there's any appetite from your end or just with the State to pursue decoupling going forward, either through a rate case or just overall as a strict strategy or regulatory structure that would be appealing?

A - Jerry Norcia {BIO 15233490 <GO>}

You know, traditionally in our area, even in the Midwest, that's not been a practice that's been widely adopted or endorsed. So I -- we don't see that as a high probability outcome. We have not asked for, because it's not something that there seems to be appetite for at this point in time.

Q - David Arcaro {BIO 20757284 <GO>}

Got it, understood. You know, I was thinking -- I was curious to your view on as you pursue one-time savings initiatives this year, the one-time you obviously get them reversing going forward. Are you thinking about 2024, is there a certain kind of level of headwind or natural offset into 2024, such that there's any risk going forward if you dig too deep on the one-time cuts this year.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, certainly the one-time reductions will be reversed and just to be clear, again, these one-time reductions are not areas that would have significant impact on reliability and certainly not safety. And we will look through our continuous improvement initiatives to see how much of that can stick, obviously that's something that we're always looking for to make our operations more efficient through our continuous improvement initiatives and as you know, anytime you embark on one of these initiatives, you do find opportunity. So we'll try to make some of those continuous improvement initiatives stick, but many of them will be, if at all will be reversed.

Q - David Arcaro {BIO 20757284 <GO>}

Yeah. Got it, understood. And I was wondering, how are you thinking kind of strategically about how to manage the more extreme weather that you've been facing in Michigan. I'm wondering if you've obviously laid out a number of CapEx pursuits in O&M targeting, is this something that you could bring as kind of a separate initiative to the Commission, whether it's some kind of undergrounding plan or just weather resiliency types the plan or would you expect it to go through the more traditional rate case process over time.

A - Jerry Norcia {BIO 15233490 <GO>}

We have two processes and that's a great question. One is we do have to update our distribution grid plan for the Commission this year and we're in the process of doing that and as you said we really have several realities facing our grid investments. One is, what used to be historic storms that happened every 50 years or every 100 years have now become more frequent and seemed to be happening every three to five years. So that's one reality.

The second reality is that we've got significant demand growth opportunity that we're facing with the electrification of the transportation fleet and we're also seeing, what I would call, high levels of economic development in our state, especially as the auto industry starts to retool and rebuild to build electric vehicles. So, when we think about all of that and we think about our five-year plan and 10 and 15-year plans going forward, several things really come out.

One is our five-year plan right now is projecting approximately $9 billion of investment going into the grid. And there's really three fundamental areas. One is continued grid hardening. Also, the full rebuild of our lower voltage system, our 4.8 kV system, we have approximately 16,000 miles of 4.8 kV system in our grid and that will need to be rebuilt. It is the oldest part of our grid and the need for rebuild is driven by several things, one is age and the need to modernize, but secondly also the ability to accommodate incremental demand due to electrification of the transportation sector as well as the economic development activity that we're seeing. So that's number two.

Number three, we were pursuing full automation over this period of rebuild, 15 to 20 years, but with the reality of the new storm activity that we're seeing on a more frequent basis, we want to accelerate that at the five to six years, which is the full automation of our grid. What that will do is it fundamentally move the duration of outages and that's where we need to make the most improvement in our grid in the near-term.

And, of course, the level of investment that we're making in tree trim for five years through seven-year very aggressive tree trimming program where over the last five years, we've invested $800 million in tree trim and we'll continue at that pace for a few more years and then we'll return to a more normal pace of aggressive tree trimming once we've sort of remove the backlog, if you will. So those are the fundamental things that you'll see in our distribution grid plan and then obviously as we get support and endorsement for that, that will formulate the basis of our rate cases going forward.

So it's a very good process here in Michigan, where we attempt to get alignment around our distribution -- distribution grid plan and then we -- each year, we take out a piece of that plan, if you will, in our rate cases.

Q - David Arcaro {BIO 20757284 <GO>}

Yeah, okay, great. Thanks so much for all the color.

Operator

(Operator Instructions). And your next question comes from the line of Michael Sullivan from Wolfe Research. Your line is open.

Q - Michael Sullivan {BIO 20455557 <GO>}

Hey guys, good morning.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Michael.

A - David Ruud {BIO 16089859 <GO>}

Good morning, Michael.

Q - Michael Sullivan {BIO 20455557 <GO>}

Hey, Jerry. So maybe just picking up on that last one, is there any way some of the things you're thinking about on the liability spend can be factored into the currently pending electric rate case or do you kind of have to wait until this distribution grid plan gets filed and then falls then into future cases.

A - Jerry Norcia {BIO 15233490 <GO>}

Some of the -- certainly the grid hardening is already in our plan in this current rate case. The tree trimming is in our current rate case and that's in front of the commission. The beginning of a 4.8 kV rebuild is in -- is in our rate case and actually as part of the infrastructure renewal mechanism or the tracker that we're proposing that we feel there is strong support for, is to start attracting capital investments for this rebuild and the full automation, the acceleration of that is not in our current rate case, but we're going to start anyway. We think this is so fundamental, that we're happy to start this investment and pull-forward this investment and there may be some regulatory lag with that but it won't be significant.

And the other thing that I wanted to mention, Michael, this 4.8 kV rebuild, we're going to get really aggressive trying to understand how much of this we can put underground. You know, we've got -- the way I look at it is we're going to rebuild 16,000 miles of grid, the older portions of our grid and we should attempt to put as much of that underground as possible as economically feasible and that's something we're going to start experimenting with. We have several pilots that are in this current rate case, that we're hopeful that the Commission will approve and that will start to get our feet wet and I have actually met with the Mayor of Detroit, Mike Dugan. Him and I talked about how we start that in Detroit and really start to experiment with that as he replaces watermain and we replace gas pipe and we try to attempt to create some synergies here with infrastructure renewables[ph] in the City of Detroit.

Q - Michael Sullivan {BIO 20455557 <GO>}

Okay, that's really helpful and Maybe just like with all this incremental spend, how we should just be thinking about the CapEx budget and customer rate impacts. Are there other things that get shifted out or do you see incremental headroom to absorb some of this additional spend on the grid.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, we've got $9 billion in our five-year plan and this year we will invest $1.5 billion in the grid, and we feel that to accelerate -- the piece that will get accelerated here fundamentally is automation. We're going to try to find that opportunity inside the $9 billion by becoming more efficient with our capital deployment, but we'll update -- we may also have to increase it modestly over the next five years, but we'll update that likely in November at EA[ph].

Q - Michael Sullivan {BIO 20455557 <GO>}

Okay, great. And then last thing, I just wanted to circle back to the quarter results and the guide. So, I guess, just to confirm, if we do get more storms or mild weather at the electric business over the summer, how much more can be absorbed there or should we think about that as it starts to become too much to offset.

A - Jerry Norcia {BIO 15233490 <GO>}

Well. We have storm budget left, obviously, as we try to move forward in our plan here for the summer. We have assumed normal weather. If we get cooler than normal weather, it will put pressure on the plan, and we'll have to look for other opportunities, but Dave, do you want to add any color to that.

A - David Ruud {BIO 16089859 <GO>}

I think that's right. We are looking -- if we have normal storm and normal weather, we're in a good place to hit our guidance, but again, we'd have to find some more offsets if things are outside of the normal.

Q - Michael Sullivan {BIO 20455557 <GO>}

Okay, thanks very much.

Operator

Your next question comes from the line of Andrew Weisel from Scotiabank. Your line is open.

Q - Andrew Weisel {BIO 15194095 <GO>}

Thank you, good morning everyone.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Andrew.

A - David Ruud {BIO 16089859 <GO>}

Good morning, Andrew.

Q - Andrew Weisel {BIO 15194095 <GO>}

First question on the reliability spending in automation in particular. Should we expect structural day-to-day O&M savings from these investments. I think the primary goal is to reduce outages, but would these come with (inaudible) customer pressure.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes, it's a great question. You know, as you think about automation, just to describe it quickly, you know, you have a interruption caused by tree falling on a wire and taken wires out between two poles for example and what automation gives you the opportunity to do is to isolate that outage and restore customers on both sides of that outage. So, instead of having a 1,000 customers waiting 24 - 48 hours for restoration, you can reduce that impact, perhaps to 100 or 150 customers waiting until that damage is repaired.

So, that's one, makes the restoration faster. So, it starts to kill duration, if you will, of outages, which is where we need to make the most improvement to be best-in-class, if you will, in the industry. And then secondly, Andrew, in terms of efficiencies, it points you to the location of the outage. So that you can properly go there more quickly, like right now we have to patrol the circuit and look for the outage and that could be in the middle of the night, which consumes hours. And that just means it's more hours that people are controlling, more costs of restoration, so it make the restoration efforts more efficient and lower cost.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay, great. Then the follow-up to that one is you mentioned a few different buckets of reliability spending, in terms of dollars and potential impacts, where do you see the most opportunity or the most value.

A - Jerry Norcia {BIO 15233490 <GO>}

The most significant investment will really be in two areas and I believe the first -- the top one would be the 4.8 kV rebuild and 16,000 miles of rebuild over the next 15 years to 20 years will be the most significant investment we've ever made in our grid. This is a portion of the grid that was built anywhere from the 40s to the early 60s, if you will. And secondly is the grid hardening. We've got 46,000 miles of total circuit miles and 16,000 is the 4.8 kV and perhaps another 15,000 to 16,000 is 13.2 kV system, which is a newer system and newer meaning it was built in early 70s and into the modern times here.

We need to make sure that that's hardened because some of that equipment is getting older as well. So, we need to replace old (inaudible) pole top equipment, wires, transformers, so on and so forth and automate that. Those are going to be the two major buckets of investment in the grid, but the automation will also be a significant investment, but it won't be as big as the rebuild and hardening that we need to do.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay, that's really helpful and just one last one, if I may. Deferred fuel balances, can you talk about where that stands versus year end levels.

A - David Ruud {BIO 16089859 <GO>}

Yeah, on our PSCR we are collecting some this year, we were down -- we were about $400 million cash last year that we're going be collecting this year and over the next year. And then our GCR has come way down, our gas balances has come way down in price. So that was at around $5 last year, and it's now come down into like $3 without a balance there.

Q - Andrew Weisel {BIO 15194095 <GO>}

All right, thank you so much.

Operator

Your next question comes from the line of Alex Mortimer from Mizuho. Your line is open.

Q - Alex Mortimer

Hi, good morning, and thanks for the time.

A - David Ruud {BIO 16089859 <GO>}

Hey, Alex.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Alex Mortimer

Good morning. I was hoping you could provide some color on kind of how the O&M cuts -- the one time O&M cuts are going thus far, I believe you said on the 4Q call that you had about $120 million of cuts. So, any clarity on where you stand within that number as things stand today given the challenging weather and storm activity from Q1.

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah, it's a good question. We came into the year with a challenge and went through our normal process of how we would go about that and setting -- setting some good targets and budgets for our teams and we are well on our way to achieving that. In fact, we are over-achieving a little bit as we've started the year. And again these are -- we have taken advantage of attrition, reduced some of our contractor workforce limit over time and then shifted some of our less time critical work.

So, it's really going very well for us. We're hitting our numbers. Again, we're not doing anything that impacts our customers, impacts our reliability. In fact, we're continuing to invest a lot in everything we need to do to improve and help reliability, but across our business, we're seeing these reductions like really take hold.

Q - Alex Mortimer

Okay, I understood, and then 120 is to hit the midpoint of guidance, correct.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes, that was putting us on target to hit the midpoint.

Q - Alex Mortimer

Okay, thank you. And then just kind of quickly flipping to the rate case side, it seems like the two big issues in the last electric rate case were kind of a lack of precedent for your forecasting methodology and then a lack of extensive back testing. It looks like you've revised your forecasting methodology slightly in this new case, I mean, the direction it seems more aligned with what you've traditionally used in the past. But if you could provide any color on how you believe you've addressed Commission intervene on concerns sort of as you work through this current case would be appreciated.

A - David Ruud {BIO 16089859 <GO>}

Yeah, particularly on sales forecasting and what we had in the last rate case, we are actually seeing the sales come in kind similarly to what we had forecasted. In fact, a little below that. The methodology change you're talking about is we are using some Google mobility data that would help us to -- help us determine the percentage of people coming back to work, that's not available anymore. So we use the (inaudible) data which from Castle[ph], and it's really just as accurate or more accurate.

But, I would say about our forecasting, we're doing a good job, we're right on with what we submitted in the rate case, but there's also a lot less variability in how this forecasting will be done now, because we are kind of working through this return to work, and so we don't really expect there to be the big variations in forecast across groups as we go through this next rate case.

Q - Alex Mortimer

Understood. Yeah, definitely coming out of the challenging time makes it more straightforward, I imagine. And then just finally on the rate case front with Commissioner Phillips leaving the MPUC in the coming months. Can you give any clarity on what the process looks like if one of the Commissioners leave, sort of, halfway through your case, is his replacement get to rule on this current case or sort of how we should think about this development playing out.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes, what will happen is that the governor and her staff will appoint a new Commissioner to replace Commissioner Philips, and of course we wish Commissioner Philips all the best in his future endeavors. So, that's what will happen. If one is not appointed, two can rule on a rate case and the IRP that is in front of the commission for our Company and I guess the last question you had, yes, the new Commissioner will have the opportunity to weigh in depending on timing, of course, if its late in the process of one or both proceedings and typically they may not choose to participate, but if they have enough time to spend with the case, then they typically do rule on it.

Q - Alex Mortimer

Okay, thanks so much. That's all from me and congrats again on the quarter.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question comes from the line of Ross Fowler from UBS. Your line is open.

Q - Ross Fowler {BIO 16864050 <GO>}

Good morning. Just...

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Ross.

Q - Ross Fowler {BIO 16864050 <GO>}

Good morning. So, Jerry, you've talked about sort of these one-time O&M cuts this year to get back and arrange and mitigate some of those storms. Obviously, Jerry, you talked about reviewing that as you move forward to what's -- what's permanent and what sticks and what sort of one-time as you work through all of it. I think you're going to have to have that conversation with the Commission as well. Just maybe give us some color and context as we look forward into that conversation of how that conversation has gone in the past, right, there's going to be a debate about what's one-time and what's more permanent.

A - Jerry Norcia {BIO 15233490 <GO>}

Absolutely and those conversations are happening and also are continuing to happen with the staff at the Commission to create understanding as to what's one-time and what's permanent. So, I think it's a work-in-progress, Ross, with the Commission staff and ultimately, there'll be a decision, hopefully a settlement here that addresses not only O&M, but also the other features of our capital investment plans and our capital structure and returns and so on and so forth. But we hopeful that we will have settlement in this case, and we'll work really hard to make that happen and we're actually encouraged by what's happening in the IRP. We seemed to be progressing conversations there. So we're going to take the same approach with the rate case.

Q - Ross Fowler {BIO 16864050 <GO>}

Thanks. And excuse me, following-up on sort of Commissioner Philips, I know every time this happens, it's a little bit different, but is there a general like average time it's taken to replace a Commissioner when this has happened in the past or should we not look at that as a guide post for looking at this individual process.

A - Jerry Norcia {BIO 15233490 <GO>}

I know the process is underway and is already my understanding, obviously we're not on the inside of this, but my understanding is that there is already a list of candidates that are being considered. And so we're encouraged by that, that the Governor's office is moving quickly on this. So, I would expect in several months that we would have a new Commissioner unless there is difficulty that's encountered and finding the right candidate and I think they're being -- my understanding is that they're being really as they always are selective about who they put on a commission.

In light of the fact that this is a historic time for utilities in Michigan, in terms of investment and really rebuilding the way we deliver energy and also the way we produce energy. So it's really historic time in terms of transitioning the State through a much cleaner and more reliable future.

Q - Ross Fowler {BIO 16864050 <GO>}

Yeah, that's great color, Jerry. Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

There are no further questions at this time, I'd like to turn the call back over to Jerry for closing remarks.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you. Well, thank you everyone for joining us today. I'll just close by saying, I'm excited about the opportunities that we have ahead of us to further strengthen our electric grid. And prepare for increased demand for electrification of our system as well as really transforming the way we produce power, the way we deliver gas. We are in a historic period at DTE and in our State. So, we will also continue executing our plan, achieve our goals in 2023 and remain well-positioned for future growth. I hope everybody has a great morning and I look forward to seeing all of you AGA in a few weeks. Thank you.

Operator

This now concludes today's conference call. Enjoy your day. You may now disconnect.