Q3 2021 Earnings Call

Company Participants

- Barbara Tuckfield, Investor Relations
- Dave Ruud, Senior Vice President and Chief Financial Officer.
- Jerry Norcia, President And Chief Executive Officer

Other Participants

- Andrew Weisel, Scotiabank
- Anthony Crowdell, Mizuho
- Insoo Kim, Goldman Sachs
- Jonathan Arnold, Vertical Research Partners
- Julien Dumoulin-Smith, Bank of America
- Ryan, Analyst, JPMorgan
- Ryan Levine, Citigroup
- Shar Pourreza, Guggenheim Partners
- Travis Miller, Morning Star

Presentation

Operator

Good morning. My name is Brent and I will be your conference operator today. At this time, I would like to welcome everyone to the DTE Energy Third Quarter 2021 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. (Operator Instructions). Thank you. Barbara Tuckfield, you may begin your call.

Barbara Tuckfield {BIO 19701481 <GO>}

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

Well thanks Barbara, and good morning everyone, and thanks for joining us. I have a lot of positive updates to share with you today. I'll be giving you an update on our 2021 performance and an overview of our long-term plan. Dave will then provide details on our financials. Then, we'll take your questions.

So let's start on slide four. On the second quarter call, I said that we were having a strong start to the year and with three quarters of 2021 behind us, that description is still on the mark as we continue to deliver for our team, customers, communities and investors. This progress in 2021 positions us well for our future growth.

DTE continues to be recognized for our engagement by Gallup with our ninth consecutive Great Workplace Award. In addition, we remain committed to our focus on diversity, equity, and inclusion.

Switching over to our customers, as you know, our service territory experienced some major storms. This summer, we had 12 storms with 5 having over 1,000 outages. It is something we have never seen in DTE's history. I would like to thank our entire team for really responding in incredible ways to these historic events. Our crews worked countless hours to restore power to our customers, and for that I am very grateful. We understand how important it is to provide reliable power and are committed to making continuous improvements as part of our service excellence efforts for our customers now and into the future.

We have accelerated our efforts in the most impacted communities including Wayne, Oakland, and Washtenaw counties. In an effort to accelerate our preventive maintenance, we are increasing our Tree Trimming workforce from 1,200 to almost 1,500 people, and our overhead line workforce from 850 to over a 1,000. We made the decision to invest an additional $70 million in our Tree Trimming Program from 2021 to 2023, as over 2/3 of our outages are tree related. Additionally, we have been making significant investments and increasing our focus on Grid reliability. We are advancing our efforts to get trees off the wires and deliver clean, safe and reliable energy; all while focusing on service excellence for our customers.

We filed the Distribution Grid Plan with the Michigan Public Service Commission in September. The Plan addresses the long-term investment strategy that prepares our grid for the eventual electrification of transportation, and addresses the increasingly severe weather patterns that we have seen in our service territory.

Moving on to our communities, we are continuing our commitment to provide cleaner, more reliable energy. We have partnered with Washtenaw County to build our first MIGreenPower community solar project. The 20-megawatt facility will be the largest of its kind in the area.

On the investor front, we continue to have a strong financial year and are well positioned to deliver growth. As you will see in our 2022 outlook and our 5-year plan, we are on track to deliver 5% to 7% EPS growth through 2026 and dividend growth in line with our EPS growth.

Now let's turn to slide five. 2021 is shaping up to be a very successful year. We are raising the midpoint of our operating EPS guidance from $5.77 to $5.84 per share. This is 14% growth in EPS from our original 2020 guidance. And I feel very confident that you'll see a final 2021 number that is at the higher end of our new operating EPS guidance range. I am proud that we're able to deliver these results while we continue to keep our electric base rates flat throughout most of 2022. We have not increased our electric base rates since May of 2020, and we don't plan to file our next electric rate case until early next year.

For 2022, we're providing an operating EPS early outlook range of $5.70 to $5.97 per share. Even with the area -- earnings rolling off at the end of this year, we continue to deliver 6% growth from the 2021 original guidance midpoint. We will work towards hitting the higher end of that range as we have done in the past.

Today, we are also announcing a 7% increase for 2022 annualized dividend in line for the top end of our operating EPS growth target. As I mentioned on the last quarter call, we retired River Rouge Power Plant this year and plan to retire Trenton Channel and St. Clair power plants in 2022. This is nearly 2000-megawatts of coal retirements or 30% of our coal generation fleet. In this quarter, we made another significant step toward our goal of reducing carbon emissions. We announced that we'll be ceasing coal use of Belle River by 2028, 2 years earlier than originally planned. And preparing also to file an updated integrated resource plan in the fall of 2022, almost one year earlier than planned. We look forward to working with all stakeholders to address ways to further accelerate decarbonization while always maintaining affordability and reliability for our customers. In order to ensure we continue to have clean, reliable and affordable power for our customers, we have built or contracted for 2500-megawatts of wind and solar energy, or just1200-megawatts of natural gas, Peaker plants and expect our new state-of-the-art 1100-megawatt combined cycle gas turbine plant be up and running in 2022, to coincide with our coal retirements.

Now moving over to non-utility side, we are renaming our Power and Industrial segment to DTE Vantage. To our unique vantage point, we are helping customers transform the way their energy is produced and managed to be substantially cleaner and more efficient. The name DTE Vantage better reflects our position in bringing innovative cleaner energy solutions to our customers.

Now let's turn to slide six to review our 5-year capital plan. Over the 5-year plan, our utilities continue to focus on our infrastructure investment agenda, especially investments in cleaner generation and investments to improve reliability and the customer experience. Our updated 5-year utility plan is $18 billion, which is $1 billion higher than the prior plan. Over 90% of our 5-year investment plan will be at our 2 utilities. The investments in our non-utility business are strategically focused on our customers needs, and aligns with our aggressive ESG initiatives. Overall, we have a robust total investment agenda of $19.5 billion over the next 5 years. And as always, we continue to look for ways to bring more capital into the plan to advance our Clean Vision Plan and further improve reliability for our customers, while maintaining affordability.

Now let's turn to slide seven. At DTE Electric, we announced our plan to accelerate decarbonization by ceasing coal use at the Belle River Power Plant by 2028, reducing carbon emissions by 50%, 2 years earlier than originally planned. This is another step toward our goal of net zero carbon emissions. Additionally, we expect to file our Integrated Resource Plan in the fall of 2022, one year earlier than planned by making this important generation (Technical Difficulty) communities we serve. The $1 billion increase in our DTE Electric 5-year plan is driven by distribution infrastructure investments, preparing our grid for electrification, and hardening initiatives; and increased cleaner energy investment due to our voluntary renewable program, which is still exceeding our high expectations.

This quarter, we have partnered with Washtenaw County to build our first MIGreenPower solar project. Overall, the MIGreenPower program, which is one the largest in the nation continues to grow at an impressive rate. So far, we have reached over 950MW of voluntary renewable commitments with large business customers and over 40,000 residential customers. We have an additional 400MW in advanced stages of discussion with future customers. For our Distribution Infrastructure renewal, we are supporting electrification and load growth with infrastructure redesign, improving circuit reliability and reducing restoration times with system hardening and enabling a smarter grid with advanced technology and automation. This $15 billion dollar investment over the next 5 years supports our long-term operating earnings growth of 7% to 8% at the electric company.

Now let's discuss the opportunities at our gas utility on slide eight. At DTE Gas, we are on track to achieve net zero greenhouse gas emissions by 2050. Earlier this year, (Technical Difficulty) we announced our new Natural Gas Balance program. This program provides the opportunity for customers to purchase both carbon offsets and renewable natural gas to enable them to offset up to 100% of the carbon from their natural gas usage. We are proud of how fast this program is growing. Earlier, we have over 4,000 customers subscribed, and we look forward to seeing it become as successful as our voluntary renewable program at DTE Electric. Overall at DTE Gas, we are planning on investing $3 billion over the next 5 years upgrade and replace aging infrastructure with potential upside to the plan of $500 million. Along with our pipeline integrity and main replacement investments, we are investing in innovative technology and products that will reduce methane emissions and the (inaudible) gas.

Now let's turn to slide nine. As I mentioned earlier, we renamed our P&I business to DTE Vantage. We are planning on investing between $1 to $1.5 billion at this segment over the next 5 years. We are targeting operating earnings of $85 million to $95 million in 2022, growing to $160 million to $170 million in 2026 with approximately 80% of the operating earnings in this business, coming from decarbonization related projects. As the REF business sunsets at the end of this year, we continue to see additional opportunities in renewable natural gas and industrial energy services. Earlier this year, we told you about a new RNG project in South Dakota, which is now under construction and slated to start up within the second quarter of next year.

We commenced construction on another Wisconsin RNG project in the third quarter and entered into an agreement for an additional RNG project, which will be our first project in New York. In aggregate, these 3 projects will serve the vehicle fuel market producing over 5,000 million BTUs of RNG per year with 100% of the production offtake contracted long term. There has been strong RNG market growth supported by the federal renewable fuel standard in California's low carbon fuel standard. We are uniquely positioned to capitalize on our growing preference for efficient energy. With the opportunity to implement coal generation systems, especially as manufacturing plants continue to open up nationwide. This also puts us in a very good position to explore additional decarbonization opportunities including carbon capture and storage. And with that, I'll turn it over to Dave to give you a financial update. Dave, over to you.

Dave Ruud {BIO 16089859 <GO>}

Thanks Jerry, and good morning everyone. Let me start on slide ten to review our third quarter financial results. Total operating earnings for the quarter was $334 million, this translates into $1.72 per share. You can find a detailed breakdown on our 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 $342 million for the quarter. This was lower than the third quarter of 2020, primarily due to cooler weather in 2021 and higher storm costs partially offset by higher commercial sales. Moving on to DTE Gas, operating earnings were $10 million lower than the third quarter last year. The earnings decrease was driven primarily by higher O&M expenses and rate base growth costs, partially offset by the rate implementation.

Let's keep moving down the page to the DTE Vantage on the third row. Operating earnings were $73 million, this was $26 million higher than the third quarter of 2020, driven primarily by our REF earnings and new RNG projects. On the next row, you can see Energy Trading, had another solid quarter with operating earnings relatively flat quarter-over-quarter. Finally, Corporate and Other was unfavorable $39 million quarter-over-quarter. There are couple of main drivers for this variance (Technical Difficulty). The largest driver is the timing of taxes, which will reverse in the fourth quarter. We also had a one-time tax item threw up subsequent to the spin of DTE Midstream.

As we look forward to the balance of the year, the tax timing adjustments for the first three quarters will result approximately a $50 million favorable reversal in the fourth quarter. So our full-year 2021 results in Corporate and Others is expected to fall within our guidance for that segment. Overall, DTE earned a $1.72 per share from continuing operations in the third quarter of 2021. This represents a very strong third quarter and our year-to-date results put us in a great position for the year.

Let's turn to slide 11. As Jerry mentioned, we are raising the midpoint of our operating EPS guidance range for 2021 is $5.70 to $5.98 per share. And with strong year-to-date performance, we expect our full year operating EPS to be biased towards the higher end of this range. This bias to the higher end also reflects the additional investment in reliability as we are investing $70 million to combat extreme weather related power outages, with no impact to our customer bills. Additionally, we've contemplated some further invest opportunities in our businesses during 2021, which positions DTE well for success in future years.

Let's move on to slide 12 to discuss our 2022 outlook. We are continuing strong 5% to 7% long-term operating EPS growth through some significant milestones. We are converting $1.3 billion of mandatory equity in 22 and the REF business will sunset at the end of 2021. Through this, we will see achieve 6% growth from 2021 original guidance. Our 2022 operating EPS early outlook midpoint is $5.84 per share (Technical Difficulty) and we will work toward hitting the higher end of our range of $5.70 to $5.97 per share.

In 2022 at DTE Electric growth (Technical Difficulty) will be driven by distribution and cleaner generation investments. DTE Gas will see continued customer focused investments in main renewable and other infrastructure improvements and support our capital plan. As we discussed, 2021 is the final year of earnings for our Reduced Emissions Fuels business at DTE

Vantage, approximately $90 million of REF earnings net of associated costs rolls off at the end of the year. This is offset by new project earnings in 2022. 2022 earnings at this segment are largely driven by continued RNG and Industrial Energy Services projects that will serve as a base for growth going forward. The Corporate and Other, the biggest driver in our year-over-year improvement is lower interest expense. This is a result of leveraging earnings and cash strength in 2021 to opportunistically re-market some higher priced debt. This will provide interest savings in 2022 and future years.

Let's turn to slide 13 to discuss our balance sheet and equity issuance plan and wrap up before taking your questions. We continue to focus on maintaining solid balance sheet metrics. Due to our strong cash flows, DTE has minimal equity issuances in our plan beyond the convertible (Technical Difficulty). We have a strong investment-grade credit rating and targeted an FFO to debt to 16%. Additionally, we are increasing our 2022 dividend by 7% to $3.54 per share.

In the third quarter, we completed our liability management plan following the spin of our midstream business. Using the funds raised from DTM's debt issuance, we repurchased a little over $2.6 billion of corporate debt and incurred approximately $400 million of debt breakage fees associated with the early retirement of this debt. And since this debt was allocated to the midstream business in our previous financial statements, you won't see a large decrease in the debt level at Corporate and Other. This liability management plan is NPV positive, EPS accretive, and further supports our long-term growth.

So in summary, we feel great about our success so far this year and are confident in our achieving our increased 2021 guidance. 2022 is looking good with 6% EPS growth from 2021 original guidance and our increased 5-year capital plan supports our 5% to 7% long-term growth while delivering cleaner generation and increased reliability for our customers.

DTE continues to be well positioned to deliver the premium total shareholder returns that our investors have come to expect over the past decade with strong utility growth and a dividend growing in line with EPS.

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

Questions And Answers

Operator

(Operator Instructions). Your first question comes from Shar Pourreza with Guggenheim Partners. Your line is open.

Q - Shar Pourreza

Hey, good morning guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Shar.

Q - Shar Pourreza

Just on the CapEx plan. How are you currently looking at the generation spending and plan, I mean you announced Belle River, would cease coal operations ahead of schedule. So they're sort of incremental spending opportunities for generation, especially in light of the IRP filing. Any kind of specific constructs that you may be looking for Jerry? We've seen some more aggressive proposals from your Michigan peer and I guess I'm asking can you get out of all coal by the 2030-'35 time frame? and do you sort of, is there an opportunity to provide an early look into the IRP at EI at the next year's filing? So a couple of embedded questions.

A - Jerry Norcia {BIO 15233490 <GO>}

Shar, as you've seen, we've accelerated the Belle River Power Plant conversion from coal to other fuel sources like natural gas or RNG and to potentially hydrogen. So that's certainly in the works by 2028. As you mentioned, we're going to file an IRP in the fall of next year and we're going to really use the next year to get a lot of feedback (Technical Difficulty) know that Monroe Coal Plant is slated to retire in 2040, but we are looking at many scenarios to pull that forward, Shar. So that will be become much more transparent when we file the IRP, the details of exactly how we're going to do that and also replace that baseload generation that's over 3,000MW of baseload generation. So we're going to have to think through very carefully how do we maintain reliability and affordability and get good feedback from our stakeholders. So what you see in the current (Technical Difficulty) 5-year outlook is an increase of about $1 billion in cleaner generation and that's really driven primarily by our investments in voluntary renewables as well as some investments that we have at our pumped hydro facility, and a small hydrogen pilot perhaps at our Blue Water Energy Center.

Q - Shar Pourreza

Got it. And then Jerry, just a question on '21 guidance and sort of how you're planning to offset some of the storm and other headwinds from 3Q that were not in plan, right. What sorts of kind of maybe discretionary spending flex do you have, and does that kind of defer anything into '22? And so I guess I'm asking about contingency and flex and if you're using any of that ahead of '22.

A - Jerry Norcia {BIO 15233490 <GO>}

We're going to deliver 2021, all of those storm costs are already reflected in our results and in our current guidance for 2021. So I can tell you I'm extremely confident of delivering 2021 and as we, Dave and I mentioned in our speaker description that we'll likely deliver at the high end of that. So we're feeling really strong about 21. I have no concerns about delivering 2021, and 2022 just to speak about that for a moment. As usual, we spent all of the year building levels contingency to ensure the delivery of 2022. (Technical Difficulty) And as you've seen in the past, if we don't consume that contingency, then we will trend towards the higher end of guidance. So again, '21 is locked in and we are trending towards the higher end of that guidance and '22 is feeling really good and really strong at this point in time. Whereas as a matter of fact, we're busy working on '23 to build a strong plan for 2023.

Q - Shar Pourreza

Perfect. That's what I was trying to get at. And just lastly from me on the energy trading side; obviously, we're seeing a step run on commodities right and gas is now little over $6 for the winter. How is, I guess, so how is the portfolio positioned in terms of volatility with the Gas and are there any kind of risks to counterparties we saw with Texas this year or conversely, is there a kind of an opportunity to exceed there??

A - Jerry Norcia {BIO 15233490 <GO>}

We, our portfolio is slightly long as it relates to natural gas, Shar. So if anything, there is bias for upside as commodity prices in the gas business have gone up. So I would say, certainly biased for some level of upside.

Q - Shar Pourreza

Perfect. Congrats guys on the results and execution. Thank you.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question comes from the line of Jeremy Tonet with JP Morgan. Your line is open.

Q - Ryan {BIO 16417954 <GO>}

Hi, good morning. It's actually Ryan on for Jeremy. Just kind of wanted

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning.

Q - Ryan {BIO 16417954 <GO>}

Good morning. Wanted to start on the DTE Vantage and that $160 million, $170 million you laid out in 2026. Just wondered if you could kind of talk through the line of sight, you have to that number. And I know you have been very successful with the RNG projects and that has been trending well, but thinking through the carbon capture side, how much of growth capital you think you could deploy there in the near term and how much kind of current legislative environment would the 45Q support that or how much you might need support on that side to make those projects kind of more economic?

A - Dave Ruud {BIO 16089859 <GO>}

So I'll start by saying that the way we get through our guidance 5-year guidance for DTE Vantage's, we continue to deliver $15 million of net income growth per year, and that's really underpinned by us being very selective about what RNG projects we do and what cogeneration projects we do. Those are two major business lines. So just to give you a feel for it, we'll complete construction of the Dakota Plants project in 2022 and then we've got Wisconsin project that will go in service in 2022 as well. And we got a third one in New York that will likely be placed into service in '22 or early '23. And in addition, we have the Co-Gen Facility that goes online in 2022. All of that builds for our growth into 2023 and beyond as well as we've got a handful of really strong opportunities in the pipeline in the Energy space and co-gen space that we'll keep up marching along, again $15 million in your net income is something that we feel is reasonable to achieve each and every year; and that's how we got through our $90 million for 2022 by not knocking off $15 million a year for 5 years. So we're just going to continue on that trend and deliver for you all.

Q - Ryan {BIO 16417954 <GO>}

Got it. And that makes sense. And then just --

A - Dave Ruud {BIO 16089859 <GO>}

Yes, I was going to speak to carbon capture. That's early for us. The 45Q is very good, but the low carbon fuel standard in California makes it even more interesting. So we are looking at potential carbon capture opportunities. But I'd tell you, it's extremely early at this point in time, but (Technical Difficulty) we'll continue to update you as we make progress in that arena.

Q - Ryan {BIO 16417954 <GO>}

Got it, that will make sense. I just want to follow up a little bit on the electric cutbacks and kind of thinking through the voluntary renewables and you said 950MW and another 400 is kind of in advanced negotiations. How should we be thinking about like what is kind of currently embedded in the current capital plan and then how much is going to (Technical Difficulty) program?

A - Dave Ruud {BIO 16089859 <GO>}

Well, the 40 megawatt will go way to filling up the $3 billion we've got in our 5-year plan. So that gives us great confidence that we'll deliver on the $3 billion of clean generation that you will see on slide seven and is there upside, yes, potentially. You know every year, we continue to update that line item in cleaner generation as we think about coal retirements and as we think about increased voluntary renewables. All of that points towards future growth in our investments in cleaner generation.

Q - Ryan {BIO 16417954 <GO>}

Sounds good. I'll leave it there. Thanks for taking my question.

Operator

Your next question comes from the line of Julien Dumoulin-Smith with Bank of America. Your line is open.

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

Hey, good morning. Team. Thank you so much for the opportunity. Well done on around here. Hey absolutely pleasure, indeed. A quick question here. I know you guys are talking about planning already all the way up to '23. So how are you thinking about just responding to the storms from this last summer. Obviously, resiliency and reliability are of paramount importance. I mean are there incremental capital opportunities here? I mean, we've heard some of your peers contemplating expanding, for instance undergrounding and other sort of reinforcement opportunities around some of these latest rounds of storms, as well as potentially baking in any incremental OpEx into your, for instance '22 plan as you think about responding to the PSC here.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, so let me take those one at a time Julien. So you've seen that we made a regulatory filing to take some of the favorability in 2021 that we're experiencing and rolling it into $70 million, at least $70 million in incremental Tree Trim. So that's the immediate response and that's going to fund 200 to 300 people, incremental tree trimmers coming to the state to trim trees, to get the trees up our wires. So that's the immediate response, and so that will run through our Tree Trim tracker that we have, and that will be a good thing for our customers to get to improve reliability for the next summer and a subsequent summer. So we're really looking at accelerating our Tree Trim program with that incremental investment.

And again, that will be sized somewhere between $70 million to $90 million of a pull forward and that'll be the, source of that will be favorability in '21 that we're experiencing. The second thing that you'll see is in our capital plan, we raised our distribution infrastructure investments from $7 billion to $8 billion in response to our detailed planning that we put in front of the commission as it relates to resiliency to accommodate worsening weather patterns and also to accommodate the eventuality of the electrification of the transportation fleet; that's going be a big deal for us in the second half of this decade. Currently, we're starting to see over a 1,000 connections to our grid from EVs and that's grown from a couple of 100 last year. So all of that is pointed towards creating that $8 billion towards creating a more resilient reliable and more efficient grid.

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

Excellent, alrighty. And if I can just to come back to that $15 million if I remember right, I think that the $90 million baseline, you talked about here was off '22 if I remember, almost seems like the 165 is even little bit better than the 15 cadence, but I could have my numbers off slightly there, but it seems like that's a good trend. And if you can, again not to rehash too much of that last question, but the line of sight (Technical Difficulty) versus today, you know, certainly it seems like at least at a minimum good placeholder and excel it with an accelerating backdrop relative to what you've already picked up at $15 million a year. You would think that there is potentially even more opportunity there? So you may have spoken it a second ago, mentioning the incremental Co-Gen, but I'm just trying to push you a little bit further on how much clarity you already have against that $165 million versus incremental?

A - Jerry Norcia {BIO 15233490 <GO>}

Dave, I'll let you start and then I'll jump in as well.

A - Dave Ruud {BIO 16089859 <GO>}

Yeah, I'd say like Jerry said, we have really good pipeline of projects within our DTE Vantage business right now. And so getting that $15 million a year is right within our sight and one of the keys, Julien, we've gone through this before is staying within 10% of our business being non-utility. And so that's also one of the drivers that kind of keeps us from pushing that too much. There is always other ways that we could look at that if we did find some more growth, but that's also one of the limiters for our growth as well.

A - Jerry Norcia {BIO 15233490 <GO>}

And Julien, that gives us the opportunity to be really selective. Right now, we're still seeing RNG projects that we're going to work originating and they're all greenfield and that's how we're creating the greatest amount of value. We're seeing 3 to 5-year simple cash paybacks and IRRs in the teens, unlevered IRRs in teens. So we like the approach that we have, and it also meets with our strategic goals of (inaudible) keeping a 90-10 split between utility and non-utility.

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

Right. No I was -- I didn't mean it that big. I was just suggesting that the 2026 seems like it's even better than 15 a year and I was just coming back to that, sorry. Thank you guys very much. I appreciate it. I'll leave it there.

A - Jerry Norcia {BIO 15233490 <GO>}

Thanks Julien.

Operator

Your next question comes from the line of Insoo Kim from Goldman Sachs. Your line is open.

Q - Insoo Kim {BIO 19660313 <GO>}

Yeah. Thank you. A lot of my questions have been asked and answered, but just on the financing side of things, you've laid out through 2024 now minimum equity needs and when we think about this additional billion dollars over the roll forward 5-year plan, any insight into that '25 and '26 period whether at least in this base plan for now and whether you'll need any more equity in terms of that back half of the plan?

A - Dave Ruud {BIO 16089859 <GO>}

Yes. We see really good cash flow generation through our 5-year plan. And so that minimal equity needs like that's consistent right now within our plan even bring it in this additional billion dollars of capital into the plan.

Q - Insoo Kim {BIO 19660313 <GO>}

Okay, understood. And then my follow-up question is Jerry, your company has had a track record of being pretty conservative on your annual guidance and always exceeding or outperforming that and this, whether it's 2022 or whatnot, the 6% that you've highlighted it does make sense. The question is given for this year at this kind of the second time to your raising guidance, are they are not as many opportunities just from like an operational constraint basis to pull forward more cost into the next year, so that from a year-over-year cadence perspective for earnings growth that it is a bit smoother. Just wondering, I think given, some of the investors and people on the street are used to or looking for more stability and predictability of annual earnings growth despite you guys always having the track record of outperforming your guidance, so just any color there?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So I'll start by saying that if you look at our track record over the last decade, you would see that our EPS growth on a CAGR basis is one of the highest in the industry, and I think it's tracking probably well over 8% at this point in time if we were to include this year. So we're pretty proud of our EPS growth track record. We are conservative in our planning in the sense that we do put contingencies in to you anticipate any potential variations in either load or weather at our 2 biggest income producers, which are our utilities. So again, as I mentioned for 2022, I feel really good about the level of planning that's gone into 2022, and if we do not consume, our contingency will be tracking towards the higher end of that guidance. For 2023, we're putting that year together and I expect that that will come together just as nicely as '21 and '22 in the last decade.

Q - Insoo Kim {BIO 19660313 <GO>}

Got it. Thank you very much.

Operator

Your next question comes from the line of Travis Miller with Morning Star. Your line is open.

Q - Travis Miller {BIO 18898996 <GO>}

Good morning, thanks for taking my question.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning,

Q - Travis Miller {BIO 18898996 <GO>}

Wonder if you could give some thoughts on the latest developments in the gas rate case, the various filings there?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So we've had multiple interveners including the staff and the AG and now the administrative law judge filed their positions. When we take all of that into consideration, we feel pretty good about the outcome that we expect from the gas rate case. We really believe we'll get a productive outcome and that will meet our needs and our investors needs.

Q - Travis Miller {BIO 18898996 <GO>}

Okay. Is the sensitivity around that 2022 guidance, is that, is there a sensitivity in there in terms of what the final outcome might be on that gas case?

A - Jerry Norcia {BIO 15233490 <GO>}

Well certainly, part of our contingency planning is to try and accommodate various scenarios. But I would say that you will see productive outcome on ROE, which is really important to our investors. The Commission has taken a past practice of gradual approaches at the ROE and has also taken a pretty fair stance on our capital deployment plans and any investments that we've made in the gas business. So I think we're going to get a really productive outcome that will help us deliver our 2022 targets.

Q - Travis Miller {BIO 18898996 <GO>}

Okay, great, and that's all supportive of the CapEx numbers that you're putting out there for the next few years, right?

A - Jerry Norcia {BIO 15233490 <GO>}

That's correct. And we've got strong support from the commissioners and the staff on our CapEx program at the gas company. It really is about infrastructure renewal. We're replacing about 200 miles of gas main every year from replacing the cast iron with new PVC piping and also moving about 30,000m from inside the home to outside of the home. So all of that is pointed at future safe and reliable operation of our gas infrastructure. So lots of support for that strong support, not only from the commission, but also from the administration who (inaudible) infrastructure renewal in the state.

Q - Travis Miller {BIO 18898996 <GO>}

Sure, sure. Okay, that's all I had. Thanks a lot.

A - Jerry Norcia {BIO 15233490 <GO>}

Thank you.

Operator

Your next question comes from Jonathan Arnold with Vertical Research. Your line is open.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Good morning, guys.

A - Jerry Norcia {BIO 15233490 <GO>}

Hi, good morning, Jonathan.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Hi, just one question on the gas utility CapEx plan. You said I think there is this $0.5 billion of incremental opportunity sitting on top of the base plan, which is sort of similar to how that look last year and possibly the year before, I was just checking. But, Jerry, can you give us a sense of what's in that and what the timing and sort of forum for getting some of that into the plan would be?

A - Jerry Norcia {BIO 15233490 <GO>}

Sure. So we've brought in about an extra $100 million into this current 5-year outlook incremental, and we are always looking for opportunities to bring more. You've got a very large inventory of infrastructure renewal needs at the gas company, primarily starting the point towards some of our transmission assets like aging compressor stations, and also aging pipelines that are going to start to need some level of replacement in the transmission portion of our operation. So what stands in the way of getting incremental capital into the plan is really us planning affordability opportunities to offset the rate pressure that these investments would create. So that's what would bring it in, Jonathan. And so we'll continue to update that plan each and every year and try to bring more CapEx, and then the plan to accelerate our work as it relates to infrastructure renewal.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay. So should we think of it as part of the next, the future rate case cycle as opposed to other regulatory value?

A - Jerry Norcia {BIO 15233490 <GO>}

That's where you will see it, that's where it will be most transparent.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Thank you, Jerry. And then just on the tax items in the quarter in the Corporate. I think you mentioned that there was this item that's going to reverse $50 million in the fourth quarter, but you had also mentioned the one-time true up in third quarter. I was wondering if Dave could unpack those, how much those two different items impacted the quarter and which direction the true-up went in etcetera?

A - Jerry Norcia {BIO 15233490 <GO>}

Dave, you want to take that.

A - Dave Ruud {BIO 16089859 <GO>}

Sure. As you said, there were two big drivers for the variance in the quarter, Corporate and Other that were tax-related. We do still expect to hit our guidance for Corporate and Other for the quarter and our increased guidance for the year, but on the tax, the one-time true up, that was a valuation allowance that was against the tax deduction that we are carrying forward. And so when we had lower pre-tax earnings as a result of the spin, we looked at this differently and realized that we had to reduce that a little bit, and there would be about $18 million delta for that was negative. But then on the tax timing, the effective tax rate; that's an adjustment that we do for GAAP and it's just because as our pretax earnings and credits aren't earned ratably over the year, we have an entry at Corporate and Other that trues that up to the effective tax rate, and so that was about the same amount for the quarter and then we had some of that from the first three quarters that all will reverse in the fourth quarter and that will be the $50 million that we discussed that we'll see favorable in the fourth quarter.

Q - Jonathan Arnold {BIO 1505843 <GO>}

That combined to about $36 million in the third quarter.

A - Dave Ruud {BIO 16089859 <GO>}

Yes, right around that. It's all a little less than that actually relative to last year, but yeah, it's about that.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Great, thank you. And just one other thing, you mentioned in talking about '22 Dave, conversion. But if I'm not wrong, that really hits really at the end of the year, so wouldn't that be more of a '23 headwind and is that just sort of how should we think about that as you're trying to set up the smoother growth, etcetera.

A - Dave Ruud {BIO 16089859 <GO>}

Yeah. It comes in November of '22, so we see (inaudible) in '22, We see a sixth of that in '22, but then '23 is when it does have a little more of a headwind for us that will be growing through that.

Q - Jonathan Arnold {BIO 1505843 <GO>}

Okay, all right. I just wanted to checkout to remember that correctly. Thank you.

A - Dave Ruud {BIO 16089859 <GO>}

Thank you.

Operator

Your next question is from Ryan Levine with Citigroup. Your line is open.

Q - Ryan Levine {BIO 19520640 <GO>}

Hi, thank you for taking my question. What's the current gas hedge position for DTE Gas heading into the winter?

A - Jerry Norcia {BIO 15233490 <GO>}

So the current hedge position for Gas is 90% heading into this winter and about 65% heading into the following winter of '22-'23.

Q - Ryan Levine {BIO 19520640 <GO>}

Thank you. Do you have a sense of what the net customer bill impact will be this winter as a result of that hedge profile in the current gas prices?

A - Jerry Norcia {BIO 15233490 <GO>}

It will be pretty minimal since we have secured about 90% of our gas supply at fixed prices. In other words, the prices are fixed around 90% of the portfolio, so we see a very minimal impact.

Q - Ryan Levine {BIO 19520640 <GO>}

I appreciate that. And then switching to the storm impacts, there has been, I guess the Governor letter and the Commission requests for information on some of the worst performing circuits. I guess the question is what do you, what's the incremental cost for undergrounding that would make that option more viable and is there any developments that could switch your current plan away from tree trimming to some other alternative form of mitigation?

A - Jerry Norcia {BIO 15233490 <GO>}

So I'll start by saying at about little over 30% of our system is underground now, in the 70s when we started to underground all new subdivisions and all new developments. So we have been under the ground for quite a few years. What remains above ground in residential neighborhoods primarily is infrastructure that's older than that. We've looked at--we've looked at and continue to look at ways to strategically underground. One, it is very expensive, so you have to be very strategic about how you do it. So just to give you an idea about 7 or 8 ago, I was asked by a Mayor at one of the communities that we serve, whether we can underground the whole system, and it was a community of 14,000 residents, and the cost to underground was in the hundreds of millions of dollars. The cost to trim those circuits was $200,000 to $300,000 and which would give us about 95% of the same reliability impact. So it's, again, undergrounding is great. I think we have to approach in a strategic manner. That is a question that we're addressing in our distributions plan, 5-year plan that we put in front of the Commission, and we'll continue to work to find ways, strategic ways to underground. But it is very cost-prohibitive to take existing systems in underground and also disruptive to our customers, in the sense that the locations where you have to underground, you have to remove the trees, turn up front lawns and driveways as well as that backyards, potentially when the systems are in the people's backyards.

Q - Ryan Levine {BIO 19520640 <GO>}

Appreciate it. And maybe one last follow-up in terms of the potential penalties that could be described for the future storm outages. Any color you can provide around how you're approaching that potential issue and if any of these mitigation efforts could weigh into that decision?

A - Jerry Norcia {BIO 15233490 <GO>}

While many of the mitigation efforts that we're deploying increased tree trim, and of course an $8 billion investment agenda in the Grid I think will go a long ways to fundamentally improving the reliability of the Grid. In terms of customer credits that we provide, we are revisiting that with the Commission and we expect to resolve that over the next 12 to 18 months. We think that the $25 credit for extended periods of outage are -- is outdated, and we agreed that it needs to be increased. And we just need to arrive at a level that makes a lot of sense, because all of the money that you put towards credits can also be used to improve the infrastructure. So there is a balance there, but also recognition of some of the difficult situations that, say for example, that our low-income customers find themselves in when we have outages that may last 3 or 4 days.

Q - Ryan Levine {BIO 19520640 <GO>}

Okay, thank you.

Operator

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

Q - Andrew Weisel {BIO 15194095 <GO>}

Thanks, good morning everyone.

A - Jerry Norcia {BIO 15233490 <GO>}

Good morning, Andrew.

Q - Andrew Weisel {BIO 15194095 <GO>}

Just to elaborate on the winter gas prices, you just talk about the hedge position for gas. What about the electric side, can you remind us what tools you have? I think you had some hedging programs and access to storage; is that right?

A - Jerry Norcia {BIO 15233490 <GO>}

Well, for the electric side, we were primarily burning coal as our primary fuel source at this point in time and also nuclear fuel, and those are well hedged at this point in time. And we burn a minimal amount of natural gas at this point. Now, when we bring on our combined cycle plant, we will be burning a significant amount more natural gas and we'll look to hedge those products as well as we, as that plant comes into service in late 2022.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay, good. So also minimal risk to customer bills this winter?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes.

Q - Andrew Weisel {BIO 15194095 <GO>}

Next question is on the electric rate case filing coming up, I believe you're planning to file by year end. Remind us, will the $70 million tree trimming initiative be part of that or will that be resolved before you file and beyond that should it be a pretty plain vanilla case or are there any other unusual items to focus on?

A - Jerry Norcia {BIO 15233490 <GO>}

So Andrew, we're planning to file in the first quarter of next year, so it won't be the end of this year. And the Tree Trim matter will be resolved before that filing. Again, we'll use a special accounting order to take, what I would say favorability for the 2021 to roll into our Tree Trim program and that'll be sized anywhere from $70 million to $90 million. And then of course the filing that we will make in the first quarter, early first quarter, will be primarily driven by the the capital investment agenda that we have for the electric company, both our renewables agenda and our Grid agenda.

Q - Andrew Weisel {BIO 15194095 <GO>}

Great, thank you for clarifying. And then just one quick bookkeeping question. The $70 million Tree Trim program, I believe that will be expense and included in operating results and not stripped out, right, and if so, would that be a fourth quarter item?

A - Jerry Norcia {BIO 15233490 <GO>}

Dave.

A - Dave Ruud {BIO 16089859 <GO>}

Yes, it would. Yeah, we'd be setting up a regulatory liability and it would be, it would impact the fourth quarter as well.

Q - Andrew Weisel {BIO 15194095 <GO>}

Okay. So that's included in the updated 2021 guidance?

A - Jerry Norcia {BIO 15233490 <GO>}

Yes, its included in our guidance right now. And even with that $70 million, still really confident, we're going to hit the number and the upper end of that.

Q - Andrew Weisel {BIO 15194095 <GO>}

Perfect, thank you very much.

Operator

Your next question comes from Anthony Crowdell with Mizuho. Your line is open.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Good morning Jerry, good Morning Dave.

A - Jerry Norcia {BIO 15233490 <GO>}

Hey, good morning, Anthony.

Q - Anthony Crowdell {BIO 6659246 <GO>}

It just seems like yesterday when everyone was questioning NEXUS and now we're at $6 gas.

A - Jerry Norcia {BIO 15233490 <GO>}

Yes. EPM is doing quite well in this environment as we expected.

Q - Anthony Crowdell {BIO 6659246 <GO>}

I just have one question, kind of a follow-up from one of the earlier questions. I mean, I think you talked about bill impact is minimal, it seems that DTE has a strategy with nuclear plants, coal plant, gas plant, and the bill impact is minimal. Do you sense so that showing your strength of having the diversified portfolio, there may be a change in regulators supporting retiring coal earlier given it is really mitigated to bill impact?

A - Jerry Norcia {BIO 15233490 <GO>}

We haven't seen that yet, Anthony; but I would say one of the things that I hear a lot in the industry that we are also considering is to keep all our options open, right. We've seen some significant reliability impacts by retiring baseload generation and replacing it with intermittent resources. Now, we d love renewables, we obviously are a big investor, the largest investor in renewables in our state; but we also feel that reliability is paramount. So when we think about our coal plants and the conversion of those or retirement of those, we really need to think carefully how and when we do it, because the first thing our customers want is reliable power and affordable power and cleaner power. So all of those have to be balanced. So I would say, keeping our options open to ensure that we have reliable power as we make this transition is going to be extremely important and you'll see that in our IRP. We will accelerate our coal retirements in our IRP that you'll see next fall, but you'll also see careful consideration on how that's done to ensure reliable power and affordable power and clean power to go with it.

Q - Anthony Crowdell {BIO 6659246 <GO>}

Great, thanks for taking my question. Looking forward and see you guys down at the EI.

A - Jerry Norcia {BIO 15233490 <GO>}

Yeah, look forward to seeing you too.

Operator

There are no further questions at this time. Mr. Norcia, I turn the call back over to you.

A - Jerry Norcia {BIO 15233490 <GO>}

Well, thank you and thank you everyone for joining us today. I'll just close by saying that we're feeling really good about the remainder of 2021 as you've heard, and also have developed a very strong position for 2022. I hope you everyone has a great morning, stay healthy and safe. And I look forward to seeing all of you live at EI in November. Thank you.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference call. You may now disconnect.